



無錫盛力達科技股份有限公司
Wuxi Sunlit Science and Technology Company Limited*

(a joint stock company established in the People's Republic of China with limited liability)
Stock Code : 1289



GLOBAL OFFERING

Sole Global Coordinator and Sole Sponsor

CMS  **招商证券**

Joint Bookrunners

CMS  **招商证券**

平安證券有限公司
Ping An Securities Limited

* For identification purpose only

IMPORTANT

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

Sunlit

無錫盛力達科技股份有限公司 Wuxi Sunlit Science and Technology Company Limited*

(a joint stock company established in the People's Republic of China with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	: 32,000,000 H Shares (subject to adjustment and the Over-allotment Option)
Number of Hong Kong Offer Shares	: 3,200,000 H Shares (subject to adjustment)
Number of International Placing Shares	: 28,800,000 H Shares (subject to adjustment and the Over-allotment Option)
Offer Price	: HK\$7.72 per H Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application, and subject to refund)
Nominal Value	: RMB1.00 per H Share
Stock Code	: 1289

Sole Sponsor and Sole Global Coordinator

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平安證券有限公司
Ping An Securities 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 paragraph headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VIII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required under 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 as to the contents of this prospectus or any other documents referred to above.

The information contained herein does not constitute an offer of securities for sale in the United States. Securities may not be offered or sold in the United States unless they are registered under applicable law or are exempt from registration under the U.S. Securities Act. The securities mentioned herein have not been, and will not be, registered under the U.S. Securities Act. No public offering of securities will be made in the United States.

Investors applying for the Hong Kong Offer Shares must pay, on application, the Offer Price of HK\$7.72 for each Hong Kong Offer Shares, together with a brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%.

The Sole Global Coordinator, on behalf of the Underwriters, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with our consent, may reduce the number of Hong Kong Offer Shares stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering.

The obligations of the Underwriters under the Underwriting Agreements to subscribe for, and to procure applicants for the subscription for, the Offer Shares, are subject to termination by the Sole Global Coordinator (on behalf of the Underwriters), if certain grounds arise prior to 8:00 a.m. on the date when dealings in the H Shares first commence on the Stock Exchange. Further details of such termination are set out in the section headed "Underwriting – Underwriting Arrangements and Expenses" in this prospectus.

We were established, and substantially all of our businesses are located, in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong, and the fact that there are different risks relating to investment in PRC-incorporated companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong, and should take into consideration the different market nature of the H Shares. Such differences and risk factors are set forth in the sections headed "Risk Factors", "Regulatory Overview", "Appendix V – Summary of Principal Legal and Regulatory Provisions" and "Appendix VI – Summary of Articles of Association" of this prospectus.

* For identification purpose only

EXPECTED TIMETABLE^(Note 1)

Latest time to complete electronic applications under the
White Form eIPO service through the designated website at
www.eipo.com.hk^(Note 2) 11:30 a.m. on
Tuesday, 4 November 2014

Application lists of the Hong Kong Public Offering open^(Note 3) 11:45 a.m. on
Tuesday, 4 November 2014

Latest time to lodge **WHITE** and **YELLOW** Application Forms 12:00 noon on
Tuesday, 4 November 2014

Latest time to give **electronic application instructions** to
HKSCC^(Note 4) 12:00 noon on
Tuesday, 4 November 2014

Latest time to complete payment of **White Form eIPO** applications
by effecting internet banking transfer(s) or PPS payment
transfer(s) 12:00 noon on
Tuesday, 4 November 2014

Application lists of the Hong Kong Public Offering close 12:00 noon on
Tuesday, 4 November 2014

(1) Announcement of

- the level of applications in the Hong Kong Public Offering;
- the level of indications of interest in the International Placing; and
- the basis of allotment of the Hong Kong Offer Shares

expected to be published in the South China Morning Post
(in English) and the Hong Kong Economic Times
(in Chinese) on or before Monday, 10 November 2014

(2) Results of allocation of the Hong Kong Public
Offering (including successful applicants' identification
document numbers, where appropriate) to be available
through a variety of channels (see the section
headed "**How to Apply for Hong Kong Offer Shares**
– **Publication of results**" of this prospectus) from Monday, 10 November 2014

EXPECTED TIMETABLE^(Note 1)

A full announcement of the Hong Kong Public Offering containing

(1) and (2) above will be published on our website at

www.wxsunlit.com and the website of the Stock Exchange at

www.hkexnews.hk from Monday, 10 November 2014

Results of allocations in the Hong Kong Public Offering will be

available at www.iporeresults.com.hk with a “search by ID”

function Monday, 10 November 2014

Despatch of H Share certificates in respect of wholly or partially

successful applications on or before^(Note 5) Monday, 10 November 2014

Despatch of White Form e-Refund payment instructions/refund

cheques in respect of wholly or partially unsuccessful

applications on or before^(Notes 5 and 6) Monday, 10 November 2014

Dealings in H Shares on the Stock Exchange to commence at 9:00 a.m. on

Tuesday, 11 November 2014

Notes:

- (1) All times refer to Hong Kong local time, except otherwise stated. Details of the structure of the Global Offering, including conditions of the Global Offering, are set forth in the section headed “Structure of the Global Offering” of this prospectus.
- (2) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 4 November 2014, the application lists will not open and close on that day. Please refer to the paragraph headed “How to Apply for Hong Kong Offer Shares – Effect of bad weather on the opening of the application lists” of this prospectus.
- (4) Applicants who apply for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to apply for Hong Kong Offer Shares – Applying by giving **electronic application instructions** to HKSCC via CCASS” of this prospectus.
- (5) Refund cheques or e-Refund payment instructions will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may lead to delays in encashment of, or may invalidate, the refund cheque.

EXPECTED TIMETABLE^(Note 1)

- (6) Applicants who apply via **White Form eIPO** or with **WHITE** Application Forms for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering and have provided all information required, may collect refund cheques, if any, and (where applicable) H Share certificates in person from our H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, 10 November 2014. 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 letters of authorisation from their corporations stamped with the corporations' chops. Identification and authorisation documents (where applicable) acceptable to Computershare Hong Kong Investor Services Limited must be produced at the time of collection.

Applicants who apply with **YELLOW** Application Forms for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering and have provided all information required, may collect their refund cheques (if any) but may not elect to collect the H 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 procedure for collection of refund cheques for **YELLOW** Application Form applicants is the same as that for **WHITE** Application Form applicants.

Uncollected H Share certificates (where applicable) and refund cheques will be despatched by ordinary post at the applicants' own risk to the addresses specified in the relevant Application Forms. Further information is set out in the section headed "How to apply for Hong Kong Offer Shares – Refund of application monies" of this prospectus.

The H Share certificates will only become valid certificates of title provided that, no later than 8:00 a.m. on the Listing Date, the Global Offering has become unconditional and neither the Hong Kong Underwriting Agreement nor the International Underwriting Agreement has been terminated in accordance with its terms. If any of the Underwriting Agreements does not become unconditional or is terminated, we will make an announcement as soon as possible. No dealings in the Offer Shares should take place prior to the commencement of dealings in the H Shares on the Stock Exchange. Investors who trade the Offer 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.

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IMPORTANT NOTICE TO INVESTORS

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decisions. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus.

You must not rely on any information or representation not made in this prospectus as having been authorised by our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of our or their respective directors, affiliates or advisers, or any other person or party involved in the Global Offering. Information contained in our website, located at www.wxsunlit.com, does 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. As this is a summary, it does not contain all the information which may be important to you. You should read this prospectus in its entirety before you decide whether 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” of this prospectus. You should read that section carefully before you decide whether to invest in the Offer Shares.

OVERVIEW

We are an integrated production solution provider of steel wire products in the PRC. We are principally engaged in the research and development, design, manufacture, equipment supply, installation, testing, repair and maintenance of production lines for manufacturing steel wire products. Notwithstanding our manufacturing base, we are not a pure manufacturer. The production equipment supplied by us are customised to the customers’ specific requirements and production needs. We also provide substantial support and services to our customers, to help them design solutions to their manufacturing problems and to integrate the equipment into their existing production lines or processes. We have our own technical research and development capabilities to design, research and develop almost all equipment in the comprehensive set of production lines for manufacturing steel wire products. According to Frost & Sullivan, in terms of revenue, we were the largest radial tyre cord, sawing wire and hose wire production equipment manufacturer with a market share of 14.3% and the largest brass electroplating wire production line manufacturer in the PRC with a market share of 44.9% in 2013.

Our products

Our products could be classified into: (i) brass electroplating wire production lines; (ii) other production lines; (iii) standalone machines; and (iv) others. Brass electroplating production lines contributed a major part of our revenue during the Track Record Period. We sell our products either on a standalone or an integrated basis to accommodate various needs of our customers. We also provide equipment modification, and after-sales repair and maintenance services to customers during which revenue is generated from the sales of mould repairing equipment, component parts and accessories.

The following table sets forth the amount and percentage of our total revenue generated by each of the principal products during the Track Record Period:

	Year ended 31 December									Six months ended 30 June					
	2011			2012			2013			2013			2014		
	Unit(s) sold	RMB'000	%	Unit(s) sold	RMB'000	%	Unit(s) Sold	RMB'000	%	Unit(s) Sold	RMB'000	%	Unit(s) Sold	RMB'000	%
Brass electroplating wire production lines	12	161,820.5	34.8	12	222,458.3	68.7	13	230,114.2	72.1	8	133,195.0	72.5	5	96,876.1	69.0
Other production lines (Note 1)	25	29,053.6	6.2	24	53,353.4	16.5	10	9,452.8	3.0	6	7,820.5	4.2	4	3,589.7	2.6
Standalone machines (Note 2)	1,183	229,655.4	49.3	107	18,947.0	5.8	178	41,564.1	13.0	134	32,588.0	17.7	176	28,512.8	20.3
Others (Note 3)	N/A	45,137.8	9.7	N/A	28,838.0	9.0	N/A	37,816.9	11.9	N/A	10,230.6	5.6	N/A	11,316.0	8.1
Total		<u>465,667.3</u>	<u>100</u>		<u>323,596.7</u>	<u>100</u>		<u>318,948.0</u>	<u>100</u>		<u>183,834.1</u>	<u>100</u>		<u>140,294.6</u>	<u>100</u>

SUMMARY

Notes:

- (1) Other production lines principally include intermediate wire heat treatment production lines, wire rod preparation lines and zinc hot plating wire production lines.
- (2) The standalone machines principally include wet drawing machines and double-twist stranding machines.
- (3) Others principally include mould repairing equipment, component parts and accessories.
- (4) The decrease in number of other production lines sold in 2013 and the first half of 2014 was primarily due to the drop in sales of our intermediate wire heat treatment production lines. Our customers would normally purchase intermediate wire heat treatment production lines when they planned for major production expansion.

During the Track Record Period, the sales of standalone machines, principally comprising double-twist stranding machines and wet drawing machines, experienced a significant fluctuation. The sales decreased by 91.7% from RMB229.7 million in 2011 to RMB18.9 million in 2012 mainly due to a slowdown of the growth of photovoltaic wafer production in the PRC and the anti-dumping sanctions against Chinese photovoltaic companies by the EU during the period. Although the sales subsequently increased by 119.4% to RMB41.6 million in 2013, it still fell short of the historic sales level in 2011.

From 1 July 2014 to the Latest Practicable Date, we entered into one sales contract in relation to the standalone machines with a contract value of RMB41.3 million. As this is still a significant short-coming as compared to our sales of standalone machines in 2011, our Directors expect it unlikely that the sales of standalone machines would revert to the historic sales level of 2011 in the year 2014.

However, our Directors believe that there will be a steady growth of the sales of these products, having taken into account Frost & Sullivan's view that the Chinese photovoltaic industry should sustain a steady growth at a moderate rate in the near future, and that the growth of Chinese photovoltaic industry will support a steady growth of demand for sawing wires.

The table below sets out our gross profit and gross profit margin by principal products during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2011		2012		2013		2013		2014	
	RMB'000	Gross profit margin %	RMB'000	Gross profit margin %	RMB'000	Gross profit margin %	RMB'000	Gross profit margin %	RMB'000	Gross profit margin %
Brass electroplating wire production lines	106,092.9	65.6	145,002.2	65.2	146,053.7	63.5	83,534.8	62.7	68,718.2	70.9
Other production lines	11,729.3	40.4	27,185.1	51.0	3,810.1	40.3	3,360.2	43.0	751.6	20.9
Standalone machines	74,956.5	32.6	5,869.1	31.0	16,312.5	39.2	13,641.5	41.9	6,780.1	23.8
Others	18,911.8	41.9	15,286.6	53.0	19,646.1	52.0	5,921.2	57.9	5,192.0	45.9
	<u>211,690.5</u>	<u>45.5</u>	<u>193,343.0</u>	<u>59.7</u>	<u>185,822.4</u>	<u>58.3</u>	<u>106,457.7</u>	<u>57.9</u>	<u>81,441.9</u>	<u>58.1</u>

SUMMARY

Our customers

During the Track Record Period, almost all of our revenue was derived from domestic sales in the PRC. Most of our domestic customers are located in Shandong and Jiangsu provinces. Our domestic customer base primarily consists of steel wire product manufacturers, including leading manufacturers of radial tyre cords, sawing wires, bead wires, hose wires and zinc-coated wires. The following are the major applications of such steel wire products:

<u>Steel wire products</u>	<u>Major applications</u>
Radial tyre cords	Applied in common radial tyres for all types of automobiles. A series of piles of radial tyre cords reinforces the tyre to give the tyre its strength and shape.
Sawing wires	Used for silicon wafer cutting in photovoltaic industry, crystal cutting and jewel cutting.
Hose wires	Provides structure, shape and strength to reinforce rubber hose used in heavy machinery.
Bead wires	Used to strengthen the tyres for trucks, buses, sedan and engineering machinery. The wires grip the tyre onto the rim.
Zinc-coated wires	Used to produce tension cables for applications such as braking cables, elevator cables, conveyors and synchronous belts.

Apart from our domestic market, we have been exploring suitable opportunities in the international markets. In November 2012, we entered into a sales contract with an overseas customer in South Korea for the provision of a trial brass electroplating wire production line. The relevant sales revenue was recognised in 2013 and represented 0.7% of the total sales revenue for 2013.

Our aggregate sales revenue from our top five customers, who were all Independent Third Parties, represented 66.7%, 52.2%, 59.9% and 97.4% of our total sales revenue during the Track Record Period, respectively. Sales revenue from our largest customer accounted for 26.3%, 14.3%, 24.0% and 48.9% of our total sales revenue, respectively for the same periods. We generally require our customers to make advance payments in stages before final product acceptance, which payments provide us with the initial funding for the production and cover a significant part of our manufacturing costs. During the Track Record Period, we did not enter into any long-term sales contract with our customers which we believe was consistent with the market practice. For further details about our customers, please refer to the section headed “Business – Customers, Sales and Marketing – Customer Base” on pages 135 to 142 of this prospectus.

Our pricing policy

We price our products based on the production costs estimated according to the technical requirements of the technical agreement, target profit margin and prevailing market price of similar products. Our domestic and international selling prices include transportation and delivery expenses and other related charges. Please refer to the section headed “Business – Customers, Sales and Marketing – Pricing Policy” on page 150 of this prospectus for further details.

Raw materials and suppliers

We use a diversified range of raw materials in our production, with IGBT being our single largest type of raw materials used in our brass electroplating wire production lines. In order to ensure consistent quality and timely delivery, we purchase our raw materials and components from a list of approved PRC suppliers or PRC-based foreign suppliers which are selected and reassessed by us periodically based on their pricing, records of timely delivery, quality and capacity. We generally have more than one supplier for our major raw materials and components.

SUMMARY

During the Track Record Period, our aggregate purchases from our five largest suppliers represented 21.9%, 38.3%, 25.8% and 21.1% of our total purchases of raw materials, components and parts, respectively. Purchases from our largest supplier accounted for 7.2%, 10.6%, 11.9% and 6.3% of our total purchases of raw materials, components and parts, respectively, for the same periods. For further details about our suppliers, please refer to the section headed “Business – Raw Materials, Suppliers and Procurement – Raw Materials and Suppliers” on pages 155 to 162 of this prospectus.

Labour costs

Labour costs accounted for a relative small component of our total cost of sales. We incurred labour costs of RMB8.2 million, RMB7.4 million, RMB9.0 million and RMB4.0 million, being 3.2%, 5.7%, 6.7% and 6.8% of our total cost of sales, respectively during the Track Record Period.

Research and development

We place strong emphasis on continuous technical research and development to improve the functionality and quality of our products and manufacturing processes. As of the Latest Practicable Date, we owned 61 registered patents (including six invention patents and 55 utility model patents) and 15 registered software copyrights in the PRC. In addition, we had also applied for 14 new patent registrations in the PRC. We successfully developed and applied the patented technologies in the design of our brass electroplating wire production lines, which have been our major products during the Track Record Period, and our other products. During the Track Record Period, our research and development expenditures incurred were RMB20.0 million, RMB16.4 million, RMB14.0 million and RMB10.3 million respectively, which accounted for 27.7%, 27.8%, 29.5% and 88.4% of the total administrative expenses, respectively. The substantial increase in the percentage for the first half of 2014 was due to a negative figure (i.e. the reversal of allowance for impairment of receivables) being included in the total administrative expenses.

In recognition of our leading position in terms of innovation, on 13 December 2010, we were accredited jointly by 江蘇省科學技術廳 (Science and Technology Department of Jiangsu Province*), 江蘇省財政廳 (Finance Department of Jiangsu Province*), Jiangsu State Administration of Taxation and Jiangsu Local Taxation Bureau with 高新技術企業 (High/New Tech Enterprise*) in the PRC for three years. As a renewal of our High/New Tech Enterprise qualification, we were granted with a new certificate of High/New Tech Enterprise dated 11 December 2013 with a validity period of three years. Our brass electroplating wire production lines, intermediate wire heat treatment production lines and double-twist stranding machines were also recognised as industry-leading products and were accredited as 高新技術產品 (High and New Technology Product*) by 江蘇省科學技術廳 (Science and Technology Department of Jiangsu Province*).

COMPETITIVE STRENGTHS

Our Directors consider that our competitive strengths mainly lie in our leading position as the largest brass electroplating wire production line manufacturer in terms of revenue in the PRC in 2013 with a market share of 44.9%, as well as our strong research and development capabilities.

For details about our competitive advantages, please refer to the section headed “Business – Our Competitive Strengths” on pages 112 to 116 of this prospectus.

BUSINESS STRATEGIES

We plan to adopt and implement strategies with the aim of maintaining and/or enhancing our position as an integrated production solution provider in both the PRC and international markets, such as enhancing manufacturing capacity and efficiency through the construction of the New Wuxi Facility, and further strengthening our research and development capabilities. For details about our business strategies, please refer to the section headed “Business – Business Strategies” on pages 116 to 119 of this prospectus.

SUMMARY

COMPETITIVE LANDSCAPE

The equipment used in the comprehensive set of production lines for manufacturing steel wire products could be divided into front-end facilities and back-end facilities. Based on the Frost & Sullivan Report, the Chinese pure radial tyre cord, sawing wire and hose wire production equipment manufacturing industry has developed into an industry of more than 50 companies being engaged in the manufacturing of production equipment. The top five companies accounted for about 46.7 % in terms of the total sales value in the market in 2013. Our Company contributed the largest sales value among equipment manufacturers in the industry by sales value.

According to Frost & Sullivan, we were the first domestic company who developed brass electroplating wire production line using thermal diffusion method with proprietary intellectual property in the Chinese radial tyre cord production equipment market. We are currently a leading brass electroplating wire production line manufacturer in radial tyre cord, sawing wire and hose wire production equipment manufacturing industry in the PRC, capturing 44.9% market share in terms of total sales value in 2013. For further details about our industry, please refer to the section headed “Industry Overview” on pages 67 to 82 of this prospectus.

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following table sets forth some selected information of the consolidated financial information of our Group for the Track Record Period, which are derived from, and should be read in conjunction with, the consolidated financial information set out in the Accountant’s Report set out in Appendix I to this prospectus.

Selected information from consolidated income statements

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	465,667.3	323,596.7	318,948.0	183,834.1	140,294.6
Gross profit	211,690.5	193,343.0	185,822.4	106,457.7	81,441.9
Profit before income tax	143,288.6	150,525.1	153,460.8	82,235.0	69,810.6
Profit for the year/period	110,096.5	125,268.5	130,992.2	65,702.9	55,450.4

During the Track Record Period, our revenue and gross profit fluctuated mainly because of the changes in the sales of standalone machines and brass electroplating wire production lines in our product mix which have different selling prices and profit margins. Our profit for the year increased by 13.8% for 2012, and by 4.6% for 2013.

Our performance for the first half of 2014

Our revenue decreased by 23.7% from RMB183.8 million for the first half of 2013 to RMB140.3 million for the first half of 2014. The significant decrease was mainly attributable to the decrease in revenue from sales of brass electroplating wire production lines by 27.3% from RMB133.2 million for the first half of 2013 to RMB96.9 million for the first half of 2014. The decrease was mainly due to a decrease in number of our brass electroplating wire production lines acknowledged and accepted by our customers during the period. For example, one customer was still in the process of testing one brass electroplating wire production line with the sales amount of RMB13.7 million in the first half of 2014. The testing process is expected to complete in the second half of 2014.

The decrease was also attributable to the decrease in revenue from sales of our standalone machines by 12.5% from RMB32.6 million for the first half of 2013 to RMB28.5 million for the first half of 2014. The decrease was partly because a higher proportion of double-twist stranding machines which were used to produce different types of wire thread bunches and with

SUMMARY

a lower average selling price was sold during the period. In addition, we endeavour to grow our market share by reducing the average selling price of our standalone machines. For the first half of 2014, our sales of standalone machines included only double-twist stranding machines, and their average selling price decreased by 30.6% from RMB233,506 for the first half of 2013 to RMB162,005 for the first half of 2014.

Our gross profit decreased by 23.5% from RMB106.5 million for the first half of 2013 to RMB81.4 million for the first half of 2014. The gross profit margin for our brass electroplating wire production lines increased from 62.7% for the first half of 2013 to 70.9% for the first half of 2014. It was due to the increase in the average selling price by products equipped with a new version of our patented IGBT component.

Although our overall gross profit margin slightly increased from 57.9% for the first half of 2013 to 58.1% for the first half of 2014, we had a higher proportion of sales contributed from products with a lower gross profit margin as compared with our brass electroplating wire production lines. In particular, revenue from sales of standalone machines (with a gross profit margin of 23.8%) accounted for 20.3% of our total revenue for the first half of 2014 as compared with 17.7% for the first half of 2013.

Profit for the period decreased by 15.6% from RMB65.7 million for the first half of 2013 to RMB55.5 million for the first half of 2014.

Selected information from consolidated balance sheets

	As of 31 December			As of 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	88,358.3	104,638.1	138,552.5	146,439.6
Current assets	581,512.1	577,288.6	631,254.2	629,709.7
Current liabilities	595,089.0	314,934.4	271,822.0	222,207.4
Net current (liabilities)/assets	(13,576.9)	262,354.3	359,432.1	407,502.4
Total assets less current liabilities	74,781.3	366,992.4	497,984.6	553,941.9

We had net current liabilities of RMB13.6 million as of the year-end 2011, and net current assets of RMB262.4 million, RMB359.4 million and RMB407.5 million as of the year-end 2012, the year-end 2013 and 30 June 2014, respectively. The net current liabilities position as of the year-end 2011 was mainly attributable to the declaration of dividend in 2011 which resulted in dividend payable in the amount of RMB101.8 million.

Trade Receivables

Our customers are normally required to make instalment payment pursuant to the sales contracts for our production lines and standalone products in the following stages: (i) a first payment of 20% to 30% of the contract value either upon signing of the contract or within a specific period (which is usually within one week from the date of the contract); (ii) a product delivery payment of 20% to 40% of the contract value upon our customers' initial acceptance of our products after preliminary check of the products and before product delivery; (iii) a product acceptance payment of 15% to 30% of the contract value after our receipt of acceptance certificate from our customers; and (iv) a final payment of 5% to 10% of the contract value upon expiry of the quality warranty period (which is usually 12 months from the issuance of the acceptance certificate after passing of the on-site testing).

The average time required in practice for the process from contract signing to our receipt of 90% to 95% of contract value is about 669 days for major production lines (including brass electroplating wire production lines and other production lines) and 996 days for standalone machines during Track Record Period. Turnover days of trade receivables were 187.6 days, 217.6 days, 275.7 days and 266.6 days as of the end of each Track Record Period.

SUMMARY

Our trade receivables decreased by 19.4% from RMB239.3 million as of the year-end 2011 to RMB192.9 million as of the year-end 2012, increased by 24.9% to RMB240.9 million as of the year-end 2013. As of 30 June 2014, our trade receivables decreased by 14.9% to RMB205.0 million.

The following table sets forth an aging analysis based on the date of recognition of our gross trade receivables as of the dates indicated:

	As of 31 December			As of 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Up to 1 year	163,219.3	99,016.6	120,262.4	92,802.9
1-2 years	72,800.1	75,106.7	52,100.2	56,594.5
2-3 years	3,326.4	17,598.1	58,917.7	46,060.1
Over 3 years	–	1,216.0	9,614.5	9,523.9
	239,345.8	192,937.4	240,894.8	204,981.4

As of 31 August 2014, RMB27.4 million, or 13.4%, of the trade receivables as of 30 June 2014 had been subsequently settled.

Our Directors consider that the provision made during the Track Record Period in relation to the trade receivables was adequate. Having considered our cash and cash equivalents balance, and banking facilities available to us, our Directors are of the view that the long trade receivables turnover days during the Track Record Period did not and will not have a material adverse impact on our overall liquidity.

Although we did not grant credit terms to customers under our sales contracts, we in effect granted credit terms to certain customers in view of our trade receivables remaining outstanding and being past due. Our high trade receivable balances during the Track Record Period were mainly because we did not strictly enforce our contractual payment terms before May 2013 in light of the creditworthiness of our customers and that we aim to maintain a harmonious business relationship with them. Some of our major customers are companies (or subsidiaries of companies) listed on the Stock Exchange or the Shenzhen Stock Exchange.

We have adopted a number of measures to strengthen the control of our trade receivables. Please refer to “Financial Information – Net Current Assets/liabilities – Trade and Other Receivables” on pages 233 to 243 of this prospectus for details.

Advances from customers

Advances from customers amounted to RMB377.5 million, RMB217.9 million, RMB123.3 million and RMB91.7 million as of the end of each Track Record Period, respectively. Our advances from customers mainly comprised (i) the first payments of 20% to 30% of the contract value either upon signing of the contract or within a specified period; and (ii) the product delivery payments of 20% to 40% of the contract value.

The decrease in our advances from customers from 2011 to 2013 and to the first half of 2014 was primarily due to, amongst others, (i) decrease in new contracts entered into during the relevant periods; and (ii) that we did not strictly enforce our contractual payment terms before May 2013 in light of the creditworthiness of our customers and that we aim to maintain a harmonious business relationship with them.

During the Track Record Period, we in general collected the first payments of 20% to 30% of the contract value after signing of the contract and before product delivery. Given that we maintained gross profit margins in the range of 45.5% to 59.7% during the Track Record Period, the first payments covered a significant portion of our cost of sales.

SUMMARY

Inventories

The following table sets forth our inventories as of the dates indicated:

	As of 31 December			As of 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	28,765.2	24,491.8	22,134.3	18,397.1
Work in progress	193,725.7	129,658.2	78,270.0	84,079.3
Finished goods	18,817.2	51,177.6	70,499.3	56,934.2
	<u>241,308.1</u>	<u>205,327.6</u>	<u>170,903.6</u>	<u>159,410.6</u>

The value of inventories accounted for 36.0%, 30.1%, 22.2% and 20.5% of our total assets as of the end of each Track Record Period.

The significant inventories balance was primarily due to our relatively long manufacturing, on-site installation and testing cycle as our delivered products, which require further on-site installation and testing, had been recorded as work in progress in our inventories before the products passed the final testing and inspection at the customers' premises. As most of our systems and products are custom-built pursuant to our customers' requirements and specifications, we do not manufacture our products in advance to meet future demand. All our work in progress and finished goods are manufactured based on the sales contracts entered into with, as well as specifications agreed by, our customers. Upon acceptance of the goods by our customers, the corresponding work in progress will be converted into finished goods and then cost of sales.

The following table sets forth our average inventory turnover days during the Track Record Period:

	Year ended 31 December			Six months ended 30 June
	2011	2012	2013	2014
	(days)	(days)	(days)	(days)
Raw material turnover days	22.5	27.6	25.3	23.9
Work in progress turnover days	151.9	146.3	89.6	109.4
Finished goods turnover days	<u>14.7</u>	<u>57.7</u>	<u>80.7</u>	<u>74.1</u>
Inventory turnover days	<u>189.1</u>	<u>231.6</u>	<u>195.6</u>	<u>207.4</u>

Note: Turnover days of raw materials, work in progress, finished goods and inventories are calculated by dividing their respective amount by revenue and then multiplying this figure by 365 days (for the years 2011, 2012 and 2013) or 182.5 days (for the six months ended 30 June 2014).

Our inventory turnover days were relatively high primarily due to our long work in progress turnover days which were mainly attributable to the time taken from manufacturing, product delivery to satisfactory completion of on-site testing and final inspection of our products. The relatively-shorter inventory turnover days in 2011 and 2013 were due to the higher proportion of standalone machines in our product mix. Standalone machines take a shorter period for testing and final inspections as compared to that for production lines.

SUMMARY

For finished goods and work in progress, our Directors estimate that their net realisable value exceeds the cost, given (i) our expected positive gross profit margin from sales based on our contracts on hand as of 31 August 2014; (ii) the overall gross profit margins of our products at a range of 45.5% to 59.7% during the Track Record Period. The Directors consider the possibility of the selling price of our products being reduced to the extent that will result in our gross profit margins being close to or lower than the breakeven point is remote; and (iii) advance payments from customers substantially covering our cost of manufacturing. As such, we did not make any provision for our inventories, and our Directors are of the view that the long inventory turnover days would not have a material adverse effect on our cash flow position.

The inventory turnover days increased from 195.6 days as of the year-end 2013 to 207.4 days as of 30 June 2014. The proportion of inventories aged over one year increased from 38.8% to 42.6% of the total inventories as of the year-end 2013 and 30 June 2014 respectively. The increase in proportion of inventories aged over one year was due to a higher proportion of brass electroplating wire production lines in our work in progress which took a longer period for testing and acceptance.

As of 31 August 2014, RMB16.6 million, or 10.4%, of our inventories as of 30 June 2014 had been subsequently utilised/sold.

For further details of our inventory management, please refer to “Financial Information – Net Current Assets/Liabilities – Inventories” on pages 244 to 248 of this prospectus.

Cash flows

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net cash generated from operating activities	131,322.4	2,728.7	27,982.3	47,416.9	21,260.1
Net cash (used in)/generated from investing activities	(23,739.4)	(5,327.7)	(48,207.0)	(13,693.1)	70.5
Net cash (used in)/generated from financing activities	(122,278.9)	74,836.0	6,026.9	–	4,938.6

The primary uses of cash are to satisfy the working capital needs. Since our Group's establishment, the working capital needs have been financed through a combination of cash generated from our operations, bank borrowings and capital injection by shareholders.

RECENT DEVELOPMENTS SUBSEQUENT TO 30 JUNE 2014

Since 1 July 2014 and up to the Latest Practicable Date, we entered into 15 new contracts with an aggregated contract value of RMB129.4 million. Based on, amongst others, our sales information up to 31 August 2014, the contracts on hand, our production progress and our communication with our customers up to the Latest Practicable Date, we expect an increase in sales of double-twist stranding machines in our sales mix in the second half of 2014 (which has a lower gross profit margin as compared with our brass electroplating wire production lines), and in consequence, a decrease in overall gross profit margin percentage for the second half of 2014 as compared with that for the first half.

Our revenue, gross profit, and profit for the period decreased by 23.7%, 23.5% and 15.6% respectively for the first half of 2014, as compared with those for the first half of 2013. In light of our performance in the first half of 2014, and the product delivery and installation schedule of our customers subsequent to the Latest Practicable Date, we expect our revenue, gross profit and profit for the year will experience a decrease for the full year 2014 as compared with that for the full year 2013.

SUMMARY

The decrease is consistent with the decrease in revenue, gross profit and profit for the period for the first half of 2014 when compared with the first half of 2013, which was due to a number of delays in the testing and trial production of our products due to changes in customers' implementation and capital expenditure schedules. We confirm that there has been no order cancellation among the said delays. Please refer to the sections headed "Risk Factors – The delay in settlement of payments by our customers notwithstanding our internal control measures may result in untimely and significant cash flow shortcomings in the future and may adversely impact our cash position and results of operation" and "Risk Factors – The lengthy process of delivery, on-site installation, testing or trial production of our products or any delay thereof may affect our revenue recognition, cash flow position, and results of our operation and may cause material fluctuation in our revenue in the future" of this prospectus for further details.

For the first half of 2014, our Group received subsidies and incentive of RMB1.3 million from the PRC government authorities for our scientific research projects, corporate development, and our listing plan. For the two months ended 31 August 2014, we received subsidies from the PRC government of only RMB58,000, and we may or may not receive any further subsidies or incentive for the remaining of the year 2014. Please refer to the paragraph headed "Risk Factors – We may not receive further government subsidies and the loss of which may affect our financial position" of this prospectus for further details.

Since the introduction of the enhanced internal control measures in May 2013, collection of the trade receivables has been improving. As of 31 August 2014, RMB27.4 million, or 13.4%, of the trade receivables as of 30 June 2014 had been subsequently settled.

As of 31 August 2014, our cash and cash equivalent on hand were RMB175.5 million, and our unutilised banking facilities were RMB6.5 million. Our Group had outstanding bank borrowings of RMB106.2 million, of which RMB26.2 million will be repaid with the net proceeds from the Global Offering. For details, please refer to the section headed "Future Plans and Use of Proceeds" of this prospectus.

The total listing-related expenses are expected to be about HK\$56.2 million (based on the Offer Price of HK\$7.72 and before the exercise of the Over-allotment Option), of which approximately HK\$52.7 million is directly attributable to the issue of new H Shares to the public and is to be accounted for as a deduction from equity upon Listing. The remaining estimated expenses of HK\$3.5 million are expected to be charged to our Group's consolidated income statements for the year ending 31 December 2014. Our listing-related expenses are subject to adjustments based on the actual amount we will incur upon completion of the Listing.

We confirm that the listing-related expenses are not expected to have material adverse impact on our financial position and up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since 30 June 2014.

Pursuant to a resolution of the Shareholders' meeting dated 15 August 2014, our Company declared a special dividend of RMB120 million to our 13 then Shareholders. This dividend payable had not been recognised as a liability in the consolidated financial statements of the Group as of 30 June 2014, and had been paid on 15 September 2014 to our 13 then Shareholders (net of the amount we withheld for payment of individual income tax applicable to individual Shareholders). The investors for the Global Offering are not entitled to the special dividend. The special dividend was paid out of historical profits of our Company, and our Directors consider that the Company has sufficient cash or cash alternatives for payment of the special dividend which will have no adverse impact on our operating cash and financial positions.

OFFERING STATISTICS AND USE OF PROCEEDS⁽¹⁾

Offer size	:	32,000,000 H Shares
Over-allotment Option	:	Up to 4,800,000 additional H Shares, representing 15% of the initial number of the Offer Shares

SUMMARY

Offer structure	:	Hong Kong Public Offering: 3,200,000 H Shares, representing 10% of the initial number of Offer Shares (subject to adjustment)
		International Placing: 28,800,000 H Shares, representing 90% of the initial number of Offer Shares (subject to adjustment and the Over-allotment Option)
Offer Price	:	HK\$7.72 per H Share
Board lot	:	500 H Shares

**Based on
Offer Price of
HK\$7.72**

Market capitalisation of our H Shares ⁽²⁾	:	HK\$247,040,000
Unaudited pro forma adjusted consolidated net tangible assets per H Share ⁽³⁾	:	HK\$6.98
Estimated Listing-related expenses (before the exercise of Over-allotment Options)	:	HK\$56.2 million
Use of proceeds ⁽⁴⁾	:	Net proceeds to our Company from the Global Offering is estimated to be HK\$210.0 million, after deduction of underwriting commissions, fees and anticipated expenses payable by us in connection with the Global Offering. The intended use of net proceeds are set out below: <ul style="list-style-type: none">• 77.8% (HK\$163.5 million) for the construction of our New Wuxi Facility and New Research & Development Centre;• 12.2% (HK\$25.5 million) for certain target research and development projects in respect of our existing product portfolio and potential new products⁽⁵⁾; and• 10.0% (HK\$21.0 million) as working capital and for other general corporate purposes.

Notes:

- (1) Unless otherwise specified, the offering statistics are based on an Offer Price of HK\$7.72 per H Share and do not take into account of any H Shares which may be issued pursuant to the exercise of the Over-allotment Option.
- (2) The market capitalisation is based on 32,000,000 H Shares expected to be in issue immediately following completion of the Global Offering.
- (3) Please see the unaudited pro forma financial information set out in Appendix II to this prospectus for further details regarding the assumptions used and the calculation method.
- (4) Please see the section headed “Future Plans and Use of Proceeds” on page 261 of this prospectus for further details of the use of the net proceeds and details of the adjustment if the net proceeds from the Global Offering are more or less than expected.
- (5) Please refer to the section headed “Business – Research and Development – Research and Development Plan” on pages 166 to 167 of this prospectus for further details of the research and development projects.

SUMMARY

DIVIDEND POLICY

For the year 2011, we declared dividends of RMB189.3 million. All the dividends declared during the Track Record Period had been fully settled as of the Latest Practicable Date.

At the Shareholders' meeting held on 12 June 2014, it was resolved that a dividend policy be adopted for the distribution of profits. In principle, our Directors will recommend for Shareholders' approval in Shareholders' meeting for a payment of dividends in the future after taking into account such factors as our results of operations, cash flows, financial condition, operating and capital requirements, the amount of distributable profits based on our Article of Association, the PRC laws, other applicable laws and regulations and other factors as they may deem relevant at such time.

Subject to the factors described above, our current dividend policy is to distribute a dividend in cash of no less than 10% of the total profits available for distribution for that particular financial year, subject to Shareholders' approval. The cash portion is expected to be no less than 20% of our annual dividend, and our cumulative dividend in cash for any three consecutive years to be no less than 30% of the average annual distributable profits of that three-year period.

Pursuant to a resolution of the Shareholders' meeting dated 15 August 2014, our Company declared a special dividend of RMB120 million out of historical profits of our Company. Please see the paragraph headed "Recent Developments subsequent to 30 June 2014" in this section above for details.

Pursuant to the applicable provisions of the New CIT Law and the Implementing Regulations of the Corporate Income Tax Law of the PRC that came into effect in 2008, we shall as withholding agent be obliged to withhold 10% corporate income tax when we distribute dividend to non-resident enterprise holders of H shares.

OUR CONTROLLING SHAREHOLDERS AND PRE-IPO INVESTORS

Immediately following completion of the Global Offering, our Controlling Shareholders, namely Mr. Zhang Degang, Mr. Zhang Deqiang and Ms. Zhang Jinghua, will hold in an aggregate of 63.79% of the entire issued share capital of our Company (without taking into account any H Shares which may be allotted and issued upon any exercise of the Over-allotment Option).

We have nine Pre-IPO Investors, namely Anfuda, Fengyao, Huaxuan, Jinling Huaruan, Northern Light, Xinjian Industrial, Yudao Tiansui, Zhongjing and Zuoli Holdings. They will in aggregate hold approximately 11.21% of the entire issued share capital of our Company immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised).

The Shares held by the Pre-IPO Investors are Domestic Shares and constitute promoter shares as defined in the Company Law. By virtue of the Company Law, the Shares issued by our Company prior to the Global Offering, including the Domestic Shares held by our Pre-IPO Investors, are not transferable within one year of the Listing Date.

Further information of our Pre-IPO Investors is set forth in the section headed "History, Development, and Reorganisation – Pre-IPO Investors" of this prospectus.

RISK FACTORS

Our business faces various risks which may adversely impact our cash position and results of operation, including without limitation delay in settlement of our trade receivables by our customers, the lengthy production cycle which may delay the timing of our revenue recognition, and that downturn in our downstream industries may adversely impact on the demand of our products. You should read the whole section headed "Risk Factors" of this prospectus before you decide to invest in our Offer Shares.

DEFINITIONS

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

“Accountant’s Report”	the accountant’s report set out in Appendix I to this prospectus
“Acting in Concert Agreement”	an agreement entered into among our Controlling Shareholders dated 26 July 2013. For details, please refer to the section headed “History, Development and Reorganisation” of this prospectus
“affiliate”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Anfuda”	上海安富達股權投資基金合夥企業(有限合夥) (Shanghai Anfuda Equity Investment Fund Partnership (Limited Partnership)*), a limited partnership established in the PRC on 20 July 2011 and one of the Pre-IPO Investors. Other than its shareholding interest in our Company, Anfuda is an Independent Third Party
“Application Form(s)”	WHITE application form(s), YELLOW application form(s) and GREEN application form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
“Articles of Association” or “Articles”	the articles of association of our Company, adopted on 11 August 2013, and as amended from time to time, a summary of which is set out in “Appendix VI – Summary of Articles of Association” to this prospectus
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board of Directors” or “Board”	the board of directors of our Company
“Business Day” or “business day”	a day which is not a Saturday, a Sunday or a public holiday in Hong Kong and on which banks in Hong Kong are generally open for business
“CAGR”	compound annual growth rate

DEFINITIONS

“CCASS”	Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China Merchants Securities”, “Sole Global Coordinator” or “Sole Sponsor”	China Merchants Securities (HK) Co., Limited, a corporation licensed under the SFO permitted to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 6 (advising on corporate finance) and Type 9 (asset management) of the regulated activities (as defined under the SFO), the Sole Global Coordinator, the Sole Sponsor, one of the Joint Bookrunners, and one of the Joint Lead Managers of the Listing
“CIETAC”	the China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會)
“close associate(s)”	has the meaning ascribed thereto under the Listing Rules
“CMBI”	CMB International Capital Limited, a licensed corporation to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities under the SFO, one of the Joint Lead Managers of the Listing
“Companies (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Company” or “our Company”	無錫盛力達科技股份有限公司 (Wuxi Sunlit Science and Technology Company Limited*), a joint stock company established in the PRC with limited liability converted from our Predecessor Company on 24 July 2012 and where the context otherwise requires, its predecessor
“Company Law” or “PRC Company Law”	《中華人民共和國公司法》 (the Company Law of the PRC*), as amended and adopted by the Standing Committee of the Twelfth National People’s Congress on 28 December 2013 and effective on 1 March 2014, as amended, supplemented or otherwise modified from time to time
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and in case of our Company, means Mr. Zhang Degang, Mr. Zhang Deqiang and Ms. Zhang Jinghua
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Deed of Indemnity”	the deed of indemnity dated 27 October 2014 entered into by our Controlling Shareholders with and in favour of our Company (for ourselves and for each of our subsidiaries)
“Deed of Non-Competition”	the deed of non-competition dated 11 March 2014 entered into by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for and on behalf of our subsidiaries)
“Director(s)”	director(s) of our Company
“Domestic Share(s)”	the domestic shares in the share capital of our Company, with a nominal value of RMB1.00 each, which are held by our Promoters as of the date of this prospectus
“EPIA”	European Photovoltaic Industry Association
“EU”	European Union

DEFINITIONS

“Fengyao”	上海豐曜投資合夥企業(有限合夥) (Shanghai Fengyao Investment Partnership (Limited Partnership)*), a limited partnership established in the PRC on 29 February 2012 and one of the Pre-IPO Investors. Other than its shareholding interest in our Company, Fengyao is an Independent Third Party
“Frost & Sullivan”	an independent market research and consulting company that provides market survey and consulting services
“GDP”	gross domestic product, being a term that refers to the market value of all final goods and services produced within a country in a given period
“GFA”	gross floor area
“Global Offering”	the Hong Kong Public Offering and the International Placing
“ Green Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group”, “our Group”, “we” or “us”	our Company and our subsidiaries at the relevant time or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company or the businesses operated by our present subsidiaries or (as the case may be) its predecessor
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“H Share(s)”	overseas listed foreign invested ordinary share(s) in the ordinary share capital of our Company, with a nominal value of RMB1.00 each, which are to be subscribed for and traded in Hong Kong dollars and for which an application has been made for the granting of listing and permission to deal in, on the Stock Exchange
“Haisheng Software”	無錫海盛軟件科技有限公司 (Wuxi Haisheng Software Technology Company Limited*), a limited liability company established in the PRC on 12 July 2011 and a direct wholly-owned subsidiary of our Company

DEFINITIONS

“HK\$” or “HK dollar(s)”	Hong Kong dollars, the lawful currency of Hong Kong
“HKAS”	Hong Kong Accounting Standards
“HKFRS”	Hong Kong Financial Reporting Standards, which include HKAS, amendments and interpretations issued by the Hong Kong Institution of Certified Public Accountants
“HKIAC”	the Hong Kong International Arbitration Centre
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Share(s)”	the H Share(s) offered in the Hong Kong Public Offering
“Hong Kong Public Offering”	the offering by our Company of initially 3,200,000 H Shares for subscription by the public in Hong Kong (subject to adjustment as described of the section headed “Structure of the Global Offering” in this prospectus) for cash at the Offer Price (plus brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%), payable in full on application and subject to the terms and conditions described in this prospectus and the Application Forms. For details, please refer to the section headed “Structure of the Global Offering” of this prospectus
“Hong Kong Underwriters”	the underwriters listed in the section headed “Underwriting – Hong Kong Underwriters” of this prospectus, being the underwriters of the Hong Kong Public Offering
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 29 October 2014 relating to the Hong Kong Public Offering and entered into by, among others, our Company, our executive Directors, our Controlling Shareholders, the Sole Global Coordinator and the Hong Kong Underwriters as further described in the section headed “Underwriting” of this prospectus

DEFINITIONS

“Huaxuan”	華軒(上海)股權投資基金有限公司 (Huaxuan (Shanghai) Equity Investment Fund Company Limited*), a limited liability company established in the PRC on 5 December 2011 and one of the Pre-IPO Investors. Other than its shareholding interest in our Company, Huaxuan is an Independent Third Party
“IIT Law”	《中華人民共和國個人所得稅法》 (the PRC Individual Income Tax Law) which was promulgated on 10 September 1980, as amended on 30 June 2011 and effective on 1 September 2011
“Independent Third Party(ies)”	a party or parties that is or are independent of and not connected with (within the meaning of the Listing Rules) any Directors, chief executive, substantial shareholders of our Company, our subsidiaries or any of their respective associates
“International Placing”	the conditional placing by our Company of initially 28,800,000 H Shares at the Offer Price in reliance on Regulation S for subscription by professional, institutional and other investors, as further described in the section headed “Structure of the Global Offering” of this prospectus, subject to adjustment and the Over-allotment Option
“International Placing Share(s)”	the H Share(s) offered in the International Placing
“International Underwriters”	the group of underwriters who entered into the International Underwriting Agreement
“International Underwriting Agreement”	the international underwriting agreement relating to the International Placing entered into by, among others, our Company, our executive Directors, our Controlling Shareholders, the Sole Global Coordinator and the International Underwriters on 29 October 2014. For details please refer to the section headed “Structure of the Global Offering” of this prospectus
“Jiangsu Sunlit”	江蘇盛力達裝備科技有限公司 (Jiangsu Sunlit Equipment Technology Company Limited*), a limited liability company established in the PRC on 27 August 2009 and a direct wholly-owned subsidiary of our Company

DEFINITIONS

“Jinling Huaruan”	常州金陵華軟創業投資合夥企業(有限合夥) (Changzhou Jinling Huaruan Venture Capital Partnership (Limited Partnership)*), a limited partnership established in the PRC on 5 August 2010 and one of the Pre-IPO Investors. Other than its shareholding interest in our Company, Jinling Huaruan is an Independent Third Party
“Joint Bookrunners”	China Merchants Securities and Ping An
“Joint Lead Managers”	China Merchants Securities, Ping An, Sun International, SBI and CMBI
“Latest Practicable Date”	24 October 2014, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Listing”	listing of our H Shares on the Stock Exchange
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date, expected to be on or about 11 November 2014, on which our H Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Main Board”	the Main Board of the Stock Exchange
“Mandatory Provisions”	《到境外上市公司章程必備條款》 (Mandatory Provisions for Articles of Association of Companies to be Listed Overseas*), for inclusion in the articles of association of companies established in the PRC to be listed overseas, promulgated by 前國務院證券委員會 (the former State Council Securities Committee*) and other PRC government department on 27 August 1994, as amended, supplemented or otherwise modified from time to time
“MIIT”	the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)

DEFINITIONS

“MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Zhang Degang”	Mr. Zhang Degang (張德剛), our executive Director and one of our Controlling Shareholders, the brother of Mr. Zhang Deqiang and Ms. Zhang Jinghua
“Mr. Zhang Deqiang”	Mr. Zhang Deqiang (張德強), our executive Director and one of our Controlling Shareholders, the brother of Mr. Zhang Degang and Ms. Zhang Jinghua
“Ms. Zhang Jinghua”	Ms. Zhang Jinghua (張靜華), our executive Director and one of our Controlling Shareholders, the sister of Mr. Zhang Deqiang and Mr. Zhang Degang
“MST”	the Ministry of Science and Technology of the PRC (中華人民共和國科學技術部)
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“New CIT Law”	《中華人民共和國企業所得稅法》 (the PRC Corporate Income Tax Law*) which was promulgated by the Tenth National People’s Congress of the PRC on 16 March 2007 and became effective on 1 January 2008
“New Research & Development Centre”	a new research and development centre to be established in the New Wuxi Facility. For details, please refer to the section headed “Business – Our Manufacturing Facilities and Capacities” of this prospectus
“New Wuxi Facility”	the new manufacturing facility located at the south side of Chang Yuan Road, Chang An Street, Huishan District, Wuxi (無錫惠山區長安街道暢園路南側). For details, please refer to section headed “Business – Our Manufacturing Facilities and Capacities” of this prospectus

DEFINITIONS

“Northern Light”	蘇州工業園區禾源北極光創業投資合夥企業(有限合夥) (Suzhou Industrial Park Heyuan Northern Light Venture Capital Partnership (Limited Partnership)*), a limited partnership established in the PRC on 9 August 2011 and one of the Pre-IPO Investors. Other than its shareholding interest in our Company, Northern Light is an Independent Third Party
“NPC”	the National People’s Congress of the PRC (中華人民共和國全國人民代表大會)
“Offer Price”	the offer price per Offer Share (exclusive of brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be subscribed for pursuant to the Global Offering, to be determined as described in the section headed “Structure of the Global Offering – Pricing of the Global Offering” of this prospectus
“Offer Share(s)”	the H Share(s) offered in the Global Offering including any additional H Shares to be issued pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option granted by our Company to the International Underwriters, exercisable by the Sole Global Coordinator on behalf of the International Underwriters, at any time from the Listing Date until 30 days from the last day for lodging applications under the Hong Kong Public Offering, to require us to allot and issue up to 4,800,000 additional H Shares at the Offer Price to cover, among other things, over-allocations in the International Placing, if any, details of which are described in the section headed “Structure of the Global Offering” of this prospectus
“PBOC”	the People’s Bank of China
“Ping An”	Ping An Securities Limited, a licensed corporation to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) of the regulated activities under the SFO, one of the Joint Bookrunners and one of the Joint Lead Managers of the Listing
“PRC” or “China” or “People’s Republic of China”	the People’s Republic of China which, for the purpose of this prospectus, excludes Hong Kong, Macau Special Administration Region of the PRC and Taiwan

DEFINITIONS

“PRC GAAP”	the generally accepted accounting principles in the PRC
“PRC government” or “State”	the central government of the PRC, including all government subdivisions (including provincial, municipal and other regional or local government entities)
“PRC Legal Advisers”	Dacheng Law Offices, our legal advisers as to the PRC law
“Predecessor Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force from time to time before the commencement date of section 2 of Schedule 9 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“Predecessor Company” or “our Predecessor Company”	無錫市盛力達機械工程有限公司 (Wuxi Sunlit Machinery & Engineering Company Limited*), a limited liability company established in the PRC on 21 March 2006 and the predecessor of our Company
“Pre-IPO Investor(s)”	Anfuda, Fengyao, Huaxuan, Jinling Huaruan, Northern Light, Xinjian Industrial, Yudao Tiansui, Zhongjing and Zuoli Holdings
“Promoters”	the promoters of our Company, namely Mr. Zhang Degang, Mr. Zhang Deqiang, Ms. Zhang Jinghua, Shunxin, Huaxuan, Zuoli Holdings, Anfuda, Fengyao, Jinling Huaruan, Xinjian Industrial, Zhongjing, Yudao Tiansui and Northern Light
“Regulation S”	Regulation S under U.S. Securities Act
“Renminbi” or “RMB”	the lawful currency of the PRC
“Reorganisation”	the reorganisation arrangements undergone by our Group as described in the section headed “History, Development and Reorganisation – Reorganisation” of this prospectus
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“Sanzhi Gongkong”	江陰三知工控機械有限公司 (Jiangyin Sanzhi Gongkong Machinery Company Limited*), a limited liability company established in the PRC on 17 April 2009 and a direct wholly-owned subsidiary of our Company

DEFINITIONS

“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SBI”	SBI China Capital Financial Services Limited, a licensed corporation to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) of the regulated activities under the SFO and one of the Joint Lead Managers of the Listing
“SCNPC”	the Standing Committee of the National People’s Congress of the PRC (中華人民共和國全國人民代表大會常務委員會)
“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 and supplemented from time to time
“Share(s)”	share(s) in the share capital of our Company with a nominal value of RMB1.00 each, comprising our Domestic Shares and H Shares
“Shareholder(s)”	holder(s) of our Shares
“Shunxin”	無錫順欣投資企業(有限合夥)(Wuxi Shunxin Investment Enterprise (Limited Partnership)*), a limited partnership established in the PRC on 16 December 2011. The general partners of Shunxin include Mr. Zhang Degang, Mr. Zhang Deqiang and Mr. Ou Guojian (偶國建), the sales manager of Jiangsu Sunlit and the brother-in-law of our Controlling Shareholders. The limited partners of Shunxin include Ms. Zhang Zhenhua (張振華), the sister of our Controlling Shareholders and the manager of our Integrated Management Department; Mr. Ma Jinlong (馬錦龍), our financial controller; Mr. Meng Xixin (孟錫辛), our procurement manager, and Mr. Xia Yuesheng (夏岳生), our head of production, who are both the brothers-in-law of our Controlling Shareholders and other 20 individuals who are employees of our Group

DEFINITIONS

“Special Regulations”	國務院關於股份有限公司境外募集股份及上市的特別規定 (Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies*), promulgated by the State Council on 4 August 1994, as amended, supplemented or otherwise modified from time to time
“sq.m.”	square metre(s)
“Sun International”	Sun International Securities Limited, a licensed corporation to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts) and type 4 (advising on securities) of the regulated activities under the SFO and one of the Joint Lead Managers of the Listing
“Stabilising Manager”	Ping An
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“State Intellectual Property Office”	the State Intellectual Property Office of the PRC (中華人民共和國國家知識產權局)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary” or “subsidiaries”	has the meaning ascribed thereto in the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“Supervisor(s)”	the member(s) of the Supervisory Committee
“Supervisory Committee”	our supervisory committee established pursuant to the Company Law, as described in the section headed “Directors, Supervisors and Senior Management” of this prospectus
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs, as amended from time to time

DEFINITIONS

“Track Record Period”	the three financial years of our Company ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014; and the phrase “during the Track Record Period”, followed by a series of figures or percentages, refers to information relating to the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, respectively
“Twelfth Five-Year Plan”	《中華人民共和國國民經濟和社會發展第十二個五年規劃綱要》 (the Twelfth Five-Year Plan Guidelines for National Economic and Social Development of the PRC*)
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“VAT”	value-added tax; all amounts are exclusive of VAT in this prospectus except indicated otherwise
“ White Form eIPO ”	the application for the Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO at www.eipo.com.hk
“ White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Wuxi Shangda”	無錫上達自動化科技有限公司 (Wuxi Shangda Automation Technology Company Limited*) (formerly known as 江蘇中達電機有限公司 (Jiangsu Zhongda Automatic Technology Company Limited*)), a limited liability company established in the PRC on 9 November 2006 and a direct wholly-owned subsidiary of our Company

DEFINITIONS

“Wuxi Zhongda”	無錫市中達電機有限公司 (Wuxi Zhongda Motors Company Limited*), a limited liability company established in the PRC on 2 March 1998 and wholly owned by Mr. Fan Leping and Ms. Wang Huahua, both being Independent Third Parties
“Xinjian Industrial”	陝西新建實業發展有限公司 (Shanxi Xinjian Industrial Development Company Limited*), a limited liability company established in the PRC on 18 March 2004 and one of the Pre-IPO Investors. Other than its shareholding interest in our Company, Xinjian Industrial is an Independent Third Party
“Yixing Branch”	Yixing Branch of our Company
“Yudao Tiansui”	上海玉道天穗投資發展中心(有限合夥) (Shanghai Yudao Tiansui Investment Development Centre (Limited Partnership)*), a limited partnership established in the PRC on 1 March 2012 and one of the Pre-IPO Investors. The executive partner of Yudao Tiansui is 上海玉道投資管理中心(有限合夥) (Shanghai Yudao Investment Management Centre (Limited Partnership)*); and the limited partners of Yudao Tiansui include, among others, 上海世道投資發展中心(有限合夥) (Shanghai Shidao Investment Development Centre (Limited Partnership)*). Our non-executive director Mr. Gao Feng is a general partner and his spouse is a limited partner in these two partners of Yudao Tiansui
“Zhongjing”	上海眾晶投資合夥企業(有限合夥) (Shanghai Zhongjing Investment Partnership (Limited Partnership)*), a limited partnership established in the PRC on 8 March 2012 and one of the Pre-IPO Investors. Other than its shareholding interest in our Company, Zhongjing is an Independent Third Party
“Zuoli Holdings”	佐力控股集團有限公司 (Zuoli Holdings Group Company Limited*), previously known as 浙江雙友實業有限公司 (Zhejiang Shuangyou Industrial Company Limited*), a limited liability company established in the PRC on 18 April 2011 and one of the Pre-IPO Investors. Other than its shareholding interest in our Company, Zuoli Holdings is an Independent Third Party

DEFINITIONS

The English names of the PRC entities, PRC laws or regulations or the PRC governmental authorities mentioned in this prospectus and marked with “” are translation from their Chinese names and are for identification purposes only. If there is any inconsistency, the Chinese names shall prevail.*

In this prospectus, unless otherwise stated, certain amounts denominated in Renminbi have been translated into HK dollars or US dollars and vice versa at an exchange rate of RMB0.7891:HK\$1.00, and certain amounts denominated in US dollars have been translated into HK dollars and vice versa at an exchange rate of US\$0.1288:HK\$1.00, in each case, for illustration purposes only. Such conversions shall not be construed as representations that amounts in Renminbi or US dollars were or may have been converted into those currencies and vice versa at such rate or any other exchange rates.

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms used in this prospectus in connection with our Group and our business. The terminologies contained in this glossary and their given meanings may not correspond to standard industry meaning or usage of these terms.

“bead wire(s)”	the steel filament plated with bronze and used to strengthen the tyres for trucks, buses, passenger cars and engineering machinery. The wires grip the tyre onto the rim, where the wires attach onto the rim
“electroplating”	the coating of an electrically conductive object with a layer of metal using electrical current
“hose wire(s)”	the steel filament plated with a uniform layer of brass alloy and used to reinforce the rubber hose
“IGBT”	Insulated Gate Bipolar Transistor, a power semiconductor device or module used to switch electric power in electrical appliances
“ISO”	International Organisation for Standardisation, a non-governmental organisation that develops and publishes international standards
“ISO 14001”	one of the guidelines of ISO which is applicable to any organisation that wishes to establish, implement, maintain and improve an environmental management system
“ISO 9001”	one of the management standards and guidelines of ISO which states the requirement for quality management systems and covers the following management principles – customer focus, leadership, involvement of people, process approach, system approach management, continual improvement, factual approach to decision making and mutually beneficial supplier relationship
“MW”	megawatt, which equals one million watt
“photovoltaic” or “PV”	the field of technology and research related to the application of solar cells for energy by converting solar energy directly into electricity

GLOSSARY OF TECHNICAL TERMS

“radial tyre(s)”	a pneumatic tyre in which the ply cords extending to beads are laid at approximately right angles to the centre line of the tread
“radial tyre cord(s)”	the stranded steel filament plated with copper or brass and used as raw materials in common radial tyres for all types of automobiles. A series of piles of radial tyre cords reinforces the tyre to give the tyre its strength and shape
“radialisation rate”	the percentage of radial tyres out of the total number of tires (including both radial tyres and bias tyres) produced/ used in a country or a region
“sawing wire(s)”	the steel filament plated with brass and can be used as cutting material in various industries such as silicon wafer cutting in photovoltaic industry, crystal cutting and jewel cutting, etc. For the purpose of this prospectus, it refers to its usage in photovoltaic industry
“steel wire product(s)”	the processed wire made from steel. For the purpose of this prospectus, it refers to radial tyre cords, sawing wires, hose wires, bead wires or zinc-coated wires
“wire rod(s)”	the steel rod or steel wire which has a wide range of applications. For the purpose of this prospectus, it refers to specialty steel wire with superior quality and high technical specifications. It is used as the principal raw materials for the production of steel wire such as radial tyre cords, sawing wires bead wires, hose wires and zinc-coated wires
“zinc-coated wire(s)”	the steel filament plated with zinc and used for producing tension cables for application such as braking cables, elevator cables, conveyors and synchronous belts

WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

For the purpose of the Listing, our Company has sought a waiver, as described below, from the Stock Exchange in relation to certain requirements under the Listing Rules. Details of the waiver are described below.

MANAGEMENT PRESENCE

Rules 8.12 and 19A.15 of the Listing Rules require 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 we have our headquarters and principal operations in the PRC, we do not, and in the foreseeable future will not, have sufficient management presence in Hong Kong in strict compliance with the normal requirements under Rules 8.12 and 19A.15 of the Listing Rules. Currently, none of the executive Directors is a Hong Kong resident. Mr. Zhang Degang, Mr. Zhang Deqiang and Ms. Zhang Jinghua are all PRC residents and have to spend most of their time looking after the principal businesses and operations of our Group in the PRC. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted to us, a waiver from strict compliance with the requirements set out in Rules 8.12 and 19A.15 of the Listing Rules.

Our Company has made arrangements to maintain regular and effective communication between the Stock Exchange and us as follows:

- Our Company has appointed Mr. Zhang Degang, our executive Director, and Ms. Ho Wing Yan, our company secretary, as the authorised representatives in compliance with Rule 3.05 of the Listing Rules. Mr. Zhang Degang and Ms. Ho Wing Yan will serve as the principal channel of communication with the Stock Exchange on behalf of our Company and will be readily contactable by telephone, fax and email and if required, will be able to meet with the Stock Exchange to discuss any matter in relation to our Company.
- Mr. Zhang Degang and Ms. Ho Wing Yan or their alternates to be appointed under Rule 3.06(2) of the Listing Rules have provided or will provide to the Stock Exchange their home and office telephone numbers and fax numbers, and shall therefore be readily contactable by the Stock Exchange as contemplated under Rule 19A.07 of the Listing Rules.
- Both Mr. Zhang Degang and Ms. Ho Wing Yan have means of contacting all other Directors (including our independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact any Director on any matter.
- Each of our Directors and our company secretary has provided to the Stock Exchange his/her office phone number, mobile phone number, fax number and email address.

WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

- Each of our Directors who is not ordinarily resident in Hong Kong possesses or will be able to apply for valid travel documents to visit Hong Kong and should be able to meet with the Stock Exchange within a reasonable period of time.
- In accordance with Rules 3A.19 and 19A.05 of the Listing Rules, our Company has appointed Cinda International Capital Limited as our Company's compliance adviser which will serve as a further channel of communication with the Stock Exchange for the period from the Listing Date to the date on which our Company has sent the annual report to the Shareholders in respect of the first full financial year commencing immediately after the Listing. Our Company will ensure compliance with the requirements under Rules 19A.05 and 19A.06 of the Listing Rules applicable to and required of it, and the compliance adviser will have access at all times to our Company's authorised representatives, the other Directors and officers of our Company to ensure that they are in a position to provide prompt responses to any queries or requests from the Stock Exchange in respect of our Company.
- In accordance with Rule 19A.06(4) of the Listing Rules, it is expected that the compliance adviser will also provide the Stock Exchange with the names, home and office telephone numbers and fax numbers of at least one of its officers and an alternate who will act as its contact with our Company and the Stock Exchange.

FORWARD-LOOKING STATEMENTS

This prospectus contains, and the documents incorporated by reference may contain, forward-looking statements representing our goals, and actual results or outcomes may differ materially from those expressed or implied. Such forward-looking statements reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions. Forward-looking statements typically can be identified by the use of words such as “anticipate”, “believe”, “could”, “estimate”, “expect”, “going forward”, “future”, “prospective”, “intend”, “may”, “ought to”, “plan”, “project”, “seek”, “should”, “will”, “would” and other similar terms. Although we believe that our expectations are reasonable, we can give no assurance that these expectations will prove to have been correct, and actual results may vary materially. These forward-looking statements include, but are not limited to, statements relating to:

- our business and operating strategies and the various measures we use to implement such strategies;
- our dividend distribution plans;
- our capital commitment plans;
- our operations and business prospects, including development plans for our existing and new businesses;
- the future competitive environment for the industry which we operate in;
- the regulatory environment as well as the general industry outlook for the industry which we operate in;
- future developments in the industry which we operate in; and
- general economic trends in the PRC.

Please refer to the sections headed “Risk Factors”, “Business” and “Financial Information” of this prospectus for additional factors that could cause actual performance or achievements to differ materially.

Should one or more of these risks or uncertainties materialise, or should the underlying assumptions prove to be incorrect, our financial conditions may be adversely affected and may vary materially from the goals we have expressed or implied in these forward-looking statements. Except as required by applicable laws and regulations, including the Listing Rules, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, investors should not place undue reliance on any forward-looking information.

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

RISK FACTORS

You should read this prospectus in its entirety and carefully consider all the information in this prospectus, including the risks and uncertainties described below, before making an investment in our H Shares. Our business, results of operations, financial condition, profitability and future prospects could be materially and adversely affected by any of the risks mentioned in this section. The trading price of our H Shares could decline due to any of these risks, and you may lose all or part of your investment. In addition, we are also subject to other risks and uncertainties that are not presently known to our Group or which we currently deem to be immaterial. Such risks and uncertainties could also have a material adverse effect on our business, results of operations, financial condition, profitability and future prospects.

RISKS RELATING TO OUR BUSINESS AND OPERATIONS

The delay in settlement of payments by our customers notwithstanding our internal control measures may result in untimely and significant cash flow shortcomings in the future and may adversely impact our cash position and results of operation

During the manufacturing process of our products, we may have to pay in advance certain costs and expenses during the preparation of our products prior to receipt of contract sums or only parts of the contract sums from our customers after confirming the purchase orders from our customers, or we may purchase adequate raw materials to maintain our safety stock for manufacturing. As our obligation to pay our suppliers for the raw materials may not be in the same financial year as we enter into the sales contracts, we may consequently record cash outflows from operating activities in certain periods. Our customers are generally required to pay (i) a first payment of 20% to 30% of the contract value either upon signing of the contract or within a specified time period (which is usually within one week from the date of contract); (ii) a product delivery payment of 20% to 40% of the contract value upon our customers' initial acceptance of our products after preliminary check of our products and before delivery; (iii) a product acceptance payment of 15% to 30% of the contract value after our receipt of acceptance certificate from our customers; and (iv) a final payment of 5% to 10% of the contract value upon expiry of the quality warranty period (which is usually 12 months from the issuance of the acceptance certificate after passing of the on-site testing). Any delay in receipt of payments from our customers may adversely impact our cash flow position.

Our total trade receivables amounted to RMB239.3 million, RMB192.9 million, RMB240.9 million and RMB205.0 million as of the end of each Track Record Period. Our total trade receivables accounted for 320.1%, 52.6%, 48.4% and 37.0% of our net assets, and 41.2%, 33.4%, 38.2% and 32.6% of our current assets as of the end of each Track Record Period respectively. Turnover days of our trade receivables were 187.6 days, 217.6 days, 275.7 days and 266.6 days, respectively. The increase in turnover days during the Track Record Period was mainly because we did not strictly enforce our contractual payment terms before May 2013 in light of the creditworthiness of our customers and that we aim to maintain a harmonious business relationship with them.

RISK FACTORS

Provisions for impairment of trade receivables were RMB25.6 million, RMB34.0 million, RMB45.2 million and RMB33.6 million as of the end of each Track Record Period. As of 30 June 2014, trade receivables of RMB87.2 million were past due but not impaired, of which RMB2.9 million (or 1.4% of our total trade receivables as of the half year-end 2014) were past due over two years. Our Directors worked closely with the sales team to keep abreast of the circumstances surrounding the long-due trade receivables, and considered the following factors when assessing the appropriate provision to be made: (i) the financial strength of the customer in question and whether it was in a healthy state of operation; (ii) history or indication of default or delinquency; and (iii) whether the customer had an on-going business relationship with the Group. Having taken the above into account, our Directors considered the provision made in relation to the trade receivables as of 30 June 2014 adequate.

Since May 2013, we have introduced additional internal control measures to strengthen the collection of our trade receivables. However, there is no assurance that these measures will be effective and that the aging of the trade receivables will be improved as a result.

There is no assurance that we will be able to collect all trade receivables, in particular those aged over one year from our customers. Any default or delay in payment by our customers or our failure to collect trade receivables from them may cause allowance for impairment of trade receivables to be made in the future. All of these may result in untimely and significant cash flow shortcomings in the future and adversely affect our cash position and results of operations.

We may experience a decline in financial performance for the year ending 31 December 2014 which is primarily as a result of a number of delays in the testing and trial production of our products by our customers due to changes in customers' implementation and capital expenditure schedules, and the change of product mix

Our revenue, gross profit, and profit for the period decreased by 23.7%, 23.5% and 15.6% respectively for the first half of 2014, as compared with those for the first half of 2013. In light of our performance in the first half of 2014, and the product delivery and installation schedule of our customers subsequent to the Latest Practicable Date, we expect our revenue, gross profit and profit for the year will experience a decrease for the full year 2014 as compared with that for the full year 2013. The principal cause was that there were a number of delays in the testing and trial production of our products due to changes in customers' implementation and capital expenditure schedules.

In addition, based on, amongst others, our sales information up to 31 August 2014, the contracts on hand, our production progress and our communication with our customers up to the Latest Practicable Date, we expect an increase in sales of double-twist stranding machines in our sales mix in the second half of 2014 (which has a lower gross profit margin as compared with our brass electroplating wire production lines) and in consequence a decrease in gross profit margin percentage for the second half of 2014 as compared with that for the first half.

We may experience similar delays in the testing and trial production of our products, and change of product mix in the future, which may result in an adverse impact on our business, results of operations and profitability.

RISK FACTORS

The lengthy process of delivery, on-site installation, testing or trial production of our products or any delay thereof may affect our revenue recognition, cash flow position, and results of our operation and may cause material fluctuation in our revenue in the future

During the Track Record Period, we generally recognised revenue upon receipt of our customer's acknowledgement and acceptance of our products after successful completion of the lengthy process of on-site installation, testing, inspection and trial production of our products. As the delivery and installation of our products depend on the customers' completion of the required preparatory work at their premises, the actual time of delivery, installation, testing, inspection and trial production of our products may be delayed for reasons beyond our control. Therefore, we have experienced long revenue recognition period during the Track Record Period, and there is no assurance that our production lines can be delivered, installed, inspected, tested and accepted according to the agreed schedule under the sales contract. Any delay in delivery, on-site installation, inspection, final testing and trial production of our products may result in a delay in the timing of revenue recognition of our sales of these products and may adversely affect our operational performance and financial results.

In order to improve such long revenue recognition period, as from September 2013, our sales contracts include an unequivocal deemed acceptance provision to take effect three months after the completion of installation and testing of products (even if no acceptance certificate is issued) or six months after the delivery of our products, whichever is earlier. We may not be able to stipulate the new contract term. In this event, we may not be able to improve our revenue recognition period. On the other hand, if we insist on the contract term, we may lose certain business. This may adversely affect our operational performance and financial results.

In addition, as the on-site testing and trial production of our products as well as other equipment provided by other third-party suppliers in the customer's site may take place simultaneously, the actual time for on-site testing and trial production of the customer's production facilities will depend on the time when all of these items of necessary equipment are fully completed and installed. As certain items of the comprehensive set of the production line (such as dry drawing machines and spiral forming machines) are not provided by our Group, we are unable to control the time required by our customers for the installation of such other equipment. There is no assurance that our customers may complete the on-site testing and inspection and acknowledge acceptance of our products in a timely manner. The lengthy process of on-site installation, final testing and trial production of our products and any delay thereof may delay the timing of revenue recognition of our sales of these products. This may adversely affect our operational performance and financial results.

RISK FACTORS

If our inventory becomes obsolete in the future, our results of operations may be adversely affected

Our inventory principally comprises raw materials, work in progress and finished goods. Raw materials mainly comprise tailored components made under our specific design, electrical components, general parts and other materials in the assembly and manufacture of our products, and work in progress represents semi-finished products assembled at our manufacturing site and our products which have not been delivered to our customers or have been delivered to our customers but have not passed the on-site final testing and inspection at the customer's site. Finished goods represent unsold standalone machines. As of the end of each Track Record Period, we had an inventory balance of RMB241.3 million, RMB205.3 million, RMB170.9 million and RMB159.4 million, respectively, representing 36.0%, 30.1%, 22.2% and 20.5%, respectively of our total assets as of the respective dates.

Our significant inventory balance during the Track Record Period was due to a relatively long manufacturing, on-site installation and testing cycle, especially because all of our delivered products had not yet passed final inspection and testing at the customer's site. During the Track Record Period, there were also occasions where our customers requested our Group to delay the scheduled delivery of our products under the sales contracts because their production sites were still under construction and were not ready for on-site installation of our products. If our inventories become obsolete, our Group would have to record impairment losses, which would adversely affect our operational performance and financial results.

We place strong reliance on domestic steel wire product manufacturers and derive a significant portion of our revenue from a limited number of products

All of our products were sold to steel wire product manufacturers during the Track Record Period. While we expect to diversify our customer base by exploring the international markets, we currently derive a significant portion of our revenue from a limited number of domestic customers. During the Track Record Period, sales revenue from our top five customers accounted for 66.7%, 52.2%, 59.9% and 97.4% of our total sales revenue, respectively, all of which are steel wire product manufacturers in the PRC. As such, the general growth and viability of the PRC steel wire product manufacturing industry and any economic or political factors or events affecting the steel wire production industry will inevitably have a direct impact on our business, results of operations and profitability.

In addition, our revenue is primarily derived from sales of our brass electroplating wire production lines. The sales revenue of our brass electroplating wire production lines accounted for 34.8%, 68.7%, 72.1% and 69.0% of our total sales revenue during the Track Record Period, respectively. Accordingly, our business, prospects and profitability depend, to a significant extent, on customers' demand for our brass electroplating wire production lines. Any material adverse change in market demand and market prices for the brass electroplating wire production lines, or the general growth and viability of the steel wire product manufacturing industry could have a material adverse effect on our business, financial condition, results of operations and profitability.

RISK FACTORS

Downturn in our downstream industries will have a material impact on our performance

As we are a production solution provider, the demand for our products is largely dependent on the demand for the products of our downstream industries. As our customers use our products to manufacture components or equipment for products of, among other industries, automotive tyres, photovoltaic, agricultural machinery and coal mining industries, downturn in those industries will have a material adverse impact on the demand of our products.

Downturn in our downstream industries may be due to the fluctuations in the demand of the end products of those industries. Downturn may also be due to change or abolishment of those governmental policies and regulations affecting our downstream industries. Both of those factors may have a material adverse effect on our business, results of operations and prospects.

By way of example, our revenue from the sales of standalone machines decreased from RMB229.7 million for 2011 to RMB18.9 million for 2012, and increased to RMB41.6 million for 2013. The sales of standalone machines decreased from RMB32.6 million for the first half of 2013 to RMB28.5 million for the first half of 2014. The fluctuation was mainly attributable to the turnaround in demand for our wet drawing machines which are necessary manufacturing equipment for producing sawing wires. Sawing wires are used in precision cutting or forming of photovoltaic solar panes in the solar photovoltaic industry. Accordingly, the market demand for photovoltaic solar panels had a direct and significant impact on the sales of our wet drawing machines and hence our performance during the Track Record Period.

Further, the market demand for photovoltaic solar panels may be negatively affected by an adverse change in government regulations and policies. The EU's decision of 2 December 2013 imposed import duties at an average rate of 47.7%, and the US's preliminary decision of 3 June 2014 imposed additional import duties of up to 35.2% on the photovoltaic solar panels manufactured in the PRC. These government decisions would likely impede the relevant demand for photovoltaic solar panels. While the PRC Government's supportive policies are believed to have led to substantial growth in the installed capacity of photovoltaic solar panels in the PRC, if any of those policies or regulations change or are abolished, demand for photovoltaic solar panels or other products of the photovoltaic industry may decline significantly. In both cases, our business and results of operation may be materially and adversely affected as a result.

From 1 July 2014 to the Latest Practicable Date, the Company entered into one sales contract in relation to the standalone machines with a total contract value of RMB41.3 million. As this is still a significant short-coming as compared to our sales of standalone machines in 2011, our Directors expect that it would be unlikely that the sales of standalone machines would revert to the historic sales level of 2011 in the year 2014.

RISK FACTORS

Our products have a long useful life which may lead to a long average replacement cycle and our growth may be limited as a result

We estimate that the useful life of our production lines is about 10 years, assuming that our customers perform regular inspections and maintenance on the machinery. We may from time to time derive revenue from our existing customers by providing equipment modification and/or upgrade of certain parts due to manufacturing technology changes and after-sales repair and maintenance services for our products. However, we cannot assure you that we can derive revenue from our existing customer base on a regular basis through recurring sales of our products. It is unlikely for our customers to make significant recurring purchases for production lines or equipment until they plan for production expansion or upgrade of their production facilities. Further, our customers' needs for product replacement may be low due to the long service life and durability of our products.

If we fail to secure new customers for our products or develop new products which fulfil the evolving technical and capacity requirements of our new and existing customers, the growth of our revenue from sales of products may be limited, and as a result, our business, financial performance and results of operations may be adversely affected.

Our revenue may vary from period to period due to fluctuations in purchase orders from customers

We do not enter into long-term sales contract with any of our customers. The purchasing patterns from our customers are affected by a variety of factors which are beyond our control, including but not limited to the market demand for our customers' products, the production capacity of their existing production facilities, and their production expansion plans. Our revenue and results of operations may fluctuate from period to period primarily due to the purchasing patterns of our customers.

In addition, due to the relatively high selling prices of our main products, a single or a small number of purchase orders may account for a substantial portion of our sales during a particular period. As we recognise revenue upon receipt of our customers' acknowledgement and acceptance of our products after successful completion of on-site installation, testing, inspection and trial production of our products, the timing of a single or a small number of purchase orders with significant contract value completed during a particular period may significantly affect our results of operations during that period. Likewise, the loss of one or more of our significant customers or any material breach of sales contracts by them could have a material adverse effect on our business, results of operations and financial condition.

RISK FACTORS

We may be unable to maintain our historical gross profit margins

During the Track Record Period, we had attained a gross profit margin of 45.5%, 59.7%, 58.3% and 58.1%, respectively. In particular, attributable to our leading technologies in design, our brass electroplating wire production lines had a relatively higher gross profit margin of 65.6%, 65.2%, 63.5% and 70.9%, respectively during the Track Record Period. However, the gross profit margin we attained during the Track Record Period may not be taken as a reference to estimate our gross profit margin in the future. Our ability to maintain our historical profit margin is contingent on a variety of competitive, industrial, macroeconomic, governmental and regulatory factors and conditions which are beyond our control.

For the first half of 2014, we have a higher proportion of sales contributed from standalone machines which have a lower gross profit margin as compared with our brass electroplating wire production lines. Revenue from sales of standalone machines (with a gross profit margin of 23.8% in the first half of 2014) accounted for 20.3% of our total revenue for the first half of 2014 as compared with 17.7% for the first half of 2013. The increase in sales of lower profit margin products may have an adverse impact on our overall gross profit margin.

There is no assurance that we will be successful in meeting all challenges and addressing the risks and uncertainties as we may face in developing our business and our gross profit margin can be maintained at the level similar to those in the Track Record Period. Should we fail to maintain such high gross profit margin, our financial results may be adversely affected.

As our products are custom-made, any material breach of contracts by our customers after we commence the manufacturing process may have an adverse effect on us

Our products are generally custom-made in accordance with the technical specifications and requirements of our customers. If our customers breach their sales contracts to a material extent after we commence the manufacturing process of our products, we may incur unnecessary manufacturing costs, waste raw materials and other resources and delay our overall manufacturing timetables. As such, we are subject to risks relating to disruption of manufacturing and sales timetables should our customers breach their sales contracts, for example, seeking new customers for the finished or semi-finished products, additional cost for altering the technical specifications of our finished or semi-finished products, adjusting our products to fit the requirements of the new customers. The failure of our customers to comply with sales contracts may have an adverse effect on our business, results of operations, financial condition and cash flows.

We may not be able to maintain our sales and domestic market share

According to Frost & Sullivan, in terms of revenue, we were the largest radial tyre cord, sawing wire and hose wire production equipment manufacturer in the PRC with a market share of 14.3% and also the largest brass electroplating wire production line manufacturer in the PRC with a market share of 44.9% in 2013. The growth of our business and operations depends on our ability to maintain our domestic market share and leading position in the sales of those

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production equipment, particularly the brass electroplating wire production lines. The performance of our overall business in the PRC is contingent on a variety of competitive, industrial, macroeconomic, governmental and regulatory factors and conditions which are beyond our control.

As such, we cannot assure you that we will be able to maintain our sales and market share in the PRC. For additional information on the risks associated with maintaining our domestic sales and market share, please refer to the paragraph headed “– Risks Relating to Our Industry – If demand from downstream industries does not grow in the PRC as we expect, our business prospects may be adversely affected” and the paragraph headed “– Risks Relating to Our Industry – We are facing increasing competition from competitors, and this could affect our business and profitability” in this section below. Any factors that have a negative impact on our domestic sales and market share could result in a material adverse effect on our business, results of operations and financial condition.

We must keep up with the changing demand and technological changes in the market in order to remain competitive

We devote significant financial and human resources to the research and development of new technology and new products internally in order to keep up with customers’ needs and market demands. There is however no assurance that such products or technology can fulfill customers’ and market requirements, or such products or technology can be developed and put into market in a timely manner or at all. In the event that we are not able to develop new products and keep up with the changing demand and technological changes to meet the needs of our customers or that our competitors have developed new products and technology ahead of our Group, our business, financial condition and results of operations may be adversely affected.

Any infringement of our intellectual property rights or by our Group, our management and employees of the intellectual property rights of others may adversely affect our reputation and profitability

The rights to use the core technologies behind the various design and manufacturing processes in our business and industry, and the protection of proprietary knowledge, technologies and processes developed by our Group are crucial to our continuous success and development. If our core technologies are infringed by way of unauthorised copying, use or imitation, our competitive strength will be weakened and our sales and reputation may be seriously affected. We may need large amount of resources for litigation to protect our intellectual property rights against unauthorised infringement. In particular, the intellectual property laws of the PRC, where we have registered our intellectual property rights, are still developing. As a result, the protection of, and enforcement with respect to, intellectual property rights in the PRC may be costly and not effective. All of these may adversely affect our business operations and profitability.

RISK FACTORS

Conversely, there is also a risk that we may infringe upon the intellectual property rights of others and our management and employees may be involved in similar claims, thereby incurring costs in either defending or settling any allegation of infringement of intellectual property rights that may arise. There is no assurance that we or our management or employees will successfully defend against or settle any disputes alleging infringement. In the event that we or our management or employees are subject to any infringement claims that we or our management or employees fail to defend against or settle such disputes, we may need to incur a large amount of money to pay compensation to the claimants, to obtain licenses, or to develop non-infringing alternatives. There is no assurance that our Group or our management or employees will succeed in developing such alternatives or in obtaining such licenses on reasonable terms or at all. Any failure to do so may disrupt our design and manufacturing processes, our ability to manufacture and market our products, damage our reputation and affect our profitability.

We have limited operating history and if we fail to tackle challenges, our business may be materially and adversely affected

We have limited operating history in our business and the development of our business only began with the launch of our first brass electroplating wire production line at the end of 2006. Thereafter, we continued our research and development efforts to develop and expand our product portfolio to cover different production lines such as intermediate wire heat treatment production lines and wire rod preparation lines. We developed and launched our zinc hot plating wire production lines in 2012 for manufacturing zinc-coated wires.

Given that we only launched our brass electroplating wire production line in 2006 and other production lines in the past few years, we only have a limited operating history upon which an evaluation of our prospects can be based. Such prospects must be assessed in light of the risks, expenses and difficulties normally encountered by any new companies. These risks include the ability of our Group to develop research and development of new products, our ability to maintain and enlarge our market share and to compete successfully against our main competitors, and our ability to maintain profitability on the basis of our available resources.

There is no assurance that our Group will be successful in tackling the challenges and identifying the risks and uncertainties. If we fail to do so, our business may be materially and adversely affected.

Our future acquisitions may prove to be difficult to integrate and manage or may not be successful

We consider acquiring the upstream suppliers of our major metal components or other production equipment manufacturers of steel wire products in similar business or business complementary to our existing business as a means of pursuing our business strategies. As of the Latest Practicable Date, we had no acquisition target and had not entered into any agreement or memorandum to acquire any company or business.

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This strategy entails potential risks that could have a material adverse effect on our business, financial condition, results of operations and prospects, including:

- the availability, terms and costs of any financing required to make an acquisition;
- delays in securing or inability to secure necessary governmental approval and third-party consents;
- potential negative effects on our liquidity position;
- the diversion of resources and management attention from our existing businesses;
- potential ongoing financial obligations and unforeseen or hidden liabilities of our acquisition targets;
- the costs of and difficulties in integrating acquired businesses, managing enlarged business operations and operating in new markets, regulatory environments and geographic regions;
- our failure to deliver the expected synergies, to achieve the intended objectives or benefits, or to generate sufficient revenue to recover the costs and expenses of an acquisition; and
- dilution of our earnings per share or decrease in our margins due to the lower profitability of an acquired business.

We may not be able to identify attractive acquisition opportunities, or make acquisitions on attractive terms or obtain financing necessary to complete and support such acquisitions. The anticipated future expansion of our operations through acquisitions will place a significant strain on our management, internal controls and resources, and could also result in additional expenditure. In addition to training, managing and integrating our workforce, we need to continue to develop and improve our management and financial controls. We cannot assure you that any of such acquisitions will result in long-term benefits to us or that we will be able to effectively manage the integration and growth of our operations. Failure to do so may materially and adversely affect our business, financial condition, results of operations and prospects.

Our plans to implement our business strategy and expand into new markets are subject to risks

We intend to increase our manufacturing capacity by setting up our New Wuxi Facility. We will incur significant capital expenditure in connection with the future expansion, in particular the construction of a new manufacturing base. Details of our future expansion plan on manufacturing facility and capacity are set forth in the paragraph headed “Business – Our manufacturing facilities and capacities – expansion plan” in this prospectus. Any failure to

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successfully construct new manufacturing base or commence the manufacturing in the new base in time and within budget or at all may materially and adversely affect our expansion plans, which in turn may affect our business, financial condition and results of operations.

In addition, we intend to expand our product portfolio to cover dry drawing machines and other ancillary equipment. The outcome of our product coverage expansion may be subject to various market conditions, existing competitions, different consumer preferences, expectations and purchasing cycles. There is no guarantee that we would be able to implement our growth strategies as expected.

We may be exposed to general economic, political and regulatory conditions and risks in the countries in which we intend to expand our business

We will pursue sales opportunities in the international markets. Our intended overseas expansion could subject us to a variety of risks, including:

- increased exposure to foreign currency exchange rate risk;
- difficulties in enforcing contracts, collecting accounts receivable and managing longer payment cycles, especially in emerging markets;
- possibility of cost overruns, installation delays and other operational difficulties;
- high sales and marketing costs;
- tariffs and trade barriers and other regulatory or contractual provisions limiting our ability to sell or develop our products in certain foreign markets; and
- import or export controls.

Uncertainties associated with war, terrorist activities, epidemics, pandemics or political instability in those countries we intend to expand to could adversely affect our potential growth of business. These incidents, if happened, may cause delays or losses in the delivery of products as well as increased security costs, insurance premiums and other expenses.

If we fail to manage our liquidity situation carefully, our ability to expand and, in turn, our results of operations may be materially and adversely affected

We recorded net current liabilities of RMB13.6 million as of the year-end 2011, which were mainly attributable to the declaration of dividend in 2011 which resulted in dividends payable in the amount of RMB101.8 million. A net current liability position may impair our ability to make necessary capital expenditures, develop business opportunities or make strategic acquisitions.

RISK FACTORS

There is no assurance that our operations will generate sufficient cash inflow to finance all our activities and cover our general working capital requirements. In the event that we are unable to generate enough cash from our operations to finance our future development, the performance and prospects of our Group as well as our ability to implement our business plan will be adversely affected. For further details of the indebtedness and liquidity, financial resources and capital structure of our Group, please refer to section headed “Financial Information – Net Current Assets/liabilities” of this prospectus.

We depend heavily on key personnel, and the loss of such key personnel could harm our business

Our future business and results of operations depend on, to a substantial extent, the continuous contributions of our Directors and senior management. In particular, Mr. Zhang Degang, Mr. Zhang Deqiang and Ms. Zhang Jinghua, who are our Controlling Shareholders, have led our senior management team in building up our market position in the steel wire product manufacturing equipment industry in the PRC since the establishment of our Group. The loss of any of their services could have a material adverse effect on our Group. Our Directors and members of our senior management are key to our Group’s success because of their expertise and experience in the steel wire product manufacturing equipment industry, market development, and their contributions to technology development and expertise in managing the operations of our Group. In addition, the relationship and reputation that our management team has established and maintained with customers of our Group are among the successful factors of our Group.

We expect that our Directors, our senior management team and our technical staff will continue to play an important role in the future growth and success of our business. Our ability to effectively implement our business strategy will depend upon, among other factors, the successful recruitment and retention of new highly skilled and experienced management and other key personnel. There is no assurance that we will be able to hire or retain such personnel and any failure to do so could adversely affect our business, financial conditions and results of operations.

We had not fully contributed to the mandatory social insurance funds, and therefore, may be subject to the late charges

Under the PRC laws and regulations, we are required to make contributions, by way of employee’s welfare and benefits, to various social insurance funds. Before August 2012, we made social insurance fund contributions based on the minimum amount of social insurance funds as required by the local authorities in the respective areas that members of our Group operated. Owing to the different policies in the calculation basis between requirements stipulated by the local authorities (i.e. on a minimum basis) and national laws and regulations (i.e. on a full basis), we estimate the outstanding social insurance funds during the Track Record Period amounted to RMB1.6 million under the relevant national laws and regulations.

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According to the relevant PRC laws and regulations, the relevant social insurance authorities may order our Group to pay the outstanding amount within the prescribed time period with a late charge at the daily rate of 0.05% on the outstanding contributions, and may impose a maximum fine or penalty equivalent to three times of the outstanding amount if such payment is not made within the prescribed time period. As of the Latest Practicable Date, we had not received any notification from the relevant authorities alleging that we had not fully contributed to the social insurance funds and demanding payment of the same before a stipulated deadline. Upon receipt of the request from the relevant authorities, if any, we intend to pay the outstanding social insurance funds and/or any late payment and/or penalty imposed by the relevant authorities accordingly.

In addition, during the Track Record Period, two of our ex-employees lodged claims against us alleging, among other things, that we did not fully pay the social insurance funds. The two disputes were initiated as a result of the termination of employment and were resolved by our Group. In one case, we were not required to pay any compensation, and in other case, we paid a settlement sum of RMB2,500 on 24 July 2012 to such ex-employee with an aim of saving time and resources in handling the dispute so that we could focus on our business. Please refer to the paragraph headed “Business – Employees” in this prospectus for further details of the labour disputes of our Group and the paragraph headed “Business – Legal Compliance and Proceedings – Non-compliance incidents” in this prospectus for details of our non-compliance incidents, and our key internal control measures implemented. There is no assurance that our other employees will not claim against our Group due to the underpayment of social insurance funds, any associated costs and compensation, or use the underpayment of such contributions to terminate their employment with our Group and seek compensation.

We had not fully contributed to the mandatory housing provident fund, and therefore, may be ordered by relevant authorities to make up for the required outstanding amount of contribution within the stipulated time limit

Under the PRC laws and regulations, as part of the employee’s welfare and benefits, we are required to make contributions to housing provident fund. Before August 2012, we made housing provident fund contributions based on the minimum amount of housing provident fund as required by the local authorities in the respective areas that members of our Group operated. Owing to the different policies in the calculation basis between requirements stipulated by the local authorities (i.e. on a minimum basis) and national laws and regulations (i.e. on a full basis), we estimate the outstanding housing provident fund during the Track Record Period amounted to RMB0.1 million.

According to the relevant PRC laws and regulations, the relevant housing provident fund authorities may order our Group to pay the outstanding amount of the housing provident fund within the prescribed time period, and if we still fail to do so, the relevant housing provident fund authorities may apply to the court for the enforcement of the unpaid amount. As of the Latest Practicable Date, we had not received any notification from the relevant authorities alleging that we had not fully contributed to the housing provident funds and demanding payment of the same before a stipulated deadline. Upon receipt of the request from the relevant

RISK FACTORS

authorities, if any, we intend to pay the outstanding housing provident funds accordingly. Please refer to the paragraph headed “Business – Legal Compliance and Proceedings – Non-compliance incidents” in this prospectus for details of our non-compliance incidents, and our key internal control measures implemented.

Any change in tax treatment in the PRC may have an impact on our operations

The current maximum corporate income tax rate is 25%. Our Company was granted a certificate of High/New Tech Enterprise on 13 December 2010 with a validity period of three years according to 《高新技術企業認定管理辦法》 (Measures for the Administration of the Recognition of High/New Tech Enterprise*), which was promulgated by Ministry of Finance, MST and SAT. Therefore, our Company enjoyed a preferential tax rate of 15% on corporate income tax for 2010, 2011 and 2012. As a renewal of our High/New Tech Enterprise qualification, we were granted with a new certificate of High/New Tech Enterprise dated 11 December 2013 with a validity period of three years. Therefore, our Company will be entitled to the reduced tax rates for three more years from the date of expiration of the last preferential tax treatment. However, there is no assurance that we will be continuously granted the status of High/New Tech Enterprise with the favourable tax rate of 15% after the expiry of the renewed certificate, and any change or discontinuation of such favourable tax treatment may adversely affect our results of operations and profitability.

In addition, one of our subsidiaries, Haisheng Software, also received preferential tax treatment for its corporate income tax for a period of five years since 2012, where it was exempted from corporate income tax for its first two profit-making years (after deducting losses incurred in previous years) and is entitled to a 50% tax reduction for the succeeding three years.

Besides, pursuant to 《鼓勵軟件產業和集成電路產業發展有關稅收政策問題的通知》 (Notice in respect of the Encouragement of Development of Software and Integrated Circuit Industries*) jointly issued by the MOF, State Administration of Taxation and General Administration and Custom on Taxation Policy and 《國務院關於印發進一步鼓勵軟件產業和集成電路產業發展若干政策的通知》 (Notices on Issuing Policies on Further Encouraging the Development of Software and Integrated Circuits Industry*) issued by the State Council, the sales of self-developed software products of our Company and Haisheng Software are entitled to a VAT refunds from July 2010 to June 2015 and from December 2011 to October 2016, respectively. During the Track Record Period, our Group recorded VAT refunds in the amount of RMB10.4 million, RMB8.9 million, RMB5.2 million and RMB1.8 million respectively.

If the PRC government discontinues any of the aforesaid preferential tax treatments or exemptions, our tax payable will increase and our financial condition and results of operations may be materially and adversely affected.

RISK FACTORS

We may not receive further government subsidies and the loss of which may affect our financial position

During the Track Record Period, our Group received from the PRC government authorities aggregate subsidies for our scientific research projects and corporate development subsidies, as well as incentive for our Company's listing plan of RMB2.1 million, RMB11.9 million, RMB15.1 million and RMB1.3 million, respectively, representing 1.5%, 7.9%, 9.8% and 1.8% of our Group's profits before taxation for the same respective periods. However, there is no assurance that our Group will receive further government subsidies. If no or a smaller amount of government subsidy is granted to our Group in the future, our financial position may be adversely affected.

We may not have adequate insurance coverage

Although we have maintained insurance coverage for product liability, our insurance coverage may not adequately protect our Group against certain risks. As a result, we may have to pay for any uninsured financial or other losses, damages and liabilities, litigation or business disruption out of our own resources. Besides, the occurrence of certain incidents, including earthquake, fire, severe weather, war, floods, power outages, terrorist attacks or other disruptive events and the consequences, damages and disruptions resulting from such events may not be fully covered by our insurance policies. If our business operations were disrupted or interrupted for a substantial period of time, we could incur costs and losses that could materially and adversely affect our business, financial condition and results of operations.

RISKS RELATING TO OUR INDUSTRY

If demand from downstream industries does not grow in the PRC as we expect, our business prospects may be adversely affected

Our future plan to increase our manufacturing capacity and continue to research and develop new products is partly based on our anticipation of the growth in demand for steel wire products such as radial tyre cords, sawing wires, bead wires, zinc-coated wires and hose wires in the PRC. Accordingly, if the growth in demand for radial tyre cords, sawing wires, bead wires, zinc-coated wires and hose wires slows down or is not as fast as we expect, demand for our products may be lower than what we anticipate. This may also decrease the utilisation rate of our manufacturing facilities and slow down our expansion.

We are facing increasing competition from competitors, and this could affect our business and profitability

We face competition from both domestic and international equipment manufacturers. Some of our competitors may have certain advantages over us, including greater financial resources, more advanced technologies, greater economies of scale, broader brand name recognition and better relationships in the market. Increasing competition may result in price and gross profit margin reduction, and loss of our market share, any of which could adversely affect our business and profitability. For information about our market share, the competition landscape and our major competitors, please refer to the section headed "Industry Overview" of this prospectus.

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The PRC environmental laws and regulations may change and our environmental compliance liabilities and costs may increase

In recent years, the PRC government has introduced and imposed stricter measures on industrial enterprises in relation to environmental protection. The PRC environmental protection laws and regulations currently impose fines at both national and local levels for over discharge of pollutants, levy fines for causing pollution, and require closure of any facility which causes serious environmental problems. Non-compliance with such PRC laws and regulations relating to environmental protection may, depending on the seriousness of the circumstances, result in a rectification order, penalties or an operation suspension order from the relevant government authorities.

During the Track Record Period, we had complied with all relevant environmental protection laws and regulations of the PRC in all material aspects and had not received any notice or warning of non-compliance with the PRC laws and regulations relating to environmental protection. However, with the increasing concern over the deteriorating environment in the PRC, there is no assurance that new laws or regulations will not be introduced in the future or that current laws will not be amended with higher requirements and emission standards applicable to manufacturing enterprises. In such event, in order to comply with the new laws or regulations, we may incur additional costs to update our environmental protection devices, take more measures and assign more personnel to make sure our compliance with such laws and regulations. As a result, our financial condition, results of operations and future prospects may be materially and adversely affected.

There may be excess production capacity for radial tyre cords, sawing wires and hose wires

With the development of their respective downstream industries, a large number of radial tyre cord, sawing wire and hose wire manufacturers are estimated to continue the expansion of their production capacity of radial tyre cords, sawing wires and hose wires in order to avoid any short supply in the PRC market. In the event that the downstream industries do not grow at the expected rate, there may be excess production capacity for the steel wire products in question. This may in turn weaken the demand for our steel wire product manufacturing equipment. As a result, our financial condition, results of operations and future prospects may be materially and adversely affected.

Our financial condition and result of operations depend on the global economy and would be adversely affected by any further downturn after the significant deterioration and volatility of the global financial markets since 2008

The global financial markets have been affected by a general slowdown of economic growth in both the United States and globally since late 2008, resulting in substantial volatility in global equity securities markets and tightening of liquidity in global credit markets. Development of financial crisis may continue to present risks to our business operations for an extended period of time, including a potential slowdown in our customers' demand for our products, increase in interest expenses on our bank borrowings, or reduction in the amount of banking facilities currently available to our Group.

RISK FACTORS

Should there be a further economic downturn or credit crisis for any reason, our ability to borrow funds from current or other funding sources may be further limited, causing our continuous access to funds to become more expensive. It would materially and adversely affect our business, liquidity, results of operations, financial condition, and most importantly, our expansion plans.

In addition, further economic downturn may also result in the decrease in demand for steel wires from our steel wire manufacturer customers, and may in turn reduce the demand for our products or affect our customers' abilities to settle amounts due to our Group.

RISKS RELATING TO THE PRC

Changes in industrial policies by the PRC government may adversely affect our business operation

Since the implementation of the economic reforms and liberation policy, the PRC policies for the manufacturing equipment industry have been favourable to and have encouraged investments. Besides, the PRC government has also been encouraging the improvement of the radialisation rate of various types of automobiles in the PRC by introducing relevant encouragement policies. This has led to an increase in the demand for radial tyre cords which are the principal skeleton materials for radial tyres. As a result, demand for our brass electroplating wire production lines and production equipment of radial tyre cords have also been increasing since our establishment. Should there be any significant change in the PRC development policies for the equipment manufacturing industry or encouragement policies relating to the steel wire product manufacturing industry, our business operations may be adversely affected.

We are exposed to economic, political and regulatory conditions and risks in the PRC where our assets and operations and principal suppliers and customers are located

Almost all of our revenue during the Track Record Period was derived from our operations in the PRC and substantially all of our assets are located in the PRC. We anticipate that the PRC will remain our primary market in the foreseeable future. Accordingly, our business operations and prospects are subject to a number of risks relating to conducting business in the PRC and will be affected, to a significant extent, by the economic, political and legal developments in the PRC. Should there be any adverse change in the GDP and/or consumer spending growth in the PRC, our results of operations, financial condition and growth prospects may be materially and adversely affected.

The PRC economy differs from the economies of most developed countries in a number of respects, including structure, degree of government involvement, level of development, control of capital investment, growth rate, control of foreign exchange, allocation of resources, inflation rate and trade balance position. In addition, the steel wire products manufactured by our products can be used across several industries, and each industry may experience different changes in government policies and regulations from time to time. We cannot predict whether

RISK FACTORS

changes in the political, economic and social conditions in the PRC or changes in the laws, regulations and policies promulgated by the PRC government will have any adverse effect on our current or future business and financial conditions and results of operations.

The legal system of the PRC is evolving and has inherent uncertainties which may affect the protection of our business and our Shareholders

Most, if not all, of our business and operations are governed by the legal system of the PRC. Unlike common law systems, the PRC legal system is based on written laws, regulations, circulars and directives. In addition, the PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms. Therefore, it is difficult to evaluate the outcome of administrative and court proceedings and the actual level of legal protection we enjoy. These uncertainties may impede our ability to enforce the contracts we have entered into with our customers, suppliers and business partners which could materially adversely affect our business, financial condition and results of operations.

Further, we cannot predict the effect of future developments in the PRC legal systems, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof. Therefore, there is no assurance that we will enjoy the same level of legal protection in the future, nor such new laws and regulations will not affect our operations, causing adverse effects on our business and financial conditions and results of operations.

PRC government control over currency conversion may affect our operations and financial conditions, and limit our ability to use our cash effectively

Substantially all of our revenue is denominated in Renminbi. The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of foreign currencies out of the PRC. Under the current PRC foreign exchange regulations, payments of current account items, including profit distribution, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from SAFE is required in advance where Renminbi is to be converted into foreign currency and remitted out of the PRC to pay capital expenditures. There is no assurance that the policies regarding foreign exchange transactions under the current account and the capital account will continue in the future.

In addition, under the current foreign exchange control system, we cannot assure you that we will be able to obtain sufficient foreign exchange to pay dividends to our Shareholders or to satisfy any other foreign exchange requirements in the future. These limitations could adversely affect our capital expenditure plans and consequently our business, financial condition and results of operations.

RISK FACTORS

Fluctuation in the exchange rates of Renminbi may have a material adverse effect on your investment

The exchange rates of Renminbi against foreign currencies, including the Hong Kong dollar, are affected by, among other things, changes in political and economic conditions in the PRC. To the extent that we need to convert Hong Kong dollars to be received from our Global Offering into Renminbi for our operations, appreciation of Renminbi against the Hong Kong dollar would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, if we need to convert Renminbi into Hong Kong dollars for the purpose of making payments for dividends on our H Shares or for other business purposes, appreciation of Hong Kong dollar against Renminbi would have a negative effect on the Hong Kong dollar amount available to our Group.

As of the Latest Practicable Date, Renminbi exchange rate system was a managed-floating rate system. Since 21 July 2005, Renminbi was no longer pegged to the U.S. dollars but to a basket of currencies. Any material exchange rate volatility relating to Renminbi may give rise to uncertainties in the value of our PRC subsidiaries' assets, earnings and dividends. Any devaluation of Renminbi may cause our Group to incur capital depreciation in its assets and investments in the PRC as well as causing material adverse effects on our operations and financial condition.

Payment of dividends is subject to restrictions under the PRC law

Under the PRC law, dividends may be paid only out of distributable profits. Distributable profits are our net profit as determined under PRC GAAP or HKFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profits to enable us to make dividend distributions to our Shareholders in the future, including periods for which our financial statements indicate that our operations have been unprofitable. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. Under the current PRC tax laws, regulations and applicable tax treaties, the payment of dividends to a non-PRC resident Shareholder is subject to individual income tax.

Holders of H Shares may be subject to PRC taxation

Under PRC tax laws, rules and regulations, non-PRC resident individuals and non-PRC resident enterprises are subject to various tax obligations with respect to the dividends paid to them by our Company or the gains realised upon the sale or other disposition of our H Shares.

For non-PRC resident individuals, according to 《國家稅務總局關於國稅發[1993]45號文件廢止後有關個人所得稅徵管問題的通知》 (Notice of the Issues Concerning Taxation and Administration of Individual Income Tax which superseded the Guo Shui Fa [1993] No. 45*), we are required to withhold individual income tax at a rate of 20% from any dividend payments that we may declare for non-PRC resident individuals, unless there is an applicable double

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taxation treaty. Generally, a convenient tax rate of 10% will apply to the dividends paid by our Company to non-PRC resident individuals without application according to the applicable treaties. When the convenient tax rate of 10% is not applicable, our Company will: (i) return the excessive tax amount pursuant to due procedures if the applicable tax rate is lower than 10%, (ii) withhold such foreign individual income tax at the applicable tax rate if the applicable tax rate is between 10% and 20%, or (iii) withhold such foreign individual income tax at a rate of 20% if no double taxation treaty is applicable.

For non-PRC resident enterprises that do not have establishments or premises in the PRC, or have establishments or premises in the PRC but their income is not related to such establishment or premises, under the PRC's New CIT Law, dividends paid by our Company and the gains realised by such non-PRC resident enterprises upon the sale or other disposition of our H Shares are ordinarily taxable under the PRC corporate income tax at a rate of 20%. In accordance with 《國家稅務總局關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》 (Notice of the Issues Concerning Withholding the Corporate Income Tax on the Dividends Paid by Chinese Resident Enterprises to Shareholders which are Overseas H Shares Non-resident Enterprises*) issued by the SAT and effective from 6 November 2008, such tax rate has been reduced to 10%, subject to a further reduction under a special arrangement or applicable treaty between the PRC and the jurisdiction of the residence of the relevant non-PRC resident enterprise. Non-PRC enterprises that are entitled to be taxed at a reduced rate under an applicable income tax treaty or arrangement will be required to apply to the PRC tax authorities for a refund of any amount withheld in excess of the applicable treaty rate, and payment of such refund will be subject to the PRC tax authorities' approval. Please refer to the section headed "Appendix IV – Taxation and Foreign Exchange" to this prospectus for details.

There are significant uncertainty as to the PRC's IIT Law and their interpretation and application by the PRC's tax authorities, including the taxation of capital gains by non-PRC resident enterprises, individual income tax on dividends to non-PRC resident individual holders of H Shares and on gains realised on the sale or disposition of our H Shares. The PRC's tax laws, rules and regulations may also change. As such, any change to applicable tax laws, rules and regulations, and the interpretation and application of such laws, rules and regulations may materially affect the value of your investment in our H Shares.

Failure to comply with workplace safety regulations in the PRC leading to penalties or fines may adversely affect our reputation and business operation

Our operations are subject to applicable workplace health and safety, fire safety, fire prevention laws and other regulations. Such laws and regulations are increasingly stringent and the PRC government is adopting a strict enforcement approach. As such, we may need to allocate more capital expenditure in order to ensure compliance with the relevant laws and regulations. If we fail to comply with such laws or regulations, we may be required to take corrective action, or pay penalties or fines. Any of these factors may have a material adverse effect on our business operations and results.

RISK FACTORS

It may be difficult to effect service of process or to enforce foreign judgements in the PRC

Substantially all of our Directors and members of our senior management reside in the PRC, and our business operations are located in the PRC. Therefore, investors may encounter difficulties in effecting service of process from outside the PRC upon our Group, our Directors and members of our senior management. Moreover, the enforcement of foreign judgements in the PRC is still subject to uncertainties. A judgement of a court from a foreign jurisdiction may be reciprocally recognised or enforced if the jurisdiction has a treaty with the PRC or if the judgements of the PRC courts have been recognised before in that jurisdiction, subject to the satisfaction of other requisite requirements. Therefore, investors may have difficulties effecting service of process against our Group in the PRC in order to seek recognition and enforcement of foreign judgements in the PRC.

RISKS RELATING TO THE GLOBAL OFFERING

Any possible conversion of our Domestic Shares into H Shares in the future could increase the supply of our H Shares in the market and negatively impact the market price of our H Shares

Subject to (i) the approval of the CSRC or the authorised securities approval authorities of the State Council; (ii) the approval of the Stock Exchange; and (iii) the Shareholders' approval in a general meeting, all of our Domestic Shares may be converted into H Shares, and such converted Shares may be listed and traded on the Stock Exchange. This could increase the supply of our H Shares in the market and negatively impact the market price of our H Shares.

As there has been no prior public market for our H Shares, the trading volume and market price of our H Shares following the Global Offering may be volatile

Prior to the Global Offering, there was no public market for our H Shares. The Offer Price may differ significantly from the market price of our H Shares following the Global Offering. The listing of, and the permission to deal in, our H Shares on the Stock Exchange does not guarantee the development of an active public market or the sustainability thereof following the completion of the Global Offering. In addition, the price and trading volumes of our H Shares may be volatile.

In addition, the H shares of other PRC issuers listed on the Stock Exchange have experienced price volatility in the past and it is possible that our H Shares could be subject to changes in price that are not directly related to our performance and results of operations.

RISK FACTORS

Our historical dividends are not indicative of future dividends

In 2011, we declared dividend of RMB189.3 million. On 15 August 2014, we further declared a special dividend of RMB120 million to our 13 then Shareholders. The value of dividends declared and paid in previous years should not be relied on by potential investors as a guide to the future dividend policy of our Group or as a reference or basis to determine the amount of dividends payable in the future. Although we paid dividends in the past, there can be no assurance whether, when and in what form we will pay dividends in the future. We may also not be able to pay dividends in accordance with our dividend policy. For more details of our dividend policy, please refer to the section headed “Financial Information – Dividend Policy” of this prospectus.

Shareholders’ interests may be diluted as a result of additional equity fund-raising

The Offer Price of our H Shares is higher than the net tangible book value per share of our H Shares immediately prior to the Global Offering. Therefore, subscribers of our H Shares in the Global Offering will experience an immediate dilution in pro forma net tangible assets value of HK\$6.98 per H Share (based on an Offer Price of HK\$7.72 per H Share, and assuming no exercise of the Over-allotment Option) and existing Shareholders will receive an increase in the net tangible book value per share of their H Shares. In addition, we may need to raise additional funds in the future to finance further expansion of our capacity and business. If additional funds are raised through the issuance of H Shares or equity-linked securities of our Company other than on a pro rata basis to existing Shareholders, the percentage ownership of such Shareholders in our Company may be reduced, and such new securities may confer rights and privileges that take priority over those conferred by our H Shares.

Investors should not rely on any information contained in press articles or other media regarding our Group and the Global Offering

Prior to the publication of this prospectus, there may be press and media coverage regarding our Group and the Global Offering. Such press and media coverage may include references to certain events or information about our Group that do 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 responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent such statements are inconsistent or conflict with the information contained in this prospectus, we disclaim responsibility for them. Accordingly, prospective investors should not rely on any such information and should only rely on information included in this prospectus in making any decision as to whether to invest in our H Shares.

RISK FACTORS

Certain statistics, industry data and other information related to the economy and the industry contained in this prospectus derived from official government sources may not be reliable

Statistics, industry data and other information relating to the economy and the industry contained in this prospectus have been derived from various official government publications with information provided by the PRC government and other government agencies. We cannot assure you or make any representation as to the reliability, accuracy or completeness of such information. Neither we nor any of our respective affiliates or advisers, nor the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor, the Underwriters or any of their respective directors, employees, agents, representatives, affiliates or advisers, have independently verified the accuracy or completeness of such information, and it may be out-of-date. Accordingly, such information may not be consistent with other information available from other sources due to possible flawed collection methods, discrepancies between published information, different market practices or other problems.

Accordingly, such information should not be unduly relied upon. In all cases, you should give careful consideration as to how much weight or importance you should attach or place on such statistics, projected industry data and other information relating to the economy and the industry.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies (WUMP) Ordinance, the Securities and Futures (Stock Market Listing) Rules of the SFO and the Listing Rules for the purpose of giving information to the public with regard to our Company. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, there are no other matters the omission of which would make any statement in this prospectus misleading, and all opinions expressed in this prospectus have been arrived at after due and careful consideration and are formed on bases and assumptions that are fair and reasonable.

APPROVAL OF THE CSRC

We obtained approval from the CSRC on 19 March 2014 for making application to list our H Shares on the Stock Exchange and for the Global Offering. In granting such approval, the CSRC accepts no responsibility for our financial soundness, nor for accuracy of any of the statements made or opinions expressed in this prospectus or on the Application Forms.

THE GLOBAL OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering. For applicants under the Hong Kong Public Offering, this prospectus and the related Application Forms set out the terms and conditions of the Hong Kong Public Offering. The Global Offering comprises the Hong Kong Public Offering of initially 3,200,000 H Shares and the International Placing of initially 28,800,000 H Shares (subject, in each case, to adjustment on the basis described in the section headed "Structure of the Global Offering" of this prospectus).

The Global Offering is sponsored by the Sole Sponsor, namely China Merchants Securities (HK) Co., Limited. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement on a conditional basis. The Global Offering is managed by the Sole Global Coordinator. The International Underwriting Agreement has been entered into on 29 October 2014. For further details of the Underwriters and underwriting arrangements, please refer to the section headed "Underwriting" of this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

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

No action has been taken to permit any public offering of the Offer Shares or the distribution of this prospectus and/or the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation, nor is it calculated to invite or solicit offers in any jurisdiction or in any circumstances in which such 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 securities laws of such jurisdictions pursuant to registration with or an authorisation by the relevant securities regulatory authorities or an exemption therefrom. Prospective applicants for the Offer Shares should consult their financial advisers and seek legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws, rules and regulations of any relevant jurisdictions. Prospective applicants for the Offer Shares should also inform themselves as to the relevant legal requirements and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

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

Each person acquiring the Offer Shares in the Global Offering will be required to confirm, or be deemed by its acquisition of the Offer Shares to have confirmed, that he is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus. In particular, the Offer Shares have not been publicly offered or sold, directly or indirectly, in the PRC or the United States.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee of the Stock Exchange for the granting of listing of, and permission to deal in, our H Shares, including any H Shares which may be issued by our Company pursuant to the Global Offering and upon the exercise of the Over-allotment Option. No part of our share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

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

Dealings in the H Shares on the Stock Exchange are expected to commence at 9:00 a.m. on 11 November 2014.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

We have instructed the H Share Registrar, and the H Share Registrar has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless the holder delivers a signed form to the H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

- (a) agrees with our Company and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the PRC Company Law, the Special Regulations and our Articles of Association;
- (b) agrees with our Company, each of our Shareholders, Directors, Supervisors, managers and officers, and we, acting for ourselves and for each of our Directors, Supervisors, managers and officers agree with each Shareholder, to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive;
- (c) agrees with us and each our Shareholders that our H Shares are freely transferable by the holders of our H Shares; and
- (d) authorises us to enter into a contract on his or her behalf with each of our Directors, Supervisors, managers and officers whereby such Directors, Supervisors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, our H Shares on the Stock Exchange and our compliance with the stock admission requirements of HKSCC, our H 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 H Shares on the Stock Exchange or any other date as determined by HKSCC. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second 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 the H Shares to be admitted into CCASS. If you are unsure about the details of CCASS settlement arrangements and how such arrangements will affect your rights and interests, you should seek the advice of your stockbrokers or other professional advisers.

PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisers if you are in any doubt as to the tax implications of subscription for, purchasing, holding or disposing of and dealing in our H Shares under the laws of the place at your operations, domicile, residence, citizenship or incorporation. We emphasise that none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents or advisers or any other person involved in the Global Offering accepts responsibility for your tax effects or liabilities resulting from your subscription for, purchase, holding or disposal of or dealing in our H Shares.

H SHARE REGISTER AND STAMP DUTY IN HONG KONG

All H Shares issued pursuant to applications made in the Global Offering will be registered in our Company's H Share register of members to be maintained in Hong Kong. We maintain our Company's principal register of members at our current registered place in the PRC.

Dealings in the H Shares registered in the H Share register of members of our Company in Hong Kong will be subject to Hong Kong stamp duty.

Unless otherwise determined by our Company, dividends payable in HK dollars in respect of the H Shares will be paid to the shareholders listed on the H Share register of members of our Company, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder.

ROUNDING

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

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS AND SUPERVISORS

<u>Name</u>	<u>Residential Address</u>	<u>Nationality</u>
<i>Executive Directors</i>		
ZHANG Degang (張德剛)	Room 1108, Block 13 Huanglong Village No. 2 Jiangyin City Jiangsu Province PRC	Chinese
ZHANG Deqiang (張德強)	Room 801, No. 16 Tian Jing Garden Binhu District Wuxi City Jiangsu Province PRC	Chinese
ZHANG Jinghua (張靜華)	Room 305, Block 62 Ming Ya Ju Jiangyin City Jiangsu Province PRC	Chinese
<i>Non-executive Director</i>		
GAO Feng (高峰)	Room 3201, Unit 2, Block 1 Yue Fu, No. 731 Fuchun Road Jianggan District Hangzhou City Zhejiang Province PRC	Chinese

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Independent non-executive Directors

LIU Chaojian (劉朝建)	Room 803, Unit 1, 3rd Floor Xiluoyuan Area No. 3 Feng Tai District Beijing PRC	Chinese
GAO Fuping (高富平)	Room 2405, No. 2 Lane No. 1278 Wan Hang Du Lu Chang Ning District Shanghai PRC	Chinese
HO Yuk Ming, Hugo (何育明)	Flat H, 6th Floor, Block 3 Kai Tak Garden No. 121 Choi Hung Road Wong Tai Sin, Kowloon Hong Kong	Chinese

Supervisors

PENG Jiashan (彭加山)	Room 303, Block 4 Shangfeng Xiaoqu No. 85 Middle Bin Jiang Road Jiangyin City Jiangsu Province PRC	Chinese
WEI Yi (危奕)	Room 23D, Block 8 Hao Fang Xian Dai Hao Yuan Nanshan District Shenzhen City PRC	Chinese
YANG Jinghua (楊靜華)	Room 402, No. 35 Kang Qiao Li Jing Garden Wuxi City Jiangsu Province PRC	Chinese

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

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor and Sole Global Coordinator China Merchants Securities (HK) Co., Limited
48/F., One Exchange Square
Central
Hong Kong

Joint Bookrunners Ping An Securities Limited
15/F., 122 QRC
122 Queen's Road Central
Hong Kong

China Merchants Securities (HK) Co., Limited
48/F., One Exchange Square
Central
Hong Kong

Joint Lead Managers China Merchants Securities (HK) Co., Limited
48/F., One Exchange Square
Central
Hong Kong

Ping An Securities Limited
15/F., 122 QRC
122 Queen's Road Central
Hong Kong

SBI China Capital Financial
Services Limited
Unit A2, 32/F., United Centre
95 Queensway
Hong Kong

Sun International Securities Limited
Unit 1201-1204
12/F, China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

CMB International Capital Limited
Units 1803-4, 18/F, Bank of America Tower
12 Harcourt Road
Central
Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

**Auditor and Reporting
Accountant**

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central
Hong Kong

Legal advisers to our Company

as to Hong Kong law:

ONC Lawyers
14-15/F, The Bank of East Asia Building
10 Des Voeux Road Central
Central
Hong Kong

as to PRC law:

Dacheng Law Offices
7/F, Building D
No. 9, Dongdaqiao Road
Chaoyang District
Beijing
PRC

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

as to Hong Kong law:

Minter Ellison
Level 25, One Pacific Place
88 Queensway
Hong Kong

as to PRC law:

Shu Jin Law Firm
24/F, Aerospace Skyscraper
4019 Shennan Road
Shenzhen
PRC

Property Valuer and Consultant

DTZ Debenham Tie Leung Limited
16/F, Jardine House
1 Connaught Place
Central
Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Receiving Banks

Standard Chartered Bank (Hong Kong)
Limited
15/F, Standard Chartered Tower
388 Kwun Tong Road
Hong Kong

Wing Lung Bank Limited
16/F, Wing Lung Bank Building
45 Des Voeux Road Central
Central
Hong Kong

Industry Consultant

Frost & Sullivan
Suite 2802-2803, Tower A
Dawning Center
500 Hongbaoshi Road
Shanghai
PRC

CORPORATE INFORMATION

Registered office and Headquarter in the PRC	B15, District A, Huishan Economic Development Zone Wuxi City, Jiangsu Province, PRC
Principal place of business in Hong Kong	33rd Floor, Shui On Centre 6-8 Harbour Road, Wanchai, Hong Kong
Company's website	<u>www.wxsunlit.com</u> (the information contained on this website does not form part of this prospectus)
Compliance adviser	Cinda International Capital Limited 45/F, COSCO Tower 183 Queen's Road Central Hong Kong
Company secretary	Ms. Ho Wing Yan (<i>ACIS ACS(PE)</i>)
Authorised representatives (for the purpose of the Listing Rules)	Mr. Zhang Degang Room 1108, Block 13 Huanglong Village No. 2 Jiangyin City Jiangsu Province PRC Ms. Ho Wing Yan (<i>ACIS ACS(PE)</i>) Room 2609, 26th Floor Seung Lai House Wah Lai Estate Lai Chi Kok Hong Kong
Authorised representative (for the purpose of Part 16 of the Companies Ordinance)	Ms. Ho Wing Yan (<i>ACIS ACS(PE)</i>)
Audit committee	Mr. Ho Yuk Ming, Hugo (<i>Chairman</i>) Mr. Liu Chaojian Mr. Gao Feng
Remuneration and appraisal committee	Mr. Liu Chaojian (<i>Chairman</i>) Mr. Gao Fuping Mr. Zhang Deqiang

CORPORATE INFORMATION

Nomination committee	Mr. Zhang Degang (<i>Chairman</i>) Mr. Ho Yuk Ming, Hugo Mr. Gao Fuping
Strategic committee	Mr. Zhang Degang (<i>Chairman</i>) Mr. Zhang Deqiang Mr. Liu Chaojian
H Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong
Principal banker	China Merchants Bank Wuxi Branch No. 9 Xueqian Street Wuxi Jiangsu Province PRC

INDUSTRY OVERVIEW

This and other sections of this prospectus contain information relating to the PRC, Hong Kong and other economies and industries in which we operate. The information and statistics contained in this section have been derived partly from publicly available government and official sources. Certain information and statistics set forth in this section have been extracted from a market research report by Frost & Sullivan dated 20 June 2014 (the “Frost & Sullivan Report”), an independent market research agency, which we commissioned. References to Frost & Sullivan should not be considered as Frost & Sullivan’s opinion as to the value of any securities or the advisability of investing in our Company. We believe that the sources of the information the Frost & Sullivan Report extracted from are appropriate sources for such information and that reasonable care was taken in extracting and reproducing such information. We 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, our affiliates or advisers, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor, the Underwriters or their affiliates or advisers, or any party involved in the Global Offering do not make any representation as to accuracy, completeness or fairness of such information from official government publications and, accordingly, you should not unduly rely on such information from official government publications.

COMMISSIONED REPORT FROM FROST & SULLIVAN

We commissioned Frost & Sullivan, an Independent Third Party, to conduct a market analysis and to provide a market research report on, among other things, the PRC radial tyre cord, sawing wire and hose wire industry and the PRC radial tyre cord, sawing wire and hose wire production equipment industry. Frost & Sullivan is an independent global consulting firm founded in 1961 and has over 40 global offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists. The Frost & Sullivan Report has been prepared by Frost & Sullivan independently. We incurred a total of RMB1.36 million in fees and expenses for the preparation of the Frost & Sullivan Report. The payment of such amount was not contingent upon our successful Listing or the findings of the Frost & Sullivan Report.

Frost & Sullivan’s independent research was undertaken through both primary and secondary research on various official government publications as well as information provided by international organizations and industry sources. Primary research involved interviews with leading industry participants in the radial tyre cord, sawing wire and hose wire production equipment industry and related industry experts. Secondary research involved reviewing company reports, independent research reports and data in Frost & Sullivan’s own research database. Frost & Sullivan assumed that the information and data, which it obtained from Independent Third Parties and the public domain, are complete and accurate. Frost & Sullivan’s research may be affected by the accuracy of these assumptions and the choice of these parameters. The information contained herein was obtained from sources which Frost & Sullivan believe to be reliable, but there can be no assurance as to the accuracy or completeness of any such information.

The bases and assumptions of the projections in the Frost & Sullivan Report include the following: (i) the PRC economy will maintain steady growth across the forecast period; (ii) per capita disposable income of urban residents and per capita net income of rural residents in the PRC will increase steadily; (iii) the global economy will gradually recover over the forecast period.

INDUSTRY OVERVIEW

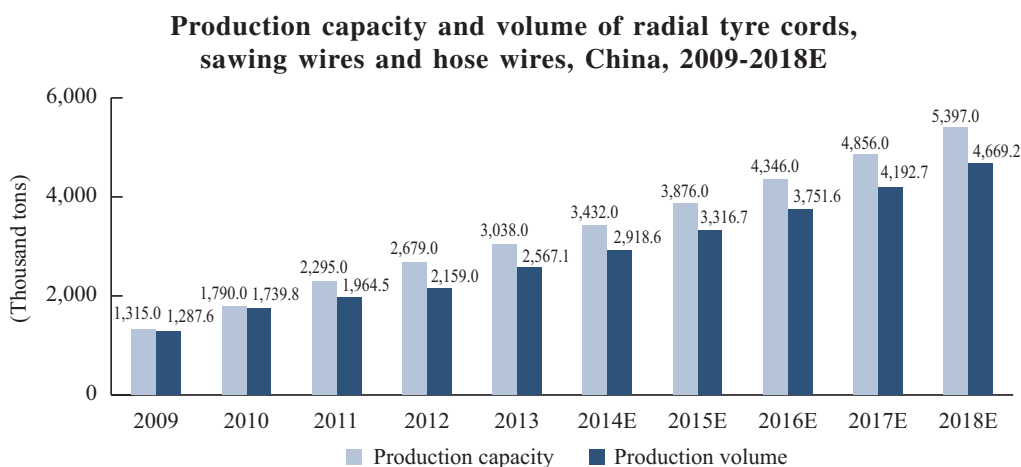
Please refer to the section headed “Risk Factors – Risks Relating to the Global Offering – Certain statistics, industry data and other information related to the economy and the industry contained in this prospectus derived from official government sources may not be reliable” of this prospectus.

ANALYSIS OF THE CHINESE RADIAL TYRE CORD, SAWING WIRE AND HOSE WIRE MARKET

Radial tyre cords, sawing wires and hose wires are all considered as steel wire products, and are important industrial products widely used in various downstream industries such as automotive, photovoltaic, agricultural machinery, coal mining, oil pipeline and construction machinery. The market is driven by the growing economic development in China, favourable government policies and improving technology in industry.

The growing economic development in China will generally lead to increasing consumption by citizens, which will likely lead to growth in automotive, energy and other industries. Since radial tyre cords, sawing wires and hose wires are widely applied in these growing industries, their demand for radial tyre cords, sawing wires and hose wires are estimated to increase, creating more opportunities for the market in China. The various favourable government policies and regulations in the downstream industries are also expected to greatly stimulate the development of the downstream industries. In addition, the technology in the market is also continuously improving, as companies place abundant resources on research and development of production techniques and reliability of products. This particularly leads to a wider application range of radial tyre cords and hose wires, enlarging the potential of the industry.

With the development of downstream industries such as automotive, photovoltaic, agricultural machinery, coal mining, oil pipeline and construction machinery, a large number of radial tyre cord, sawing wire and hose wire manufacturers are estimated to continue the expansion of their production capacity of radial tyre cords, sawing wires and hose wires in order to avoid any short supply in market in China. Such production capacity is expected to grow from 3,432.0 thousand tons in 2014 to 5,397.0 thousand tons in 2018, representing a CAGR of 12.0%. The production volume of radial tyre cords, sawing wires and hose wires reached 2,567.1 thousand tons in 2013, and is estimated to grow and reach 4,669.2 thousand tons in 2018, representing a CAGR of 12.7%. The following chart sets forth the actual and estimated production capacity and volume of radial tyre cords, sawing wires and hose wires in China from 2009 to 2018:

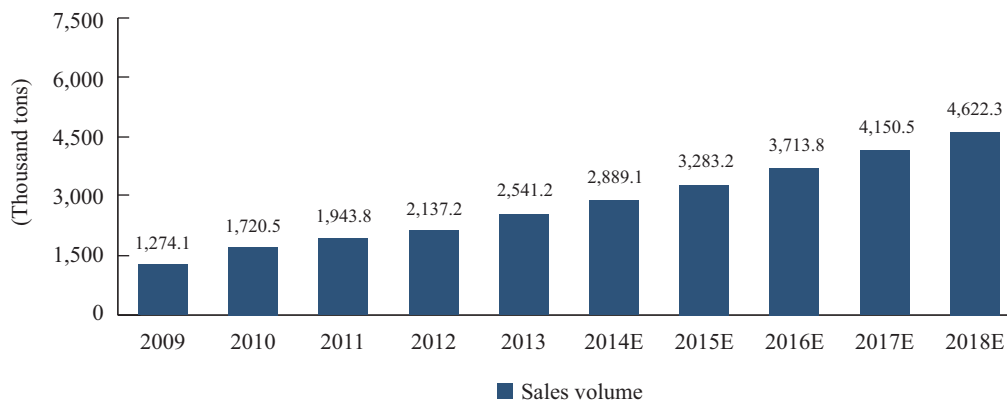


Source: Frost & Sullivan

INDUSTRY OVERVIEW

Stimulated by the development of downstream industries such as automotive, photovoltaic, agricultural machinery, coal mining, oil pipeline and construction machinery, the sales volume of radial tyre cords, sawing wires and hose wires in China grew by a CAGR of 18.4% from 2009 to 2013. Supported by the policies adopted by the Chinese government and constant demands of downstream industries, the sales volume is estimated to reach 4,622.3 thousand tons in 2018, with a CAGR of 12.5% from 2014 to 2018. The following chart sets forth the actual and estimated sales volume of radial tyre cords, sawing wires and hose wires in China from 2009 to 2018:

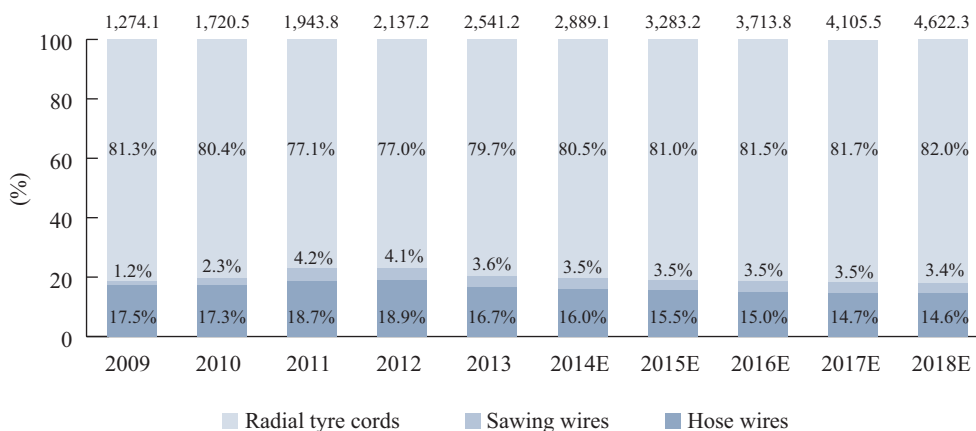
**Sales volume of radial tyre cords,
sawing wires and hose wires, China, 2009-2018E**



Source: Frost & Sullivan

In the radial tyre cord, sawing wire and hose wire market, radial tyre cords accounted for 79.7% by sales volume in 2013, followed by hose wires and sawing wires which accounted for 16.7% and 3.5% in 2013 respectively. The following chart sets forth the percentage of radial tyre cords, sawing wires and hose wires in the overall actual and estimated sales volume from 2009 to 2018:

**Sales volume of radial tyre cords,
sawing wires and hose wires, China, 2009-2018E**



Source: Frost & Sullivan

INDUSTRY OVERVIEW

The success of a Chinese radial tyre cord, sawing wire and hose wire manufacturer will depend on several factors, including brand awareness, technology advancement, equipment, production experience and capacity. Downstream industries of radial tyre cords, sawing wires and hose wires place strong emphasis on the product quality, as the quality of radial tyre cords, sawing wires and hose wires would directly influence the reliability, security and stability of their end-products. Considering the requirements on product quality and security, radial tyre cord, sawing wire and hose wire manufacturers are inclined to cooperate with and maintain relatively long and stable relationships with those production equipment manufacturers which can provide stable and reliable production equipment.

ANALYSIS OF THE DOWNSTREAM INDUSTRIES FOR RADIAL TYRE CORDS, SAWING WIRES AND HOSE WIRES

Our products are production equipment used to produce various steel wire products such as radial tyre cords, sawing wires and hose wires which are commonly used in various downstream industries, such as automotive, photovoltaic, agricultural machinery, coal mining, oil pipeline and construction machinery. Such downstream industries will have a direct impact on the steel wire product market, which will play a role in affecting the demand for its production equipment.

Analysis of the Chinese Automotive Tyre Market

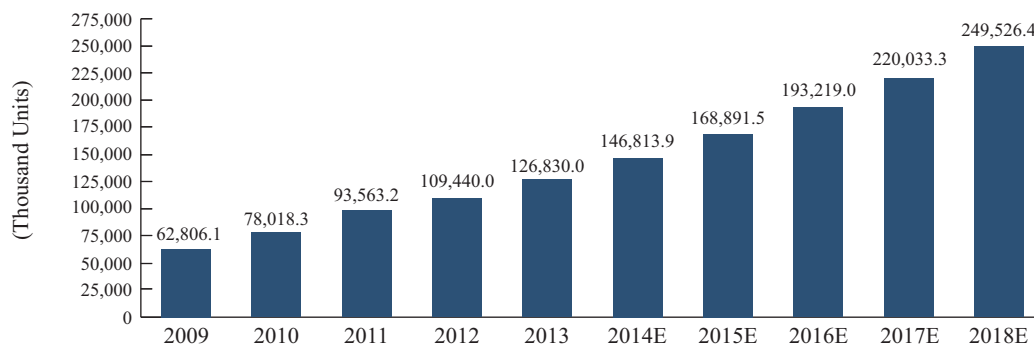
Steel wire products are used in the automotive industry as radial tyre cords which are the skeleton materials of radial tyres. Therefore, the increasing sales in the automotive radial tyre industry will have a positive effect on the radial tyre cord market, which will create a growing demand for radial tyre cord production equipment.

The total number of automotive in China has experienced a rapid growth in recent years mainly due to the economic development with the number of automotive increasing from 62,806.1 thousand units in 2009 to 126,830.0 thousand units in 2013, representing a CAGR of 19.2%. The booming trend is expected to continue and the number is forecasted to reach 249,526.4 thousand units by 2018, representing a CAGR of 14.2% from 2014 to 2018. The growth of automotive population in China is due in part to the increasing disposable net income of urban residents and construction of land transport infrastructure. Increasing disposable income of urban residents indicates rising buying power of consumers, leading to sales growth. Furthermore, the investment in land transport infrastructure promotes the development of

INDUSTRY OVERVIEW

travelling by automotive transportation, leading to the growth of Chinese automotive population. The following chart sets forth the actual and estimated Chinese total automotive population from 2009 to 2018:

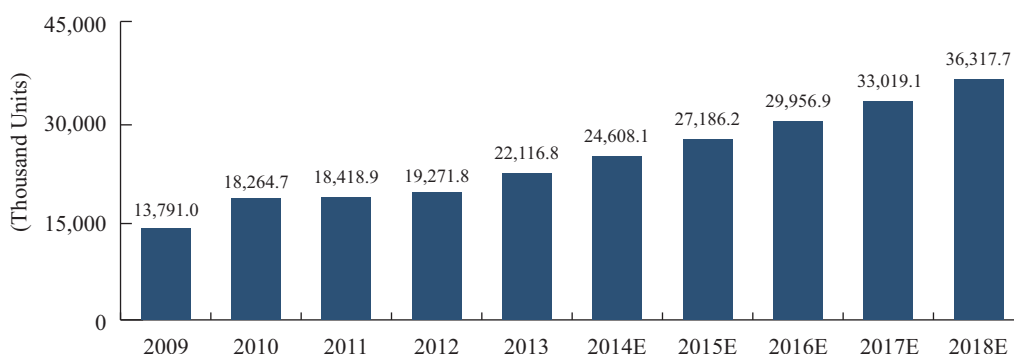
Total automotive population, China, 2009-2018E



Source: National Bureau of Statistics, Frost & Sullivan

The annual Chinese automobile production volume increased from 13,791.0 thousand units in 2009 to 22,116.8 thousand units in 2013, representing a CAGR of 12.5% from 2009 to 2013. The number is estimated to reach 36,317.7 thousand units by 2018, representing a CAGR of 10.2% from 2014 to 2018. The following chart sets forth the total actual and estimated annual automobile production volume in China from 2009 to 2018:

Annual automotive production volume, China, 2009-2018E



Source: China Association of Automobile Manufactures, Frost & Sullivan

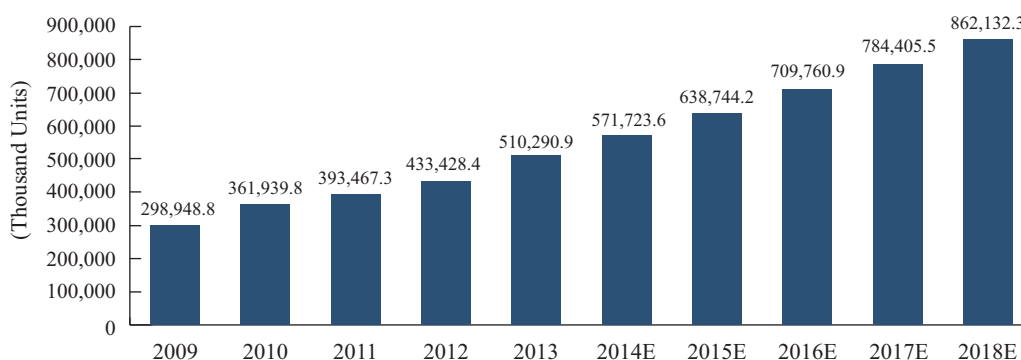
Each type of automobiles requires different features on the tyres. For example, a heavy-duty truck used for cargo transportation require larger size tyres combined with reinforced load capacity to provide sufficient load carrying for the trucks while a passenger-car require tyres that provide high ride comfort with noise reduction feature.

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The Chinese government has been encouraging the use of radial tyres in automobile because of its adhesive property, relatively smaller rolling resistance, fuel efficiency and load capacity. Its commitment towards improving the radialisation rate is reflected by the introduction of 《輪胎產業政策》 (Tyre Industry Policy*) by the MIIT dated 15 September 2010 which requires the radialisation rate for the tyres of passenger car, heavy-duty truck and light-duty truck to reach 100%, 90% and 85%, respectively, by 2015, and 《產業結構調整指導目錄》 (Guidance of Industrial Structure*) issued in 2011 which encourages the production of radial tyres, their material and production equipment. Radial tyres are further supported by policies such as 《橡膠行業“十二五”發展規劃指導綱要》 (Outline of the Twelfth Five-year Plan for Rubber Industry*) issued in 2011 limiting the production capacity of bias tyres and promoting the development of radial tyres. These policies lead to an increase in demand of radial tyres which in turn also lead to increasing demand of radial tyre cords. Further, the rapid increase of the automobile population in China will also mean a bigger demand for radial tyre. With a diversified product portfolio, sufficient capacity and cost advantage, China is expected to remain as one of the major radial tyre export countries in the future.

The annual Chinese automotive radial tyre production volume increased from 298.9 million units in 2009 to 510.3 million units in 2013. This number is expected to increase from 571.7 million units in 2014 to 862.1 million units in 2018, representing a CAGR of 10.8%. The growing production volume of automotive radial tyres is mainly contributed by the increasing sales volume of automobile and the rising automobile population in China as well as the export demand. The following chart sets forth the actual and estimated annual production volume of automotive radial tyre in China from 2009 to 2018:

Annual production volume of automotive radial tyres, China, 2009-2018E



Source: Frost & Sullivan

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Radial tyre cord is an important reinforcement material in radial tyre. Accordingly, the production volume of radial tyres in China's tyre market should have a positive correlation with the production volume of radial tyre cords. Several leading radial tyre cord manufacturers have recently expanded their production capacity in the last few years and this trend is expected to continue in the following years. As the radial tyre cord market is expected to experience a steady growth, it will create a higher demand in the radial tyre cord production equipment.

Analysis of the Chinese Photovoltaic Market

Sawing wire is a copperised steel wire, playing an important role in the production process of solar wafer as it is used to cut silicon ingots into wafers to create solar cells. Therefore a growth of demand of wafer production in the photovoltaic market will cause an increasing need for sawing wires, which will play a role in the sawing wire production equipment industry.

The Chinese domestic market for solar power is in its initial stage. Since 2005, different policies and regulations have been implemented to support the healthy development of photovoltaic market. In the 2012, the PRC government promulgated 《可再生能源發展“十二五”規劃》 (Twelfth Five-year Plan for Renewable Energy Development*) establishing suitable technology and management systems for distributed solar power generation station and infrastructure, and 《太陽能發電科技發展“十二五”專項規劃》 (Twelfth Five-year Plan for Solar Power Technology Development*) promoting the application of solar power and encouraging the research and development on crystalline silicon solar cell, thin-film cell and other new technology. Further in 2013, supporting policies, including 《國務院關於促進光伏產業健康發展的若干意見》 (Suggestions for Healthy Development of Photovoltaic Industry*) setting the standard for photovoltaic products' energy conversion efficiency and 《能源發展“十二五”規劃》 (Twelfth Five-year Plan for Energy Development*) encouraging the construction of integrated and distributed photovoltaic power generation stations, were issued. These policies have promoted and encouraged the development and use of photovoltaic power in China and have increased the annual installation of photovoltaic power generation systems. Further, there are overseas policies and regulations in Italy (2013 New National Energy Strategy), Germany (2012 Renewable Energy Sources Act), Spain (2012 New tariff Regulation of the Production of photovoltaic) and United States (2009 The American Recovery and Reinvestment Act) to encourage the photovoltaic market. Although the subsidy for photovoltaic industry in Germany, Italy and Spain is expected to gradually decrease as their markets become more mature, these overseas policies and regulations still play a role in supporting the use of solar photovoltaic energy as power source.

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The global annual photovoltaic installation increased from 7,376 MW in 2009 to 37,000 MW in 2013, representing a CAGR of 49.7%. This number is expected to increase from 46,750 MW in 2014 to 84,240 MW in 2018, representing a CAGR of 15.9%. The following chart sets forth the actual and estimated global annual photovoltaic installation from 2009 to 2018:

Annual photovoltaic installation, Global, 2009-2018E

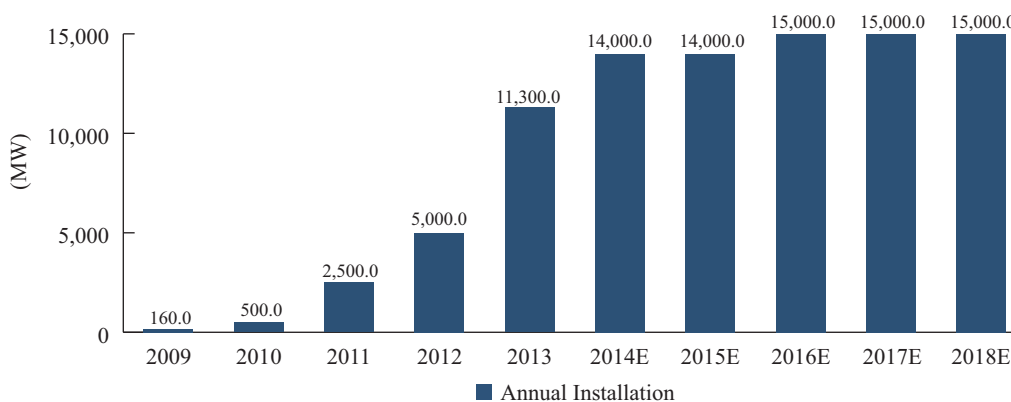


Source: European Photovoltaic Industry Association, Frost & Sullivan

The growth of the global photovoltaic market in the next five years is expected to be steady. There is also potential in the domestic photovoltaic market. Photovoltaic technology is well recognised for its environment-friendliness. With China's rich solar energy resource, solar photovoltaic energy will play an important role in the China energy mix in the long term. The potential demand in the domestic market and expected supporting Chinese policies will further promote the development of China's photovoltaic industry.

In terms of annual photovoltaic installation, the China photovoltaic market enjoyed an impressive annual growth rate of 189.9% increasing from 160 MW in 2009 to 11,300 MW in 2013. The annual photovoltaic installation in China is expected to increase from 14,000 MW in 2014 to 15,000 MW in 2018, representing a CAGR of 1.7%. The following chart sets forth the actual and estimated China annual photovoltaic installation from 2009 to 2018:

Annual photovoltaic installation, China, 2009-2018E



Source: European Photovoltaic Industry Association, Frost & Sullivan

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The EU is a major export destination for Chinese photovoltaic products. According to 中國機電產品進出口商會 (China Chamber of Commerce of Machinery and Electronic Product*), the EU comprised 30.3% of the Chinese photovoltaic cells and modules export value in 2013. The EU initiated an anti-dumping proceeding in September 2012 and an anti-subsidy proceeding in November 2012 in relation to Chinese photovoltaic products. The EU Commission and the China Chamber of Commerce of Machinery and Electronic Product subsequently came to a settlement on 27 July 2013, and agreed that there will be no anti-dumping duties on the first 7,000MW of photovoltaic modules imported from China so long as a floor price is observed. This settlement agreement did not cover Chinese export beyond a volume of 7,000MW or from companies which were not a party to the settlement agreement. On 2 December 2013, EU Council confirmed the leviable duty on Chinese photovoltaic imports beyond 7,000MW or from Chinese exporters not covered by the settlement would stay unchanged at an average of 47.7% for the two-year period commencing on 6 December 2013. According to the EU commission, about 75% of Chinese solar panel exports to the EU are now covered by the settlement and not subject to aforementioned duties. Going forward, Frost & Sullivan expects the Chinese photovoltaic cell and module exports to the EU to decrease.

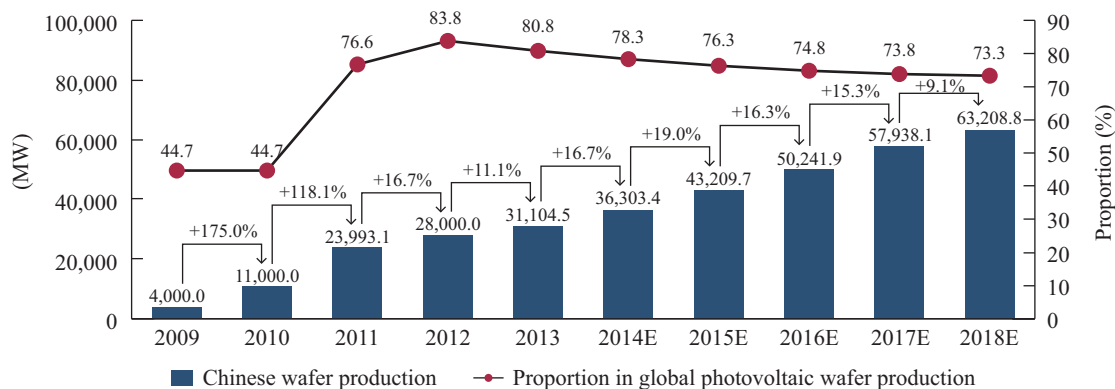
The United States comprised 12.9% of total global photovoltaic installation in 2013, according to the EPIA. The United States Department of Commerce imposed anti-subsidy duties of 14.78% to 15.97% and anti-dumping duties of 18.32% to 249.96% on imported Chinese photovoltaic products on 10 October 2012. Furthermore, the preliminary result of US investigation for anti-subsidy on import of cells and modules from China was released in 3 June 2014. The US planned to impose additional import duties of up to 35.2% on Chinese-made solar panels, pending the final result for related anti-subsidy and anti-dumping investigation to be released in 11 December 2014. As a result, Frost & Sullivan expects that the export to the United States as a percentage of total Chinese exports of photovoltaic products to decrease. However, according to 中國機電產品進出口商會 (China Chamber of Commerce of Machinery and Electronic Product*), the value of U.S.-bound photovoltaic cells and modules comprised only around 10.0% of total Chinese exports of photovoltaic cells and modules in 2013. Therefore, the impact of the latest result of the US investigation will remain limited to the whole Chinese photovoltaic industry.

A number of Asian countries issued supportive policies in relation to the photovoltaic industry. For instance, Japan's Ministry of Economy, Trade and Industry introduced a Feed-in Tariff Scheme for Renewable Energy for electricity generation with solar panels in June 2012. India's Ministry of New & Renewable Energy issued Jawaharlal Nehru National Solar Mission (JNNSM) in January 2010, setting target for photovoltaic installation. Similar policies in Asia-pacific countries are likely to support the growth of photovoltaic installation in the region. The decrease in photovoltaic exports to the EU and the United States may thereby be mitigated by the growth of photovoltaic installation in Asia Pacific markets (excluding China). According to 中國機電產品進出口商會 (China Chamber of Commerce of Machinery and Electronic Product*), the value of export to the Asian market increased by 124.3% in 2013, comprising 44.8% of the total export value of Chinese photovoltaic cells and modules in 2013, the biggest share of all the export destinations.

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China played a leading role in global photovoltaic wafer production due to its strong expansion in manufacturing capacity in the past five years. With mature production technology, experience and adequate production capacity, as well as the growth of global photovoltaic installation, the Chinese photovoltaic wafer industry is expected to grow steadily from 2014 onward, reaching 63,208.8 MW by 2018, and its share in global production is expected to maintain above 70.0% in the forecast period. The following chart sets forth the actual and estimated production of photovoltaic wafer in China from 2009 to 2018:

Production of photovoltaic wafer, China, 2009-2018E



Source: Frost & Sullivan

Taking into consideration the EU settlement, strong demand from both within the PRC and the emerging markets, Frost & Sullivan is of the view that the Chinese photovoltaic industry should sustain a steady growth at a moderate rate in the near future. Sawing wire is presently the standard industrial material for solar wafer cutting, and its wide usage in solar wafer cutting is expected to remain in the next five years due to its cost-efficiency and the matured technology involved. Frost & Sullivan therefore expects the growth of Chinese photovoltaic industry will support a steady growth of demand for sawing wires.

Analysis of the Chinese Rubber Hose Market

Hose wires are steel wire products used in producing rubber hoses, enabling it to withstand high temperature and high pressure. Therefore, a growth of demand for rubber hoses will cause an increasing need for hose wires.

Rubber Hose is used in various industries, such as coal mining, agricultural machinery, automotive, oil pipeline industry, in their respective production processes. With the increasing demand of rubber hose in these areas, the hose wire industry is expected to further develop.

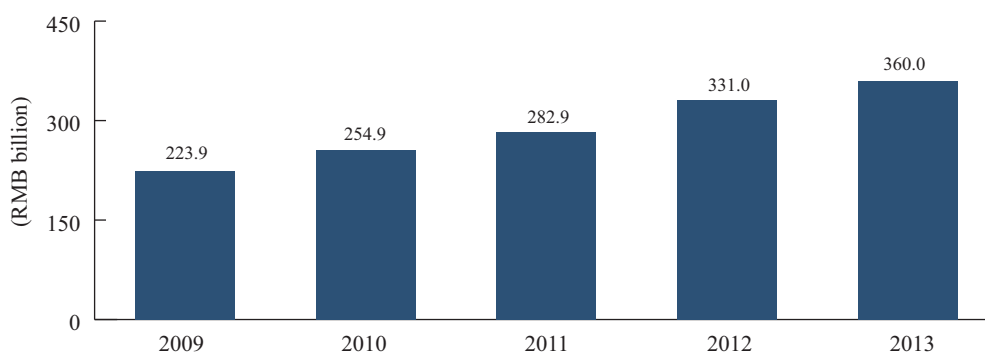
Several supportive policies and regulations were issued by the PRC government to certain industries that have driven the Chinese rubber hose market. For coal mining industry, the PRC government promulgated 《煤炭建設工法匯編》 (Compilation of Coal Mine Construction Methodology*) in 2011 to introduce various coal mine construction and coal mining methodologies, and 《煤炭工業“十二五”規劃》 (Twelfth Five-year Plan for Coal Mining Industry*) issued in 2012 establishing large coal bases and constructing large and modern coal mines. For agricultural machinery industry, 《關於加快推進農業科技創新持續增強農產品供給

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保障能力的若干意見》(Several Opinions on Accelerating Promotion of Agricultural Technology Innovation and Sustainably Increasing Capacity for Guaranteeing Supply of Agricultural Products*) was issued in 2012 which highlight the deployment of innovation in agricultural science and technology. These policies support the development for the relevant industries, and this in turn is expected to drive up the demand in the rubber hose market.

The sales value of agricultural machinery increased from RMB223.9 billion in 2009 to RMB360.0 billion in 2013, representing a CAGR of 12.6%. The following chart sets forth the actual sales value of agricultural machinery in China from 2009 to 2013:

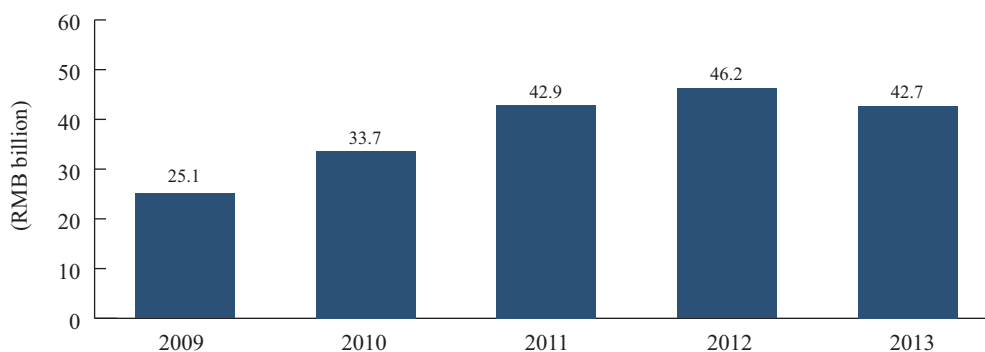
Sales value of agricultural machinery, China, 2009-2013



Source: China Association of Agricultural Machinery Manufacturers, Frost & Sullivan

Further, with the development of Chinese economy, the demand for energy has been growing rapidly. As coal is the main source of energy in China, it leads to the increasing demand for coal mining and thus coal mining machinery. The coal mining and excavating equipment market has grown strongly from 2009 to 2013, with sales of coal mining and excavating equipment increased from RMB25.1 billion in 2009 to RMB42.7 billion in 2013, representing a CAGR of 14.2%, although went through a slight decrease in 2013. The following chart sets forth the actual sales value of coal mining and excavating equipment in China from 2009 to 2013:

Sales value of coal mining and excavating equipment, China, 2009-2013



Source: China National Coal Mining Machinery Industry Association, Frost & Sullivan

INDUSTRY OVERVIEW

However, the use of coal as a percentage of total energy consumption is to be reduced from the current 70% to below 65% by 2017 according to 《大氣污染防治計劃》 (Plan for Prevention of Air Pollution*). Notwithstanding this plan, according to the latest data released by 中國煤炭工業協會 (China National Coal Association*) (“CNCA”), demand for coal in the PRC has increased by 2.6% in 2013 compared with last year, as the Chinese macro economy rebounded. CNCA is accredited by the State Economic and Trade Commission and the Ministry of Civil Affairs and is the largest coal industry organisation in the PRC, representing 984 groups and organization members and its council composed of 593 directors.

In this connection, the coal mining mechanisation rate would reach 75% in 2015 from 65% in 2010 according to 《煤炭工業“十二五”規劃》 (The Twelfth Five Year Plan for Coal Industry*), which would mean an increased demand for coal mining machinery.

Frost & Sullivan is of the view that the demand for coal to remain in steady growth and in-line with the growth of total energy consumption in the PRC. Supported by market demand and government policies, Frost & Sullivan expects the downstream industries such as coal mining and agricultural machinery to grow in the future. Given that hose wires are used for the reinforcement of rubber hoses which are widely applied in downstream industries such as coal mining and agricultural machinery, the consumption of hose wires is expected to increase in the future.

ANALYSIS OF THE RADIAL TYRE CORD, SAWING WIRE AND HOSE WIRE PRODUCTION EQUIPMENT MARKET

The Chinese radial tyre cord, sawing wire and hose wire market is a growing market and this has a positive effect on its production equipment market. Radial tyre cords, sawing wires and hose wires are widely applied in many industries, such as the automotive, photovoltaic, agricultural machinery, coal mining, oil pipeline and construction machinery. Along with these industries' development, there will be large demands of various radial tyre cords, sawing wires and hose wires and thus increase for the demand for radial tyre cord, sawing wire and hose wire production equipment. Further, the Chinese government has issued many favourable policies affecting the above industries which in turn support the sustained demands for Chinese radial tyre cord, sawing wire and hose wire production equipment. The demands are predicted to increase with the continuous development of the downstream customers. Further, a considerable number of multinational hose manufacturers are moving their production activities into China in recent years. This localisation of hose manufacturing will positively contribute to the growth of the Chinese hose wire production equipment industry.

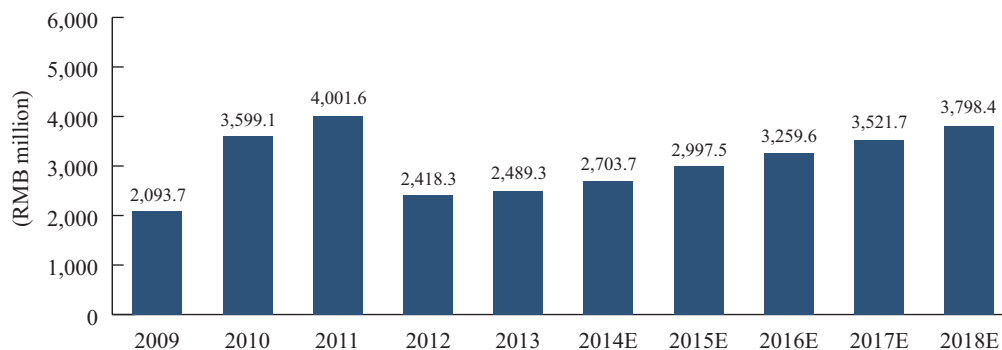
The Chinese radial tyre cord, sawing wire and hose wire production equipment market has experienced prosperity for the past two decades. Currently, the domestic equipment manufacturers have seized a great market share and shown noticeable improvement in product quality. Between 1986 and 1993, the demands for radial tyre cord, sawing wire and hose wire production equipment were relatively low and only two pure equipment manufacturers produced radial tyre cord production equipment. The product quality of the major equipment provided by domestic pure equipment manufacturers in the market at that time was low and the

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production failure rate of end products was relatively high. Pure equipment manufacturer refers to the manufacturer which solely supplies the production equipment for downstream end-products manufacturer and is independent from the purchasers. There was growth in the radial tyre cord and hose wire industry between 1993 and 2003, which led to the growth of the production equipment industry. With the rapid growth of the Chinese economy and stimulation by the development of downstream industries, the demand of radial tyre cord, sawing wire and hose wire production equipment has greatly increased since 2003.

The demand of radial tyre cord, sawing wire and hose wire production equipment in China has shown a steady growing from 2009 to 2011 with the strong development in downstream industries. Owing to the significant decrease in the demand from photovoltaic industry, a majority of sawing wire manufacturers ceased to increase their production capacity which resulted in a substantial decrease in the equipment demand in 2012. The demand from radial tyre cord, sawing wire and hose wire production equipment is estimated to recover and reach RMB3,798.4 million in 2018, with a CAGR of 8.9% from 2014 to 2018. The following chart sets forth the actual and estimated market demand of radial tyre cord, sawing wire and hose wire production equipment in China from 2009 to 2018:

Market demand of radial tyre cord, sawing wire and hose wire production equipment, China, 2009-2018E



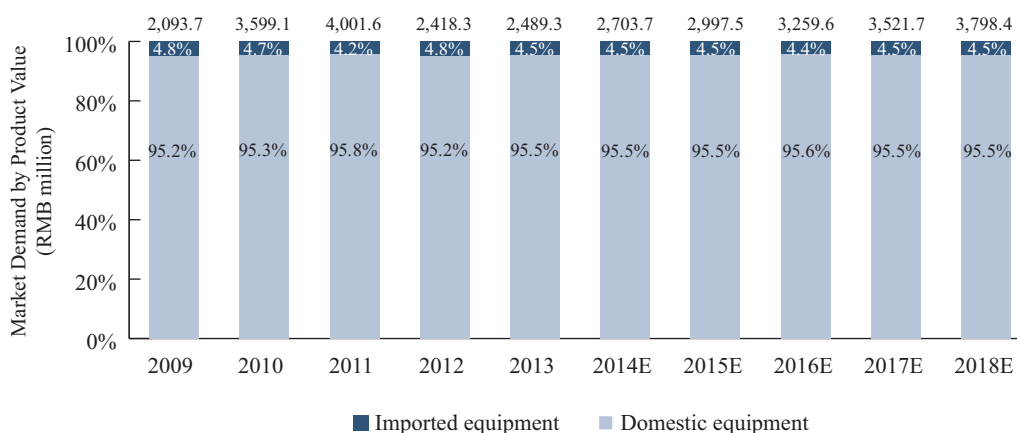
Source: Frost & Sullivan

Owing to the improvement of product quality and competitive prices, domestic production equipment dominated the radial tyre cord, sawing wire and hose wire production equipment market from 2009 to 2013. Since this trend is expected to continue, the value of imported production equipment is estimated to remain a small share of the market from 2014 to 2018.

INDUSTRY OVERVIEW

The following chart sets forth the actual and estimated radial tyre cord, sawing wire and hose wire production equipment demand of imported equipment and domestic equipment in China from 2009 to 2018:

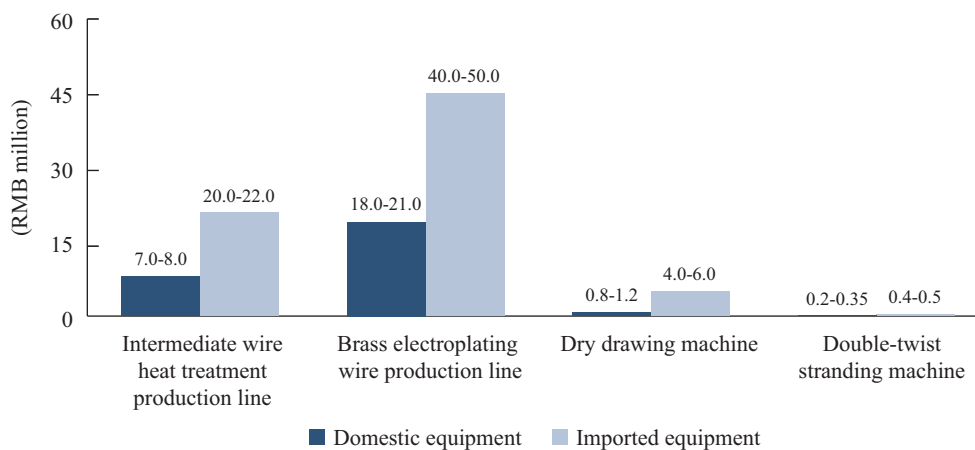
Market demand of imported and domestic radial tyre cord, sawing wire and hose wire production equipment, China, 2009-2018E



Source: Frost & Sullivan

In terms of the price of radial tyre cord, sawing wire and hose wire production equipment provided by domestic pure equipment manufacturers, the price of brass electroplating wire production line accounts for the highest, ranging from RMB18.0 million to RMB21.0 million, followed by intermediate wire heat treatment production lines, ranging from RMB7.0 million to RMB8.0 million in 2013. Intermediate wire heat treatment production lines and brass electroplating wire production lines had the highest price tags for their advanced technical design and the higher costs. The following chart sets forth the average price ranges of major steel wire production equipment provided by pure equipment manufacturers in China in 2013:

Average price range of major radial tyre cord, sawing wire and hose wire production equipment provided by pure equipment manufacturers, China, 2013

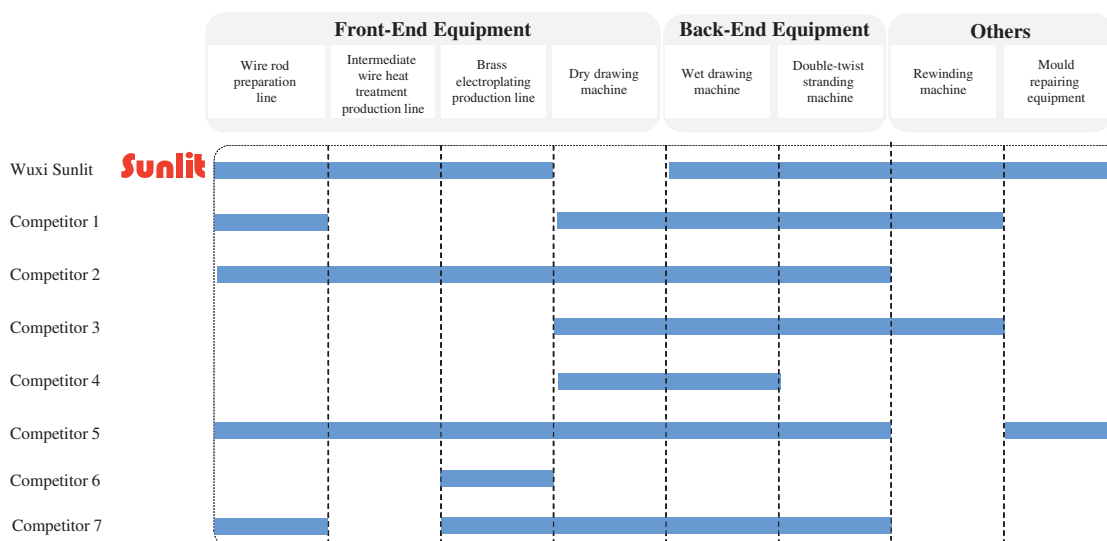


Source: Frost & Sullivan

INDUSTRY OVERVIEW

COMPETITIVE LANDSCAPE

The equipment used in the comprehensive set of production lines for manufacturing steel wire products could be divided into front-end facilities and back-end facilities. In Chinese radial tyre cord, sawing wire and hose wire production equipment industry, major pure production equipment manufacturers include our Company and a number of other competitors. Compared with most of other major pure equipment suppliers, we are able to provide more diversified steel wire equipment, and are also able to offer an integrated solution. The following table shows the product portfolio of the major pure equipment manufacturers in the radial tyre cord, sawing wire and hose wire production equipment market in China:



Source: Frost & Sullivan

As indicated from the above table, the product coverage of our Group is more comprehensive than most of other pure radial tyre cord, sawing wire and equipment manufacturers in China.

INDUSTRY OVERVIEW

The Chinese pure radial tyre cord, sawing wire and hose wire production equipment manufacturing industry has developed into an industry of more than 50 companies being engaged in the manufacturing of production equipment. The top five companies accounted for about 46.7% of the total sales value in the market in 2013. Our Company contributes the largest sales value among pure equipment manufacturers by sales value. The following table illustrates the market positions in terms of sales value of the top five equipment manufacturers in pure radial tyre cord, sawing wire and hose wire production equipment manufacturing industry in China in 2013:

	Sales Value	Market Share
	(RMB million)	(%)
Wuxi Sunlit	316.8	14.3
Competitor 1	195.0	8.8
Competitor 2	180.0	8.2
Competitor 3	175.0	7.9
Competitor 4	166.5	7.5
Others	1,174.6	53.3
Total	2,207.8	100.0

Based on the Frost & Sullivan Report, we were the first domestic company who developed the brass electroplating wire production line using thermal diffusion method with proprietary intellectual property in the Chinese radial tyre cord production equipment market and are currently a leading brass electroplating wire production line manufacturer in Chinese radial tyre cord, sawing wire and hose wire production equipment industry, capturing 44.9% market share in 2013. The top five companies, including us, accounted for about 82.9% of the total sales value in the brass electroplating wire production line segment. The following table illustrates the market positions in terms of sales value of the top five companies in brass electroplating wire production lines in China in 2013:

	Sales Value	Market Share
	(RMB million)	(%)
Wuxi Sunlit	227.9	44.9
Competitor 5	69.0	13.6
Competitor 2	60.0	11.8
Competitor 6	40.0	7.9
Competitor 7	24.0	4.7
Others	87.2	17.1
Total	508.1	100.0

REGULATORY OVERVIEW

Overview

We carry out our operations primarily through the manufacturing facilities located in Huishan District, Yixing City and Jiangyin City under the jurisdiction of Wuxi City, the PRC. We are principally engaged in the research and development, design, manufacture, equipment supply, installation, testing, repair and maintenance of production lines for manufacturing steel wire products pursuant to customers' specific production requirements. All these activities are subject to relevant laws, regulations and rules and government policies of the PRC. We summarise the main relevant laws, regulations, rules and industrial policies which we believe are the most important for a potential investor to understand.

Regulations and Policies as to the Industry

In accordance with 《國民經濟行業分類》 (Classification of National Economic Industries*) (GB/T 4754-2011) issued by the National Bureau of Statistics of China (中華人民共和國國家統計局), the business activities of our Company are categorized as “C34 General Equipment Manufacturing Industry” under the category “C Manufacturing Industry”. The principal regulatory authority of this industry is the NDRC, which is responsible for making industry policy, guiding the technical reform, approving and managing investment projects. The technical supervising authority of this industry is the General Administration of Quality Supervision, Inspection and Quarantine of the PRC and the authorities at local levels.

Through in-depth checking and research on the applicable PRC laws, regulations and government policies as to our industry, our PRC Legal Advisers found there is no restriction on accessing this industry, and no special qualifications, entrance requirements and permits are required.

The principal macroeconomic policies promulgated in relation to our industry by the relevant Chinese authorities are as follows:

- On 9 July 2012, the State Council issued 《“十二五”國家戰略性新興產業發展規劃》 (The 12th Five-Year Development Plan for National Strategic Emerging Industries*) to accelerate the cultivation and development of strategic emerging industries such as industries involved in energy-saving and environmental protection, new generation information technology, biotechnology, high-end equipment manufacturing, new energy, new materials and new energy vehicles. This plan promotes the development of intelligent specialist equipment, improvement of integration of complete system, automation, green manufacturing and usage. Our industry falls within the scope encouraged by this plan.
- On 7 May 2012, the MIIT issued 《智能製造裝備產業“十二五”發展規劃》 (The 12th Five-Year Development Plan of the Intelligent Equipment Manufacturing Industry*) which confirms the intelligent equipment manufacturing industry as one of the key development aspects of high-end equipment manufacturing industry and it is expected that the scale of the intelligent equipment manufacturing industry will grow rapidly in the future. This plan also aims to give impetus to the development of intelligent manufacturing equipment industry in the PRC and focus mainly on core areas of the intelligent equipment manufacturing industry such as intelligence-based common technology, intelligence measurement and control devices and components and major intelligent complete equipment manufacturing. Our industry falls within the industry which shall be heavily supported according to this plan.

REGULATORY OVERVIEW

- On 7 May 2012, the MIIT, the NDRC and the MOF jointly issued the 《高端裝備製造業“十二五”發展規劃》 (The 12th Five-Year Plan of High-End Equipment Manufacturing Industry*) which aims to cultivate and develop the high-end equipment manufacturing industry. This plan also clarifies that the development of the high-end equipment manufacturing industry is an inevitable requirement to enhance the competitiveness of China and a strategic means to attain the summit of future economic and technological development and thus play an important strategic role in accelerating the transformation of economic development and the transformation of the PRC manufacturing industry to an even more advanced level. Our industry falls within the industry encouraged by this plan.
- On 4 January 2012, the MIIT issued the 《新材料產業“十二五”重點產品目錄》 (The 12th Five-Year Key Products Catalogue for the New Raw Materials Industry*) which sets out certain key products of the new material industry. Our equipment for the production of steel wires and sawing wires is listed in this category as key products.
- On 30 December 2011, the State Council issued the 《工業轉型升級規劃 (2011-2015年)》 (Industrial Transformation and Upgrading Plan (2011-2015)*) which states that industrial transformation and upgrading is a key to the success of accelerating the transformation of economic development of the PRC. This plan sets out the agenda for the industrial transformation and upgrading plan from 2011 to 2015 and the relevant policies including the strengthening of enterprise technology by adopting advanced new technology, enhancing the transmission of information by accelerating the development of electronic products and promoting green and low-carbon development via monitoring energy consumption level. Our industry falls within the scope encouraged by this plan.
- On 25 November 2011, the MIIT issued the 《機械基礎件、基礎製造工藝和基礎材料產業“十二五”發展規劃》 (The 12th Five-Year Plan of the Fundamental Components of Machinery, Fundamental Manufacturing Techniques and Fundamental Raw Materials Industry*) which clarifies that fundamental components of machinery, fundamental manufacturing techniques and fundamental raw materials are the fundamental elements of the equipment manufacturing industry which will affect the performance, quality and reliability of equipment and products. This plan is promulgated to improve the research, development and integration of the system of fundamental techniques, fundamental raw materials and fundamental components of the equipment manufacturing industry, which is required by the 《國民經濟和社會發展第十二個五年規劃綱要》 (The 12th Five Year Plan for National Economic and Social Development of the PRC*) issued by the National People's Congress on 14 March 2011. Our industry falls within the industry encouraged by this plan.
- On 13 February 2006, the State Council issued the 《國務院關於加快振興裝備製造業的若干意見 (摘要)》 (Several Opinions of the State Council on Accelerating the Invigoration of the Equipment Manufacturing Industry*) which points out that the equipment manufacturing industry is a basic industry providing equipment for the development of economy and national defense construction. It stipulates the development of major technological equipment which has large impact on economic development and industrial upgrading to achieve breakthrough in core technology and the ability of integration of system. It also requires the upgrading of manufacturing level of basic equipment, general machinery and components, automatic control system of material construction and key precision testing instruments. Our industry is encouraged and supported by the opinions.

REGULATORY OVERVIEW

Regulations as to Foreign Investment Policies

《指導外商投資方向規定》(the Provisions on Guiding the Directions of Foreign Investment*), issued by the State Council, divides foreign investment projects into four categories: encouraged, permitted, restricted and prohibited. The foreign-funded projects that are encouraged, restricted and prohibited shall be listed in the Catalog of Foreign-funded Industry Guidance. And the foreign-funded projects that do not fall into the categories of encouraged, restricted or prohibited projects shall be the permitted foreign-funded projects. The permitted foreign-funded projects shall not be listed in the Catalog of Foreign-funded Industry Guidance. Additional details as to each of the encouraged, restricted and prohibited categories are provided in 《外商投資產業指導目錄》(the Catalog of Foreign-funded Industry Guidance*) (the “**Guidance Catalog**”), which was jointly issued by the NDRC and the MOFCOM and became effective on 30 January 2012.

Under the Guidance Catalog, the business activities that we engage in or are associated with (i.e. research and development, design, manufacture, equipment supply, installation, testing, repair and maintenance of production lines for manufacturing steel wire products pursuant to customers’ specific production requirements) do not fall into categories of encouraged, restricted or prohibited projects.

As a result, according to the Provisions on Guiding the Directions of Foreign Investment, our business activities that we engage in or are associated with fall into permitted foreign-funded projects.

Regulations as to intellectual property rights

Patents

PRC companies can apply for patents on their technical achievements and are entitled to related intellectual property right protection. Under 《中華人民共和國專利法》(the Patent Law of the PRC*) and 《中華人民共和國專利法實施細則》(Rules for the Implementation of the Patent Law of the People’s Republic of China*), a company can apply for an invention, utility or design patent based on the nature of the relevant technical achievement. The duration of a patent is 20 years for inventions and 10 years for utility models and designs, in each case from the date of filing. For inventions devised by an employee in the performance of tasks assigned by the employer or using primarily the resources of the employer, the employer is entitled to apply for a patent. The patent rights for such inventions belong to the employer upon the approval of the patent application, provided that there are no prior agreements to the contrary between the employer and the employee.

Trademarks

According to 《中華人民共和國商標法》(the Trademark Law of the PRC*) (the “**Trademark Law**”) last amended on the 4th Session of the Standing Committee of the Twelfth National People’s Congress on 30 August 2013 which took effect on 1 May 2014, 《中華人民共和國商標法實施條例》(the Regulation on the Implementation of the Trademark Law of the PRC*), any natural person, legal person or other organization that needs to acquire the right to exclusive use of a trademark for the commodities it produces, manufactures, processes, selects or markets shall file an application for commodity trademark registration with the Trademark Office. Also, any natural person, legal person or other organization that needs to acquire the right to exclusive use of a trademark for the service items it provides shall file an application for service trademark registration with the Trademark Office. The right to exclusive

REGULATORY OVERVIEW

use of a registered trademark shall be limited to trademarks which have been approved for registration and to commodities on which the use of a trademark has been approved. The period of validity of a registered trademark shall be 10 years, counting from the day the registration is approved.

Copyright

According to 《中華人民共和國著作權法》 (the Copyright Law of the PRC*), 《中華人民共和國著作權法實施條例》 (the Regulation on the Implementation of the Copyright Law of the PRC*), 《計算機軟件保護條例》 (the Regulation on the Protection of Computer Software*), no matter whether the works is published or not, any natural person, legal person or other organization, shall enjoy copyright prescribed in the regulations above.

Regulations as to Product Quality

Under 《中華人民共和國產品質量法》 (the PRC Product Quality Law*), manufacturers are liable for the quality of products that they produce and sellers must take reasonable steps to ensure the quality of the products they sell. If there is a defect in a product, the seller is liable to the user for damages caused by the product to any person or property (other than the defective product itself). Persons who are injured or whose property is damaged by the defective product may claim such damages against the manufacturer or the seller.

Under 《工業產品質量責任條例》 (the Regulations on Quality Responsibility for Industrial Products*) promulgated by the State Council on 5 April 1986 and which became effective on 1 July 1986, the manufacturer of a product must make sure that the quality of the product conforms to the requirements set down by the relevant laws and regulations, quality standards and stipulations of the contract. The manufacturer of a product must set up a strict, well-coordinated and effective quality-guarantee system, with a view to fixing the quality responsibility for the product in an explicit manner.

Regulations as to Import and Export Sales of Products

According to 《中華人民共和國對外貿易法》 (Foreign Trade Law of the People's Republic of China*) passed by the SCNPC on 12 May 1994 and 《對外貿易經營者備案登記辦法》 (Measures for the Record-Filing and Registration of Foreign Trade Operators*) which was promulgated by MOFCOM on 25 June 2004 and became effective on 1 July 2004, foreign trade operators who engage in the import and export of goods or technologies shall go through the formalities for record-filing and registration with the MOFCOM or an authority authorized by MOFCOM; unless laws, administrative regulations and the MOFCOM provide that it is unnecessary to go through the formalities for record-filing and registration. If foreign trade operators fail to go through the formalities for record-filing and registration in accordance with the provisions of these measures, customs shall refuse to handle the declaration and clearance formalities of their imports and exports.

Pursuant to 《中華人民共和國海關法》 (the Customs Law of the PRC*) promulgated by the SCNPC on 22 January 1987 and amended on 8 July 2000, 29 June 2013 and 28 December 2013, respectively, the declaration of import and export goods may be made by consignees and consignors themselves, and such formalities may also be completed by their entrusted customs brokers that have been registered with the customs. The consignees and consignors for imported or exported goods and the customs brokers engaged in customs declaration shall register with the customs in accordance with the law.

REGULATORY OVERVIEW

According to 《中華人民共和國海關報關單位註冊登記管理規定》 (Measures for the Record-Filing and Registration of Foreign Trade Operators*) promulgated and effective on 13 March 2014, unless otherwise stipulated by laws, administrative regulations or rules of customs, a declaring entity shall go through the registration procedures at the customs in accordance with the above provisions. Registration of declaring entities shall be divided into the registration of declaring enterprises and the registration of consignees or consignors of imported or exported goods. A declaring enterprise shall not go through the declaration procedures at the customs unless it has been approved by the relevant competent authority directly under the General Administration of Customs or the authorised customs affiliate. A consignee or consignor of imported or exported goods may directly go through the registration procedures at the customs at the domicile of the consignee or consignor.

Regulation as to Recognition of High/New Tech Enterprise

According to 《高新技術企業認定管理辦法》 (The Measures for the Administration of Designation of High/New Tech Enterprises*) (the “**Measures**”) which became effective on 1 January 2008, the eight high and new technology fields supported by the PRC government include: (1) electronic information technology; (2) biology and new medical technology; (3) aerospace and aeronautical technology; (4) new materials technology; (5) high technology services; (6) new energy and energy conservation technology; (7) resources and environmental technology; and (8) high and new technology used on traditional industries’ reconstructing. The Measures was enacted to elaborate the High/New Tech Enterprise recognition procedures stipulated under the Income Tax Law. Under these laws and regulations, Enterprises which have been registered in the PRC for more than one year that meet the requirements stipulated in the Measures may apply to the applicable governmental authority for a “High/New Tech Enterprises Certificate” which will be valid for three years from the date of issuance. A PRC-based enterprise that has obtained such certificate and recognised as a High/New Tech Enterprise may apply to the applicable tax authority to obtain applicable tax exemptions and reductions. If our Group can obtain such recognition, we will be qualified to apply to the applicable tax authority for a preferential tax treatment to enjoy an corporate income tax rate of 15%.

Regulations as to Environmental Protection

《中華人民共和國環境保護法》 (the Environmental Protection Law of the PRC*) promulgated on and effective from 26 December 1989 (the “**Environmental Protection Law**”), applies to all companies engaged in manufacturing operations. Under the Environmental Protection Law, the State Administration for Environmental Protection is required to establish the national standards for environmental protection. The provincial governments, autonomous regions and municipalities directly under the PRC government may establish local standards for environmental quality for items not specified in the national standards for environmental quality and shall report them to the competent department of environmental protection administration under the State Council for record. The Environmental Protection Law requires each company that discharges environmental pollutants or other hazardous materials to incorporate environmental protection measures into its operations and establish an environmental protection responsibility system. According to this law, each company must adopt effective measures to prevent and control pollution and harm to the environment caused by waste gases, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation generated during the course of production and related activities. In addition, a project operator must provide an assessment of the potential pollution and environmental impact of the project, as well as the prevention and control measures to the environmental protection authorities. The

REGULATORY OVERVIEW

environmental protection authorities will not issue the approval to commence a construction project until they have reviewed and are satisfied with the pollution prevention and control measures.

According to 《建設項目環境保護管理條例》 (the Ordinance of Environmental Protection Administration for the Construction Project*) promulgated on and effective from 29 November 1998 and 《中華人民共和國環境影響評價法》 (the Law on Environmental Impact Appraisal of the PRC*) promulgated on 2 October 2002 and effective from 1 September 2003, the PRC government has established a system to appraise the environmental impact of a construction project and administer an environmental impact appraisal based on the environmental impact. Construction enterprises must submit the environmental impact reports to the relevant environmental protection authorities for approval. No enterprise may commence its construction project without the approval of the relevant environmental protection authorities.

《中華人民共和國水污染防治法》 (the Law of the PRC on Prevention and Control of Water Pollution*) amended and became effective from 1 June 2008 provides that each new construction, expansion, reconstruction or other related project, which directly or indirectly discharges pollutants into a water source, is subject to the state regulations on environmental protection of construction projects. Each enterprise that discharges pollutants directly or indirectly into a water source must register its facility with, and submit relevant information to, the local environmental protection authorities. Such information may include the categories, quantity and concentration of pollutants discharged during the ordinary course of the operations of the enterprise. Such an enterprise may also be required to submit information on its water pollution prevention and control measures to the local environmental protection authorities. In addition, the PRC government also requires that each enterprise obtain a permit for the direct or indirect discharge of pollutants into a water source, and pay a pollutant discharge fee.

《中華人民共和國大氣污染防治法》 (the Prevention and Control of Atmospheric Pollution Law of the PRC*) amended and became effective from 1 September 2000 provides that each new construction, expansion, reconstruction or other related project that discharges atmospheric pollutants is subject to state regulations on environmental protection of construction projects. Each enterprise that discharges atmospheric pollutants must register its facilities with, and submit relevant information to, the local environmental protection authorities. Such information may include the categories, quantity and concentration of pollutants during the ordinary course of the operations of the enterprise. Such an enterprise may also be required to provide certain technological information associated with atmospheric pollution to the local environmental protection authorities. In addition, the PRC government has implemented a system to collect fees from enterprises that discharge pollutants based on the categories and quantities of atmospheric pollutants discharged. The relevant environmental protection authorities have established standards for collecting fees that take into consideration the relevant atmospheric pollution regulations and the national level of economic and technological development.

According to 《中華人民共和國固體廢物污染環境防治法》 (Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste*) amended and became effective from 1 April 2005, entities that produce industrial solid waste shall establish and perfect a responsibility system for the prevention and control of environmental pollution by adopting measures to prevent the industrial solid waste discharged from polluting the environment. The state has put in place an industrial solid waste declaration and registration system. The entities discharging industrial solid waste shall, in accordance

REGULATORY OVERVIEW

with the regulations, provide the information regarding the types of the solid waste to the competent administrative department for environmental protection of the local government at or above the county level where such entities are located.

According to 《中華人民共和國環境噪聲污染防治法》 (the Prevention and Control of Environmental Pollution by Noise Law of the PRC*) promulgated on 29 October 1996 and effective from 1 March 1997, each new construction, expansion, or reconstruction project which discharges noise pollution is subject to the state regulations on environmental protection of construction projects. Industrial enterprises that emit noise pollution during industrial manufacturing at their facilities must report to the local environmental protection authorities certain information regarding the categories, quantity and volume of emitted noise pollution. Enterprises may also be required to provide certain prevention and control information related to noise pollution to the local environmental protection authorities. If the noise pollutant emission of an enterprise exceeds the limits set by national or local pollution standards, such enterprise will be required to pay a surcharge for the excessive emission.

According to 《中華人民共和國清潔生產促進法》 (the Law of the People's Republic of China on Promoting Clean Production*) amended and promulgated on 29 February 2012 and became effective as of 1 July 2012, enterprises may, on the principle of voluntariness and in accordance with the State regulations on verification by environmental management system, entrust certification agencies approved by the certification and accreditation administration department under the State Council with the certification, so as to improve the level of clean production. The enterprises shall monitor the consumption of resources and discharge of waste in the course of production and services and, where necessary, examine whether their production and services conform to the requirements of clean production. For new construction, reconstruction and expansion projects, their impact on the environment shall be assessed, and the use of raw materials, the consumption and comprehensive use of resources, and the generation and disposition of pollutants shall be analyzed and expounded. Also, the employment of technologies, techniques and equipment for clean production, which serve to make effective use of resources and generate less pollutant, shall be given first priority.

Regulations as to Labour and Safety

According to 《中華人民共和國勞動法》 (the PRC Labour Law*) which became effective on 1 January 1995 and 《中華人民共和國勞動合同法》 (the PRC Labor Contract Law*) which amended on 28 December 2012 and became effective on 1 July 2013, a written labour contract shall be concluded within one month from the date on which the employee commences working; where an employer fails to conclude a written labour contract with an employee for more than a month but less than a year from the date he was employed, he shall be paid two times his salary for each month. Labour contract is categorized into three types, namely labour contract with fixed term, labour contract without fixed term and labour contract to be expired upon completion of certain task. Where the employee has already worked for the employer for 10 full years consecutively or the labour contract is to be renewed after two fixed-term labour contracts have been concluded consecutively, a labour contract without fixed term shall be concluded.

According to 《中華人民共和國就業促進法》 (the Law for Promotion of Employment of the PRC*) promulgated on 30 August 2007 and effective as of 1 January 2008, no employee shall be discriminated in employment by reason of race, ethnic, gender, or religion. The employer should neither refuse to recruit nor raise the standards on recruitment of any woman by reason of their gender; and no provision limiting any female employee in terms of getting married and child-bearing is allowed in the labour contract. The employer should not refuse the

REGULATORY OVERVIEW

employment of anyone for the reason that the individual is a pathogen carrier, unless that person engages in work which may cause a widespread of disease. Moreover, enterprises should allocate employee education fund for occupational training and further education of employees, violation of which may result in punishment imposed by the labour administration.

According to 《中華人民共和國社會保險法》 (the PRC Social Insurance Law*) promulgated on 28 October 2010 and implemented on 1 July 2011, the 《社會保險費徵繳暫行條例》 (Interim Regulations Concerning the Collection and Payment of Social Insurance Premiums*) promulgated and implemented on 22 January 1999 by the State Council, 《企業職工生育保險試行辦法》 (Interim Measures Concerning the Maternity Insurance of Employees of an enterprise*) promulgated on 14 December 1994 and implemented on 1 January 1995 by former Ministry of Labour, 《住房公積金管理條例》 (Regulation on the Administration of Housing Provident Fund*) promulgated and implemented on 3 April 1999 and amended on 24 March 2002 by the State Council, 《工傷保險條例》 (Regulation on Occupational Injury Insurances*) promulgated on 27 April 2003 by State Council and implemented on 1 January 2004 and amended on 20 December 2010 by the State Council, and regulations on pension insurance, medical insurance and unemployment insurance in the provincial and municipal level, the employer shall pay pension insurance fund, basic medical insurance fund, unemployment insurance fund, occupational injury insurance fund, maternity insurance fund and housing provident fund for the employees. After the PRC Social Insurance Law became effective, where an employer fails to pay social insurance premiums on time or in full amount, it will be ordered by the collection agency of social insurance premiums to pay or make up the deficit of premiums within a prescribed time limit, and a daily fine at the rate of 0.05% of the outstanding amount from the due date will be imposed; and if it still fails to pay the premiums within the prescribed time limit, a fine of one to three times the outstanding amount might be imposed by the relevant administrative department.

As a manufacturing company, we are subject to 《中華人民共和國安全生產法》 (PRC Production Safety Law*) (the “**Production Safety Law**”), which requires us to provide our workers with safe manufacturing conditions in accordance with standards set forth in various laws and administrative regulations. The law further provides that any entity that is not sufficiently equipped to ensure safe production may not engage in production and business operations, and those companies must provide production safety education and training programs to employees. The design, manufacture, installation, use, inspection, and maintenance of safety equipment are required to conform to applicable national or industry standards. In addition, labour protection equipment must meet national or industry standards, and companies must supervise and educate their employees to wear or use such equipment according to the prescribed rules.

Regulations as to Negotiable Instruments

《中華人民共和國票據法》 (the PRC Negotiable Instruments Law*) promulgated on 10 May 1995 and which became effective on 1 January 1996 and amended on 28 August 2004, consists of seven chapters, covering General Provisions, Drafts, Promissory Notes, Cheques, Applicability of the Law to Foreign Negotiable Instruments, Legal Responsibilities, and Supplementary Provisions. Chapter 2 (Drafts) contains detailed provisions on endorsement, acceptance, guarantee, payment, and the right of recourse. Subsequent chapters relate to the various types of negotiable instruments, such as cheques, promissory notes, and foreign instruments, incorporate these provisions by reference.

REGULATORY OVERVIEW

According to 《票據管理實施辦法》 (the Administrative Measures on the Negotiable Instruments*) amended, promulgated on 21 August 1997 and which became effective on 1 October 1997 and 《支付結算辦法》 (the Measures for Payment and Settlement*) promulgated on 19 September 1997, the eligible holder of a commercial draft may apply to the bank for discount on the strength of the undue commercial draft and the discount certificate. The discount bank may apply for inter-bank discount on the strength of the undue commercial draft, or may apply for rediscount to the PBOC. In the case of discount, inter-bank discount or rediscount, transfer endorsement shall be made.

Regulatory and Shareholders approval for a proposed listing

According to provisions stated in 《中華人民共和國證券法》 (the PRC Securities Law), and the Special Regulations, when a company intends to issue, list and transact its securities on an overseas stock exchange, it shall obtain the prior approval from the securities regulatory authority of the State Council. 《關於股份有限公司境外發行股票和上市申報文件及審核程序的監管指引》 (The Guidelines for Supervising the Application Documents and Examination Procedures for Overseas Stock Issuance and Listing by Joint Stock Companies) which was promulgated on 20 December 2012 and came into effect on 1 January 2013 provides that the review and approval process for those companies applying for issuing and listing its securities overseas includes: (i) the company has to submit various required application documents to the CSRC, (ii) the CSRC will review the application documents, and decide whether to accept the application and to issue an administration permit, allowing the company to issue and list its securities overseas, according to the relevant PRC laws and regulations, (iii) upon receipt of the CSRC's acceptance of the application, the company may proceed to file its initial application for issuing and listing its securities with the relevant overseas securities regulatory authority or stock exchange, (iv) upon receipt of the administration permit from the CSRC, the company may continue the listing application process with the overseas securities regulatory authority or stock exchange, and (v) within 15 working days following the completion of the proposed issuing and listing, the company will have to submit a written report to the CSRC regarding the completion. The administration permit issued by the CSRC will be valid for 12 months.

In addition, our Articles of Association also provide that the public offering plan (including without limitation, issuing price, valuation, selection of the stock exchange and the timing of listing) shall be reviewed and approved by our Shareholders.

As advised by our PRC Legal Advisers, our Company has acquired all the necessary regulatory and internal approvals for the Global Offering and Listing. Please see “Appendix VII – Statutory and General Information” for more details.

HISTORY, DEVELOPMENT AND REORGANISATION

OUR BUSINESS HISTORY

Introduction

The history of our Group can be traced back to March 2006 when Mr. Zhang Degang (through his spouse, Ms. Zhu Yingxuan) and Mr. Zhang Deqiang founded our Predecessor Company in Wuxi, Jiangsu Province.

Based on the industry knowledge of our Directors, before 2006, the supply of complete set of automatic control equipment for producing steel wire products in the PRC was heavily dependent on foreign imports. In light of such background, Mr. Zhang Degang (through his spouse, Ms. Zhu Yingxuan) and Mr. Zhang Deqiang founded our Predecessor Company in March 2006 with an aim to compete with foreign manufacturers in this field.

As early as August 2006, we sold our first brass electroplating wire production line. According to Frost & Sullivan, we were the first domestic company who developed the brass electroplating wire production line using thermal diffusion method with proprietary intellectual property in the PRC radial tyre cord production equipment manufacturing industry. Since then, we continuously expanded our market share in this product. According to Frost & Sullivan, we were the largest brass electroplating wire production line manufacturer in the PRC in terms of revenue with a market share of 44.9% in 2013.

We strived to diversify our product offerings to cover the entire steel wire product production line. In May 2008, we sold our first intermediate wire heat treatment production line. In February 2012, we sold our first zinc hot plating wire production line. In February 2013, we sold our first tin bronze plating wire production line. According to Frost & Sullivan, amongst the major pure equipment manufacturers in the PRC radial tyre cord, sawing wire and hose wire production equipment industry, we offer the most comprehensive range of production equipment.

With a view to further expanding our market, we conducted our first overseas sale and exported the first trial brass electroplating wire production line to South Korea in March 2013.

Business Milestones

March 2006	Our Predecessor Company was established in Wuxi, Jiangsu Province to engage in the design, processing, manufacture, sale and installation of complete set of automatic control equipment for producing steel wire products.
August 2006	We sold our first brass electroplating wire production line.
May 2008	We sold our first intermediate wire heat treatment production line.
April 2009	Sanzhi Gongkong was established to engage in the design, manufacture and sale of industrial automatic electrical control systems and precision machinery.

HISTORY, DEVELOPMENT AND REORGANISATION

- July 2009 We were accredited with 江蘇省民營科技企業 (Jiangsu Province Private Technology Enterprise*) in recognition of our compliance with national industrial policy, technology policy and development.
- August 2009 Jiangsu Sunlit was established to expand our sales of equipment.
- December 2009 The construction of our factory in Yixing was completed and we expanded our business of manufacturing standalone machines such as wet drawing machines and double-twist stranding machines.
- July 2010 We were first accredited with the certification of “ISO 9001:2008 Quality Management System” for our good quality management system and “ISO 14001:2004 Environmental Management System” for our good environmental management system.
- December 2010 We were first accredited with 高新技術企業 (High/New Tech Enterprise*).
Our “Sunlit” (盛力達) brand was accredited with 無錫市知名商標 (Wuxi City Famous Trademark*).
- January 2011 Our metal product equipment marketed under our “Sunlit” (盛力達) brand were recognised as famous brand products in Wuxi and awarded the Wuxi Famous Brand Products Certificate.
- May 2011 We were accredited with a “Class AAA” credit grading by Jiangsu Hengda Credit & Appraisal Co., Ltd. and awarded the Credit Grading Certificate.
- October 2011 Our brass electroplating wire production lines were accredited with 高新技術產品 (High and New Technology Product*).
- February 2012 We sold our first zinc hot plating wire production line.
- May 2012 We received the accolade of 企業設計中心 (Corporate Design Centre*) from 無錫市科學技術局 (The Science and Technology Bureau of Wuxi City*).
- July 2012 Our Company was converted into a joint stock company with limited liability from our Predecessor Company.
- November 2012 We were accredited with 無錫市科技研發機構 (Wuxi City Technology Research and Development Organisation*).

HISTORY, DEVELOPMENT AND REORGANISATION

- December 2012 Our intermediate wire heat treatment production lines and double-twist stranding machines were awarded as 高新技術產品 (High and New Technology Product*).
- February 2013 We sold our first tin bronze plating wire production line.
- March 2013 We conducted our first overseas sales and exported the first trial brass electroplating wire production line to South Korea.
- May 2013 We commenced the construction of the New Wuxi Facility in Wuxi Huishan Economic Development Zone to serve as our production base and research and development centre.
- January 2014 We were awarded the Runner Up for the 2013 Annual Award for Investment in the Industrial Sector by 中共江蘇省無錫惠山經濟開發區工作委員會 (Work Committee of the CPC of Wuxi Huishan Economic Development Zone*) and 江蘇省無錫惠山經濟開發區管委會 (Management Committee of Wuxi Huishan Economic Development Zone*).

OUR CORPORATE HISTORY

Our Predecessor Company

On 21 March 2006, our Predecessor Company was established by Mr. Zhang Degang (through his spouse, Ms. Zhu Yingxuan) and Mr. Zhang Deqiang in the PRC as a limited liability company, with a registered capital of RMB1 million. At the time of its establishment, Mr. Zhang Degang (through his spouse, Ms. Zhu Yingxuan) and Mr. Zhang Deqiang contributed RMB600,000 and RMB400,000 to the registered capital of our Predecessor Company and held 60% and 40% of the equity interest in our Predecessor Company, respectively. On 22 March 2006, Mr. Zhang Degang and Ms. Zhu Yingxuan entered into a trust agreement, pursuant to which the parties confirmed the fact that the 60% equity interest in our Predecessor Company held by Ms. Zhu Yingxuan was held on trust for Mr. Zhang Degang. As confirmed by Mr. Zhang Degang, as he had to travel frequently at the relevant time, it was therefore not convenient for him to sign the documents pertaining to the establishment of our Predecessor Company, whereas Ms. Zhu Yingxuan stayed in Wuxi at the relevant time and thus it would be more convenient for Ms. Zhu Yingxuan to act as a nominee shareholder. In addition, as Mr. Zhang Degang and Ms. Zhu Yingxuan are spouses, they have joint ownership of property under the relevant PRC law, including the equity interest in our Predecessor Company held in Ms. Zhu Yingxuan's name. It therefore did not matter whether the equity interest in our Predecessor Company was held in Mr. Zhang Degang's or Ms. Zhu Yingxuan's name. For the above reasons, they entered into the trust arrangement. As advised by our PRC Legal Advisers, the trust arrangement did not violate any PRC laws and regulations and the agreement was valid and binding among the parties involved.

HISTORY, DEVELOPMENT AND REORGANISATION

On 25 August 2010, to bring an end to the trust arrangement between Ms. Zhu Yingxuan and Mr. Zhang Degang, Ms. Zhu Yingxuan transferred 60% of the equity interest in our Predecessor Company to Mr. Zhang Degang at the consideration of RMB600,000. The consideration for the transfer was determined with reference to the then registered capital of our Predecessor Company. After the transfer, Mr. Zhang Degang and Mr. Zhang Deqiang held 60% and 40% of the equity interest in our Predecessor Company, respectively.

On 29 March 2011, the registered capital of our Predecessor Company increased from RMB1 million to RMB15 million, by way of capitalising the undistributed profits in our Predecessor Company attributable to Mr. Zhang Degang and Mr. Zhang Deqiang. Following the capital increase, Mr. Zhang Degang and Mr. Zhang Deqiang held 60% and 40% of the equity interest in our Predecessor Company, respectively.

On 27 December 2011, Mr. Zhang Degang and Mr. Zhang Deqiang transferred 3.53% and 1.03% of the equity interest in our Predecessor Company to Ms. Zhang Jinghua at the considerations of RMB3,870,610 and RMB1,129,390, respectively. Our Directors confirmed that the considerations for the transfers were determined by taking into account the audited net asset value of our Predecessor Company as of 30 September 2011 of approximately RMB95,198,936 and the fact that Ms. Zhang Jinghua is a sister of Mr. Zhang Degang and Mr. Zhang Deqiang. On the same date, Mr. Zhang Degang and Mr. Zhang Deqiang transferred 3% and 2% of the equity interest in our Predecessor Company to Shunxin at the considerations of RMB9 million and RMB6 million, respectively. Our Directors confirmed that the considerations for the transfers were determined by taking into account the audited net asset value of our Predecessor Company as of 30 September 2011 of approximately RMB95,198,936 and the fact that the partners of Shunxin include our Directors and employees of our Group. As a result of these transfers, Mr. Zhang Degang, Mr. Zhang Deqiang, Ms. Zhang Jinghua and Shunxin held 53.47%, 36.97%, 4.56% and 5.00% of the equity interest in our Predecessor Company, respectively.

On 26 March 2012, the registered capital of our Predecessor Company increased from RMB15 million to RMB16,304,347. The additional capital was subscribed by three of our Pre-IPO Investors, as to RMB815,217 by Yudao Tiansui, RMB163,043 by Jinling Huaruan and RMB326,087 by Huaxuan by way of their capital contribution in the amount of RMB100 million, RMB20 million and RMB40 million, respectively. Our Directors confirmed that the amounts of capital contribution were arrived at after arm's length negotiation on a commercial basis with reference to the estimated value of our Predecessor Company of RMB2 billion as agreed among the parties after taking into account factors such as the strong business, future prospects, growth and profitability of our Predecessor Company, the investments of our Pre-IPO Investors in our Predecessor Company as well as the valuation of other listed companies in the PRC in similar industries. Following the capital increase, Mr. Zhang Degang, Mr. Zhang Deqiang, Ms. Zhang Jinghua, Shunxin, Yudao Tiansui, Huaxuan and Jinling Huaruan held 49.19%, 34.01%, 4.20%, 4.60%, 5.00%, 2.00% and 1.00% of the equity interest in our Predecessor Company, respectively.

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On 30 March 2012, Mr. Zhang Degang and Mr. Zhang Deqiang transferred an aggregate of 4.17% and 2.78% of the equity interest in our Predecessor Company, respectively, to six of our Pre-IPO Investors, namely Anfuda, Xinjian Industrial, Zuoli Holdings, Northern Light, Zhongjing and Fengyao, at the aggregate considerations of RMB83.4 million and RMB55.6 million, respectively. Our Directors confirmed that the considerations for the transfers were arrived at after arm's length negotiation on a commercial basis with reference to the estimated value of our Predecessor Company of RMB2 billion as agreed among the parties after taking into account factors such as the strong business, future prospects, growth and profitability of our Predecessor Company, the investments of our Pre-IPO Investors in our Predecessor Company as well as the valuation of other listed companies in the PRC in similar industries. As a result of these transfers, Mr. Zhang Degang, Mr. Zhang Deqiang, Ms. Zhang Jinghua, Shunxin, Yudao Tiansui, Huaxuan, Zuoli Holdings, Anfuda, Fengyao, Jinling Huaruan, Xinjian Industrial, Zhongjing and Northern Light held 45.02%, 31.23%, 4.20%, 4.60%, 5.00%, 2.00%, 2.00%, 1.25%, 1.20%, 1.00%, 1.00%, 1.00% and 0.50% of the equity interest in our Predecessor Company, respectively. For further details, please refer to the paragraph headed "Pre-IPO Investors" in this section below.

Our Company

On 24 July 2012, our Company was converted into a joint stock company with limited liability from our Predecessor Company under the relevant PRC laws and regulations, with a registered capital of RMB96 million. Immediately after the conversion and up to the Latest Practicable Date, the share capital of our Company was RMB96 million divided into 96 million Domestic Shares with a nominal value of RMB1.00 per Share and the shareholding in our Company was as follows:

Shareholder	Number of Domestic Shares in our Company held by the Shareholder	Approximate percentage of total share capital of our Company
Mr. Zhang Degang	43,221,504	45.02%
Mr. Zhang Deqiang	29,983,104	31.23%
Ms. Zhang Jinghua	4,027,392	4.20%
Shunxin	4,416,000	4.60%
Yudao Tiansui	4,800,000	5.00%
Huaxuan	1,920,000	2.00%
Zuoli Holdings	1,920,000	2.00%
Anfuda	1,200,000	1.25%
Fengyao	1,152,000	1.20%
Jinling Huaruan	960,000	1.00%
Xinjian Industrial	960,000	1.00%
Zhongjing	960,000	1.00%
Northern Light	480,000	0.50%
Total	96,000,000	100%

HISTORY, DEVELOPMENT AND REORGANISATION

The Domestic Shares held by Shunxin constitute promoter shares as defined in the Company Law. By virtue of the Company Law, the Shares issued by our Company prior to the Global Offering, including the Domestic Shares held by Shunxin, are not transferable within one year of the Listing Date. The Shares held by Shunxin are Domestic Shares, which will not be counted towards the public float of our Company.

Some of our Directors, Supervisors and senior management are also the general partners or limited partners of Shunxin. The Domestic Shares in our Company held by them directly and indirectly through Shunxin are as follows:

<u>Name</u>	<u>Number of Domestic Shares in our Company held directly</u>	<u>Approximate percentage of total share capital of our Company held directly</u>	<u>Approximate number of Domestic Shares in our Company held indirectly through Shunxin proportional to his/her capital contribution in Shunxin</u>	<u>Approximate percentage of total share capital of our Company held indirectly through Shunxin proportional to his/her capital contribution in Shunxin</u>	<u>Type of partner in Shunxin/present position in our Company</u>
Mr. Zhang Degang	43,221,504	45.02%	1,243,722.24	1.30%	General partner/executive Director and Chairman
Mr. Zhang Deqiang	29,983,104	31.23%	829,148.16	0.86%	General partner/executive Director and general manager
Ms. Yang Jinghua	N/A	N/A	45,043.20	0.05%	Limited partner/Supervisor and personnel and general affairs manager
Mr. Xu Weigang	N/A	N/A	270,259.20	0.28%	Limited partner/vice-general manager
Mr. Deng Jianxing	N/A	N/A	117,024.00	0.12%	Limited partner/vice-general manager
Mr. Ma Jinlong	N/A	N/A	229,632.00	0.24%	Limited partner/financial controller/secretary to the Board of Directors

HISTORY, DEVELOPMENT AND REORGANISATION

Each of our Directors, Supervisors and senior management holding Domestic Shares in our Company indirectly through Shunxin has given the following undertakings relating to the lock-up arrangement in respect of the Domestic Shares in our Company:

- (a) in each year during the period when he/she holds office in our Company, (i) his/her transfer of Domestic Shares in our Company held by him/her directly shall not exceed 25% of the total number of Domestic Shares in our Company held by him/her directly; and (ii) his/her transfer of Domestic Shares in our Company held by him/her indirectly through Shunxin shall not exceed 25% of the total number of Domestic Shares in our Company held by him/her indirectly through Shunxin;
- (b) the Domestic Shares in our Company held by him/her directly or indirectly through Shunxin are not transferable within one year of the Listing Date; and
- (c) within six months from his/her ceasing to hold office in our Company, he/she shall not transfer any Domestic Shares in our Company held by him/her directly or indirectly through Shunxin.

A summary of the corporate history of the subsidiaries of our Company and Yixing Branch is set out below:

Jiangsu Sunlit

On 27 August 2009, Jiangsu Sunlit was established as a limited liability company in the PRC with a registered capital of RMB5 million. It is principally engaged in the research, development, design and sale of complete set of automatic control equipment and development of software. At the time of its establishment, Mr. Zhang Degang and Mr. Zhang Deqiang contributed RMB3 million and RMB2 million to the registered capital of Jiangsu Sunlit and held 60% and 40% of the equity interest in Jiangsu Sunlit, respectively.

On 16 December 2011, as a part of our Reorganisation, Mr. Zhang Degang and Mr. Zhang Deqiang transferred 60% and 40% of the equity interest in Jiangsu Sunlit to our Predecessor Company at the considerations of approximately RMB14,183,857 and RMB9,455,905, respectively. The considerations for the transfers were arrived at after arm's length negotiation on a commercial basis with reference to the audited net asset value of Jiangsu Sunlit as of 30 September 2011 of approximately RMB23,639,762. As a result of the transfers, Jiangsu Sunlit has become a wholly-owned subsidiary of our Company.

Wuxi Shangda

On 9 November 2006, Wuxi Shangda was established as a limited liability company in the PRC with a registered capital of RMB92 million. It is principally engaged in the manufacture, processing and sale of high and low voltage electric motors and the import and export of different products and technologies. At the time of its establishment, Wuxi Zhongda and Ms. Wang Huahua, each being an Independent Third Party, contributed RMB16 million and RMB4 million to the capital of Wuxi Shangda and held 80% and 20% of the equity interest in Wuxi Shangda, respectively.

HISTORY, DEVELOPMENT AND REORGANISATION

On 7 August 2008, Wuxi Zhongda and Ms. Wang Huahua further contributed RMB20 million and RMB5 million to the capital of Wuxi Shangda. On 10 November 2008, the registered capital of Wuxi Shangda was reduced from RMB92 million to RMB45 million. Subsequently, Wuxi Zhongda and Ms. Wang Huahua held 80% and 20% of the equity interest in Wuxi Shangda, respectively.

On 15 December 2011, Wuxi Zhongda and Ms. Wang Huahua transferred 80% and 20% of the equity interest in Wuxi Shangda to our Predecessor Company at the considerations of approximately RMB41,217,731 and RMB10,304,433, respectively. The considerations for the transfers were mainly based on the net asset value of Wuxi Shangda as of 31 October 2011 of approximately RMB45,033,988 and the fair value of the land use rights held by Wuxi Shangda. As a result of these transfers, Wuxi Shangda has become a wholly-owned subsidiary of our Company.

Wuxi Shangda did not operate any business prior to the aforesaid acquisition. Since the applicable percentage ratios in Rule 14.07 of the Listing Rules in respect of the acquisition of the entire equity interest in Wuxi Shangda are less than 25%, the acquisition of Wuxi Shangda should not be regarded as an acquisition of a material subsidiary or business of our Company, nor should it be classified as a major transaction or a very substantial acquisition if the acquisition had been made by the Company at the date of the listing application. Accordingly, no pre-acquisition financial information shall be required to be disclosed in this prospectus pursuant to Rule 4.05A of the Listing Rules.

On 16 October 2013, the registered capital of Wuxi Shangda increased from RMB45 million to RMB63 million. The additional capital was contributed by our Company.

Sanzhi Gongkong

On 17 April 2009, Sanzhi Gongkong was established as a limited liability company in the PRC with a registered capital of RMB1 million. It is principally engaged in the design, manufacture and sale of industrial automatic electrical control systems and precision machinery. At the time of its establishment, each of Mr. Zhang Degang, Mr. Zhang Deqiang, Ms. Zhang Jinghua, Mr. Yin Hongbin and Ms. Xue Bin contributed RMB200,000 to the registered capital of Sanzhi Gongkong and held 20% of the equity interest in Sanzhi Gongkong. Mr. Yin Hongbin and Ms. Xue Bin are both Independent Third Parties.

On 20 April 2011, Ms. Xue Bin transferred 6.668%, 6.666% and 6.666% of the equity interest in Sanzhi Gongkong to Mr. Zhang Degang, Mr. Zhang Deqiang and Ms. Zhang Jinghua at the considerations of RMB666,800, RMB666,600 and RMB666,600, respectively. The considerations for the transfers were arrived at after arm's length negotiation on a commercial basis with reference to the unaudited net asset value of Sanzhi Gongkong as of February 2011 of approximately RMB9,685,803.

On the same day, Mr. Yin Hongbin transferred 20% of the equity interest in Sanzhi Gongkong to his spouse, Ms. Cai Jianfen, an Independent Third Party, at the consideration of RMB200,000. The consideration for the transfer was determined with reference to the capital contribution made by Mr. Yin Hongbin when Sanzhi Gongkong was established.

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As a result of these transfers, Mr. Zhang Degang, Mr. Zhang Deqiang, Ms. Zhang Jinghua and Ms. Cai Jianfen held 26.668%, 26.666%, 26.666% and 20% of the equity interest in Sanzhi Gongkong, respectively.

On 16 December 2011, as a part of our Reorganisation, Mr. Zhang Degang, Mr. Zhang Deqiang, Ms. Zhang Jinghua and Ms. Cai Jianfen transferred 26.668%, 26.666%, 26.666% and 20% of the equity interest in Sanzhi Gongkong to our Predecessor Company at the considerations of approximately RMB1,939,597, RMB1,939,451, RMB1,939,451 and RMB1,454,625, respectively. The considerations for the transfers were arrived at after arm's length negotiation on a commercial basis with reference to the audited net asset value of Sanzhi Gongkong as of 30 September 2011 of approximately RMB7,273,124. As a result of these transfers, Sanzhi Gongkong has become a wholly-owned subsidiary of our Company.

Haisheng Software

On 12 July 2011, Haisheng Software was established as a limited liability company in the PRC with a registered capital of RMB1.08 million. It is principally engaged in technology development, the provision of technology services, technology transfer and the sale of computer hardware and software. At the time of its establishment, Mr. Zhang Degang and Mr. Zhang Deqiang contributed RMB648,000 and RMB432,000 to the registered capital of Haisheng Software and held 60% and 40% of the equity interest in Haisheng Software, respectively.

On 1 December 2011, as a part of our Reorganisation, Mr. Zhang Degang and Mr. Zhang Deqiang transferred 60% and 40% of the equity interest in Haisheng Software to our Predecessor Company at the considerations of RMB648,000 and RMB432,000, respectively. The considerations for the transfers were determined with reference to the capital contributions made by Mr. Zhang Degang and Mr. Zhang Deqiang when Haisheng Software was established. As a result of these transfers, Haisheng Software has become a wholly-owned subsidiary of our Company.

Yixing Branch

On 5 January 2007, our Predecessor Company established a branch in Yixing City, Wuxi. Yixing Branch was established with an aim to expand our business of standalone machines (mainly including double-twist stranding machines and wet drawing machines) and set up a production base for manufacturing standalone machines.

ACTING IN CONCERT AGREEMENT

On 26 July 2013, our Controlling Shareholders executed the Acting in Concert Agreement, whereby they confirmed that, among other things, since 17 April 2009, they have adopted a consensus building approach to reach decisions on a unanimous basis in making management decisions of our Group and exercising their voting rights at the meetings of the shareholders and boards of the members of our Group. They further jointly and severally undertook that, during the period they remain in control of our Group, they will maintain the above acting-in-concert arrangement.

HISTORY, DEVELOPMENT AND REORGANISATION

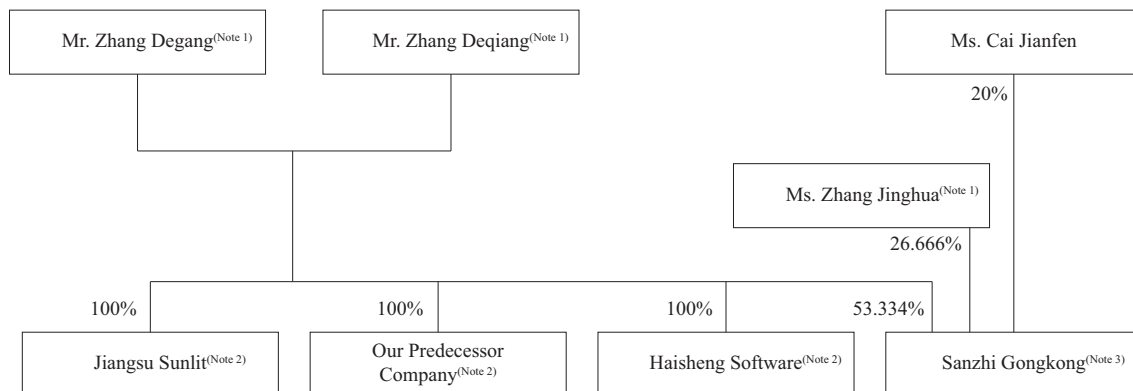
By virtue of the Acting in Concert Agreement and given that Mr. Zhang Degang and Mr. Zhang Deqiang are two of the general partners of Shunxin, Mr. Zhang Degang, Mr. Zhang Deqiang and Ms. Zhang Jinghua will together be entitled to exercise and control approximately 63.79% of our entire issued share capital upon the completion of the Global Offering (assuming the Over-allotment Option is not exercised).

We have been advised by our PRC Legal Advisers that the relevant undertakings by our Controlling Shareholders under the Acting in Concert Agreement are legal, valid and enforceable under the applicable PRC laws.

REORGANISATION

In 2011, we underwent the Reorganisation. As of 30 September 2011, our Predecessor Company had three affiliates, namely Jiangsu Sunlit, Haisheng Software and Sanzhi Gongkong.

The following diagram sets out the affiliates of our Predecessor Company prior to the Reorganisation:



Notes:

- (1) Mr. Zhang Degang, Mr. Zhang Deqiang and Ms. Zhang Jinghua are siblings. Mr. Zhang Degang, Mr. Zhang Deqiang and Ms. Zhang Jinghua are parties acting in concert pursuant to the Acting in Concert Agreement dated 26 July 2013 which affirmed certain voting arrangements in relation to the management of our Group.
- (2) Mr. Zhang Degang and Mr. Zhang Deqiang held 60% and 40% of the equity interests in our Predecessor Company, Jiangsu Sunlit and Haisheng Software, respectively.
- (3) Mr. Zhang Degang and Mr. Zhang Deqiang held 26.668% and 26.666% of the equity interests in Sanzhi Gongkong, respectively.

HISTORY, DEVELOPMENT AND REORGANISATION

Steps of Reorganisation

On 1 December 2011, Mr. Zhang Degang and Mr. Zhang Deqiang transferred 60% and 40% of the equity interest in Haisheng Software to our Predecessor Company at the considerations of RMB648,000 and RMB432,000, respectively. As a result of these transfers, Haisheng Software has become a wholly-owned subsidiary of our Predecessor Company.

On 16 December 2011, Mr. Zhang Degang and Mr. Zhang Deqiang transferred 60% and 40% of the equity interest in Jiangsu Sunlit to our Predecessor Company at the considerations of approximately RMB14,183,857 and RMB9,455,905, respectively. As a result of these transfers, Jiangsu Sunlit has become a wholly-owned subsidiary of our Predecessor Company.

On 16 December 2011, Mr. Zhang Degang, Mr. Zhang Deqiang, Ms. Zhang Jinghua and Ms. Cai Jianfen transferred 26.668%, 26.666%, 26.666% and 20% of the equity interest in Sanzhi Gongkong to our Predecessor Company at the considerations of approximately RMB1,939,597, RMB1,939,451, RMB1,939,451 and RMB1,454,625, respectively. As a result of these transfers, Sanzhi Gongkong has become a wholly-owned subsidiary of our Predecessor Company.

Acquisition of the entire equity interest in Wuxi Shangda

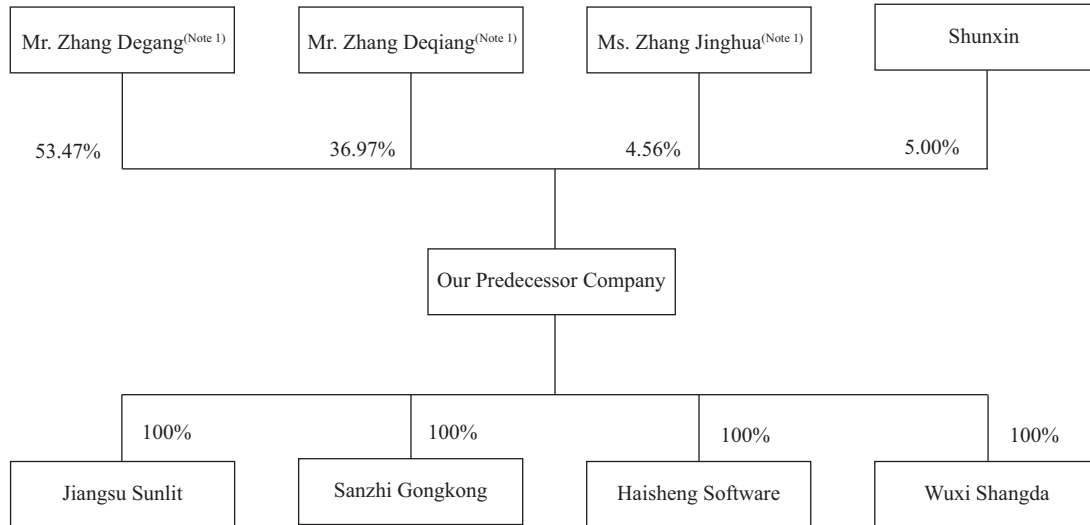
On 15 December 2011, Wuxi Zhongda and Ms. Wang Huahua transferred 80% and 20% of the equity interest in Wuxi Shangda to our Predecessor Company at the considerations of approximately RMB41,217,731 and RMB10,304,433, respectively. As a result of these transfers, Wuxi Shangda has become a wholly-owned subsidiary of our Predecessor Company.

Restructuring of the equity interest in our Predecessor Company

On 27 December 2011, Mr. Zhang Degang and Mr. Zhang Deqiang transferred 3.53% and 1.03% of the equity interest in our Predecessor Company to Ms. Zhang Jinghua at the considerations of RMB3,870,610 and RMB1,129,390, respectively. On the same date, Mr. Zhang Degang and Mr. Zhang Deqiang transferred 3% and 2% of the equity interest in our Predecessor Company to Shunxin at the considerations of RMB9 million and RMB6 million, respectively. As a result of these transfers, Mr. Zhang Degang, Mr. Zhang Deqiang, Ms. Zhang Jinghua and Shunxin held 53.47%, 36.97%, 4.56% and 5.00% of the equity interest in our Predecessor Company, respectively.

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The following diagram sets out the shareholders and subsidiaries of our Predecessor Company immediately after the completion of the Reorganisation, the acquisition of the entire equity interest in Wuxi Shangda by our Predecessor Company and the restructuring of the equity interest in our Predecessor Company:



Notes:

- (1) Mr. Zhang Degang, Mr. Zhang Deqiang and Ms. Zhang Jinghua are siblings.
- (2) Yixing Branch is not reflected in the diagram.

PRE-IPO INVESTORS

Our Directors believe that by introducing pre-IPO investors to our Company, we would be benefited from (1) the experience of different entrepreneurs which may enhance our corporate governance and legal compliance; (2) the additional capital brought by the pre-IPO investors to our Company; and (3) the diversification of the ownership of our Company. After the Reorganisation, we have attracted different pre-IPO investors to join our Company.

In late 2011, we were approached by different investors who were interested in investing in our Company. We shortlisted nine Pre-IPO Investors based on their backgrounds, financial strength and experience which may benefit our Group.

On 2 March 2012, our Predecessor Company, Mr. Zhang Degang, Mr. Zhang Deqiang, Ms. Zhang Jinghua, Shunxin and three of our Pre-IPO Investors, namely Yudao Tiansui, Jinling Huaruan and Huaxuan, after arm's length negotiation on a commercial basis, entered into a capital increase agreement. Pursuant to the agreement, Yudao Tiansui, Jinling Huaruan and Huaxuan contributed an aggregate of RMB160 million to the capital of our Predecessor Company, of which RMB1,304,347 was credited to our registered capital and RMB158,695,653 was credited to our capital reserve. Our Directors confirmed that the amounts of capital contribution were arrived at after arm's length negotiation on a commercial

HISTORY, DEVELOPMENT AND REORGANISATION

basis with reference to the estimated value of our Predecessor Company of RMB2 billion as agreed among the parties after taking into account factors such as the strong business, future prospects, growth and profitability of our Predecessor Company, the investments of our Pre-IPO Investors in our Predecessor Company as well as the valuation of other listed companies in the PRC in similar industries. Under the relevant agreement, the Pre-IPO Investors were not given any special rights that were not available to other Shareholders. The capital contributions were all fully paid by 16 March 2012 and the capital increase was approved by 無錫市惠山工商行政管理局 (Administration for Industry and Commerce of Wuxi Huishan District*) on 26 March 2012. Following the capital increase, the registered capital of our Predecessor Company increased from RMB15 million to RMB16,304,347 and Mr. Zhang Degang, Mr. Zhang Deqiang, Ms. Zhang Jinghua, Shunxin, Yudao Tiansui, Huaxuan and Jinling Huaruan held 49.19%, 34.01%, 4.20%, 4.60%, 5.00%, 2.00% and 1.00% of the equity interest in our Predecessor Company, respectively.

On 26 March 2012, Mr. Zhang Degang, Mr. Zhang Deqiang and six of our Pre-IPO Investors, namely Anfuda, Xinjian Industrial, Zuoli Holdings, Northern Light, Zhongjing and Fengyao, after arm's length negotiation on a commercial basis, entered into ten equity transfer agreements. According to the agreements, Mr. Zhang Degang and Mr. Zhang Deqiang transferred 2.00%, 1.25%, 1.20%, 1.00%, 1.00% and 0.50% of the equity interest in our Predecessor Company to Zuoli Holdings, Anfuda, Fengyao, Xinjian Industrial, Zhongjing and Northern Light at the considerations of RMB40 million, RMB25 million, RMB24 million, RMB20 million, RMB20 million and RMB10 million, respectively. Our Directors confirmed that the considerations for the transfers were arrived at after arm's length negotiation on a commercial basis with reference to the estimated value of our Predecessor Company of RMB2 billion as agreed among the parties after taking into account factors such as the strong business, future prospects, growth and profitability of our Predecessor Company, the investments of our Pre-IPO Investors in our Predecessor Company as well as the valuation of other listed companies in the PRC in similar industries. The considerations were all settled by 28 March 2012 and the transfers were approved by 無錫市惠山工商行政管理局 (Administration for Industry and Commerce of Wuxi Huishan District*) on 30 March 2012. Under the relevant agreements, the Pre-IPO Investors were not given any special rights that were not available to other Shareholders. As a result of these transfers, Mr. Zhang Degang, Mr. Zhang Deqiang, Ms. Zhang Jinghua, Shunxin, Yudao Tiansui, Huaxuan, Zuoli Holdings, Anfuda, Fengyao, Jinling Huaruan, Xinjian Industrial, Zhongjing and Northern Light held 45.02%, 31.23%, 4.20%, 4.60%, 5.00%, 2.00%, 2.00%, 1.25%, 1.20%, 1.00%, 1.00%, 1.00% and 0.50% of equity interest in our Predecessor Company, respectively.

The Domestic Shares held by the Pre-IPO Investors constitute promoter shares as defined in the Company Law. By virtue of the Company Law, the Shares issued by our Company prior to the Global Offering, including the Domestic Shares held by our Pre-IPO Investors, are not transferable within one year of the Listing Date. The investments made by the Pre-IPO Investors were applied towards our working capital for our main business.

HISTORY, DEVELOPMENT AND REORGANISATION

The following table sets out the basic information about our Pre-IPO Investors as of the Latest Practicable Date:

No.	Investor	Date of establishment	Legal representative/ executive partner	Business nature	Type	Relationship with our Group	Date of payment	Amount of investment (RMB)	Number of Domestic Shares held ^(Note 2)	Approximate cost per Share ^(Note 3)	Approximate shareholding ^(Note 4)
1	Yudao Tiansui	1 March 2012	上海玉道投资管理 中心(有限合伙) (Shanghai Yudao Investment Management Centre (Limited Partnership)*)	Industrial investment, investment management, investment consultation (except financial securities)	Limited partnership	Connected person ^(Note 1)	16 March 2012	100 million	4,800,000	20.83	3.75%
2	Jiuling Huaruan	5 August 2010	Wang Guangyu	Venture capital, venture capital consultation, venture capital management	Limited partnership	Independent Third Party	16 March 2012	20 million	960,000	20.83	0.75%
3	Huaxuan	5 December 2011	Wang Guangyu	Equity investment, investment management, investment consultation	Limited liability company	Independent Third Party	16 March 2012	40 million	1,920,000	20.83	1.50%
4	Anfuda	20 July 2011	Ren Leng	Equity investment, investment consultation, investment management, corporate management consultation	Limited partnership	Independent Third Party	28 March 2012	25 million	1,200,000	20.83	0.94%

HISTORY, DEVELOPMENT AND REORGANISATION

No.	Investor	Date of establishment	Legal representative/ executive partner	Business nature	Type	Relationship with our Group	Date of payment	Amount of investment (RMB)	Number of Domestic Shares held ^(Note 2)	Approximate cost per Share ^(Note 3)	Approximate shareholding ^(Note 4)
5	Xinjian Industrial	18 March 2004	Li Xiaohui	Process design of hazard-free waste treatment, equipment installation, construction, technology development, technology transfer, technology services, technology consultation, waste disposal factory management service, sale of self-produced products	Limited liability company	Independent Third Party	28 March 2012	20 million	960,000	20.83	0.75%
6	Zuoli Holdings	18 April 2011	Yu Youqiang	Industrial investment, investment management, investment consultation, asset management, economic information consultation, business information consultation, metal materials and products, building materials, timber, chemicals and products (except dangerous chemicals and precursor chemicals), textile raw material, fuel, heavy oil, lubricating oil, office equipment, commercial vehicles, sale of accessories for cars and motorbikes, import and export business, property management, forestry planting	Limited liability company	Independent Third Party	23 March 2012	40 million	1,920,000	20.83	1.50%

HISTORY, DEVELOPMENT AND REORGANISATION

No.	Investor	Date of establishment	Legal representative/ executive partner	Business nature	Type	Relationship with our Group	Date of payment	Amount of investment (RMB)	Number of Domestic Shares held ^(Note 2)	Approximate cost per Share ^(Note 3)	Approximate shareholding ^(Note 4)
7	Northern Light	9 August 2011	蘇州崇源創業投資合夥企業(有限合伙)(Suzhou Chongyuan Venture Capital Partnership (Limited Partnership*))	Venture capital and related consultation, agency service for other venture capital business for enterprise and individual, venture management service for venture enterprise	Limited partnership	Independent Third Party	26 March 2012	10 million	480,000	20.83	0.37%
8	Zhongqing	8 March 2012	上海東業投資有限公司(Shanghai Dong Ye Investment Company Limited*)	Venture capital, industrial investment, investment management, corporate management, investment consultation	Limited partnership	Independent Third Party	27 March 2012	20 million	960,000	20.83	0.75%
9	Fengyao	29 February 2012	Gong Jun	Industrial investment, asset management, investment management and consultation, corporate management and consultation, financial consultation	Limited partnership	Independent Third Party	23 March 2012	24 million	1,152,000	20.83	0.90%

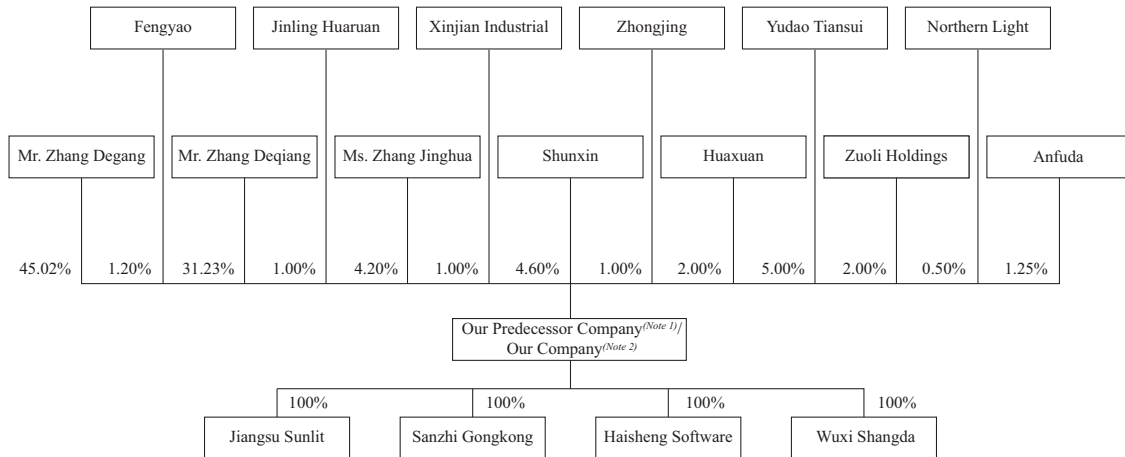
Notes:

- (1) Prior to the investment by Yudao Tiansui in our Company, Yudao Tiansui was an Independent Third Party. Yudao Tiansui became our connected person subsequent to its investment in our Company on 16 March 2012 as Yudao Tiansui's designated representative of the executive partner, Mr. Gao Feng, is also our non-executive Director. The appointment of Mr. Gao Feng as our non-executive Director was solely a decision made on the part of our Company. We have not granted any director nomination rights to the Pre-IPO Investors.
- (2) This represents the number of Domestic Shares held by our Pre-IPO Investors upon conversion of our Predecessor Company into our Company and as of the Latest Practicable Date.
- (3) There was no discount of the approximate cost per Share to the Offer Price.
- (4) This represents the approximate percentage of the total share capital of our Company upon the completion of the Global Offering (assuming the Over-allotment Option is not exercised).

HISTORY, DEVELOPMENT AND REORGANISATION

CORPORATE STRUCTURE

The following diagram sets out the shareholding and corporate structure of our Group immediately following the pre-IPO investments of our Pre-IPO Investors and as of the Latest Practicable Date:

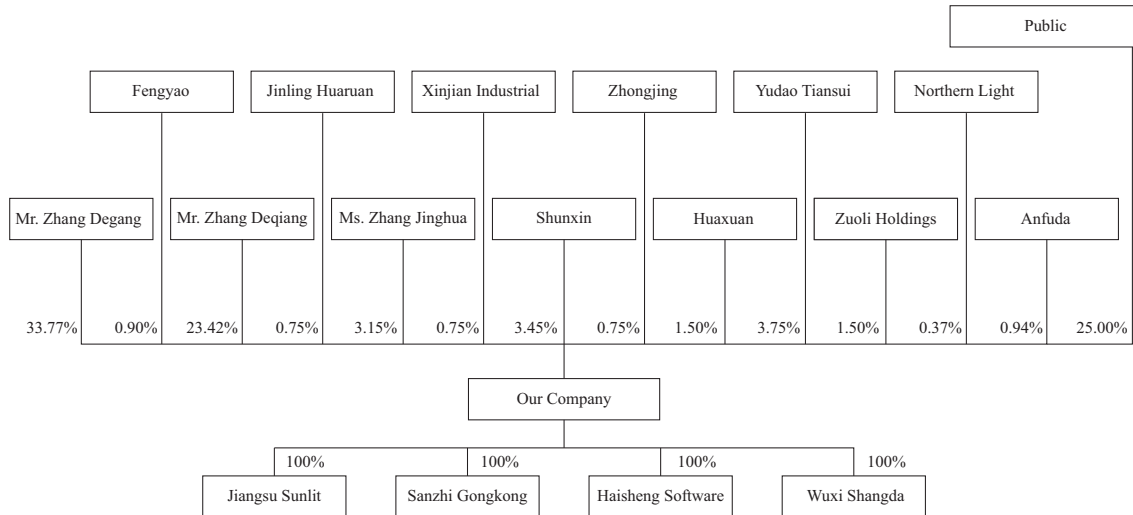


Notes:

- (1) This represents the shareholding and corporate structure of our Group immediately following the pre-IPO investments of our Pre-IPO Investors.
- (2) This represents the shareholding and corporate structure of our Group as of the Latest Practicable Date.
- (3) Yixing Branch is not reflected in the diagram.

HISTORY, DEVELOPMENT AND REORGANISATION

The following diagram sets out the shareholding and corporate structure of our Group immediately after the Global Offering (assuming that the Over-allotment Option is not exercised):



Notes:

- (1) Yixing Branch is not reflected in the diagram.
- (2) The Shares held by our Promoters, namely Mr. Zhang Degang, Mr. Zhang Deqiang, Ms. Zhang Jinghua, Shunxin, Huaxuan, Zuoli Holdings, Anfuda, Fengyao, Jinling Huaruan, Xinjian Industrial, Zhongjing, Yudao Tiansui and Northern Light are Domestic Shares; while the Shares held by the public are H Shares.

COMPLIANCE WITH THE RELEVANT PRC LAWS AND REGULATIONS

As advised by our PRC Legal Advisers, the establishment and each change in the shareholdings in all members of our Group have obtained the necessary approval and registration and has complied with the relevant PRC legal requirements.

BUSINESS

OVERVIEW

We are an integrated production solution provider of steel wire products in the PRC. We are principally engaged in the research and development, design, manufacturing, equipment supply, installation, testing, repair and maintenance of production lines for manufacturing steel wire products pursuant to customers' specific production requirements. Notwithstanding our manufacturing base, we are not a pure manufacturer. The production equipment we supplied are customised to the customers' specific requirements and production needs. We also provide substantial support and services to our customers, to help them design solutions to their manufacturing problems and to integrate the equipment into their existing production lines or processes. We have our own technical research and development capabilities to design, research and develop almost all equipment in the comprehensive set of production lines for manufacturing steel wire products. According to Frost & Sullivan, in terms of revenue, we were the largest manufacturer for radial tyre cord, sawing wire and hose wire production equipment with a market share of 14.3%, and the largest brass electroplating wire production line manufacturer in the PRC with a market share of 44.9% in 2013.

Our products could be classified into: (i) brass electroplating wire production lines; (ii) other production lines; (iii) standalone machines; and (iv) others. Brass electroplating production lines are our major products. They accounted for 34.8%, 68.7%, 72.1% and 69.0% of our total revenue, and had a high gross profit margin of 65.6%, 65.2%, 63.5% and 70.9% during each respective Track Record Period. We sell the products either on a standalone or an integrated basis to accommodate various needs of our customers. We also provide equipment modification, and after-sales repair and maintenance services to customers during which revenue is generated from the sales of mould repairing equipment, component parts and accessories. We believe our equipment modification, and after-sales repair and maintenance services allow us to utilise our technical and engineering expertise, and enable us to retain our customers and better understand their needs.

The following table sets forth the amount and percentage of our total revenue generated by each of the principal products during the Track Record Period:

	Year ended 31 December									Six months ended 30 June					
	2011			2012			2013			2013			2014		
	Unit(s) sold	RMB'000	%	Unit(s) sold	RMB'000	%	Unit(s) sold	RMB'000	%	Unit(s) sold	RMB'000	%	Unit(s) sold	RMB'000	%
Brass electroplating wire production lines	12	161,820.5	34.8	12	222,458.3	68.7	13	230,114.2	72.1	8	133,195.0	72.5	5	96,876.1	69.0
Other production lines (Note 1)	25	29,053.6	6.2	24	53,353.4	16.5	10	9,452.8	3.0	6	7,820.5	4.2	4	3,589.7	2.6
Standalone machines (Note 2)	1,183	229,655.4	49.3	107	18,947.0	5.8	178	41,564.1	13.0	134	32,588.0	17.7	176	28,512.8	20.3
Others (Note 3)	N/A	45,137.8	9.7	N/A	28,838.0	9.0	N/A	37,816.9	11.9	N/A	10,230.6	5.6	N/A	11,316.0	8.1
Total		<u>465,667.3</u>	<u>100</u>		<u>323,596.7</u>	<u>100</u>		<u>318,948.0</u>	<u>100</u>		<u>183,834.1</u>	<u>100</u>		<u>140,294.6</u>	<u>100</u>

Notes:

- (1) Other production lines principally include intermediate wire heat treatment production lines, wire rod preparation lines and zinc hot plating wire production lines.
- (2) The standalone machines principally include wet drawing machines and double-twist stranding machines.
- (3) Others principally include mould repairing equipment, component parts and accessories.
- (4) The decrease in number of other production lines sold in 2013 and the first half of 2014 was primarily due to the drop in sales of our intermediate wire heat treatment production lines. Our customers would normally purchase intermediate wire heat treatment production lines when they planned for major production expansion.

BUSINESS

Owing to our strong emphasis on continuous research and development, we have been able to maintain our leading position in terms of innovation and have continuously improved the functionality and quality of our products and our manufacturing processes. Leveraging on our strong research and development capabilities, we have successfully developed and applied patented technologies in the designs of both our brass electroplating wire production lines, which have been our major product during the Track Record Period, and our other products. As of the Latest Practicable Date, we owned 61 registered patents (including six invention patents and 55 utility model patents) and 15 registered software copyrights in the PRC. We had also applied for 14 new patent registrations in the PRC. As a result of our commitment to research and development, we were accredited with 高新技術企業 (High/New Tech Enterprise*) on 13 December 2010 in the PRC with a validity period of three years jointly by 江蘇省科學技術廳 (Science and Technology Department of Jiangsu Province*), 江蘇省財政廳 (Finance Department of Jiangsu Province*), Jiangsu State Administration of Taxation and Jiangsu Local Taxation Bureau. As a renewal of our High/New Tech Enterprise qualification, we were granted with a new certificate of High/New Tech Enterprise dated 11 December 2013 with a validity period of three years. Further, our brass electroplating wire production lines, intermediate wire heat treatment production lines and double-twist stranding machines were recognised as 高新技術產品 (High and New Technology Products*) by 江蘇省科學技術廳 (Science and Technology Department of Jiangsu Province*), illustrating the industry-leading status of these products.

We market our products principally under our “Sunlit” (盛力達) brand. Our products are custom-built in accordance with the production specifications and requirements of our customers who are mainly steel wire product manufacturers. The steel wire products manufactured by our products principally include radial tyre cords, sawing wires, hose wires, bead wires and zinc-coated wires, and can be adopted in a number of downstream applications and industries such as automotive, photovoltaic, agricultural machinery, coal mining, oil pipeline and construction machinery. These vast applications of our products accordingly reduce the adverse impact of periodic downturn in a single industry sector.

Our customers include various leading steel wire product manufacturers in the PRC such as Tengzhou Eastern Steel Cord Co., Ltd., Henan Hengxing Science and Technology Co., Ltd. and Hubei Fuxing Science and Technology Co., Ltd., which are companies (or subsidiaries of companies) listed on the Stock Exchange or the Shenzhen Stock Exchange and have been among our top five customers during the Track Record Period. Sales to these customers accounted for 47.0%, 10.6%, 42.8% and 1.2% of our total sales during the Track Record Period, respectively. We focused on sales to domestic customers, and hence almost all of our revenue was derived from domestic sales in the PRC during the Track Record Period. However, we have also been exploring suitable opportunities and potential demand for our products in the international markets since 2012. In November 2012, we succeeded in securing the first overseas sales contract with a customer in South Korea for a trial brass electroplating wire production line. We recognised revenue for this trial brass electroplating wire production line in March 2013.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths have historically contributed to our success and will continue to contribute to our future growth:

We are in a leading position in the manufacture of brass electroplating wire production lines

We have assumed a leading position in the manufacture of brass electroplating wire production lines. According to Frost & Sullivan, we have captured 44.9% share of the market in the brass electroplating wire production lines and were the largest brass electroplating wire production line manufacturer in the PRC in terms of revenue in 2013. We believe this significant market share is attributed to our leading technologies in our brass electroplating wire production lines. With our PRC-registered patents and control system software copyrights, we are able to customise our brass electroplating wire production lines in accordance to different technical requirements and specifications of our customers. In 2012, our brass electroplating wire production lines were accredited with 首台(套)重大裝備產品 (First Set of Material Equipment Product*) by 江蘇省經濟和信息化委員會 (Economic and Information Committee of Jiangsu Province*).

During the Track Record Period, the brass electroplating wire production lines were our major product which enjoyed a high gross profit margin of 65.6%, 65.2%, 63.5% and 70.9% respectively. The sales revenue from our brass electroplating wire production lines was RMB161.8 million, RMB222.5 million, RMB230.1 million and RMB96.9 million, which accounted for 34.8%, 68.7%, 72.1% and 69.0% of our total sales revenue during the Track Record Period.

Our brass electroplating wire production lines are core equipment in the production of radial tyre cords, sawing wires and hose wires which are applied in various downstream industries such as automotive, photovoltaic, agricultural machinery, coal mining, oil pipeline and construction machinery industries.

As a result of the economic development and various favourable government policies and initiatives in the PRC, including 《輪胎產業政策》(Tyre Industry Policy*) issued in 2010, 《煤炭工業“十二五”規劃》(Twelfth Five-year Plan for Coal Mining Industry*) and 《橡膠行業“十二五”發展規劃指導綱要》(Guidance Outline of the Twelfth Five-year Plan for Rubber Industry*) issued in 2011, 《可再生能源發展“十二五”規劃》(Twelfth Five-year Plan for the Development of Renewable Energy*) and 《太陽能發電科技發展“十二五”專項規劃》(Twelfth Five-year Plan for Solar Power Technology Development*) issued in 2012, these downstream industries have experienced rapid growth in the past several years, driving up the demand for radial tyre cords, sawing wires and hose wires. The demand for our brass electroplating wire production lines and our other products has also been increasing.

BUSINESS

According to Frost & Sullivan, the sales volume of radial tyre cords, sawing wires and hose wires in the PRC increased by a CAGR of 18.4% from 1.3 million tonnes in 2009 to 2.5 million tonnes in 2013, and is also expected to increase by a CAGR of 12.5% from 2.9 million tonnes in 2014 to 4.6 million tonnes in 2018. Our brass electroplating wire production lines are well positioned as the industry leading product in the market to capture business opportunities from various industries.

We have strong research and development capabilities

We believe that one of our core strengths is our research and development capabilities that also cater to market demands. We sold our first brass electroplating wire production line in 2006. According to Frost & Sullivan, we were the first domestic company who developed the brass electroplating wire production line using thermal diffusion method with proprietary intellectual property in the PRC radial tyre cord production equipment industry.

Leveraging on our research and development capabilities, we have developed and launched our intermediate wire heat treatment production lines, wire rod preparation lines and other auxiliary production equipment since 2008 with an aim of providing a comprehensive set of production lines to our customers for manufacturing steel wire products. We further introduced to the market our zinc hot plating wire production lines in 2012 and our tin bronze plating wire production lines in 2013.

With increased variety in our product portfolio, we have been able to attract new customers in addition to our well-established customer base of radial tyre cord manufacturers. We were accredited with 高新技術企業 (High/New Tech Enterprise*) on 13 December 2010 in the PRC with a validity period of three years jointly by 江蘇省科學技術廳 (Science and Technology Department of Jiangsu Province*), 江蘇省財政廳 (Finance Department of Jiangsu Province*), Jiangsu State Administration of Taxation and Jiangsu Local Taxation Bureau, based on an assessment of our business scope, intellectual property rights, research and development resources and activities. As a renewal of our High/New Tech Enterprise qualification, we were granted with a new certificate of High/New Tech Enterprise dated 11 December 2013 with a validity period of three years. Further, our brass electroplating wire production lines, intermediate wire heat treatment production lines and double-twist stranding machines were recognised as 高新技術產品 (High and New Technology Product*) by 江蘇省科學技術廳 (Science and Technology Department of Jiangsu Province*), illustrating the industry-leading status of these products.

We have accumulated significant expertise, knowledge, know-how and experience in the design and manufacture of production lines for steel wire products. As of 30 June 2014, our research and development team consisted of 35 members with diploma and undergraduate qualifications in the relevant disciplines including electrical and mechanical engineering, numerical control technology and electrical technology. As of the Latest Practicable Date, we had developed our own proprietary technologies and owned 61 registered patents (including six invention patents and 55 utility model patents) and 15 registered software copyrights. We had also applied for 14 new patents in the PRC as of the Latest Practicable Date. Please refer to the paragraph headed “Research and Development” in this section below for further details of our research and development team and our proprietary technologies.

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We believe that our strong research and development capabilities are attributable not only to the technical expertise of our research and development team, but also to the way in which we make use of other research and development platforms and manage our research and development projects. We have been cooperating with three universities and one research institute in the PRC to develop new technologies and products since our establishment. We engage the universities and research institute to strategically advance our research and development capabilities by making use of their engineering expertise and research facilities for our designated development projects. As of the Latest Practicable Date, four registered patents of our Group were developed under the collaboration with universities and research institute.

We believe our strong in-house research and development capabilities, with the collaborative effort with the universities and research institute, enable us to continue to develop technologically advanced production equipment with reliable quality.

We have a solid customer base in the steel wire products manufacturing industry

During the Track Record Period, we entered into sales contracts for our products with more than 50 steel wire product manufacturers. Owing to our strong in-house capabilities in research and development, design, procurement and equipment manufacturing, we are able to secure contracts with many of the leading steel wire product manufacturers in terms of production volume of radial tyre cords in the PRC.

Our top five customers during the Track Record Period included Tengzhou Eastern Steel Cord Co., Ltd., Henan Hengxing Science and Technology Co., Ltd. and Hubei Fuxing Science and Technology Co., Ltd., which are companies (or subsidiaries of companies) listed on the Stock Exchange or the Shenzhen Stock Exchange. Sales to these customers accounted for 47.0%, 10.6%, 42.8% and 1.2% of our total sales during the Track Record Period.

We maintain good and stable business relationship with our customers by providing to our customers continuous after-sales repair and maintenance services. Our well-established and high quality customer base provides our Group with a stable source of core customers to whom we can market both our existing and new technologies and products, and allows us to better understand their changing requirements of production and technology which are crucial to our ongoing business and product development.

We can provide flexible, customised and integrated equipment solutions to our customers

We are an integrated production solution provider of steel wire products in the PRC with strong in-house capabilities in design, procurement, equipment manufacturing, and new technology research and development. We provide customised and distinctive solutions to steel wire product manufacturers in accordance with their production needs and specifications. Customers can choose to purchase our products on a standalone basis such as a single machine or a production line, or on an integrated basis, i.e. a comprehensive set of production lines. As such, we can provide one-stop service including undertaking the construction of the

BUSINESS

comprehensive set of production lines (scope of work covering technical design, equipment supply, procurement, installation and testing of the production lines), repair or replacement of certain parts within their existing production lines or supply of equipment and machines on a standalone basis to upgrade their existing production lines.

Our sales team works closely with our customers to understand their production needs, such as the application and quality specifications of the specific steel wire products and the expected production volume of their production facilities. Based on the information collected by our sales team, our technical support team then prepares a customised technical agreement to advise the customer on the specifications and design of the production facilities for steel wire products.

We believe that our flexible and customer-oriented approach allows our Group to capture business opportunities arising from customers' various needs such as replacement of their existing production equipment, expansion of their existing production capacities and construction of new production plants.

We and our brand are well recognised in the steel wire product manufacturing equipment industry

According to Frost & Sullivan, we were the first domestic company who developed the brass electroplating wire production line using thermal diffusion method with proprietary intellectual property in the Chinese radial tyre cord production equipment market. As the pioneering domestic steel wire product equipment manufacturer, we believe that we and our "Sunlit" (盛力達) brand are well recognised by the market and customers in the PRC as evidenced by our dominant market share in brass electroplating wire production lines in the PRC and a number of awards and accolades accredited by various organisations or government authorities.

Our "Sunlit" (盛力達) brand was accredited with 無錫市知名商標 (Wuxi Famous Trademark*) in December 2010 with a validity period of three years and as Jiangsu Famous Trademark (2012-2015) by 江蘇省工商行政管理局 (Administration for Industry & Commerce of Jiangsu Province*). Our products (including brass electroplating wire production lines) have been awarded with Wuxi Famous Brand Products Certificate by 無錫市質量工作領導小組 (Wuxi Quality Supervision Consultation Committee*) since December 2010 which is valid until December 2014. We believe that our strong brand name allows us to sell our products at premium prices as compared with other domestic competitors.

We adopt a comprehensive quality management system with stringent quality control mechanisms

We place great emphasis on our product quality. We have adopted a quality management system to ensure strict quality control of our products at various stages of our manufacturing processes, including the procurement of raw materials, inspection of incoming raw materials, manufacturing process inspection, inspection of finished products, product packaging, on-site installation, testing and inspection.

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We are accredited with the certification of “ISO 9001:2008 Quality Management System” in recognition of our good quality management and “ISO 14001:2004 Environmental Management System” in recognition of our good environmental management system. We believe our stringent quality control throughout our whole manufacturing process could increase our customers’ confidence in our products. During the Track Record Period, there was no return of products from our customers due to sub-standard quality of our products.

We have an experienced and stable management team and highly skilled employees

Our experienced and stable management team has successfully managed our operations, improved our research and development capabilities and manufacturing capacities throughout the Track Record Period. Our management team possesses extensive industry knowledge and expertise in the manufacture and sale of production lines for manufacturing steel wire products.

Mr. Zhang Degang, our Chairman and executive Director, has more than 23 years of experience in steel wire products and the related production equipment industries, and Mr. Zhang Deqiang, our general manager and executive Director, has more than 22 years of management experience in manufacturing and technology industries. Led by our Chairman and general manager, our management team has successfully implemented business development strategies, captured growing market opportunities and established our leading market position in brass electroplating wire production lines.

We believe that the in-depth knowledge and extensive experience of our capable senior management team, along with our skilled employees, provide us with significant competitive advantages in the fast growing steel wire product manufacturing equipment industry.

BUSINESS STRATEGIES

We aim to maintain and/or enhance our position as an integrated production solution provider of steel wire products in both the PRC and international markets. We plan to achieve this goal through adopting and implementing the following strategies:

Enhancing manufacturing capacity and efficiency

We intend to maintain and further strengthen our leading position in our brass electroplating wire production lines in the PRC by increasing our manufacturing capacity to meet the increasing demand from our customers. With an aim of enhancing our manufacturing capacity and enjoying further economies of scale, we commenced the construction of our New Wuxi Facility on a parcel of land with a total land area of 61,708 sq.m. in Wuxi in May 2013.

The New Wuxi Facility will focus on the manufacture of production lines for various steel wire products and will comprise, inter alia, two manufacturing plants, the New Research & Development Centre, and two office building complexes with an expected total GFA of 52,543 sq.m. The construction of the manufacturing plants of our New Wuxi Facility and other ancillary facilities therein is expected to be completed in the first half of 2015. Upon

completion and full operation of the New Wuxi Facility, we expect our manufacturing capacity to increase by about 2.3 times. Please refer to the paragraph headed “Our Manufacturing Facilities and Capacities – Expansion Plan” in this section below for further details of our expansion plan.

According to Frost & Sullivan, the sales volume of radial tyre cords, sawing wires and hose wires in the PRC increased by a CAGR of 18.4% from 1.3 million tonnes in 2009 to 2.5 million tonnes in 2013, and is also expected to increase by a CAGR of 12.5% from 2.9 million tonnes in 2014 to 4.6 million tonnes in 2018. We believe that the increasing demand for steel wire products from downstream industries will lead to increasing demand for our products and services. We believe that, with the expansion of our manufacturing facilities and capacity, we will be well positioned to capture such growth.

Continuing effort in research and development to maintain and enhance our position as an integrated production solution provider of steel wire products

We will continue to strengthen our research and development capabilities and commit to the technical development of our existing product portfolio and potential new products to maintain and enhance our position as an integrated production solution provider of steel wire products. With an aim of covering more value-added products and enhancing our core technologies and their applicability and reliability, we will devote more resources (including human resources, hardware equipment and software) to research and development.

We are setting up the New Research & Development Centre, which is expected to commence operation by the first half of 2015, in our New Wuxi Facility. Subject to market conditions, we intend to recruit about 21 additional in-house research and development staff by the first half of 2015. Apart from enhancing our in-house research and development capabilities, we will continue to collaborate with universities and research institute to develop new technologies and products.

As of the Latest Practicable Date, we were able to manufacture and supply all equipment in the comprehensive set of production lines for manufacturing steel wire products, except for dry drawing machine and spiral forming machine. Therefore, we intend to expand our product portfolio to cover dry drawing machine and spiral forming machine in order to complete our comprehensive product offerings in the production lines of steel wire products.

Besides, leveraging on our ability to manufacture quality brass electroplating wire production lines and our experience in the steel wire product manufacturing equipment industry, we intend to expand our product portfolio to cover the production of more types of steel wire products for application in a wider scope of downstream industries. We will keep abreast of development trends and activities of our competitors in the steel wire products manufacturing equipment industry in order to strengthen our established position.

BUSINESS

As of the Latest Practicable Date, we had in aggregate nine research and development projects in progress to enhance the production process and technology of our brass electroplating wire, zinc hot plating wire and tin bronze plating wire production lines, and to develop new products or systems such as the IGBT for stabilisation of electricity during production.

Pursuing strategic acquisition opportunities

In addition to organic growth, we plan to explore and pursue acquisition opportunities to strengthen our market position and enhance our competitiveness in the steel wire product manufacturing equipment industry. Our strategy will focus on acquisitions of upstream suppliers of major metal components or other production equipment manufacturers (or part of their operations) with complementary product offerings, product line extensions and/or new technologies to complement our existing business operations.

We plan to target those companies with substantial research and development, manufacturing and sales capabilities, or those companies with substantial growth potential. As of the Latest Practicable Date, we had not entered into any letter of intent or agreement for such acquisition nor identified any definite acquisition target for expansion purposes.

Strengthening sales and capturing new opportunities in the steel wire product manufacturing equipment industry in the PRC

Driven by the continuous economic growth and the favourable government policies in the PRC, the demand for radial tyre cords, sawing wires and hose wires, and their production equipment is expected to rise constantly. We believe that such sustainable growth of demand in the PRC provides ongoing opportunities for the continuing growth of sales of our existing brass electroplating wire production lines.

We intend to maintain our leading position in brass electroplating wire production lines, to ride on such competitive edge to develop and market newly-launched products such as tin bronze plating wire production lines and zinc hot plating wire production lines and to increase our market share in sales of our intermediate wire heat treatment production lines, wire rod preparation lines and other standalone machines in the PRC. Subject to the market conditions and our expansion plan, we intend to strengthen our sales force and network through establishing sales representative offices, and recruiting additional sales and marketing personnel.

Furthermore, we plan to leverage on our existing sales network to develop our after-sales service business. We currently provide after-sales repair and maintenance services to our customers, generating revenue from the sales of mould repairing equipment, component parts and accessories.

BUSINESS

Pursuing sales opportunities in the international markets

In addition to our domestic sales, we will explore suitable opportunities in the international markets. In November 2012, we succeeded in securing the first overseas sales contract with a customer in South Korea for the provision of a trial brass electroplating wire production line. We exported a trial brass electroplating wire production line to South Korea in March 2013. We have also been engaging in the technical discussions and exchange with potential customers in India, Russia and the US. Besides, to promote awareness of our brand and also to familiarise ourselves with the international markets, we plan to continue to participate in overseas industry exhibitions, trade fairs and conventions.

OUR PRODUCTS

Our products could be classified into: (i) brass electroplating wire production lines; (ii) other production lines; (iii) standalone machines; and (iv) others. Brass electroplating production lines are our major products. They accounted for 34.8%, 68.7%, 72.1% and 69.0% of our total revenue, and had a high gross profit margin of 65.6%, 65.2%, 63.5% and 70.9% during each respective Track Record Period. We sell our products either on a standalone or an integrated basis to accommodate various needs of our customers. We also provide equipment modification, after-sales repair and maintenance services to customers during which revenue is generated from the sales of mould repairing equipment, component parts and accessories.

The following table sets forth the amount and percentage of our total revenue by each of the principal products during the Track Record Period:

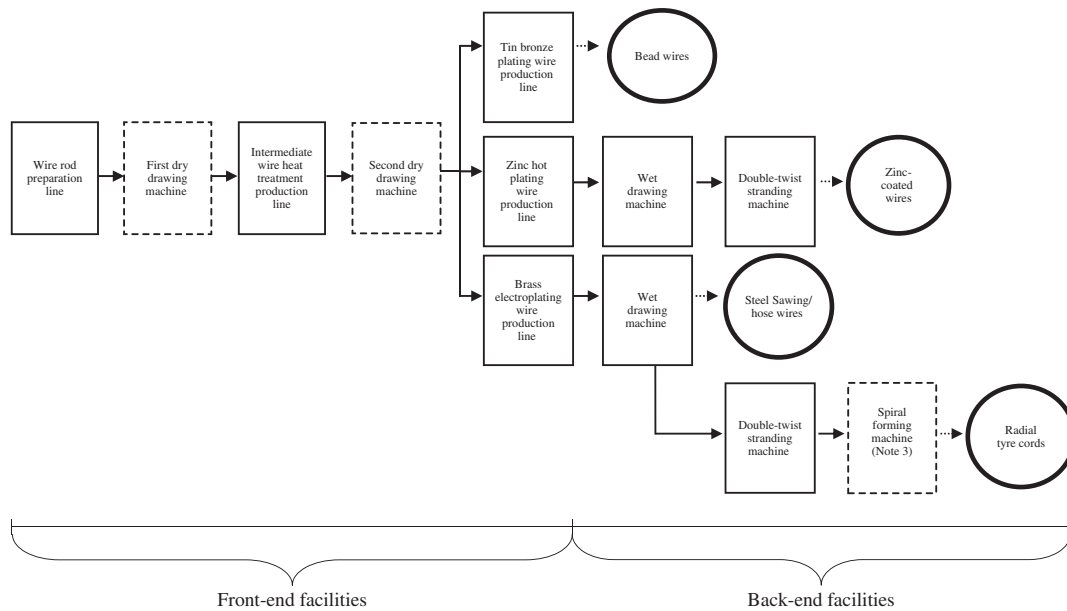
	Year ended 31 December									Six months ended 30 June					
	2011			2012			2013			2013			2014		
	Unit(s) sold	RMB'000	%	Unit(s) sold	RMB'000	%	Unit(s) sold	RMB'000	%	Unit(s) sold	RMB'000	%	Unit(s) sold	RMB'000	%
Brass electroplating wire production lines	12	161,820.5	34.8	12	222,458.3	68.7	13	230,114.2	72.1	8	133,195.0	72.5	5	96,876.1	69.0
Other production lines (Note 1)	25	29,053.6	6.2	24	53,353.4	16.5	10	9,452.8	3.0	6	7,820.5	4.2	4	3,589.7	2.6
Standalone machines (Note 2)	1,183	229,655.4	49.3	107	18,947.0	5.8	178	41,564.1	13.0	134	32,588.0	17.7	176	28,512.8	20.3
Others (Note 3)	N/A	45,137.8	9.7	N/A	28,838.0	9.0	N/A	37,816.9	11.9	N/A	10,230.6	5.6	N/A	11,316.0	8.1
Total		<u>465,667.3</u>	<u>100</u>		<u>323,596.7</u>	<u>100</u>		<u>318,948.0</u>	<u>100</u>		<u>183,834.1</u>	<u>100</u>		<u>140,294.6</u>	<u>100</u>

Notes:

- (1) Other production lines principally include intermediate wire heat treatment production lines, wire rod preparation lines and zinc hot plating wire production lines.
- (2) The standalone machines principally include wet drawing machines and double-twist stranding machines.
- (3) Others principally include mould repairing equipment, component parts and accessories.
- (4) The decrease in number of other production lines sold in 2013 and the first half of 2014 was primarily due to the drop in sales of our intermediate wire heat production lines. Our customers would normally purchase intermediate wire heat treatment production lines when they planned for major production expansion.

BUSINESS

Depending on the types of steel wire products to be produced, a typical production line for manufacturing steel wire products mainly consists of (i) preparation process, (ii) first dry drawing process, (iii) heat treatment process, (iv) second dry drawing process, (v) plating process, (vi) wet drawing process and (vii) stranding and bunching process. The production line is comprised of front-end facilities and back-end facilities, where the plating processes are the watershed of such division. Front-end facilities include wire rod preparation lines, drawing machines, intermediate heat treatment production lines and plating production lines. Back-end facilities include wet drawing machines and stranding machines. Except dry drawing and spiral forming machines, we can manufacture and supply all the main equipment or production lines in the comprehensive set of the production lines of steel wire products. The following diagram sets forth our respective typical production lines for producing radial tyre cords, steel sawing wires, bead wires, zinc-coated wires and hose wires:



Notes:

1. represents a production line or machine we manufacture and sell to our customers.
2. represents a machine we currently do not manufacture and our customers need to purchase from other equipment manufacturers.
3. Subject to customers' production specifications and their production procedures, a spiral forming machine may not be required in the production process of radial tyre cords.

BUSINESS

The steel wire products that our customers produce with our products include radial tyre cords, sawing wires, hose wires, bead wire and zinc-coated wires. The following are the major applications of such steel wire products:

<u>Steel wire products</u>	<u>Major applications</u>
Radial tyre cords	Applied in common radial tyres for all types of automobiles. A series of piles of radial tyre cords reinforces the tyre to give the tyre its strength and shape.
Sawing wires	Used for silicon wafer cutting in photovoltaic industry, crystal cutting and jewel cutting.
Hose wires	Provides structure, shape and strength to reinforce rubber hose used in heavy machinery.
Bead wires	Used to strengthen the tyres for trucks, buses, sedan and engineering machinery. The wires grip the tyre onto the rim.
Zinc-coated wires	Used to produce tension cables for applications such as braking cables, elevator cables, conveyors and synchronous belts.

Steel wire products are important industrial products having significant and wide range of applications in the automotive, photovoltaic, agricultural machinery, coal mining, oil pipeline and construction machinery industries. The demands for steel wire products and their production equipment have been surging up in the PRC in the past decade as a result of these fast-growing industries. Benefiting from the market opportunities and with our dedication to technical improvements, we have expanded our business to become an integrated production solution provider of steel wire products with a leading position in the supply of brass electroplating wire production lines.

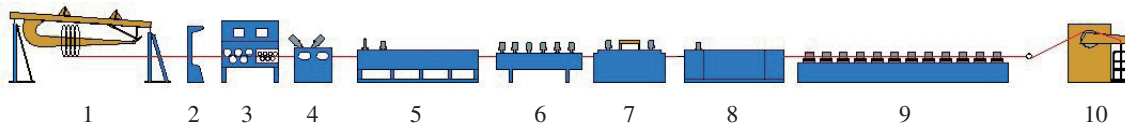
(i) Our products

Our existing product offering includes wire rod preparation lines, intermediate wire heat treatment production lines, brass electroplating wire production lines, zinc hot plating wire production lines, tin bronze plating wire production lines and standalone machines such as wet drawing machine and double-twist stranding machine. Our products are customised and tailor-made in accordance with the specifications and requirements provided by our customers and are mainly sold to producers of steel wire products. Depending on the needs of our customers, they can purchase our products on a standalone basis such as a single machine or a production line, or on an integrated basis a comprehensive set of production lines for the production of steel wire products.

BUSINESS

(a) *Wire rod preparation lines*

The major functions of wire rod preparation lines are to remove the oxidised layers on the surface of steel wire rods and perform surface coating to facilitate the first drawing. Set forth below are the main equipment and machines of our wire rod preparation lines:



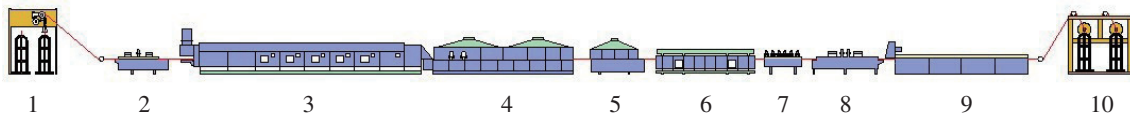
Equipment/machine	Usage
(1) Pay-off machine	Feed the wire rods for preparation processing.
(2) Emergency stop switch device	Stop the operation of the line automatically upon detecting that the wire rods are tangled.
(3) Mechanical shucking device	Remove the oxidised layers from the wire rods through mechanical shucking.
(4) Electric wire brush	Remove the oxidised layers on the wire rods through electric brushing.
(5) Pickling machine	Chemically clean the oxidised and rusting layers on the surface of wire rods.
(6) Rinsing machine	Rinse off the residual chemicals left over from the pickling process.
(7) Hot water cleaning machine	Clean and preheat the wire rods in hot water. The heat helps to dry the wire rods.
(8) Borate coating bath	Coat a layer of borax evenly over the surface layer of the wire rods.
(9) Dry drawing machine (<i>Note</i>)	Draw down the wire rods to required diameter.
(10) Take-up machine (complementary to the dry drawing machine) (<i>Note</i>)	Take up the processed steel wire.

Note: We currently do not manufacture (9) dry drawing machine and (10) take-up machine. Our customers are required to purchase these machines from other equipment manufacturer(s).

BUSINESS

(b) Intermediate wire heat treatment production lines

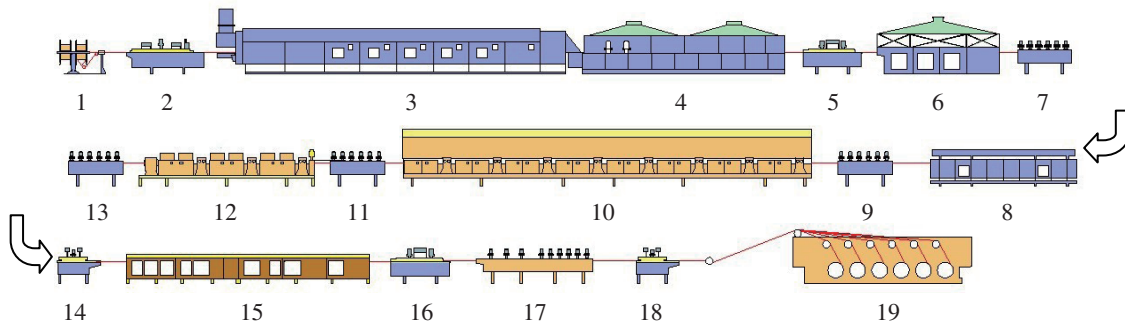
The major functions of intermediate wire heat treatment production lines are to transform the steel wires into the required physical properties and perform surface coating to facilitate further drawing. Set forth below are the main equipment and machines of our intermediate wire heat treatment production lines:



Equipment/machine	Usage
(1) Pay-off machine	Feed the steel wires for heat treatment processing.
(2) Adjustment tank	Remove the residue left on the surface after drawing, and apply a coating on the steel wires evenly before delivery into the furnace. Suitable amount of soap powder is retained on the surface of the steel wires to quicken the carbonisation in the furnace for improving the uniformity of the colour, speeding up the heating rate and reducing the oxidation of the steel wires. As the steel wires are heated up evenly in the furnace, it can reduce the deviation in mechanical performance between different sections of the steel wires.
(3) Flame furnace	Use flame to heat up the steel wires to about 940°C to 950°C. It is an important process to prepare the steel wires for further drawing.
(4) Water quenching machine	Steel wires are slowly cooled down to a temperature of about 560°C under the water quenching process by way of a heat exchange between the vapor film of the heated steel wires and the water.
(5) Cooling machine	Steel wires will be further cooled down by passing through the cooling down machine for further processing.
(6) Pickling machine	Chemically clean the oxidised and rusting layers on the surface of the steel wires.
(7) Rinsing machine	Rinse off the residual chemicals left over from the pickling process.
(8) Borate coating bath	Apply a layer of borax coating evenly over the surface layer of the steel wires.
(9) Drying machine	Heat-dry the borax surface coating on the steel wires.
(10) Take-up machine	Take up the processed steel wires.

(c) Brass electroplating wire production lines

By going through a series of chemical and technical processes, radial tyre cords, sawing wires or hose wires are produced under the brass electroplating wire production lines. Set forth below are the main equipment and machines of our brass electroplating wire production lines:



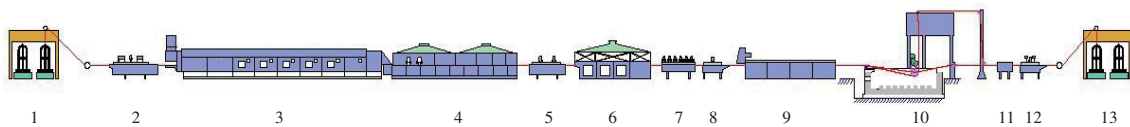
Equipment/machine	Usage
(1) Pay-off machine	Feed the steel wires, adjust and control the tension of the steel wires.
(2) Adjustment tank	Remove the residue left on the surface after drawing, and apply a coating on the steel wires evenly before delivery into the furnace. Suitable amount of soap powder is retained on the surface of the steel wires to quicken the carbonisation in the furnace for improving the uniformity of the colour, speeding up the heating rate and reducing the oxidation of the steel wires. As the steel wires are heated up evenly in the furnace, it can reduce the deviation in mechanical performance between different sections of steel wires.
(3) Flame furnace	Use flame to heat up the steel wires to about 940°C to 950°C.
(4) Water quenching machine	Steel wires are slowly cooled down to a temperature of about 560°C under the water quenching process by way of a heat exchange between the vapor film of the heated steel wires and the water.
(5) Cooling machine	Steel wires will be further cooled down by passing the cooling machine for further processing.
(6) Electrolyse alkaline cleaning machine	Clean the oxidised surface layers on the steel wires through electrolysis alkaline solution.
(7) Rinsing machine	Rinse off the alkaline solution on the surface of the steel wires.
(8) Pickling machine	Further clean the oxidised layers on the surface of the steel wires with hydrochloric acid.
(9) Rinsing machine	Rinse off the residual chemicals left over from the chemical pickling process.
(10) Copper plating tank	Apply electroplating of copper to the steel wires in a pool of copper pyrophosphate solution.

BUSINESS

Equipment/machine	Usage
(11) Rinsing machine	Rinse and clean off the residual copper pyrophosphate solution prior to zinc plating.
(12) Zinc plating tank	Further apply electroplating of zinc to the steel wires in a pool of zinc sulphate.
(13) Rinsing machine	Rinse and clean off residual zinc sulphate solution.
(14) Hot water cleaning machine	By bathing the steel wires in hot water, the steel wires are cleaned and preheated. The heat helps to dry the steel wires before entering the middle frequency induction machine.
(15) Middle frequency induction machine	Treat the steel wires through an induction heating process so that the zinc and copper plating will diffuse and permeate evenly and form an evenly distributed brass plating on the surface of the steel wires.
(16) Cooling machine	Steel wires pass through the cooling machine to cool down after thermal diffusion to prepare it for the phosphorus dipping.
(17) Phosphorus dipping and pickling machine	Steel wires are dipped in a phosphorus solution in the phosphorus dipping machine to remove the residue of zinc oxide on the surface of the steel wires.
(18) Hot water cleaning machine	By cleaning the steel wires in hot water, the steel wires are cleaned and preheated. The heat helps to dry the steel wires.
(19) Take-up machine	Take up the processed steel wires.

(d) Zinc hot plating wire production lines

By going through a series of chemical and technical processes, zinc-coated wires are produced under the zinc hot plating wire production lines. Set forth below are the main equipment and machines of our zinc hot plating wire production lines:



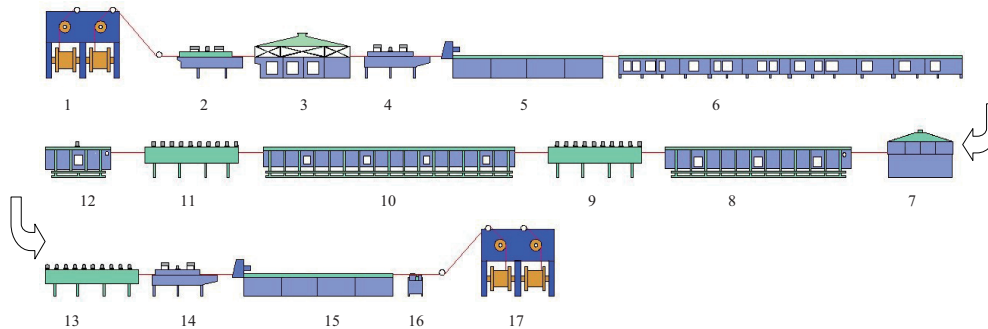
Equipment/machine	Usage
(1) Pay-off machine	Feed the steel wires for processing.
(2) Adjustment tank	Remove the residue left on the surface after drawing, and apply a coating on the steel wires evenly before delivery into the furnace. Suitable amount of soap powder is retained on the surface of the steel wires to quicken the carbonisation in the furnace for improving the uniformity of the colour, speeding up the heating rate and reducing the oxidation of the steel wires. As the steel wires are heated up evenly in the furnace, it can reduce the deviation in mechanical performance between different sections of the steel wires.
(3) Flame furnace	Use flame to heat up the steel wires to about 940°C to 950°C.

BUSINESS

Equipment/machine	Usage
(4) Water quenching machine	Steel wires are slowly cooled down to a temperature of about 560°C under the water quenching process by way of an exchange of heat between the vapor film of the heated steel wires and the water.
(5) Cooling machine	Steel wires will be further cooled down by passing the cooling down machine for further processing.
(6) Electrolyse alkaline cleaning machine	Clean the oxidised layers on the surface of steel wires through electrolysis alkaline solution.
(7) Rinsing machine	Rinse off the alkaline solution on the surface of steel wires.
(8) Fluxing machine	Clean, preheat and speed up the drying of the steel wires in hot water to prepare the steel wires for zinc plating. Zinc chloride ammonia solution is added into the hot water to quicken the formation of zinc.
(9) Drying machine	Dry and pre heat the steel wires in high temperature to prepare the steel wires for zinc hot plating.
(10) Zinc hot-plating tank	Apply zinc plating to the steel wires through hot-plating.
(11) Cooling machine	Steel wires pass through a cooling machine to cool down to normal temperature for preventing the formation of a zinc steel alloy with the zinc coating.
(12) Soap tank	The zinc-coated wires are submerged in a soap solution and smeared with lubricant for smoothing its surface layer, and subsequently air-dried.
(13) Take-up machine	Take up the processed zinc-coated wires.

(e) Tin bronze plating wire production lines

By going through a series of chemical and technical processes, bead wires are produced under the tin bronze plating wire production lines. Set forth below are the main equipment and machines of our tin bronze plating wire production lines:



BUSINESS

Equipment/machine	Usage
(1) Pay-off machine	Feed the steel wires for processing.
(2) Adjustment tank	Remove the residue left on the surface after drawing, and apply a coating on the steel wires evenly before delivery into the furnace. Suitable amount of soap powder is retained on the surface of the steel wires to quicken the carbonisation in the furnace for improving the uniformity of the colour, speeding up the heating rate and reducing the oxidation of the steel wires. As the steel wires are heated up evenly in the furnace, it can reduce the deviation in mechanical performance between different sections of the steel wires.
(3) Electrolyse alkaline cleaning machine	Clean the oxidised layers on the surface of steel wires through electrolysis alkaline solution.
(4) Hot water cleaning machine	Clean and remove the residual chemicals on the surface of the steel wires by rinsing the wires in hot water.
(5) Drying machine	Dry and pre heat the steel wires in high temperature to prepare the steel wires for annealing.
(6) Middle frequency induction machine	Treat the steel wires through an induction heating process to increase the steel wires' ductility, and remove stress in the steel wires caused by drawing.
(7) Cooling machine	Steel wires will be further cooled down by passing the cooling machine for further processing.
(8) Electrolyse pickling machine	Clean the oxidised surface layers on the steel wires through acidic electrolysis.
(9) Rinsing machine	Rinse off the residual chemicals left over from the pickling process.
(10) Chemical plating machine	Chemically apply a tin bronze plating to the surface of the steel wires by submerging the steel wires in a pool of sulphur-bronze and stannous sulphate solution.
(11) Rinsing machine	Rinse off the residual chemicals left over from the chemical plating process.
(12) Alkaline cleaning machine	Clean off any residual chemicals left over from the chemical plating.
(13) Rinsing machine	Rinse off the residual chemicals.
(14) Hot water cleaning machine	Clean and remove the oxidised surface layers on the steel wires by rinsing the steel wires in hot water. The heat of the hot water helps dry the steel wires faster.
(15) Drying machine	Dry and pre heat the steel wires in high temperature to prepare the wires for smearing with protective layer.
(16) Protective layer coating machine	Apply protective layer to prevent the steel wires from rusting.
(17) Take-up machine	Take up the processed bead wires.

BUSINESS

(f) Standalone machines

In addition to production lines, we also manufacture and supply standalone machines which are ancillary to the production process. The table below sets forth the principal standalone machines under our product portfolio:

Machine	Major applications
(1) Wet drawing machines	Draw the high-strength steel wires through a drawing die submerged in lubrication.
(2) Double-twist stranding machines	Twist and strand the wire threads into bunches.

As of the Latest Practicable Date, we had not engaged in the manufacture or sale of dry drawing machine or spiral forming machine. Depending on our customer's production requirements, those machines may be necessary and form a part of the comprehensive set of production lines for manufacturing of steel wire products. As an integrated solution provider, in case our customers need those machines in their production lines, we will also advise on the technical specifications and requirements of the required dry drawing machine and spiral forming machine, and assist our customers in identifying the appropriate suppliers.

(g) Others (including mould repairing equipment, component parts and accessories)

Apart from sales of our major products, we provide equipment modification services to our customers so that their production lines can apply our technologies, or in the case of production lines we provided previously, upgrade the technology applied in the relevant production line. In addition, we also supply mould repairing equipment, component parts and accessories under equipment modification, and after-sales repair and maintenance services. Replacement of accessories are provided to our customers free of charge during the quality warranty period.

We will charge our customers for replacement of accessories after the expiry of the quality warranty period (which is usually a period of 12 months from the receipt of acceptance certificate issued by our customers after the passing of the on-site final testing) as specified in our sales contracts. Revenue generated from the sales of other mould repairing equipment, component parts and accessories accounted for 9.7%, 9.0%, 11.9% and 8.1% of our total revenue during the Track Record Period, respectively.

Please refer to the paragraph headed "Customers, Sales and Marketing – Product Quality Warranty" in this section below for further details of the product quality warranty relating to our products.

OUR SALES MODEL

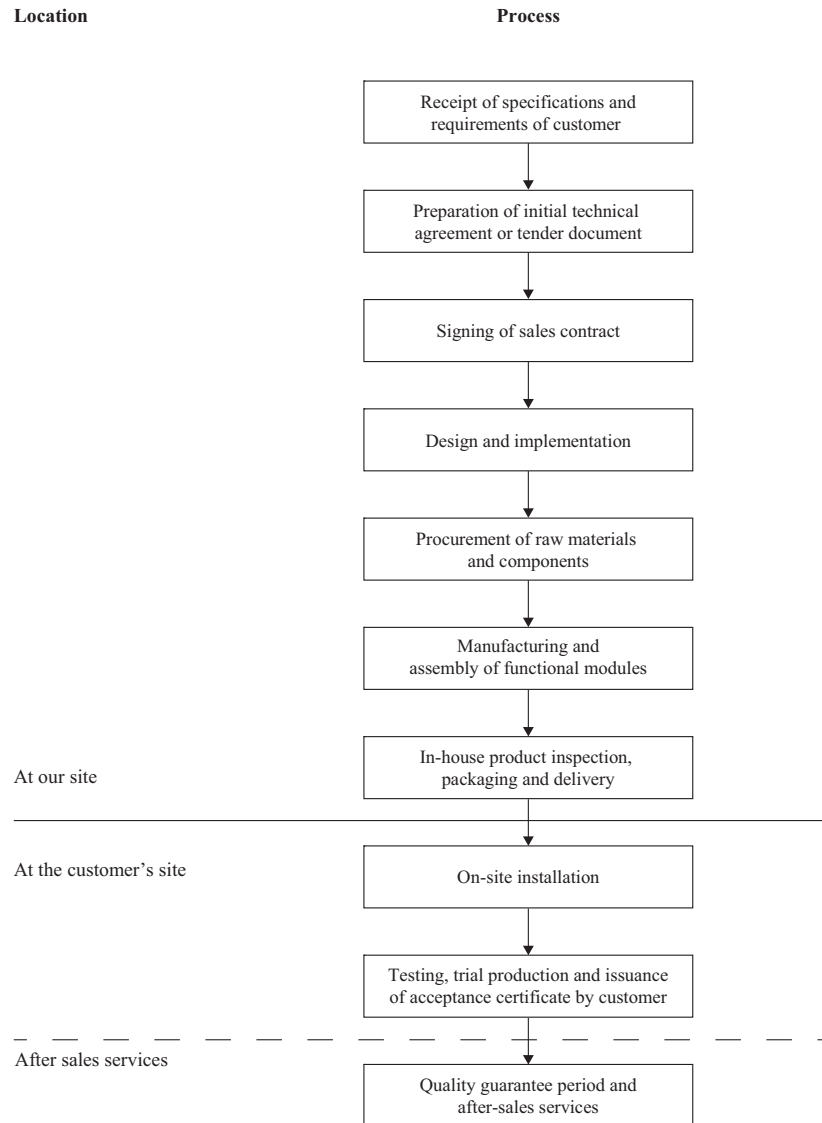
As different types of steel wire products require different combinations of manufacturing processes and production equipment, our production lines for manufacturing steel wire products are generally customised based on the specifications and requirements of our customers. The flow of our sales model is as follows: (i) initial preparation of technical agreement or tender document; (ii) signing of a sales contract; (iii) detailed design and implementation; (iv) procurement of raw materials and components; (v) in-house manufacturing and assembly of functional modules; (vi) in-house product inspection, packaging and delivery; (vii) on-site installation; and (viii) testing, trial production and issuance of acceptance certificate by customers.

Our sales contracts usually provide for a product delivery date of about five to nine months from the contract signing date. However, the average time required in practice for the whole process from contract signing to final acceptance of our products is about 444 days for major production lines and 421 days for standalone machines during Track Record Period. Such long manufacturing cycle is primarily attributed to the time required for product design and manufacturing, delivery, on-site installation, testing and trial production.

During the Track Record Period, there were also occasions where our customers requested our Group to delay product delivery as their production sites were still under construction and not ready for on-site installation of our products.

BUSINESS

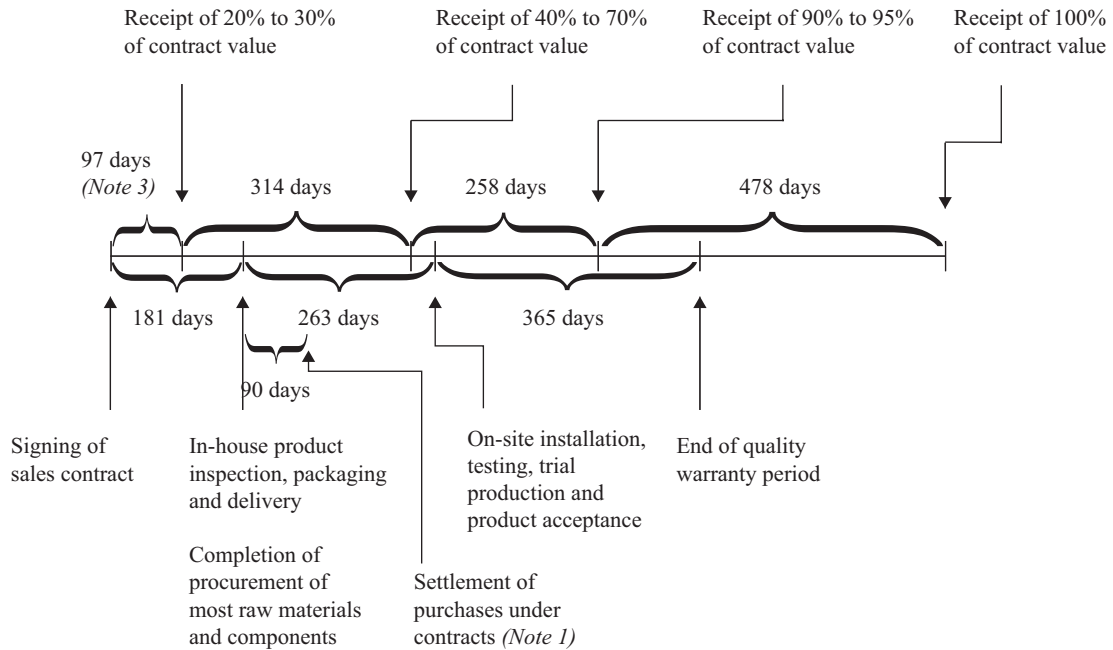
The flow chart below illustrates our sales model:



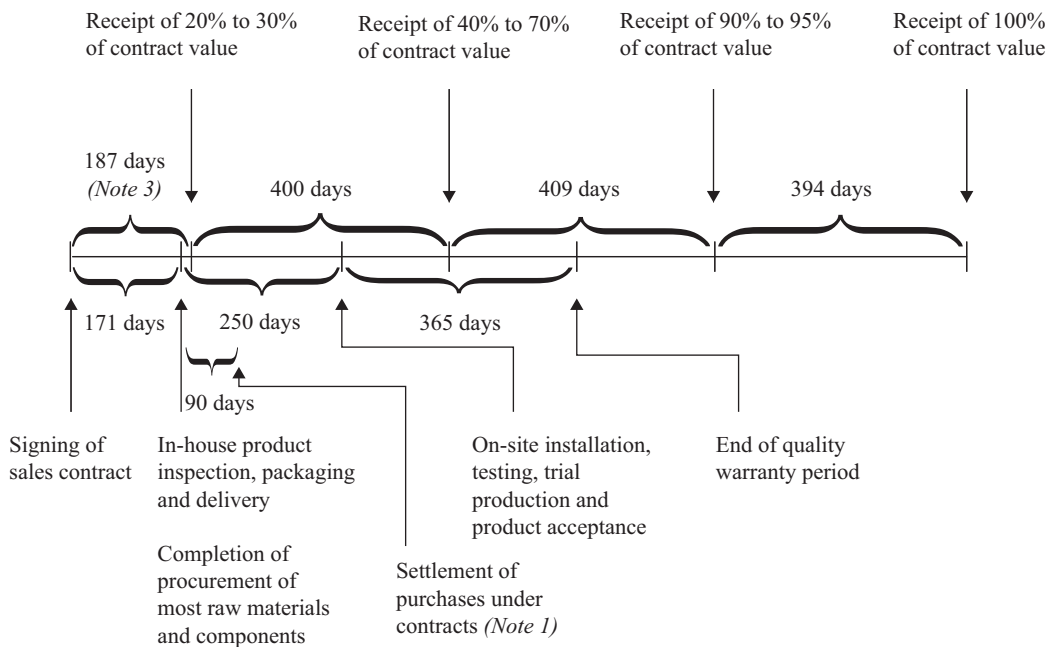
BUSINESS

The following timelines set forth the average number of days for receipt of payments, and the average number of days spent on different stages of our business model for the major production lines (including brass electroplating wire production lines and other production lines) and standalone machines throughout the Track Record Period:

i) Major production lines



ii) Standalone machines



Notes:

1. Under the purchase agreements, we were typically required to settle the purchases within three months of taking delivery of those raw materials and components. Trade payables turnover days were 46.8 days, 38.2 days, 34.4 days and 27.6 days for each Track Record Period, respectively. The cost of materials represented 43.2%, 31.5%, 33.6% and 35.7% of our total revenue during the Track Record Period.
2. The average number of days for receipt of payments set out above did not take into account (i) the trade receivables of RMB205.0 million which had not been settled as of 30 June 2014 and (ii) several completed sales where certain customers made advances significantly earlier than the contractual payment terms which will distort the analysis.
3. Before implementation of our internal control measures in May 2013, there were incidents where we had made deliveries to our customers before we received advance payments and product delivery payments. This situation has improved since we strengthened our internal control measures in May 2013. For details, please refer to the paragraphs headed “Financial Information – Trade and other receivables – Effectiveness of our control measures” on pages 241 to 243.

Preparation of initial technical agreement and tender document

As part of the information gathering and design process, our sales team seeks to understand the production and technical requirements of the potential customers first through initial technical consultation or obtaining the tender documents of the potential customers. Based on the information obtained, our sales team coordinates the preparation of a technical agreement or relevant tender submission documents containing, amongst others, detailed technical specifications of our products (including technical specification of each of the machines comprising the production lines) and the testing standards of our products. This process includes careful consideration of the customer’s technical specifications, technical design, equipment or machine options and projected costs of manufacturing the requested equipment.

Signing of sales contract

After the technical agreement is signed with or tender submission is accepted by the customer, we then finalise the contract terms with the customer. In general, a first payment of 20% to 30% of the contract value is payable by our customers either upon the signing of the contract, or within a specified time period (which is usually within one week from the date of the contract) pursuant to a normal sales contract.

After the signing of the formal sales contract, our sales team then issues work order to various teams setting out the agreed and internal targeted timeframes for product delivery. If our general manager considers the implementation of such work order to be feasible, the work order will be approved and confirmed by our general manager and each department is required to adhere to the timeframe. Our general manager will then issue manufacturing assignments to the relevant teams. To ensure that our manufacturing is executed within the budget, our general manager is also responsible for cost control such as managing and final approving procurement orders, settlement of bills and assignment of labour.

Detailed design and implementation

Our technical team then works out a detailed product manufacturing design and a list for raw materials and components according to the detailed requirements as set out in the technical

agreement. The product manufacturing design and material list will then be passed to our manufacturing team who will prepare a procurement application for certain specific raw materials and components with the specific quantity and quality and send to our procurement team.

Procurement of raw materials and components

Based on the procurement application received from the manufacturing team and confirmation on availability of certain materials in our inventories, our procurement team will prepare a procurement list and procure the necessary raw materials and components. The raw materials and components procured vary depending on our product design. We inspect and process raw materials and components used in our manufacturing process according to the applicable technical specifications.

Manufacturing and assembly of functional modules

Our manufacturing team will process the raw materials and components according to specification of the product manufacturing design. The mechanical treatment process includes sawing and cutting, machining and welding, surface treatment and assembling. Our electric treatment process includes programme composition, testing and assembling of control system.

In-house product inspection, packaging and delivery

Upon completion of the assembly process, each functional module is subject to in-house inspection before packaging and delivery to our customers to ensure that our products meet our strict quality control and specifications as well as those of our customers. After passing our in-house inspection and checking, we then issue a delivery notice to our customers for confirmation. Our customer may come to our premises to conduct a preliminary check on the finished products and once they confirm preliminary acceptance, our products are then packed and delivered to our customer's site for on-site installation. In general, a product delivery payment of 20% to 40% of the contract value is payable by our customers upon our customers' initial acceptance after preliminary check of the products and before product delivery pursuant to a normal sales contract. We usually deliver our products to domestic customers through road transport and to our overseas customers (for example our South Korean customer) through sea transport. The transportation and insurance costs may be borne by our Group pursuant to the sales contracts.

As advised by our PRC Legal Advisers, under the PRC Contract Law, our customer will be responsible for safe-keeping our products after delivery to the customer even prior to acceptance unless otherwise agreed. Therefore, in case there is any loss or damage to our products after delivery to the customer but prior to acceptance, the customer will bear the risk of loss and damage and remain liable to pay us for any loss and damage to our products. For sales to overseas customer, we intend to rely on the "Cost, Insurance and Freight" (CIF) trade terms on all our future export contracts. Under the CIF terms, risk of loss and damage of the goods is transferred from us to our customer when the goods are loaded on the ship at the port of shipment. Once the goods pass the ship's rail at the port of shipment, the customer assumes responsibility for risk of loss or damage as well as any additional transport costs.

On-site installation

After delivery of our products to the customers' production base, we conduct installation and testing of our products for our customers according to the sales contract. Our customers may also choose to perform installation and testing themselves with the support of our technical guidance. Sometimes, our customers may only order brass electroplating wire production lines from our Group, but procure certain production equipment such as dry drawing machines from other suppliers. In such circumstance, our customer will designate different areas in the production base to our Group and other suppliers for the installation of equipment.

Testing, trial production and receipt of acceptance certificate

Under the terms of the sales contract, our products need to pass trial production under the customer's whole production lines for around 100 to 120 hours consecutively as part of the testing. As such, the final testing and acceptance of our products may be subject to the installation progress of the equipment provided by third-party suppliers. During the Track Record Period, there was an average of 263 days and 250 days between product delivery and on-site product acceptance for major production lines and standalone machines, respectively. We consider that the relatively long average period from product delivery to on-site final testing and product acceptance attributable partly to the construction delays of some of our customers' production premises and partly to installation delays of the equipment or machines procured from third-party suppliers.

Our customers issue an acceptance certificate to us to acknowledge their acceptance of our products if they are satisfied with the testing results. In general, a further payment of 15% to 30% of the contract value is payable by our customers either upon the issuance of acceptance certificate, or within a specified time period of usually within 14 days from the issuance of acceptance certificate, pursuant to a normal sales contract. The value of the entire sales contracts excluding VAT in respect of the products supplied would be recognised as revenue upon our receipt of customer acceptance certificates. Our Directors confirm that our Group's revenue recognition policy is in line with the industry norm. Please refer to the paragraph headed "Customers, Sales and Marketing – Revenue Recognition Policy" in this section below for further details of our revenue recognition policy.

As a result of the relatively long period from product delivery to on-site final testing and product acceptance, we have experienced long revenue recognition period during the Track Record Period. In order to improve upon such long revenue recognition period, as from September 2013, our sales contracts include an unequivocal deemed acceptance provision to take effect three months after the completion of installation and testing of products (even if no acceptance certificate is issued) or six months after the delivery of our products, whichever is earlier. It is expected that due to our leading market position as the largest brass electroplating wire production line manufacturer in the PRC with 44.9% market share in 2013, as well as our strong research and development capabilities, we have a relatively stronger bargaining power in stipulating the new contract term in the sales of brass electroplating wire production lines

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on existing customers without any material adverse impact on our sales. However, we may not be in as strong a position in stipulating new contract terms in the sales other than the brass electroplating wire production lines with the existing customers due to more intense market competition for these markets. Nevertheless, in view that over 68% of our sales were generated from the sales of brass electroplating wire production lines for the years 2012 and 2013, and for the first half of 2014, and that certain of the orders are negotiated and entered into on an integrated basis (i.e. a package including both brass electroplating wire production lines and other products of our Group), our Directors do not consider the lack of the new contract term in certain sales contracts would render the overall control measures ineffective. There might be risk that if we insist on the addition of the new contract term, we may lose certain business. This may adversely affect our operational performance and financial results. For further details, please refer to the section headed “Risk Factors – Risks Relating to Our Business and Operations – The lengthy process of delivery, on-site installation, testing or trial production of our products or any delay thereof may affect our revenue recognition, cash flow position and results of our operation and may cause material fluctuation in our revenue in future” of this prospectus.

Quality warranty period and after-sales services

The sales of our products normally stipulate a quality warranty period of 12 months from product acceptance after passing the on-site final testing. During the quality warranty period, we provide on-site engineering and maintenance services and/or the repair and replacement of certain parts and accessories free-of-charge. Upon expiry of the quality warranty period, we recover the quality warranty receivables from our customers, normally being the balance of 5% to 10% of the contract value. Please refer to the paragraph headed “Customers, Sales and Marketing – Product Quality Warranty” in this section below for further details of the product quality warranty relating to our products.

We charge our customers for the replacement of accessories after the expiry of quality warranty period. According to an individual sales contract, payments for the sales of our mould repairing equipment, component parts and accessories are settled before delivery of such products or within 30 days after product delivery.

CUSTOMERS, SALES AND MARKETING

Customer base

Historically, we have mainly focused on the PRC domestic market where we have established a stable customer base. Our domestic customer base primarily consists of steel wire product manufacturers, including leading manufacturers of radial tyre cords, sawing wires, bead wires, hose wires and zinc-coated wires. Our top six customers during the Track Record Period included, inter alia, Tengzhou Eastern Steel Cord Co., Ltd., Henan Hengxing Science and Technology Co. Ltd., Hubei Fuxing Science and Technology Co. Ltd., Shandong SNTON Steel Cord Co., Ltd., Sunnywell (China) New Material Technology Co., Ltd. and Zhenjiang Naisi Advance Materials Co., Ltd. Tengzhou Eastern Steel Cord Co., Ltd., Henan Hengxing Science

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and Technology Co. Ltd. and Hubei Fuxing Science and Technology Co. Ltd. are companies (or subsidiaries of companies) listed on the Stock Exchange or the Shenzhen Stock Exchange. Most of our customers are located in Shandong and Jiangsu provinces in the PRC.

In addition to our domestic sales, we are also exploring suitable opportunities in the international markets. In November 2012, we entered into a sales contract with an overseas customer in South Korea for the provision of a trial brass electroplating wire production lines with contract value of US\$350,000 (equivalent to RMB2,195,000). Such trial brass electroplating wire production line was exported to South Korea in March 2013 and the revenue from which was recognised in 2013. Such overseas sales represented 0.7% of the total sales revenue for 2013. Going forward, we expect the portion of international sales out of our total revenue to grow while our domestic sales will continue to contribute a large part of our total revenue in the near future.

During the Track Record Period, we had not entered into any long-term sales contract with our customers, which we believe is consistent with the market practice. The table below sets out the breakdown of sales contracts obtained by our Group and the contract value from new and repeat customers during the Track Record Period:

	Year ended 31 December									Six months ended 30 June				Two months ended 31 August						
	2011			2012			2013			2014				2014						
	Number of contracts		RMB'000		Number of contracts		RMB'000		Number of contracts		RMB'000		Number of contracts		RMB'000					
Repeat customers (Note 1)	31	50.0	235,517.6	52.8	29	74.4	185,609.3	88.4	27	67.5	201,822.7	90.5	20	95.2	120,693.5	99.9	8	100	97,394.1	100
New customers (Note 2)	31	50.0	210,789.7	47.2	10	25.6	24,242.7	11.6	13	32.5	21,068.8	9.5	1	4.8	66.3	0.1	-	-	-	-
	62	100	446,307.3	100	39	100	209,852.0	100	40	100	222,891.5	100	21	100	120,759.8	100	8	100	97,394.1	100

Notes:

- Repeat customers refer to customers which had a business relationship of more than one year with our Group at the time of entering into the sales contracts.
- New customers refer to customers which had a business relationship of less than one year with our Group at the time of entering into the sales contracts.

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As indicated by the table above, the number of sales contracts entered into with the repeat customers were 31, 29, 27 and 20 with total sales contract values of RMB235.5 million, RMB185.6 million, RMB201.8 million and RMB120.7 million, respectively during the Track Record Period. Such sales contract values from repeat customers represented 52.8%, 88.4%, 90.5% and 99.9% of the total sales contract values obtained during the Track Record Period, respectively. At the early stage of our development in 2006, it was easier for us to search for new customers. However, it would be more challenging for us to keep up the pace to win new customers, in particular in respect of brass electroplating wire production lines which we had 44.9% share of the PRC market in 2013 and accounted for 69.0% of our total revenue in the first half of 2014. Our Directors believe that the future growth of our Group relies on, amongst others, both the growth of the downstream industries and the ability to win new customers.

Assuming that our customers perform regular inspections and maintenance, the useful life of our production lines is about 10 years. It is unlikely for our customers to make recurring significant purchases for production lines or equipment until they plan for production expansion or upgrade of their production facilities. Further, our customers' needs for product replacement may be low due to the long service life and durability of our products. For these reasons, we experienced a decrease in the number of new and repeat customers in 2012, and such number became stable since 2013.

As we are a production solution provider, the demand for our products is largely dependent on the demand for the products of our downstream industries. As our customers use our products to manufacture components or equipment for the automotive tyres, photovoltaic, agricultural machinery and coal mining industries, the key drivers for these industries would likewise have an impact on the demand of our products. Those key drivers include, amongst others, industry-specific policies of the PRC Government, growth of the Chinese economy and technological advancements. For more details on the industry-specific policies and outlooks of those industries, please refer to the section headed "Industry Overview – Analysis of the Downstream Industries for Radial Tyre Cords, Sawing Wires and Hose Wires" of this prospectus.

Based on the Frost & Sullivan Report, the demand for radial tyre cord, sawing wire and hose wire production equipment is expected to recover from 2014 to 2018. Accordingly, we expect a steady growth in demand for our products. Please refer to the section headed "Industry Overview – Analysis of the Chinese Radial Tyre Cord, Sawing Wire and Hose Wire Production Equipment Market" of this prospectus for more details.

Our aggregate sales revenue from our top five customers, who were Independent Third Parties, represented 66.7%, 52.2%, 59.9% and 97.4% of our total sales revenues during the Track Record Period, respectively. Sales revenues from our largest customer accounted for 26.3%, 14.3%, 24.0% and 48.9% of our total sales revenue, respectively, for the same period.

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The following tables set forth certain information in relation to our top five customers during the Track Record Period:

Top five customers for the year 2011	Principal business	Location	Approximate years of relationship	Approximate percentage of our total revenue (%)
滕州東方鋼簾綫有限公司 (Tengzhou Eastern Steel Cord Co., Ltd.*)	Manufacturing and sales of radial tyre cords	Shandong Province, PRC	five years	26.3
河南恒星科技股份有限公司 (Henan Hengxing Science and Technology Co., Ltd.*)	Manufacturing and sales of radial tyre cords, hose wires, zinc-coated wires, zinc-coated stranded wires and other steel wire products	Henan Province, PRC	six years	15.2
山東勝通鋼簾綫有限公司 (Shandong SNTON Steel Cord Co., Ltd.*)	Manufacturing and sales of steel wire products (including but not limited to hose wires, radial tyre cords, sawing wires and bead wires) and other materials	Shandong Province, PRC	five years	9.9
山東大業股份有限公司 (Shandong Daye Corp.*)	Manufacturing and sales of steel wire products (including but not limited to hose wires, radial tyre cords and bead wires) and other materials	Shandong Province, PRC	four years	9.0
盛利維爾(中國)新材料技術有限公司 (Sunnywell (China) New Material Technology Co., Ltd.*)	Manufacturing and sales of radial tyre cords and sawing wires	Jiangsu Province, PRC	three years	6.3

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Top five customers for the year 2012	Principal business	Location	Approximate years of relationship	Approximate percentage of our total revenue (%)
Customer A	Manufacturing and sales of sawing wires	Jiangsu Province, PRC	two years	14.3
Customer B	Manufacturing and sales of radial tyre cords	Jiangsu Province, PRC	four years	11.1
盛利維爾(中國) 新材料技術 有限公司 (Sunnywell (China) New Material Technology Co., Ltd.*)	Manufacturing and Sales of radial tyre cords and sawing wires	Jiangsu Province, PRC	three years	9.4
Customer C	Processing and technical development of steel wire materials, trading of commodity and techniques	Jiangsu Province, PRC	two years	9.2
滕州東方鋼簾綫 有限公司 (Tengzhou Eastern Steel Cord Co. Ltd.*)	Manufacturing and sales of radial tyre cords	Shandong Province, PRC	five years	8.2

Note: Customer A, Customer B and Customer C have declined to disclose their names in this prospectus.

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Top five customers for the year 2013	Principal business	Location	Approximate years of relationship	Approximate percentage of our total revenue
				(%)
滕州東方鋼簾綫有限公司 (Tengzhou Eastern Steel Cord Co., Ltd.*)	Manufacturing and sales of radial tyre cords	Shandong Province, PRC	five years	24.0
河南恒星科技股份有限公司 (Henan Hengxing Science and Technology Co., Ltd.*)	Manufacturing and sales of radial tyre cords, hose wires, zinc-coated stranded wires and other steel wire products	Henan Province, PRC	six years	15.3
Customer B	Manufacturing and sales of radial tyre cords	Jiangsu Province, PRC	four years	7.3
山東大業股份有限公司 (Shandong Daye Corp.*)	Manufacturing and sales of steel wire products (including but not limited to hose wires, radial tyre cords and bead wires) and other materials	Shandong Province, PRC	four years	7.0
江蘇寶鋼精密鋼絲有限公司 (Jiangsu BaoSteel Co., Ltd.*)	Manufacturing and sales of precision steel wires	Jiangsu Province, PRC	three years	6.3

Note: Customer B has declined to disclose its name in this prospectus.

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Top five customers for the first half of 2014	Principal business	Location	Approximate years of relationship	Approximate percentage of our total revenue (%)
山東勝通鋼簾綫有限公司 (Shandong SNTON Steel Cord Co., Ltd.*)	Manufacturing and sales of steel wire products (including but not limited to hose wires, radial tyre cords, sawing wires and bead wires and other materials)	Shandong Province, PRC	five years	48.9
鎮江耐絲新型材料有限公司 (Zhenjiang Naisi Advanced Materials Co., Ltd.*)	Manufacturing and sales of sawing wires and radial tyre cords	Jiangsu Province, PRC	four years	21.5
山東大業股份有限公司 (Shandong Daye Corp.*)	Manufacturing and sales of steel wire products (including but not limited to hose wires, radial tyre cords and bead wires and other materials)	Shandong Province, PRC	four years	15.5
Customer D	Manufacturing and sales of steel wire product	Hebei Province, PRC	four years	9.9
Customer E	Manufacturing and sales of steel wire products (including hose wires, radial tyre cords and other materials)	Jiangsu Province, PRC	one and a half years	1.6

Note: Customer D and Customer E have declined to disclose their names in this prospectus.

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Given the sales revenue from our largest customer accounted for 26.3%, 14.3%, 24.0% and 48.9% of our Group's total sales revenue during the Track Record Period, the diversity of our top five customers, the composition of our top five customers varied for each Track Record Period (with a mix of 12 different customers) and taking into account the composition of our top five customers in our contracts on hand as of 31 August 2014, our Directors consider that our Group did not rely on our five largest customers or any one of them.

To the best of our Directors' knowledge, none of our Directors or chief executives or their respective close associates or any Shareholder who owned more than 5% of the issued Shares immediately after completion of the Global Offering had any interest in any of our top five customers during the Track Record Period.

In April 2011, Customer A placed an order with us for the purchase of six brass electroplating wire production lines, two intermediate wire heat treatment production lines, and nine wire rod preparation lines. The total contract value was RMB148.6 million. Subsequently, due to its capital needs and production requirements, Customer A revised its purchase order to two brass electroplating wire production lines, one intermediate wire heat treatment production line, and three wire rod preparation lines. As a result, the total value for this contract reduced to RMB54.2 million, of which we recognised RMB46.4 million in year 2012, or 14.3% of our total revenue for that year.

Except for the above, our Directors confirmed that the Group has not experienced any material default by the customers on the terms of sales contracts or order cancellation to a material extent during the Track Record Period.

Sales and sales channels

As of 30 June 2014, our sales and marketing team consisted of 25 employees. Our sales team is comprised of three divisions, being technical support division (responsible for pre-sales technical support), after-sales division (responsible for after-sales) and marketing division (responsible for overall coordination of sales and marketing activities).

Domestic sales

We sell our products to our customers in the PRC through direct sales and tenders. Our sales team is responsible for liaising with existing and potential customers, and gathering information in respect of potential sales, including tenders organised by customers. Based on the information obtained, our technical support team prepares an initial technical agreement or relevant tender submission documents. We estimate the production costs of our products according to the technical agreement and then prepare quotations for our products with reference to target profit margin and prevailing market price of the products. Once the customer agrees to our quotations and initial technical agreement, we sign a fixed-price sales contract with the customer.

Overseas sales

We are also exploring suitable opportunities in the international markets. As we have focused on sales to domestic customers since our establishment, we are not familiar with the international markets. In order to save fixed costs for marketing and promoting our products overseas, we consider referral services from liaising service providers to be a cost-effective way to promote our products and solicit overseas customers' orders in certain regions. Under such arrangement, the liaising service provider is only responsible for referring potential overseas customers to our Group. We then enter into the technical agreement and sales contract with the overseas customers directly. After entering sales contract with overseas customers referred by the liaising service provider, we pay certain percentage of the contract value to the liaising service provider as a referral fee. The use of such referral services is not on an exclusive basis and we can engage more than one liaising service providers for a given region to recommend our products to potential customers overseas. Throughout the Track Record Period, we entered into one sales contract with a South Korean customer, an Independent Third Party in November 2012, for a trial brass electroplating wire trial production line through the referral services provided by the liaising service provider. As the product provided is a trial production line, we did not pay any referral fee to the liaising service provider.

Salient terms of typical sales contract entered into during the Track Record Period

Set out below are the salient terms of a typical sales contract entered into by our Group during the Track Record Period in relation to our main production lines:

- **Delivery date:** the sales contracts for the majority of our products typically have a delivery date of about six months after the sales contracts becoming effective. From time to time, we may be requested to deliver our products in accordance with our customers' accelerated or delayed project schedules.
- **Payment terms:** our customers are normally required to make instalment payments in the following stages: (i) a first payment of 20% to 30% of the contract value either upon signing of the contract or within a specified time period (which is usually within one week from the date of the contract); (ii) a product delivery payment of 20% to 40% of the contract value upon our customers' initial acceptance of our products after preliminary check of the products and before product delivery; (iii) a product acceptance payment of 15% to 30% of the contract value after our receipt of the acceptance certificate from our customers; and (iv) a final payment of 5% to 10% of the contract value upon expiry of the quality warranty period (which is usually 12 months from the issuance of the acceptance certificate after passing of the on-site testing).
- **Delivery and packaging:** we are usually required to deliver our products, in accordance with the agreed packing standard as stipulated in the sales contract or the technical agreement between our Group and our customers, to our customers' site on a delivery date specified in the contract or to advised by our customers.

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- **On-site installation and testing:** on-site installation and testing of our products are usually conducted by our engineers or our customers under our technical guidance within a prescribed period of time after the delivery of our products to our customers' site. Our products are generally required to pass a trial production of around 100 to 120 hours consecutively as part of the testing. After passing the on-site installation, testing procedures and the trial production, our customers are contractually required to issue to us the product acceptance certificate.
- **Quality warranty period:** during this period, if there is any quality issue with our products caused by any defect in design, manufacture, materials or parts, we will provide on-site engineering and maintenance services and/or repair and replace the accessories free-of-charge. Our contracts normally stipulate a quality warranty period of 12 months from product acceptance by our customers after passing the on-site testing.
- **Dispute resolution:** any disputes between our Group and the customer shall firstly be resolved through negotiations, failure of which, the parties may resort to arbitration or litigation proceedings.

New contracts and balance of contracts carried forward

During the Track Record Period, we entered into 62, 39, 40 and 21 new sales contracts in relation to our products (excluding accessories and including VAT payments). Set forth below is the detailed breakdown of contracts entered into during the Track Record Period:

	Contract(s) brought forward from last year		New contract(s)		Contract(s) completed		Balance of contract(s) carried forward to next year	
	No. of contracts	Contract value	No. of contracts	Contract value	No. of contracts	Contract value	No. of contracts	Contract value
		RMB'000 (Note)		RMB'000 (Note)		RMB'000 (Note)		RMB'000 (Note)
2011	91	823,547.0	62	446,307.3	73	535,942.4	80	733,911.9
2012	80	733,911.9	39	196,442.1	61	374,018.0	58	556,336.0
2013	58	556,336.0	40	222,891.5	60	367,320.1	38	411,907.4
2014 January to June	38	411,907.4	21	120,759.8	16	159,416.0	43	373,251.2
2014 July to August	43	373,251.2	8	97,394.1	8	37,641.3	43	433,004.0

Note: The contract value included VAT payments. The applicable VAT was at the rate of 17%.

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The following table sets forth details of the new contracts for each of our principal products (excluding accessories and including VAT payments) during the Track Record Period and up to 31 August 2014:

	Year ended 31 December						Six months ended 30 June			From 1 July 2014 to 31 August 2014					
	2011		2012		2013		2014								
	No. of new contracts	Contract value	Average price per contract	No. of new contracts	Contract value	Average price per contract	No. of new contracts	Contract value	Average price per contract	No. of new contracts	Contract value	Average price per contract			
	RMB'000	RMB'000		RMB'000	RMB'000		RMB'000	RMB'000		RMB'000	RMB'000				
	(Note 1)		(Note 1)		(Note 1)		(Note 1)			(Note 1)					
Brass electroplating wire production lines	12	295,140.8	24,595.1	4	61,955.1	15,488.8	5	116,500.0	23,300.0	2	77,680.0	38,840.0	1	54,000.0	54,000.0
Other production lines	11	45,153.6	4,104.9	3	16,140.0	5,380.0	4	5,195.0	1,298.8	4	16,670.0	4,167.5	2	1,010.0	505.0
Standalone machines	10	91,777.4	9,177.7	6	98,538.0	16,423.0	3	57,902.0	19,300.7	1	15,300.0	15,300.0	1	41,300.0	41,300.0
Others	29	14,235.5	490.9	26	19,809.0	761.9	28	43,294.5	1,546.2	14	11,109.8	653.5	4	1,084.1	271.0
Total	62	446,307.3		39	196,442.1		40	222,891.5		21	120,759.8		8	97,394.1	

Notes:

- (1) The contract value included VAT payments. The applicable VAT was at the rate of 17%.
- (2) For details of the average price of our principal products during the Track Record Period, please refer to the paragraph headed "Pricing Policy" below.

Contract values by products and stages

The following tables set forth the breakdown of the contract values by the Group's principal products, the expected delivery dates of the products on contracts carried forward as of 30 June 2014, and the expected dates of revenue recognition and collection of payments from customers in accordance with the sales contracts:

	Contract values for products delivered or expected to be delivered					Total
	Before 30 June 2014	From 1 July to 31 December 2014	From 1 January to 31 December 2015	Delivery date after 2015		
	RMB million	RMB million	RMB million	RMB million	RMB million	
Brass electroplating wire production lines	86.4	32.7	30.0	55.7	204.8	
Other production lines	20.5	7.4	–	2.6	30.4	
Standalone machines	88.4	15.3	–	8.5	112.2	
Others	8.9	4.9	11.6	0.4	25.9	
	204.2	60.3	41.6	67.2	373.3	

Note: The contract value included VAT payments. The applicable VAT was at the rate of 17%.

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Payments from customers received or expected to be received

	Received before 30 June 2014	From 1 July to 31 December 2014	From 1 January to 31 December 2015	Payment date after 2015 (excluding quality warranty payment)	Quality warranty payment in or after 2015	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Brass electroplating wire production lines	42.7	35.2	48.6	63.7	14.6	204.8
Other production lines	15.3	3.3	5.3	4.4	2.2	30.4
Standalone machines	28.1	16.9	32.8	25.6	8.8	112.2
Others	6.6	1.0	15.5	0.7	2.1	25.9
	<u>91.7</u>	<u>56.4</u>	<u>102.2</u>	<u>94.4</u>	<u>27.7</u>	<u>373.3</u>

Note: The payments included VAT payments. The applicable VAT was at the rate of 17%.

Contract values for which revenue is expected to be recognised

	From 1 July to 31 December 2014	From 1 January to 31 December 2015	Revenue recognition date after 2015	Total
	RMB million	RMB million	RMB million	RMB million
Brass electroplating wire production lines	119.0	30.0	55.8	204.8
Other production lines	20.6	7.2	2.6	30.4
Standalone machines	48.5	42.5	21.2	112.2
Others	4.6	20.1	1.2	25.9
	<u>192.7</u>	<u>99.8</u>	<u>80.8</u>	<u>373.3</u>

Note: The contract value included VAT payments. The applicable VAT was at the rate of 17%.

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We have extracted the above information from, among other things, the Group's contracts on hand as of 30 June 2014 and prepared based on our estimation and certain assumptions. The principal accounting policies adopted are consistent in all material respects with those adopted by the Company as set out in the Accountant's Report in Appendix I to this prospectus, and are in conformity with HKFRS.

Assumptions have been used in determining business terms and financial parameters. Key assumptions on business terms are best estimates made by the Directors. Set out below are some of the principal assumptions:

- there will be no material disruption to our production process, and the production and delivery of our products will be on schedule according to the terms of the sales contracts;
- our products will be installed, tested, and accepted by the customers according to the time frame set forth in the relevant sales contracts;
- there will be no material changes in the existing government policies, legislation, rules or regulations, bases or rates of taxation, interest rates, exchange rates, inflation rates in the PRC, Hong Kong and other countries in which the Group operates;
- the Group is not materially and adversely affected by any of the risk factors set out in the section headed "Risk Factors" in this prospectus; and
- the Group's operations and business will not be materially affected or interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of the Directors, including but not limited to the occurrence of natural disasters, supply failure, labour dispute, significant lawsuit and arbitration.

The information set out above under the paragraph headed "Contract values by products and stages" is for illustration purpose only and based on estimation by our Directors. Although our Directors have prepared the information with due care, the estimation involves various assumptions and many of such assumptions are out of control of our Directors. As such, prospective investors should read the information carefully. Please refer to the sections headed "Risk Factors – The delay in settlement of payments by our customers notwithstanding our internal control measures may result in untimely and significant cash flow shortcomings in the future and may adversely impact our cash position and results of operation" and "Risk Factors – The lengthy process of delivery, on-site installation, testing or trial production or our products or any delay thereof may affect our revenue recognition, cash flow position, and results of our operation and may cause material fluctuation in our revenue in the future". In addition, the above financial information should not be indicative of our financial results for any future period(s).

Settlement and credit periods

Our sales are mainly settled by way of commercial bills (including bank's acceptance bills and commercial acceptance bills) denominated in Renminbi. Bank's acceptance bills can be cashed at a discount at banks prior to maturity.

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Pursuant to terms of the sales contracts, we require our customers to make instalment payments based on certain manufacturing or delivery milestones. Even if no credit terms are granted in a sales contract, a customer may delay in settling the instalment payment, and we in effect granted credit terms to certain customers in view of our trade receivables remaining outstanding and being past due. Turnover days of our trade receivables were 187.6 days, 217.6 days, 275.7 days and 266.6 days for the Track Record Period. As of the end of each Track Record Period, our total trade receivables amounted to RMB239.3 million, RMB192.9 million, RMB240.9 million and RMB205.0 million, respectively. Our Directors believe that the above payment delays and our revenue recognition policy are the major reasons for our relatively long trade and bill receivables turnover days. Please refer to the section headed “Financial Information – Trade and Other Receivables” of this prospectus for further analysis of trade receivables.

Product quality warranty

The sales contracts of our production lines normally stipulate a quality warranty period of 12 months from the issuance of acceptance certificate by our customers. During the quality warranty period, we provide on-site repair and maintenance services and/or the replacement of accessories free-of-charge for manufacturing defects such as any defect in design, manufacture, materials or parts. Upon expiry of the quality warranty period, our customers pay us the balance of 5% to 10% of the contract value.

According to our quality warranty provisioning policy, quality warranty provisions were made based on the estimate of the costs expected to be incurred during the product quality warranty period. During the Track Record Period, we made quality warranty provisions of RMB0.7 million, RMB0.5 million, RMB0.5 million and RMB0.4 million, and our quality warranty costs actually used were RMB0.4 million, RMB0.4 million, RMB0.4 million and RMB0.3 million, respectively. Our Directors believe that our quality warranty provisions made were sufficient during the Track Record Period and the actual amount of quality warranty costs incurred were immaterial to our Company’s operations results for the respective periods.

Revenue recognition policy

Our sales revenue is recognised when the risk and reward of the products have been transferred to the customers, which is usually upon (1) delivery of products to the customers, (2) completion of the installation and on-site testing (if required in the sales contract), and (3) acceptance by the customers of the equipment without further unfulfilled obligation. As a result, the long process of in-house manufacturing on-site installation and testing of our products would have impacted the timing of our revenue recognition such that part of the revenue to be recognised during a financial year may be related to sales contracts signed in the preceding financial years.

BUSINESS

The table below sets out an analysis of revenue of our Group during the Track Record Period in relation to the sales contracts obtained and signed in each of the five years 2009 to 2013 and the first half of 2014:

	For the year ended 31 December						For the six months ended 30 June	
	2011		2012		2013		2014	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Amount of revenue related to the sales contracts signed in 2009	107,383.6	23.1	38,790.8	12.0	73,799.4	23.1	-	-
Amount of revenue related to the sales contracts signed in 2010	293,313.3	63.0	123,167.5	38.0	22,231.9	7.0	22,859.0	16.3
Amount of revenue related to the sales contracts signed in 2011	64,970.4	13.9	129,098.5	39.9	134,839.2	42.3	-	-
Amount of revenue related to the sales contracts signed in 2012	-	-	32,539.9	10.1	63,385.8	19.9	21,382.6	15.2
Amount of revenue related to the sales contracts signed in 2013	-	-	-	-	24,691.7	7.7	93,144.7	66.4
Amount of revenue related to the sales contracts signed in the first half of 2014	-	-	-	-	-	-	2,908.3	2.1
Total	<u>465,667.3</u>	<u>100</u>	<u>323,596.7</u>	<u>100</u>	<u>318,948.0</u>	<u>100</u>	<u>140,294.6</u>	<u>100</u>

As indicated in the table above,

- (i) 13.9% of the revenue of our Group for the year 2011 was related to sales contracts entered into the same year;
- (ii) 10.1% of the revenue of our Group for the year 2012 was related to sales contracts entered into the same year;
- (iii) 7.7% of the revenue of our Group for the year 2013 was related to the sales contracts entered into the same year; and
- (iv) 2.1% of the revenue of our Group for the first half of 2014 was related to the sales contracts entered into the same period.

BUSINESS

Pricing policy

The selling prices of our products are generally determined based on the equipment costs estimated according to the technical requirements of the technical agreement, targeted profit margin and prevailing market price of the products. The table below sets forth the average selling price of our products during the Track Record Period:

	<u>Year ended 31 December</u>			<u>Six months ended 30 June</u>
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
	RMB'000	RMB'000	RMB'000	RMB'000
Brass electroplating wire				
production lines	13,485.0	18,538.2	17,701.1	19,375.2
Other production lines	1,162.1	2,223.1	945.3	897.4
Standalone machines	194.1	177.1	233.5	162.0

The price fluctuations of our brass electroplating wire production lines and other production lines during the Track Record Period were mainly due to different mix of machinery included in the production lines in accordance with the customers' specifications and requirements. On the other hand, the price fluctuation of our standalone machines during the Track Record Period was mainly attributed to different sales composition of wet drawing machines and double-twist stranding machines during the relevant year or period as the selling price of double-twist stranding machines are generally higher than that of wet drawing machines. In addition, we reduced the average selling price of our standalone machines for the first half of 2014 with an aim to expanding our market shares.

Product life cycle and seasonality

The product life cycle of our production lines is affected by both the frequency of launch of new models by the other manufacturers and the pace of technological development. Our Directors believe that our products by nature do not evolve rapidly and have a relatively long product life cycle of about 10 years. Our Directors confirm that the amount of sales contracts obtained by our Group is not subject to any seasonal fluctuation.

Marketing activities

We consider the perceived quality and reputation of our products to be of paramount importance. We mainly promote our products through (i) publication of advertisements and columns in relevant industry publications and magazines; (ii) publication of latest news and information of our Group and products on our website; and (iii) participation in various industry exhibitions. All the above serve to promote our brand as well as to increase customers' awareness of our Group and our products. During the Track Record Period, we incurred promotional expenses of RMB0.1 million, RMB0.6 million, RMB0.3 million and RMB0.1 million, respectively.

BUSINESS

Technical product training

Most of our products are customised to meet customers' requirements. Normally, almost all products are supplied by our Group as a complete system set, installed by our Group or by our customers under our on-site technical guidance and are then subject to on-site testing. Training in respect of the operation and routine maintenance of such products will also be offered to our customers. We attach particular importance to product maintenance and training as we consider that they enhance the overall attractiveness of our products and so this may assist our sales efforts.

OUR MANUFACTURING FACILITIES AND CAPACITIES

Existing manufacturing facilities

As of the Latest Practicable Date, we operated three manufacturing facilities in Wuxi City of Jiangsu Province, the PRC to manufacture our products, respectively located in Huishan District, Yixing City and Jiangyin City. The self-owned manufacturing facilities in Huishan District with a GFA of 3,659 sq.m. focus on the manufacture of the main production lines for brass electroplating wire production lines and other production lines. The self-owned manufacturing facilities in Yixing City with a total GFA of 21,626 sq.m. focus on the manufacture of standalone machines. The remaining manufacturing facilities in Jiangyin City with a rental area of 1,980 sq.m. focus on the manufacture of industrial automation control systems. Please refer to the appendix headed "Appendix III – List of Material Properties" to this prospectus for further details of the land where our manufacturing facilities are located.

The table below sets out the respective manufacturing capacity, manufacturing volume and the utilisation rate of our manufacturing facilities during the Track Record Period:

	Year ended 31 December									Six months ended 30 June		
	2011			2012			2013			2014		
	Annual manufacturing capacity ⁽¹⁾	Actual manufacturing volume ⁽²⁾	Utilisation rate ⁽³⁾	Annual manufacturing capacity ⁽¹⁾	Actual manufacturing volume ⁽²⁾	Utilisation rate ⁽³⁾	Annual manufacturing capacity ⁽¹⁾	Actual manufacturing volume ⁽²⁾	Utilisation rate ⁽³⁾	Annual manufacturing capacity ⁽¹⁾	Actual manufacturing volume ⁽²⁾	Utilisation rate ⁽³⁾
Huishan facilities ⁽⁴⁾	300,000	290,100	96.7	300,000	353,300	117.8	276,760	251,750	91.0	115,000	117,110	101.8
Yixing facilities ⁽⁵⁾	180,000	191,345	106.3	180,000	46,474	25.8	203,240	103,508	50.9	125,000	50,164	40.1
Jiangyin facilities ⁽⁶⁾	158,000	188,110	119.1	158,000	94,490	59.8	158,000	96,360	61.0	79,000	48,878	61.9

Notes:

- (1) The annual/semi-annual manufacturing capacity was calculated on the following basis:
 - (i) the standard numbers of workers for our Huishan facilities, Yixing facility and Jiangyin facility in each year/period during the Track Record Period of 150, 90 and 79, respectively;
 - (ii) the number of statutory working days in a year under the PRC laws of 250 days per annum;
 - (iii) the number of standard working hours in a day of eight hours;
 - (iv) as such the annual/semi-annual manufacturing capacity of the respective facilities in one/half year shall be calculated by multiplying the respective standard numbers of workers in such facility(ies), with 250/125 days and 8 hours.

BUSINESS

- (2) The actual manufacturing volume is calculated by the actual number of respective products manufactured and the standard working hours for each product determined with reference to manufacturing parameters.
- (3) The utilisation rate was calculated by dividing the actual manufacturing volume during the relevant year/period by the manufacturing capacity of the relevant year/period.
- (4) Huishan facilities currently focus on the manufacture of brass electroplating wire production lines and other production lines. At the beginning of the Track Record Period, we had three manufacturing facilities in Huishan District. The lease agreement of two facilities expired on 18 May 2013 and 30 August 2013 respectively. Upon the expiry of such lease agreements, we ceased to lease such facilities and relocated the relevant manufacturing operations to the self-owned Yixing facilities and Huishan facilities, respectively.
- (5) Yixing facilities currently focuses on the manufacture of standalone machines such as wet drawing machines and double-twist stranding machines. As the manufacturing of standalone machines requires more space and part of our Yixing facility is used as the warehouse of our Group, the standard numbers of workers for our Yixing facility is comparatively small. The increase in the annual manufacturing capacity of Yixing facilities in 2013 was due to the relocation of the leased facilities from Huishan facilities to Yixing facilities.
- (6) Jiangyin facilities currently focuses on the manufacture of industrial automation control systems.

As shown in the above table,

- (i) the utilisation rate of our Huishan facilities were 96.7%, 117.8%, 91.0% and 101.8% during the Track Record Period, respectively. The increase in the utilisation rate from 2011 to 2012 and for the first half of 2014 was mainly due to the constant increase in demand for our major production lines. The decrease in the utilisation rate in 2013 was due to the relocation of the leased facilities to Yixing facilities;
- (ii) the utilisation rates of our Yixing facility were 106.3%, 25.8%, 50.9% and 40.1% during each Track Record Period, respectively. The significant decrease in the 2012 utilisation rate was mainly due to the decline in growth of the domestic photovoltaic wafer production industry (for details of the market trend analysis of the Chinese photovoltaic wafer industry, please refer to the section headed “Industry Overview – Analysis of the Chinese Photovoltaic Market” of this prospectus), and thus the market demand for sawing wires which are presently the standard industrial material for photovoltaic wafer cutting. Since the wet drawing machines are necessary equipment for producing sawing wires, the demand for and production volume of wet drawing machines also experienced a significant decline in 2012. As a result of the relocation of certain leased facilities from Huishan facilities to Yixing facilities, the utilisation rate of Yixing facilities increased in 2013; and
- (iii) the utilisation rate of our Jiangyin facility, which focused on the manufacture of industrial automation control systems, were 119.1%, 59.8%, 61.0% and 61.9% during the Track Record Period, respectively. As industrial automation control systems are applied in both production lines and standalone machines, the significant decline in the utilisation rates in 2012 was mainly due to the significant decrease in production volume of standalone machines which led to lesser number of industrial automation control systems required. The utilisation rate of Jiangyin facilities remained steady in 2013 and the first half of 2014.

Some of the utilisation rates of our facilities exceeded 100% during the Track Record Period primarily because the actual working hours of our manufacturing labour exceeded the standard working hours used in calculating our full manufacturing capacity, in order to meet the increased market demand.

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Potential investors should understand that the above information is for reference only and represents an estimate of the manufacturing capacity that we may be capable of achieving based on normal working hours and level of workforce.

In view of high manufacturing utilisation rate based on our estimated manufacturing capacity during the Track Record Period and potential market opportunities in the future, our Directors believe that we have to increase our long-term capacity by, among other things, enhancing our manufacturing technology and building new manufacturing facilities.

Expansion plan

We plan to expand our product offerings, so as to provide a comprehensive set of production lines for manufacturing steel wire products to our customers. Although the standalone machines do not have the gross profit margin as high as the brass electroplating wire production lines, diversifying our product portfolio will help reduce the risk of reliance on our major product, brass electroplating wire production lines. In addition, the increase in our market share of standalone machinery shall also further promote our “Sunlit” branded products and thus further strengthen our market position in this industry.

For this reason, notwithstanding both Yixing facility and Jiangyin facility were not fully utilised in 2012, 2013 and the first half of 2014, we commenced the construction of our new manufacturing base on a parcel of land with a total land area of 61,708 sq.m. in Wuxi City in May 2013.

The New Wuxi Facility with an expected GFA of 52,543 sq.m. upon completion will focus on the manufacture of production lines and standalone machines for various steel wire products and will comprise, inter alia, two manufacturing plants respectively for manufacturing production lines and standalone machines, a New Research & Development Centre and two office building complexes. The construction of two manufacturing plants of our New Wuxi Facility is expected to be completed by in the second half of 2014 and the trial manufacturing of our products will commence soon after. The construction of the other ancillary facilities in our New Wuxi Facility is expected to be completed in the first half of 2015. Upon completion, the New Wuxi Facility will become our principal manufacturing base and is expected to increase our manufacturing capacity by about 2.3 times, which allows us to cater the demand for our products and services arising from the increasing demand for steel wire products from downstream industries.

BUSINESS

With a view to further strengthening our research and development capabilities, we will establish the New Research & Development Centre in the New Wuxi Facility with new laboratory and testing facilities and recruit additional technical specialists to enhance our in-house research and development capacities. We are constructing our New Research & Development Centre and expect it to enter into operation by the first half of 2015. With our enhanced research and development capabilities by the New Research & Development Centre, we expect that we will be able to strengthen our competitiveness in different kinds of products, such as tin bronze plating wire production lines and zinc hot plating wire production lines as well as standalone machines and improve our sales and market shares of these products.

Owing to a significant decrease in demand from photovoltaic industry, majority of sawing wire manufacturers ceased to increase their production capacity in 2012 which resulted in a substantial decrease in the overall market demand for production equipment. However, there has been a steady growth in the market demand for radial tyre cord, sawing wire and hose wire production equipment from 2008 to 2011 given rise by the strong development in downstream industries in the PRC. Based on the Frost & Sullivan Report, the demand for radial tyre cord, sawing wire and hose wire production equipment is expected to recover from 2014 to 2018. We therefore expect that the demand for our products will also be recovered during the same period.

The planned total investment in relation to our expansion is expected to be, RMB262.2 million, of which our New Wuxi Facility and New Research & Development Centre account for RMB244.7 million and RMB17.5 million, respectively. A breakdown of the planned total capital investment for our expansion project is set out in the table below:

	RMB (million)
Total planned investment:	
(i) Land acquisition costs (<i>Note</i>)	19.8
(ii) Construction costs	107.8
(iii) Investment in fixed assets	50.0
(iv) Expected increase in working capital	84.6
	<hr/>
Total	<hr/> <hr/> 262.2

Note: The land acquisition costs was the costs paid by Wuxi Shangda, our wholly-owned subsidiary.

Out of the total planned investment of RMB262.2 million, up to 30 June 2014, we incurred RMB67.1 million on the construction of our New Wuxi Facility and New Research & Development Centre. We expect the remaining capital expenditure required for the construction of our New Wuxi Facility and New Research & Development Centre to be RMB195.1 million.

We intend to apply part of the net proceeds from the Global Offering to partially fund the construction of our New Wuxi Facility and New Research & Development Centre in the amount of HK\$163.5 million. Please refer to the section headed “Future Plans and Use of Proceeds” of this prospectus for further details of the use of net proceeds of the Global Offering.

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As advised by our PRC Legal Advisers, we have obtained all the relevant permits, approvals, certificates and licenses including, among others, 國有土地使用證 (state-owned land use certificate*), 建設用地規劃許可證 (construction land planning permit*), 建設工程規劃許可證 (construction planning permit*) and 建設工程施工許可證 (construction works commencement permit*) for the construction of our New Wuxi Facility and New Research & Development Centre as of the Latest Practicable Date. As advised by our PRC Legal Advisers, 房屋所有權證 (property ownership certificate*) is the principal outstanding certificate required for our New Wuxi Facility and New Research & Development Centre, which is expected to be obtained upon completion of the construction.

We will apply for and complete the necessary procedures for obtaining the requisite permits, approvals and licenses to ensure compliance with the relevant PRC laws and regulations. As advised by our PRC Legal Advisers, there would be no legal impediments for us to obtain the requisite permits, approvals and licenses for our New Wuxi Facility and New Research & Development Centre.

We intend to relocate part of our manufacturing facilities in Huishan District to the New Wuxi Facility to streamline our existing manufacturing process. Our Directors estimate that it will take about one month for the relocation of such part of the manufacturing facilities in Huishan District to the New Wuxi Facility. Based on the quotation from a logistics company we obtained, our Directors consider that the relocation cost, including demolition expenses, installation costs and transportation costs to be immaterial. To prevent any material business disruption of our Group, the relocation will only take place after completion of construction of the two manufacturing plants in the New Wuxi Facility. Our Directors are of the view that the relocation will not cause any material adverse impact on our Group's business and operation, as well as any potential loss of revenue in such one month period.

RAW MATERIALS, SUPPLIERS AND PROCUREMENT

Procurement team

As of 30 June 2014, our procurement team consisted of seven members. Our procurement team is responsible for the procurement of raw materials and components according to our manufacturing needs.

Raw materials and suppliers

The largest component of our costs of sales was cost of materials, which amounted to RMB201.2 million, RMB101.9 million, RMB107.3 million and RMB50.1 million, representing 79.2%, 78.2%, 80.6% and 85.1% of our cost of sales, respectively, during the Track Record Period.

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The table below sets out the details of raw materials and consumables used in our cost of sales during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2011		2012		2013		2013		2014	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Tailored components made under our specific design	99,726.5	49.6	45,677.0	44.8	47,000.0	43.8	28,730.0	46.3	24,703.8	49.3
Electrical components	61,458.1	30.5	32,727.3	32.1	34,703.7	32.4	19,174.0	30.9	14,552.1	29.1
General parts	30,583.6	15.2	17,273.4	17.0	19,710.4	18.4	11,059.9	17.8	8,530.2	17.0
Other materials	9,460.9	4.7	6,214.7	6.1	5,846.2	5.4	3,114.6	5.0	2,277.6	4.6
	<u>201,229.1</u>	<u>100</u>	<u>101,892.4</u>	<u>100</u>	<u>107,260.3</u>	<u>100</u>	<u>62,078.5</u>	<u>100</u>	<u>50,063.7</u>	<u>100</u>

While the cost of materials accounted for a significant part of our costs of sales during the Track Record Period, we have a wide diversified range of materials of over 1,000 types involved in our production. For example, purchases of IGBT, our single largest type of raw materials used in our brass electroplating wire production lines, accounted for 5.4%, 7.5%, 5.4% and 8.7% of our total purchases of raw materials during the Track Record Period. Accordingly, we consider that the increase or decrease in the purchase cost of any particular type of materials will not have a significant impact on our profit margins.

We source key raw materials and components from a group of approved suppliers in order to ensure consistent quality and timely delivery. We maintain a list of approved suppliers generally located in the PRC which are selected based on their pricing, records of timeliness of delivery, quality and capacity. We reassess each approved suppliers periodically. We generally maintain more than one supplier for our major raw materials and components in order to reduce our costs and dependence on any one supplier. Our major suppliers are required to enter into quality guarantee agreements with our Group to ensure the provision of quality materials to us. During the Track Record Period, we did not experience any shortage or material delay in the supply of raw materials and components.

Generally, we will only procure the necessary raw materials and components after receiving orders from customers and we do not enter into any long-term purchase agreement with our suppliers. We place purchase orders with our suppliers from time to time in accordance with our manufacturing requirements. We order raw materials and components from our suppliers through individual purchase agreements, with payment terms typically within three months. Each purchase agreement specifies the raw materials, components or parts required, and in the case of parts, the relevant design specifications and price for these items. All purchases (including purchases from the PRC-based foreign suppliers) are settled in RMB.

BUSINESS

All purchases are primarily settled by bank transfer or bank acceptance bills in the PRC. Certain bills receivable that our Group received from our customers are endorsed by our Group for use to settle our trade payables and other payables that we owe to our suppliers. Bank acceptance bills can typically be cashed at a discount from a bank prior to maturity.

Our aggregate purchases from our five largest suppliers represented 21.9% 38.3%, 25.8% and 21.1% of our total purchases of raw materials, components and parts during the Track Record Period, respectively. Purchases from our largest supplier accounted for 7.2%, 10.6%, 11.9% and 6.3% of our total purchases of raw materials, components and parts, respectively, for the same periods.

The following tables set forth certain information in relation to our top five suppliers during the Track Record Period:

<u>Top five suppliers for the year 2011</u>	<u>Principal business</u>	<u>Location</u>	<u>Approximate years of relationship</u>	<u>Approximate percentage of our total purchase</u> (%)
常州漁港鍛造有限公司 (Changzhou Yugang Forging Co., Ltd.*)	Manufacturing and machining of mechanical parts	Jiangsu Province, PRC	five years	7.2
北京卅普科技有限公司 (Tsinghua University Power Electronics*)	Manufacturing and processing of electronic components and equipment, and other electrical and heat treatment equipment	Beijing, PRC	seven years	4.7
Supplier A	Provision of equipment installation services and sales of air-conditioning equipment and metal and heating materials	Jiangsu Province, PRC	four years	4.1

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Top five suppliers for the year 2011	Principal business	Location	Approximate years of relationship	Approximate percentage of our total purchase (%)
無錫海亞機電設備有限公司 (Wuxi Haiya Machinery and Power Equipment Co., Ltd.*)	Manufacturing and sales of electrical, industrial and incineration equipment, mould and cast	Jiangsu Province, PRC	five years	3.1
無錫百特利精密機械製造有限公司 (Wuxi Betterly Precision Machinery Co., Ltd.*)	Manufacturing and Processing of mechanical equipment and parts, and sales of standardised and designed equipment	Jiangsu Province, PRC	three years	2.8

Note: Supplier A has declined to disclose its name in this prospectus.

Top five suppliers for the year 2012	Principal business	Location	Approximate years of relationship	Approximate percentage of our total purchase (%)
無錫百特利精密機械製造有限公司 (Wuxi Betterly Precision Machinery Co., Ltd.*)	Manufacturing and processing of mechanical equipment and parts, and sales of standardised and custom-designed equipment	Jiangsu Province, PRC	three years	10.6

BUSINESS

<u>Top five suppliers for the year 2012</u>	<u>Principal business</u>	<u>Location</u>	<u>Approximate years of relationship</u>	<u>Approximate percentage of our total purchase</u> (%)
北京卅普科技 有限公司 (Tsinghua University Power Electronics*)	Manufacturing and processing of electronic components and equipment, and other electrical and heat treatment equipment	Beijing, PRC	seven years	9.1
無錫日恒電子科技 有限公司 (Wuxi Riheng Electronic Technology Co., Ltd.*)	Manufacturing and processing of mechanical equipment and parts, and sales of standardised and designed equipment	Jiangsu Province, PRC	five years	6.9
常州賽意奧精密 機械有限公司 (Changzhou Sail Precision Machinery Co. Ltd.*)	Manufacturing and processing of mechanical equipment and parts, and sales of metal materials and standardised and custom-designed equipment	Jiangsu Province, PRC	one year	6.5
常州漁港鍛造 有限公司 (Changzhou Yugang Forging Co., Ltd.*)	Manufacturing and machining of mechanical parts	Jiangsu Province, PRC	five years	5.2

BUSINESS

Top five suppliers for the year 2013	Principal business	Location	Approximate years of relationship	Approximate percentage of our total purchase (%)
常州賽意奧精密機械有限公司 (Changzhou Sail Precision Machinery Co. Ltd.*)	Manufacturing and processing of mechanical equipment and parts, and sales of standardised and custom-designed equipment	Jiangsu Province, PRC	one year	11.9
北京卅普科技有限公司 (Tsinghua University Power Electronics*)	Manufacturing and processing of electronic components and equipment, and other electrical and heat treatment equipment	Beijing, PRC	seven years	3.8
洛陽科諾工業設備有限公司 (Luoyang CONO Industrial Equipment Co., Ltd.*)	Mechanical equipment and parts, heating equipment and metal materials	Shaanxi Province, PRC	one year	3.8
無錫日恒電子科技有限公司 (Wuxi Riheng Electronic Technology Co., Ltd.*)	Manufacturing and processing of mechanical equipment and parts, and sales of standardised and custom-designed equipment	Jiangsu Province, PRC	five years	3.2

BUSINESS

Top five suppliers for the year 2013	Principal business	Location	Approximate years of relationship	Approximate percentage of our total purchase
				(%)
無錫百特利精密機械製造有限公司 (Wuxi Betterly Precision Machinery Co., Ltd.*)	Manufacturing and processing of mechanical equipment and parts, and sales of standardised and custom-designed equipment	Jiangsu Province, PRC	three years	3.1

Top five suppliers for the first half of 2014	Principal business	Location	Approximate years of relationship	Approximate percentage of our total purchase
				(%)
常州賽意奧精密機械有限公司 (Changzhou Sail Precision Machinery Co. Ltd.*)	Manufacturing and processing of mechanical equipment and parts, and sales of standardised and custom-designed equipment	Jiangsu Province, PRC	two years	6.3
洛陽科諾工業設備有限公司 (Luoyang CONO Industrial Equipment Co., Ltd.*)	Mechanical equipment and parts, heating equipment and metal materials	Shaanxi Province, PRC	one and a half years	4.4

BUSINESS

<u>Top five suppliers for the first half of 2014</u>	<u>Principal business</u>	<u>Location</u>	<u>Approximate years of relationship</u>	<u>Approximate percentage of our total purchase</u> (%)
北京卅普科技有限 公司 (Tsinghua University Power Electronics*)	Manufacturing and processing of electronic components and equipment, and other electrical and heat treatment equipment	Beijing, PRC	five years	4.3
Supplier B	Manufacturing, sale and processing of mechanical equipment and parts	Jiangsu Province, PRC	three years	3.4
Supplier C	Sale of stainless steel materials and construction materials	Jiangsu Province, PRC	seven years	2.7

Note: Supplier B and Supplier C have declined to disclose their name in this prospectus.

During the Track Record Period, we purchased raw materials and components from 江陰貝特機械工程有限公司 (Jiangyin Beite Machinery and Engineering Company Limited*), the equity interest of which was owned as to 39.5% by Mr. Zhang Degang and as to 22.5% by Mr. Zhang Deqiang. Purchases from this supplier accounted for 1.3%, nil, nil and nil of our total purchases, respectively. It was subsequently deregistered in July 2012.

To the best of our Director's knowledge, none of our Directors or chief executives or their respective close associates or any Shareholder, who owned more than 5% of the issued Shares immediately after completion of the Global Offering, had any interest in any of our top five suppliers during the Track Record Period.

Inventory

Our inventory comprises mainly raw materials, work-in-progress and finished products. In general, we purchase raw materials and components from suppliers on a back-to-back basis upon receipt of orders, but we also maintain one month's worth of inventory of raw materials as safety stock in anticipation of our customers' needs for equipment modification or repair and maintenance services during or beyond the quality warranty periods. We closely monitor our inventory level to meet our requirements, minimise wastage, and avoid stocking up on obsolete inventory. We keep updated information on existing raw materials and material requirements for our planned manufacturing and formulate our materials procurement plan accordingly.

Our inventory balances were RMB241.3 million, RMB205.3 million, RMB170.9 million and RMB159.4 million as of the end of each Track Record Period, respectively, and our average inventory turnover days were 189.1 days, 231.6 days, 195.6 days and 207.4 days, respectively. Please refer to the section headed "Financial Information – Inventories" of this prospectus for further information of inventories of our Group.

QUALITY CONTROL

As of 30 June 2014, our quality control team consisted of eight members. Our quality control team is responsible for ensuring that all products pass through the quality control process and meet our standards. We monitor the quality of incoming raw materials and components and our manufacturing process closely, and conduct performance and reliability testing on our finished and outgoing products to ensure that they meet the specifications of our customers.

Incoming material quality control

Our quality control team conducts appearance and quality certificate inspections on all the incoming raw materials to ensure that they meet our quality standards prior to their use. For those components that are made and supplied to our Group by suppliers based on our design and specifications, our quality control team checks if its appearance, size and functions conform with our design, specifications and required quality standard. Any raw materials or components that do not meet our quality standards are immediately returned for replacement or refund.

Manufacturing process quality control

Certain parts that are manufactured by ourselves are first inspected and tested by our manufacturing team to make sure that they conform to the technical standards according to our manufacturing design and specifications. Then, our quality control team further inspects and tests the in-house parts to ensure that they can pass our quality control requirements. Parts which do not meet the relevant quality standards are set aside for analysis. We will further conduct sample checks on those parts already tested by the quality control team to prevent any defective parts from being used in the manufacturing process.

Finished product quality control

Our quality control team conducts in-house testing on all finished products to make sure that the finished products meet the relevant technical standards and our customer's specifications. Products which do not meet the relevant quality standards will be re-worked and are subject to the in-house testing again after the re-work. If the finished product passes the final product quality control inspection, the quality control team will issue a finished product quality passing certificate.

Outgoing quality control

After receipt of the product delivery notification and prior to product delivery, we further conduct inspection and checking regarding the name, specification, quantity, quality (final product quality certification), and assembly of technical parts and ancillary machines. Only products that pass the outgoing quality control inspection will be delivered to our customers' premises.

We are accredited with the certification of "ISO 9001:2008 Quality Management System" for our good quality management and "ISO 14001:2004 Environmental Management System" for our good environmental management system. We also receive certificate compliance issued by an international inspecting authority for our brass electroplating wire production lines such that they can be affixed with the "CE" mark for the European markets. Our Directors confirm that we had not experienced any material product quality issues, claims, complaints or sales returns (due to sub-standard quality of our products) during the Track Record Period and up to the Latest Practicable Date.

RESEARCH AND DEVELOPMENT

We place strong emphasis on the research and development of our products. We believe that in order to maintain our leading position, in particular in brass electroplating wire production lines, and increase market share in other products, it is paramount to continuously keep ourselves up to date with the latest market demand and develop products which surpass the products of our competitors in terms of their functionalities and performance. Our research and development activities primarily focus on development of new products to expand our product portfolio and the improvement of our existing products with improved capabilities and functionalities, in each case to meet the particular demands and needs of steel wire product manufacturers in the PRC.

Our research and development capabilities draw strength from two main sources, which are our internal research and development team and external collaborations with universities and research institute. During the Track Record Period, our research and development expenditures incurred were RMB20.0 million, RMB16.4 million, RMB14.0 million and RMB10.3 million, respectively.

Research and development team

As of 30 June 2014, we had a research and development team comprising 35 members with diploma and undergraduate qualifications in the relevant disciplines including electrical and mechanical engineering, numerical control technology and electrical technology. Such personnel receive regular training and generally have experience in the equipment manufacturing industry or research and development activities. Our research and development team is led by Mr. Zhang Degang and Mr. Zhang Deqiang who have expertise in developing innovative technologies for steel wire production equipment. Please refer to the section headed “Directors, Supervisors and Senior Management” of this prospectus. Our research and development team works closely with the personnel of our sales team to collect the latest information in relation to the latest market trend and development, demand and consumer requirements.

Research and development policy

We believe that our strong product research and development capabilities are attributable not only to the technical expertise of our research and development team, but also to the way in which we manage our research and development projects. Our Group has adopted “System for Management of Research and Development of Products and Techniques” and “Rules for Encouragement of Research and Development” as our internal policies. These policies govern the way we manage all important aspects of our research and development efforts, including but not limited to research and development activities, product design management, product development and research result incentive plans.

Collaboration with universities and research institutes

We have been collaborating with various universities and research institute since 2010 to strategically advance our research and development capabilities by making use of their engineering expertise and research facilities for our designated development projects, which included the research and development of technologies and/or machines used in the brass electroplating wire production lines, zinc hot plating wire production lines, take-up machine, flame furnace as well as double-twist stranding machine. The table below set forth the details of the technologies and products developed and applied for patent registration under the collaboration with universities and research institute:

Year of collaboration	Patent Name	Status
2010	水冷卻槽餘熱回收裝置 (Water cooling tank residual heat recovery device*)	Granted
2011	收線捲繞恒張力控制裝置 (Line winding constant tension control device*)	Granted

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<u>Year of collaboration</u>	<u>Patent Name</u>	<u>Status</u>
2012	管絞機搖籃放線恒張力裝置 (A constant tension device for the wire dispenser cradle of a tubular stranding machine*)	Granted
2012	一種明火加熱熱處理爐尾氣回收利用裝置 (A recycling device for the exhaust of an open-flame heating furnace*)	Granted

The service fees to the universities and research institute vary, depending on the duration of the collaboration and the extent of the research and development work. All intellectual property rights of any technologies and products arising from the collaborations shall solely belong to our Group.

Building on our expertise and experience, technological know-how and research and development capabilities, we continuously carry out research and development activities to improve the quality and develop new features for our products. We believe that we will be able to produce more customised and higher performance products as a result.

Research and development achievements

In recent years, our research and development team in collaboration with the universities and research institution has successfully developed a number of manufacturing technologies and products which we have put into use. As a result of our continuous commitment to research and development, we were accredited with 高新技術企業 (High/New Tech Enterprise*) on 13 December 2010 in the PRC jointly by 江蘇省科學技術廳 (Science and Technology Department of Jiangsu Province*), 江蘇省財政廳 (Finance Department of Jiangsu Province*), and Jiangsu State Administration of Taxation and Jiangsu Local Taxation Bureau with a validity period of three years. As a renewal of our High/New Tech Enterprise qualification, we were granted with a new certificate of High/New Tech Enterprise dated 11 December 2013 with a validity period of three years. Further, our brass electroplating wire production lines, intermediate wire heat treatment production lines and double-twist stranding machines were recognised as 高新技術產品 (High and New Technology Product*) by 江蘇省科學技術廳 (Science and Technology Department of Jiangsu Province*), illustrating the industry-leading status of our products.

Research and Development Plan

As of the Latest Practicable Date, we had in aggregate nine research and development projects in progress to enhance the production process and technology of our brass electroplating wire, zinc hot plating wire and tin bronze plating wire production lines, and to develop new products or systems such as the IGBT for stabilisation of electricity during production.

BUSINESS

We allocated HK\$25.5 million, representing 12.2% of the net proceeds from the Global Offering, for research and development projects. Going forward, we intend to continue to focus our research and development efforts in the following areas:

(i) Technical improvements of our existing products

Our research efforts emphasise on continuous improvements on the functions and technologies of key machines and equipment comprising our production lines (including brass electroplating wire production lines and tin bronze plating wire production lines) and key components of standalone machines. Our ongoing and future research and development projects include (a) developing furnace and gas furnace with waste heat recovery system that improve energy-saving and reduce the overall production cost of our products, (b) developing the middle frequency induction machine for application in tin bronze plating wire production lines, which replaces the traditional heating method in lead pot and reduces workplace hazard risks due to lead vapor, and (c) developing the precision spindle in large-scale double-twist stranding machines for the production of steel wire rope.

(ii) Development of potential new products

As of the Latest Practicable Date, we had not engaged in the manufacture or sale of dry drawing machine and spiral forming machine. As a production solution provider of steel wire products, we intend to expand our product portfolio to cover these machines to complete our product offerings in the comprehensive production lines. We plan to deploy resources in the research and development of dry drawing machine, which include machine assemblies, transmission mechanisms and control systems. We believe that the development of these new products can help us attract a wider range of customers.

INTELLECTUAL PROPERTIES

We value the importance of technology and place great emphasis on our research and development efforts. We consider that the protection of intellectual property is crucial to our business. As of the Latest Practicable Date, we owned 61 registered patents (including six invention patents and 55 utility model patents) and 15 registered software copyrights in the PRC. We had also applied for 14 new patent registrations in the PRC. Please see the section headed “Statutory and General Information – B. Further information about the Business of our Company – 2. Intellectual Property Rights of our Company” of this prospectus for further details on our intellectual property rights. We rely on a combination of non-disclosure, confidentiality and other contractual agreements with our Directors, employees and other third parties as well as privacy and trade secret laws to protect and limit access to our intellectual property rights.

While we intend to proceed to apply for patents for any advanced technologies that we successfully develop, undergoing the application process may expose our Group to risks of infringement or unauthorised use of such technologies by our competitors or other third parties. In accordance with the Patent Law of the PRC and the Rules for the Implementation of the Patent Law of the PRC, in order to obtain a patent, it is necessary to disclose the details of the design to the public. Hence, there exists a risk that upon publication of our proprietary technologies, competitors may learn, copy and reverse-engineer the technologies developed by our Group and produce competing products. Therefore, although we will apply for patents for those new technologies that are difficult to replicate, we may continue to maintain certain of our proprietary technologies as trade secrets.

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As of the Latest Practicable Date, we were not aware of any infringement or unauthorised use of our intellectual property rights by any third party.

AWARDS AND CERTIFICATIONS

Since our establishment, we have received a number of awards and recognitions in the PRC. The table below sets forth the more notable awards and certifications obtained by our Group:

<u>Year of award/ certification</u>	<u>Award/Certification</u>	<u>Issuing authority</u>
2009	江蘇省民營科技企業 (Jiangsu Province Private Technology Enterprise*)	江蘇省民營科技企業協會 (Association of Private Technology Enterprise in Jiangsu Province*)
2010	高新技術企業 (High/New Tech Enterprise*)	江蘇省科學技術廳 (Science and Technology Department of Jiangsu Province*), 江蘇省財政廳 (Finance Department of Jiangsu Province*), Jiangsu State Administration of Taxation and Jiangsu Local Taxation Bureau
2010	“Sunlit” (盛力達) – 無錫市知名商標證書 (Wuxi City Famous Brand Certificate*)	江蘇省無錫工商行政管理局 (Wuxi Administration for Industry & Commerce of Jiangsu Province*)
2010	榮譽證書 (Certificate of Honor*)	中共江蘇省無錫惠山經濟開發區工作委員會 (Work Committee of the CPC of Wuxi Huishan Economic Development Zone*)
2011	Sunlit metal product equipment – Wuxi Famous Brand Products Certificate	Wuxi City Quality work leading Group
2011	Class AAA Credit Grading Certificate	Jiangsu Hengda Credit & Appraisal Company Limited
2011	無錫市企業技術中心 (Enterprise Technical Centre of Wuxi City*)	無錫市經濟和信息化委員會 (Economic and Information Committee of Wuxi City*)
2011	Our brass electroplating wire production lines were named as 高新技術產品 (High and new technology product*)	江蘇省科學技術廳 (Science and Technology Department of Jiangsu Province*)
2012	企業設計中心 (Corporate Design Centre*)	無錫市科學技術局 (The Science and Technology Bureau of Wuxi City*)

BUSINESS

Year of award/ certification	Award/Certification	Issuing authority
2012	Our automated production line as 國家火炬計劃產業化示範項目 (National Torch Programme*)	中國科學技術部火炬高技術產業開發中心 (Torch High Technology Centre, Ministry of Science and Technology of the PRC*)
2012	無錫市科技研發機構 (Wuxi City Technology Research and Development Organisation*)	無錫市科學技術局 (The Science and Technology of Wuxi City*)
2012	Our intermediate wire heat treatment production lines were named as 高新技術產品 (High and new technology product*)	江蘇省科學技術廳 (Science and Technology Department of Jiangsu Province*)
2012	Our double-twist stranding machines were named as 高新技術產品 (High and new technology product*)	江蘇省科學技術廳 (Science and Technology Department of Jiangsu Province*)
2012	江蘇省著名商標 (Famous Trademark of Jiangsu Province*)	江蘇省工商行政管理局 (The Administration for Industry & Commerce of Jiangsu Province*)
2012	Wuxi Famous Brand Products Certificate for our brass electroplating wire production lines	The Leadership Group of Wuxi City Quality Control
2013	Renewal of 高新技術企業 (High/New Tech Enterprise*)	江蘇省科學技術廳 (Science and Technology Department of Jiangsu Province*), 江蘇省財政廳 (Finance Department of Jiangsu Province*), Jiangsu State Administration of Taxation and Jiangsu Local Taxation Bureau
2014	2013 Annual Award for Investment in the Industrial Sector, Runner Up	中共江蘇省無錫惠山經濟開發區工作委員會 (Work Committee of the CPC of Wuxi Huishan Economic Development Zone*) and 江蘇省無錫惠山經濟開發區委員會 (Management Committee of Wuxi Huishan Economic Development Zone*)

CERTIFICATES, LICENCE AND PERMITS

Our PRC Legal Advisers have confirmed that all members of our Group have obtained all requisite business licences, approvals, certificates and permits, all of which are presently in force and compliant with all material applicable laws and regulations in the PRC.

BUSINESS

EMPLOYEES

The following sets forth the number of employees by function as of 30 June 2014:

Function	No. of employees
Sales	25
Research & Development	35
Technical	17
Quality control	8
Procurement	7
Comprehensive management	45
Finance	8
Manufacturing	115
Internal audit	3
Total	263

In 2011 and 2012, we engaged installation labour through annual labour cooperation agreements with an employment agency, being an Independent Third Party, in order to benefit from the flexibility of contractual engagement on an as-needed basis. Under these agreements, the employment agency shall employ and manage installation labour upon our request, and be responsible for making the relevant mandatory social insurance contributions and other statutory entitlements of those labour, whereas our Group shall be responsible for those labours' salaries and a monthly agency management fee equivalent to 7.85% of the total amount of salaries paid to those labour engaged.

Those external installation labours previously engaged through the labour agency were primarily responsible for conducting on-site installation of our products at the customer's premises. As our customers, in particular repeat customers with the sales of brass electroplating wire production lines, tend to choose to perform installation on their own under the support of our technical guidance (after which we will conduct the on-site testing of our products), we no longer require those external installation labours to perform the on-site installation work on a regular basis. Therefore, we have ceased to engage the external installation labours since 2013. To the best knowledge of our Directors, the key reason for our customers to intend to change from requesting us to install the products to requesting us to provide technical guidance and install the products by themselves was we will charge the customers for installation if such service is required.

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We will evaluate the sufficiency of our own installation labour from time to time and consider such engagement based on operation needs. The following table shows the number of installation labour engaged under the labour cooperation agreement and the total amount of salary paid to those labour during the Track Record Period:

	As of 31 December			As of 30 June
	2011	2012	2013	2014
Maximum number of installation labour under the annual cooperation agreement	150	150	Nil	Nil
Average number of installation labour engaged per month	148	146	Nil	Nil
Total amount of salary incurred (RMB'000)	10,326.8	11,565.8	Nil	Nil
Total amount of management fee incurred (RMB'000)	810.7	907.9	Nil	Nil

As advised by our PRC Legal Advisers, the agreements entered into between the employment agency and our Group in relation to such labour cooperation arrangements were legal, effective and in compliance with all then applicable laws and regulations of the time of act.

Our Directors confirmed that during the Track Record Period, we only experienced minor labour disputes with three employees. Such labour disputes were results of the termination of their employment and they submitted their claims to the labour dispute arbitration committee disputing, inter alia, the termination, the basis of calculation of wages and the underpayment of their social insurance fund. Two of the labour disputes were resolved or settled in the labour dispute arbitration committee, including one being withdrawn by the claimant during the arbitration process and one being settled by us in a sum of RMB2,500 on 24 July 2012 with an aim to resolving the dispute amicably and saving our time and resources.

On 22 November 2013, one former employee lodged a claim against us in the labour dispute arbitration committee of Wuxi City, Binhu District claiming for a termination compensation in the amount of RMB16,800. The arbitration committee laid down a decision in our favour on 14 January 2014. In April 2014, a judgement was handed down by the Huishan District People's Court which also ruled in our favour.

Apart from these minor disputes, we have not experienced any strikes, work interruptions or labour disputes.

As confirmed by our PRC Legal Advisers, the employment/labour contracts entered into between our Group and our employees are legal and binding on the parties and do not circumvent and/or contravene any provision of the relevant employment laws and regulations in the PRC. In general, we determine employee salaries based on each employee's qualifications, position and seniority. We review the performance of our employees annually and decide on their salary raises, bonuses and promotions based on their performance.

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In accordance with the applicable laws and regulations in the PRC, we are required to make contributions to social insurance and housing provident fund for our employees. As advised by our PRC Legal Advisers, according to confirmations from the relevant authorities, to the best of their knowledge, we have been in compliance in all material respects with applicable employment laws during the Track Record Period, save for the matters as disclosed in the paragraph headed “Legal compliance and proceedings” in this section below.

OCCUPATIONAL SAFETY AND HEALTH MEASURES

We are subject to certain PRC laws on occupational health and safety, including the 《中華人民共和國安全生產法》 (Production Safety Law of the PRC*) which took effect on 1 November 2002. In order to ensure occupational safety and health of our employees in the manufacturing process, we have adopted various measures such as the provision of periodic training courses on the operations of equipment and workplace safety and use of protective equipment. Our managers in the manufacturing department carry out regular safety inspection of our production facilities to ensure that safety measures are complied with and production procedures are followed. We have established internal guidelines for our staff to maintain a safe working environment, to operate machinery properly and prevent accident.

As confirmed by our Directors, during the Track Record Period, there were no material work-related injuries or fatalities at our production facilities and we were not subject to any material claims for personal or property damages as of the Latest Practicable Date.

SAFETY AND ENVIRONMENTAL PROTECTION

Our operation is subject to the current environmental protection laws and regulations promulgated by the PRC government, such as 《中華人民共和國環境保護法》 (Environmental Protection Law of the PRC*) and 《中華人民共和國環境影響評價法》 (Law of the PRC on the Environmental Impact Assessment*). A summary of the environmental protection laws and regulations applicable to our Group is set out in the section headed “Regulatory Overview” in this prospectus.

In the course of our manufacturing operations, we generate minimal dust and waste materials. We have also engaged third parties to collect the waste materials for recycling. During the Track Record Period and as of the Latest Practicable Date, we had not received any notice or warning in relation to pollution in respect of our business operations. Our annual cost of compliance with the applicable environmental protection laws and regulations amounted to RMB17,808, RMB23,856, RMB19,320 and RMB13,608, respectively during the Track Record Period.

We will continue to ensure compliance with the applicable environmental laws and regulations in the future. During the Track Record Period, we were not subject to any fines, penalties or other legal actions by government authorities in the PRC resulting from non-compliance with any environmental protection laws in the PRC and, so far as our Directors are aware after making all reasonable enquiries, there was no threatened or pending action by any PRC environmental government authority in this respect.

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INSURANCE

We maintain insurance for vehicles, property and product liability in the PRC. We are also required to make social insurance and housing provident fund contributions for our employees. For details on social insurance and housing provident fund contributions by our Group, please refer to the paragraph headed “Employees” in this section above. Our Directors consider our insurance coverage to be adequate and in line with industry practices in the PRC.

During the Track Record Period and up to the Latest Practicable Date, we had not received any product liability claims, nor had we made any material claims under our insurance policies or experienced any material business interruptions. We intend to continue to maintain our insurance coverage to the extent consistent with industry practice. We will continue to review and assess our risk portfolio and make necessary and appropriate adjustments to our insurance practice.

LEGAL COMPLIANCE AND PROCEEDINGS

As all of the operations of our Group are in the PRC, we are required to conduct our business in compliance with the relevant PRC laws and regulations. As advised by our PRC Legal Advisers and as confirmed by our Directors, during the Track Record Period, save as disclosed below in the paragraph headed “Non-compliance incidents” in this section, we have (i) obtained all requisite licences, permits and certificates to conduct our business, and (ii) complied with the applicable laws and regulations in the PRC in all material respects.

As part of our internal control measures for strengthening our trade receivables control, we may consider initiating legal actions for collection and recovery of the long outstanding trade receivables as and when appropriate.

To the best knowledge of our Directors, as of the Latest Practicable Date, no member of our Group was engaged in any litigation, arbitration or claim of material importance, and our Directors were not aware of any pending or threatened litigation, arbitration or claim of material importance against our Group that would have a material adverse effect on our results, operations or financial condition.

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Non-compliance incidents

The following table sets forth our Group's incidents of non-compliance of material importance during the Track Record Period, the legal consequences, potential maximum fines/penalties on and other financial losses to our Group, remedial actions taken to rectify such non-compliance, and risk exposure and latest status:

Non-compliance incident and reason	Potential maximum fines/penalties on and other financial losses to our Group	Remedial actions to rectify the non-compliance	Risk exposure and latest status
<i>Under-contributions of PRC employee social insurance and housing provident funds</i>			
<p>Before August 2012, we made social insurance and housing provident fund contributions based on the minimum salary as required by the relevant local authority in the respective areas that members of our Group operates. Due to different policies in the calculation basis between requirements stipulated by the relevant local authorities (i.e. on a minimum basis) and national laws and regulations (i.e. on an actual basis), we estimated the outstanding social insurance and housing provident fund during the Track Record Period amounted to RMB1.6 million and RMB0.1 million, respectively. At the relevant time, Ms. Zhang Zhenhua, manager of our integrated management department, was responsible for the administration of the Group's PRC employee social insurance and housing provident funds.</p>	<p>According to the relevant PRC laws and regulations:</p> <p>(i) the relevant social insurance authorities may order our Group to pay the outstanding amount within the prescribed time period with a late charge at the daily rate of 0.05% on the outstanding contributions, and they may impose a maximum fine or penalty equivalent to three times of the outstanding amount if such payment is not made within the prescribed time period.</p> <p>(ii) the relevant housing provident fund authorities may order our Group to pay the outstanding amount of the housing provident fund within the prescribed time period, if we still fail to do so, the relevant housing provident fund authorities may apply to the court for the enforcement of the unpaid amount.</p>	<p>To rectify the non-compliance, we tried to make retrospective payment of unpaid social insurance and housing provident fund from January 2011 to July 2012. Our PRC Legal Advisers contacted the relevant social insurance authorities and housing provident fund management centres in February 2014, and we were advised that:</p> <p>(i) unless the inspection unit of social insurance authorities imposed a specific payment order, voluntary application for retrospective payment of unpaid social insurance overdue for more than six months would not be entertained; and</p> <p>(ii) we could make retrospective payment of unpaid housing provident fund for our existing employees. As a result, we have settled the unpaid housing provident fund in the aggregate amount of about RMB0.3 million with the relevant housing provident fund management centres as of the Latest Practicable Date.</p> <p>(iii) for those former employees whose housing provident accounts have been cancelled or transferred to other companies, application for retrospective payment of unpaid housing provident fund would not be entertained.</p> <p>Since August 2012, we paid the social insurance and housing provident fund contributions for our existing employees in accordance with the relevant PRC national laws and regulations and established an enforceable written policy for social insurance and housing provident fund contribution.</p>	<p>As of the Latest Practicable Date, we had not received any notification from the relevant authorities alleging that we had not fully contributed to the social insurance or housing provident fund and demanding payment of the same before a stipulated deadline. Upon receipt of the request from the relevant authorities, if any, we intend to immediately pay the outstanding social insurance and housing provident funds and/or any late payment and/or penalty imposed by the relevant authorities accordingly.</p> <p>We have also obtained confirmations from the relevant local social insurance and housing provident fund authorities for our Company and all of our subsidiaries that: (i) since the establishment of such companies or 1 January 2010, there was no administrative action being taken against them for payment of social insurance or housing provident funds; and (ii) the amount of social insurance and housing provident funds paid for the aforesaid companies are in compliance with all national and local laws and regulations in relation to the social insurance and housing provident funds.</p> <p>Based on the above reasons, our PRC Legal Advisers are of the view that the risk that the relevant social insurance and housing fund authorities requiring to pay additional social insurance and housing provident funds is low. As such, no provision has been made by us for this non-compliance.</p> <p>The relevant local social insurance and housing provident fund authorities mentioned above include:</p> <ul style="list-style-type: none"> • Social Resources and Social Security Bureaus of Huishan district of Wuxi, Yixing and Jiangyin, respectively; • Social Insurance Management Centre of Jiangyin; and • Housing Fund Management Centres of Huishan district of Wuxi, Yixing and Jiangyin, respectively. <p>We are advised by our PRC Legal Advisers that these local social insurance authorities and housing provident fund management centres are competent to give such confirmations and it is unlikely that such confirmations will be challenged or revoked by higher level authorities.</p>

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<u>Non-compliance incident and reason</u>	<u>Potential maximum fines/penalties on and other financial losses to our Group</u>	<u>Remedial actions to rectify the non-compliance</u>	<u>Risk exposure and latest status</u>
		<p>We have also appointed a designated officer, Ms. Yang Jinghua, who is the supervisor of our Company, with more than ten years' experience in relation to training, personnel and administration, to enforce the written policy and avoiding future non-compliance.</p> <p>Besides, our Controlling Shareholders have agreed to indemnify us for all claims, costs, expenses and losses incurred by us due to our non-compliance of the social insurance or housing provident fund contribution regulations.</p>	

Save as disclosed above, to the best of our Directors' knowledge after due inquiries, we had complied with the applicable PRC laws and regulations in all material aspects as described in the relevant sections of this prospectus during the Track Record Period.

Key internal control measures implemented by our Group

In order to prevent future regulatory non-compliance in the PRC and to further reinforce the existing internal control procedures, we have adopted or will adopt the following internal control measures:

- (a) since October 2012, we have established enforceable written policies for housing provident fund and social insurance contributions and appointed a designated officer, Ms. Yang Jinghua, the supervisor of our Company, to be responsible for enforcing the written policy and avoiding future non-compliance;
- (b) in August 2013, the legal advisers to our Company as to Hong Kong laws have provided training to our Directors on, among other matters, the following topics: (i) director's duties and responsibilities under common law, applicable statutory laws and regulations and the Listing Rules; (ii) corporate governance under the Listing Rules; and (iii) the continuing obligations of our Directors under the Listing Rules;
- (c) our Group will continue to conduct regular internal training for our employees and management on our continuing compliance policy and engage external professionals, such as legal advisers, to conduct training on our ongoing compliance and obligations under the Listing Rules and the relevant Hong Kong and PRC regulations to ensure awareness and compliance of policies; and
- (d) our Company has appointed Cinda International Capital Limited as our compliance adviser with effect from the date of Listing to advise on ongoing compliance with Listing Rules issues and other applicable securities laws and regulations in Hong Kong.

After taking into consideration the above remedial actions taken/to be taken by our Group and our business nature and operation scale, our Directors are of the view that the internal control system of our Group is adequate, effective and fit for our current operation environment.

COMPETITION

We face competition from other PRC production equipment manufacturers with respect to product quality, price, production capacity, marketing and customer services. According to Frost & Sullivan, the competition in the steel wire product manufacturing equipment industry in the PRC is getting intensified. Our Directors believe that some of the manufacturers have been building up their sales and marketing forces and production capabilities in order to capture the increasing demand on the relevant manufacturing equipment in the PRC. Despite the relatively higher entry barrier of this industry due to its capital intensive nature, our competitors may upgrade their manufacturing capacity when financial resources are available.

Despite the intensified competition from other domestic manufacturers, our Directors believe we can compete effectively by virtue of (i) our strong research and development capabilities; (ii) high manufacturing efficiency and quality; (iii) our leading market position in the brass electroplating wire production lines; (iv) wide ranging product portfolio and (v) well-established relationships with major customers and major suppliers. As summarised in the section headed “Industry Overview” of this prospectus, we are one of the leading production equipment manufacturers in the brass electroplating wire production equipment market in the PRC, capturing 44.9% of the market share in brass electroplating wire manufacturing equipment in 2013.

PROPERTY INTERESTS

As of the Latest Practicable Date, we (i) owned six properties in Jiangsu Province for the purpose of, amongst others, our manufacturing facilities, New Wuxi Facility and management office; and (ii) leased one property in the Jiangsu Province on which our manufacturing facilities in Jiangyin is located. As advised by our PRC Legal Advisers, as of the Latest Practicable Date, we had obtained proper title certificates for all of our owned properties, and the landlords of the leased property had the right to lease the property to us, and the lease was duly registered, legally binding and enforceable.

Material Properties Analysis

Having considered all relevant circumstances of our Group including the information contained in the property due diligence report from our property valuer and consultant, DTZ Debenham Tie Leung Limited, our Directors take the view that the properties set out in “Appendix III – List of Material Properties” to this prospectus are the material properties of our Group. This is mainly because these properties are used for operation and ancillary purposes, and they together form the principal or major operation sites of our Group.

BUSINESS

According to our latest audited consolidated balance sheets in the Accountant's Report set forth in Appendix I to this prospectus, the total carrying amount of our owned property interests (including land use rights and the construction in progress) and our total assets as of 30 June 2014 were RMB122.2 million and RMB776.1 million, respectively, and that as of the Latest Practicable Date, no single property interest that forms part of non-property activities has a carrying amount of 15% or more of total assets.

On the above basis, we are not required by Chapter 5 of the Listing Rules to value or include in this prospectus any valuation report on our property interests.

Accordingly, 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 exempt from compliance with the 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 interests in land or buildings.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OVERVIEW

Immediately prior to the Global Offering, Mr. Zhang Degang, Mr. Zhang Deqiang and Ms. Zhang Jinghua will together be interested in approximately 85.05% of our issued share capital in aggregate. Immediately following the completion of the Global Offering, Mr. Zhang Degang, Mr. Zhang Deqiang and Ms. Zhang Jinghua will be interested in approximately 63.79% of our issued share capital in aggregate (assuming the Over-allotment Option is not exercised).

OUR CONTROLLING SHAREHOLDERS ACTING IN CONCERT

Since 17 April 2009, our Controlling Shareholders have adopted a consensus building approach to reach decisions on a unanimous basis in making management decisions of our Group and exercising their voting rights at the meetings of the shareholders and boards of the members of our Group.

On 26 July 2013, our Controlling Shareholders entered into the Acting in Concert Agreement to confirm the existence of such acting-in-concert arrangement described above since 17 April 2009. They further jointly and severally undertook that, during the period they remain in control of our Group, they will maintain the above acting-in-concert arrangement. For details, please refer to the section headed “History, Development and Reorganisation” of this prospectus. We have been advised by our PRC Legal Advisers that the relevant undertakings by our Controlling Shareholders under the Acting in Concert Agreement are legal, valid and enforceable under the applicable PRC laws.

RULE 8.10 OF THE LISTING RULES

Our Controlling Shareholders and our Directors do not have any interest in a business which competes or is likely to compete, directly or indirectly, with our business, and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

EXCLUDED BUSINESSES OF OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, Mr. Zhang Degang, one of our Controlling Shareholders and executive Directors, was interested in the following companies and businesses (the “Excluded Businesses”):

1. 合肥得一新材料投资有限公司 (Hefei De Yi New Materials Investment Company Limited*) (“Hefei Investment”)

Hefei Investment, formerly known as 常州得一新材料科技有限公司 (Changzhou De Yi New Materials Technology Company Limited*), is a limited liability company established in the PRC on 21 July 2008, and its principal business includes business consultation and investment in relation to new alloy materials. As of the Latest Practicable Date, Mr. Zhang Degang held approximately 3.54% of the equity interest in Hefei Investment; whereas our

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

non-executive Director, Mr. Gao Feng, together with his spouse were indirectly interested in approximately 7.29% of the equity interest in Hefei Investment. The remaining equity interest of approximately 89.17% in Hefei Investment was held by Independent Third Parties. Mr. Zhang Degang is also a director of Hefei Investment.

Hefei Investment holds 100% of the equity interest in 合肥得一新材料科技有限公司 (Hefei De Yi New Materials Technology Company Limited*) (“**Hefei Technology**”) and 60% of the equity interest in 江蘇利奧新材料科技有限公司 (Jiangsu Li Ao New Materials Technology Company Limited*), formerly known as 鎮江得一新材料科技有限公司 (Zhenjiang De Yi New Materials Technology Company Limited*). Both companies principally engage in the technology development, processing, sale and consultation services in relation to new alloy materials. Mr. Zhang Degang is a director of Hefei Technology.

2. 萊恩鋼簾綫股份有限公司 (Ryan Steel Wire Company Limited*) (“**Ryan Steel Wire**”)

Ryan Steel Wire is a joint stock company established in the PRC on 24 March 2011, and according to the business license of Ryan Steel Wire, its scope of business covers the production and sale of steel wire, hose wire, bead wire and other metal products. As of the Latest Practicable Date, Mr. Zhang Degang held 5% of the share capital of Ryan Steel Wire and was one of its directors. The remaining share capital of 95% of Ryan Steel Wire was held by Independent Third Parties.

The business of Ryan Steel Wire is unlikely to compete with ours because (i) our Group is in the steel wire product equipment manufacturing industry while Ryan Steel Wire is in the steel product industry, which is a downstream industry of ours; (ii) we have no common customer as our customers primarily consist of steel wire product manufacturers whereas those of Ryan Steel Wire primarily consist of steel product users such as those in the coal mining, oil pipeline and construction machinery industries; and (iii) the raw materials used in our business mainly include tailored components made with our specific design, electrical components and general parts whereas those used by Ryan Steel Wire mainly include rubber and steel wire and as such, Ryan Steel Wire and we consume different resources and adopt different pricing strategies.

Our Group’s primary focus and strategy is the research and development, design, manufacture, equipment supply, installation, testing, repair and maintenance of production lines for manufacturing steel wire products pursuant to customers’ specific production requirements. Mr. Zhang Degang has confirmed that:

- (a) there is a clear delineation between the businesses of our Group and the Excluded Businesses in that:
 - (i) the Excluded Businesses are not within the principal business scope of our Group; and
 - (ii) the Excluded Businesses have their own operational management staff independent of our Group for their core operations;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (b) not all of our Controlling Shareholders are interested in these Excluded Businesses and that Mr. Zhang Degang only holds a minority interest in the Excluded Businesses, namely,
 - (i) his non-controlling interest in the Excluded Businesses is held for investment purposes, while a majority interest in these Excluded Businesses is owned and controlled by Independent Third Parties; and
 - (ii) he has no statutory control over the Excluded Businesses nor the composition of their boards of directors; and
- (c) it is inappropriate to include any part of the Excluded Businesses into our Group as our Group currently does not intend to engage in the businesses carried out by the Excluded Businesses. Mr. Zhang Degang has also confirmed that he has no current intention to inject any of the Excluded Businesses into our Group.

In light of the foregoing, our Directors are of the view that there is a clear delineation between the businesses of our Group and the Excluded Businesses and the Excluded Businesses do not compete with our businesses.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

In the opinion of our Directors, our Group is capable of carrying on our business independently of, and does not place undue reliance on, our Controlling Shareholders and their respective close associates, taking into account the following factors:

Financial independence

Our Group has an independent financial system and makes financial decisions according to our own business needs. Mr. Zhang Deqiang had provided a guarantee for the total credit facilities up to RMB200 million granted to our Company. During the year 2012, a bank borrowing of RMB20 million was drawn under the facilities, and such borrowing was repaid in the same year. The guarantee was subsequently released in February 2013. We have sufficient capital to operate our business independently, and have adequate internal resources and a strong credit profile to support our daily operations.

Operational independence

Our Group has established our own organisational structure comprising individual departments, each with specific areas of responsibilities. Our Group has not shared our operational resources, such as suppliers, customers, marketing, sales and general administration resources with our Controlling Shareholders and/or their respective close associates.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Management independence

Our Company aims at establishing and maintaining a strong and independent Board to oversee our business. The main functions of our Board include the approval of our overall business plans and strategies, monitoring the implementation of these plans and strategies as well as the management of our Group. We have an independent management team, which is led by a team of senior management with substantial experience and expertise in our business, to implement our plans and strategies.

Our Board consists of seven Directors, including three executive Directors, one non-executive Director and three independent non-executive Directors. Each of our Controlling Shareholders, namely Mr. Zhang Degang, Mr. Zhang Deqiang and Ms. Zhang Jinghua, is an executive Director.

Each of our Directors is aware of his or her fiduciary duties as a director which require, among other things, that he or she acts for the benefit and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interest to exist. In the event that there is a potential conflict of interests arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant Board meeting in respect of such transaction and shall not be counted in the quorum.

Independence of major suppliers

Our Directors confirm that none of our Controlling Shareholders, our Directors and their respective close associates have any relationship with the major suppliers of our Group (other than the business contacts in the ordinary and usual course of business of our Group) during the Track Record Period.

Independence of major customers

Hefei Investment and Hefei Technology were our customers during the Track Record Period. During the Track Record Period, the sales revenue from Hefei Investment accounted for approximately 5.29%, 0.001%, nil and nil of our revenue, respectively; whereas the sales revenue from Hefei Technology accounted for approximately 1.92%, 8.13%, 0.04% and 0.04% of our revenue, respectively. During the six months ended 30 June 2014, we had contracted sales of RMB17.7 million with Hefei Technology. Our executive Director and Controlling Shareholder, Mr. Zhang Degang, is a director of Hefei Investment and he held approximately 3.54% of its equity interest as of the Latest Practicable Date; while our non-executive Director, Mr. Gao Feng, and his spouse were indirectly interested in approximately 7.29% of its equity interest as of the Latest Practicable Date. Hefei Investment holds 100% of the equity interest in Hefei Technology and Mr. Zhang Degang is also a director of Hefei Technology. Save for the above, our Directors confirm that none of our Controlling Shareholders, our Directors and their respective close associates have any relationship with the major customers of our Group (other than the business contacts in the ordinary and usual course of business of our Group) during the Track Record Period.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Discontinued related party transactions

During the Track Record Period, we had entered into several sales and purchase transactions with related parties. Please refer to the paragraph headed “Financial Information – Related Party Transactions” in this prospectus for full details of these related party transactions.

Amongst the related party transactions, we purchased goods from 江陰貝特機械工程有限公司 (Jiangyin Beite Machinery and Engineering Company Limited*) (a company controlled by Mr. Zhang Degang and Mr. Zhang Deqiang), and 江陰三佳工控機械有限公司 (Jiangyin Sanjia Gongkong Machinery Company Limited*) (a company controlled by close relatives of Mr. Zhang Degang and Mr. Zhang Deqiang). However, we had ceased these transactions since 2012, and at the time of listing, we will not have any non-exempt continuing connected transaction.

In light of the above, our Directors are of the view that our Group does not unduly rely on our Controlling Shareholders and/or their respective close associates.

NON-COMPETITION UNDERTAKING

Our Controlling Shareholders as covenantors (each a “**Covenantor**”, collectively, “**Covenantors**”) executed the Deed of Non-Competition in favour of our Company (for ourselves and as trustee for and on behalf of our subsidiaries) and confirmed that none of them is engaged in any business which, directly or indirectly, competes or is likely to compete with the business of our Company or any of our subsidiaries, or has any interest in such business.

In accordance with the Deed of Non-Competition, each Covenantor undertakes that, from the Listing Date and ending on the occurrence of the earliest of (i) the date on which the H Shares cease to be listed on the Main Board (other than suspension of trading of the H Shares of our Company for any other reason); (ii) the date on which the Covenantors cease to be a Controlling Shareholder; or (iii) the date on which the Covenantors beneficially own or become interested jointly or severally in the entire issued share capital of our Company:

1. Non-competition

He/she will not, and will use his/her best endeavours to procure any Covenantor, his/her associates (collectively, “**Controlled Persons**”) and any company directly or indirectly controlled by the Covenantor (the “**Controlled Company**”) not to, either on 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 business which, directly or indirectly, competes or is likely to compete with the business from time to time conducted or carried on by our Company or any of our subsidiaries, including but not limited to the research and development, design, manufacture, equipment supply, installation, testing, repair and maintenance of production lines for manufacturing steel wire products pursuant to customers’ specific production requirements (the “**Restricted Business**”).

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

The Deed of Non-Competition does not apply if the Controlled Persons and Controlled Company in aggregate own any interest not exceeding five per cent of the issued shares in any company conducting any Restricted Business (the “**Relevant Company**”), and the Relevant Company is listed on any recognised stock exchange, notwithstanding that the business conducted by the Relevant Company constitutes or might constitute competition with the business of our Company or any of our subsidiaries, provided that (i) the shareholding of any one holder (and his/her associate, if applicable) in the Relevant Company is more than that of the Controlled Persons and the Controlled Company in aggregate at any time; and (ii) the total number of the relevant Covenantors’ representatives on the board of directors of the Relevant Company is not significantly disproportionate with respect to his/her shareholding in the Relevant Company.

2. New business opportunity

If any Covenantor and/or any Controlled Company is offered or becomes aware of any business opportunity to directly or indirectly engage in or own a Restricted Business (the “**New Business Opportunity**”):

- (a) he/she shall within 10 days notify our Company of such New Business Opportunity in writing and refer the same to our Company for consideration, and shall provide the relevant information to our Company in order to enable us to make an informed assessment of such opportunity; and
- (b) he/she shall not, and shall not procure his/her Controlled Persons or Controlled Company to, invest or participate in any project and New Business Opportunity, unless such project and New Business Opportunity shall have been rejected by our Company and the principal terms of which are no more favourable than those made available to our Company.

A Covenantor may only engage in the New Business Opportunity if (i) a notice is received by the Covenantor from our Company confirming that the New Business Opportunity is not accepted and/or does not constitute competition with the Restricted Business (the “**Non-acceptance Notice**”); or (ii) the Non-acceptance Notice is not received by the Covenantor within 30 days after the proposal of the New Business Opportunity is received by our Company.

Our independent non-executive Directors will be responsible for reviewing and considering whether or not to take up a New Business Opportunity referred by a Covenantor or Controlled Company or whether or not the New Business Opportunity constitutes competition with the Restricted Business and such decisions will be made by our independent non-executive Directors. The factors that will be taken into consideration in making the decisions include whether it is in line with the overall interests of our Shareholders.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

3. General undertakings

In order to ensure the performance of the above non-competition undertakings, the Covenantors will:

- (a) as required by our Company, provide all information necessary for our independent non-executive Directors to conduct annual examination with regard to the compliance of the terms of the Deed of Non-Competition and the enforcement of it;
- (b) procure our Company to disclose to the public either in the annual report of our Company or issue a public announcement in relation to any decisions made by our independent non-executive Directors with regard to the compliance of the terms of the Deed of Non-Competition and the enforcement of it;
- (c) where our independent non-executive Directors shall think fit, make a declaration in relation to the compliance of the terms of the Deed of Non-Competition in the annual report of our Company, and ensure that the disclosure of information relating to compliance with the terms of the Deed of Non-Competition and the enforcement of it are in accordance with the requirements of the Listing Rules; and
- (d) that during the period when the Deed of Non-Competition is in force, fully and effectually indemnify our Company against any losses, liabilities, damage, costs, fees and expenses as a result of any breach on the part of such Covenantor of any statement, warrant or undertaking made pursuant to the Deed of Non-Competition.

The Deed of Non-Competition and the rights and obligations thereunder are conditional upon (a) the Listing Committee granting the listing of, and the permission to deal in, the H Shares and (b) the Listing and dealings in the H Shares on the Main Board taking place.

Our PRC Legal Advisers are of the view that the Deed of Non-Competition does not violate the applicable PRC laws, and our Controlling Shareholders' undertakings pursuant to the Deed of Non-Competition are valid and binding obligations of our Controlling Shareholders under the PRC laws after the Deed of Non-Competition takes effect, and may be enforced by us in the courts of the PRC thereafter.

As the Covenantors have given non-competition undertakings in favour of our Company, and none of them have interests in other businesses that compete or are likely to compete with the business of our Group, our Directors are of the view that they are capable of carrying on our Group's business independently of the Covenantors following the Listing.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUMMARY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Present Position	Date of Appointment as Director/ Supervisor/ Senior Management	Date of Joining our Group	Roles and Responsibilities	Relationship with other Director(s), Supervisor(s) and/or Senior Management
Directors						
Mr. ZHANG Degang (張德剛)	42	Executive Director and Chairman	24 July 2012	21 March 2006	Day-to-day management of our Group, postulating business development plans and overseeing our Group's overall corporate strategies; as the chairman of the nomination committee and strategic committee	Mr. Zhang Degang is the brother of Mr. Zhang Deqiang and Ms. Zhang Jinghua
Mr. ZHANG Deqiang (張德強)	45	Executive Director and general manager	24 July 2012	21 March 2006	Day-to-day operations, strategic development and management of our Group's business; as a member of the remuneration and appraisal committee and strategic committee	Mr. Zhang Deqiang is the brother of Mr. Zhang Degang and Ms. Zhang Jinghua
Ms. ZHANG Jinghua (張靜華)	52	Executive Director and vice-general manager	11 August 2013	17 April 2009	Day-to-day management of our Group	Ms. Zhang Jinghua is the sister of Mr. Zhang Degang and Mr. Zhang Deqiang
Mr. GAO Feng (高峰)	47	Non-executive Director	24 July 2012	24 July 2012	As a member of the audit committee	N/A
Mr. LIU Chaojian (劉朝建)	49	Independent non-executive Director	24 July 2012	24 July 2012	As a member of the audit committee, the chairman of the remuneration and appraisal committee and a member of the strategic committee	N/A
Mr. GAO Fuping (高富平)	51	Independent non-executive Director	11 August 2013	11 August 2013	As a member of the remuneration and appraisal committee and nomination committee	N/A
Mr. HO Yuk Ming, Hugo (何育明)	43	Independent non-executive Director	11 August 2013	11 August 2013	As the chairman of the audit committee and a member of the nomination committee	N/A
Supervisors						
Mr. PENG Jiashan (彭加山)	51	Supervisor	15 August 2014	15 August 2014	As supervisor as shareholder representative	N/A
Ms. WEI Yi (危奕)	44	Supervisor	15 August 2014	15 August 2014	As supervisor as shareholder representative	N/A
Ms. YANG Jinghua (楊靜華)	33	Supervisor and personnel and general affairs manager	24 July 2012	6 May 2009	As supervisor as employee representative as well as responsible for personnel related work	N/A
Senior Management						
Mr. MA Jinlong (馬錦龍)	38	Financial controller/secretary of our Board of Directors	1 March 2012	1 March 2012	Overseeing the financial matters of our Group	N/A
Mr. XU Weigang (徐偉剛)	41	Vice-general manager	24 July 2012	1 May 2008	Management and daily operation of our factory sites and quality control	N/A
Mr. DENG Jianxing (鄧建興)	60	Vice-general manager	24 July 2012	1 February 2009	Overseeing the technical operations	N/A
Ms. HO Wing Yan (何詠欣)	33	Company secretary	16 August 2013	16 August 2013	Company secretarial matters	N/A

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board consists of seven Directors, including three executive Directors, one non-executive Director and three independent non-executive Directors. The following table sets forth information regarding members of our Board:

Name	Age	Position	Date of Appointment as Director	Date of joining our Group
Mr. ZHANG Degang (張德剛)	42	Executive Director and Chairman	24 July 2012	21 March 2006
Mr. ZHANG Deqiang (張德強)	45	Executive Director and general manager	24 July 2012	21 March 2006
Ms. ZHANG Jinghua (張靜華)	52	Executive Director and vice-general manager	11 August 2013	17 April 2009
Mr. GAO Feng (高峰)	47	Non-executive Director	24 July 2012	24 July 2012
Mr. LIU Chaojian (劉朝建)	49	Independent non-executive Director	24 July 2012	24 July 2012
Mr. GAO Fuping (高富平)	51	Independent non-executive Director	11 August 2013	11 August 2013
Mr. HO Yuk Ming, Hugo (何育明)	43	Independent non-executive Director	11 August 2013	11 August 2013

Executive Directors

Mr. ZHANG Degang (張德剛), aged 42, is our executive Director and the Chairman of our Group. Mr. Zhang is one of the founders of our Group. He is primarily responsible for our Group's day-to-day management, postulating business development plans and overseeing our Group's overall corporate strategies. He is also the chairman of the nomination committee and strategic committee. Mr. Zhang Degang is the brother of Mr. Zhang Deqiang and Ms. Zhang Jinghua.

Mr. Zhang Degang obtained a bachelor's degree in computer science and technology (e-business) (計算機科學與技術(電子商務)) through distance learning from Nanjing University (南京大學) in March 2005. In January 2013, Mr. Zhang was accredited by 中國共產黨澄江街道工作委員會澄江街道辦事處 (Chengjiang Road Office of the Chengjiang Road Working Committee of the Communist Party of China*) with “明星企業家” (Star Entrepreneur*) for the year 2012. In April 2013, Mr. Zhang was awarded with “無錫市五一勞動獎章” (Wuxi City 1 May Labour Medal*) by 無錫市總工會 (Wuxi City General Union*).

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

From June 1990 to June 1994, Mr. Zhang Degang worked in 江陰鋼繩廠 (Jiangyin Steel Wire Factory*); from June 1994 to November 2003, Mr. Zhang worked in China Bekaert Steel Cord Co., Ltd. (中國貝卡爾特鋼簾線有限公司), where he gained considerable experience in the steel wire industry. From October 2002 to April 2004, Mr. Zhang acted as the supervisor of 江陰三知工控有限公司 (Jiangyin Sanzhi Gongkong Company Limited*) (“**Jiangyin Sanzhi**”), which was principally engaged in the installation, modification, repair and maintenance of industrial automatic control equipment. From September 2005 to July 2012, Mr. Zhang acted as the chairman, director and general manager of 江陰貝特機械工程有限公司 (Jiangyin Beite Machinery and Engineering Company Limited*), which specialised in the sale and manufacture of industrial automatic equipment. In order to allow Mr. Zhang to focus on the business of our Group, 江陰貝特機械工程有限公司 (Jiangyin Beite Machinery and Engineering Company Limited*) was deregistered in July 2012.

In March 2006, Mr. Zhang Degang (through his spouse, Ms. Zhu Yingxuan) established our Predecessor Company with Mr. Zhang Deqiang. He has been the director of Sanzhi Gongkong since April 2009 and he acted as the general manager of Sanzhi Gongkong from April 2009 to December 2011; he has also been the director and general manager of Jiangsu Sunlit since August 2009; the general manager of Haisheng Software since July 2011 and its director since December 2012; and the director of Wuxi Shangda since December 2011.

Mr. ZHANG Deqiang (張德強), aged 45, is our executive Director and general manager. Mr. Zhang is also one of the founders of our Group. He is primarily responsible for the day-to-day operations, strategic development and management of our Group’s business. Mr. Zhang Deqiang is also a member of the remuneration and appraisal committee and strategic committee. Mr. Zhang Deqiang is the brother of Mr. Zhang Degang and Ms. Zhang Jinghua.

Mr. Zhang Deqiang obtained a bachelor’s degree in engineering majoring in electronic precision machinery (電子精密機械) from Southeast University (東南大學) in July 1991. In August 1998, he was also conferred by 無錫市工程技術中級任職資格社會化評價委員會 (Wuxi City Engineer Technology Intermediate Qualification Socialisation Evaluation Committee*) with the qualification of engineer. In January 2011, Mr. Zhang Deqiang was recognised by 周鐵鎮人民政府 (Zhoutie Town People’s Government*) and 中國共產黨周鐵鎮委員會 (Zhoutie Town Committee of the Communist Party of China*) as the “明星廠長(經理)” (star factory director (manager)*) for the year 2010. He was also accredited with an “優秀民營企業家” (outstanding non-public entrepreneur*) for two consecutive years in 2010 and 2011 by 無錫市人民政府 (Wuxi People’s Government*) and 中國共產黨無錫市委 (Wuxi Municipal Committee of the Communist Party of China*).

From August 1991 to October 1995, Mr. Zhang Deqiang worked in Haiying Enterprise Group Company Limited (海鷹企業集團有限責任公司), where he gained experience in designing machinery. From October 1995 to April 2006, Mr. Zhang worked as the department head of the production and technical department in Wuxi Murata Electronics Company Limited (無錫村田電子有限公司), which was principally engaged in the sale and manufacture of electronic products and components. From April 2004 to November 2005, he acted as the supervisor of Jiangyin Sanzhi, which was principally engaged in the installation, modification, repair and maintenance of industrial automatic control equipment.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

In March 2006, Mr. Zhang Deqiang founded our Predecessor Company with Mr. Zhang Degang (through his spouse, Ms. Zhu Yingxuan).

From March 2006 to March 2011, Mr. Zhang Deqiang was the director of our Predecessor Company. In March 2011, Mr. Zhang Deqiang took up the role as the general manager of our Company, and he acted as our executive Director since July 2012. From April 2009 to December 2011, Mr. Zhang Deqiang acted as the director of Sanzhi Gongkong and as its supervisor since December 2011. He has also been acting as the supervisor of Jiangsu Sunlit since August 2009; the supervisor of Haisheng Software since July 2011; and the general manager of Wuxi Shangda since December 2011.

Ms. ZHANG Jinghua (張靜華), aged 52, is our executive Director and vice-general manager. Ms. Zhang is responsible for our Group's day-to-day management. Ms. Zhang is the sister of Mr. Zhang Degang and Mr. Zhang Deqiang.

Ms. Zhang Jinghua graduated from high school in July 1978. In February 2012 and February 2013, respectively, she was recognised by 中國共產黨江陰市委 (Jiangyin Municipal Committee of the Communist Party of China*) and 江陰市人民政府 (People's Government of the Jiangyin City*) as “優秀總經理” (outstanding general manager*).

From March 1979 to November 1991, Ms. Zhang Jinghua worked as a teacher in 江陰市要塞中學 (Jiangyin City Yaosai Secondary School*). From October 1991 to October 2002, she worked in 江陰聯通實業有限公司 (Jiangyin Liantong Industrial Company Limited*). Ms. Zhang obtained a qualification certificate of speciality and technology in statistics (elementary level) approved and issued by the Ministry of Personnel of the PRC (中華人民共和國人事部) and conferred by the National Bureau of Statistics of the PRC (國家統計局) in October 1998. From October 2002 to November 2005, she acted as the director and manager of Jiangyin Sanzhi, which was principally engaged in the installation, modification, repair and maintenance of industrial automatic control equipment. From March 2004 to November 2009, she acted as the director and general manager of 江陰三佳工控機械有限公司 (Jiangyin Sanjia Gongkong Machinery Company Limited*), which was principally engaged in the design, sale and manufacture of industrial automation control system. In order to allow Ms. Zhang to focus on the business of our Group, 江陰三佳工控機械有限公司 (Jiangyin Sanjia Gongkong Machinery Company Limited*) has been deregistered in July 2012.

Ms. Zhang Jinghua joined our Group in April 2009 as the director of Sanzhi Gongkong, and in December 2011, she was appointed as its general manager. Since July 2012, she has acted as our vice-general manager (副總經理). In August 2013, she was appointed as our executive Director.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Non-Executive Director

Mr. GAO Feng (高峰), aged 47, joined our Group in July 2012, and was appointed as our non-executive Director. Mr. Gao is the general partner of 上海玉道投資管理中心(有限合夥) (Shanghai Yudao Investment Management Centre (Limited Partnership)*) and 上海世道投資發展中心(有限合夥) (Shanghai Shidao Investment Development Centre (Limited Partnership)*), who are the general partner and limited partner of Yudao Tiansui (one of our Pre-IPO Investors), respectively. He is also a member of the audit committee.

Mr. Gao Feng graduated from Hangzhou University (杭州大學) (now being part of Zhejiang University (浙江大學)) with a bachelor's degree in law in July 1989. He is a holder of PRC lawyer's licence issued by 上海市司法局 (Shanghai City Ministry of Justice*) in January 1991. From 1998 to 2013, Mr. Gao worked in various renowned law firms in the PRC and is currently a partner of a law firm.

Independent non-executive Directors

Mr. LIU Chaojian (劉朝建), aged 49, was appointed as our independent non-executive Director in July 2012. He is also a member of the audit committee, the chairman of the remuneration and appraisal committee and a member of the strategic committee. Mr. Liu is not involved in our Group's research and development activities.

Mr. Liu Chaojian graduated from 西安冶金建築學院 (Xi'an Institute of Metallurgy and Architecture*) (now known as Xi'an University of Architecture and Technology (西安建築科技大學)) with a bachelor's degree in metallurgy in July 1987. In November 1998, he was conferred by the State Bureau of Metallurgical Industry (國家冶金工業局) with the qualification of an advanced level engineer. Since July 1987, Mr. Liu has worked in the China Metallurgical Industry Planning and Research Institute (冶金工業規劃研究院) and his current positions are the deputy chief engineer and senior engineer at professor level.

From September 2010 to August 2013, Mr. Liu Chaojian acted as the independent director of Ningxia Xinri Hengli Steel Wire Company Limited (寧夏新日恆力鋼絲繩股份有限公司) (Shanghai Stock Exchange Stock Code: 600165).

Mr. GAO Fuping (高富平), aged 51, was appointed as our independent non-executive Director in August 2013. Mr. Gao is also a member of the remuneration and appraisal committee and nomination committee.

Mr. Gao Fuping obtained a master's degree in law from Shanxi University (山西大學) in July 1993 and a doctor's degree in civil commercial law (民商法學) from China University of Political Science and Law (中國政法大學) in July 1998. In September 1995, Mr. Gao was admitted as a qualified lawyer by the Ministry of Justice of the PRC. In September 2001, he was recognised as “2001年度第七屆曙光學者” (dawn scholar of the year 2001 (seventh year)) by 上海市教育委員會 (Shanghai Education Committee*) and 上海市教育發展基金會 (Shanghai Educational Development Foundation*).

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Since July 1998, Mr. Gao Fuping has lectured in East China University of Political Science and Law (華東政法大學) and has served as lecturer, deputy professor and professor. From June 2004 to February 2014, Mr. Gao served as the dean of the Intellectual Property School (知識產權學院). Since March 2014, Mr. Gao has served as the dean of 財產法研究院 (Property Law Research Institute*) of East China University of Political Science and Law (華東政法大學).

From June 2011 to March 2014, Mr. Gao Fuping acted as an independent non-executive director of Founder Broadband Network Service Company Limited (方正寬帶網絡服務股份有限公司), a joint stock company established in the PRC, which was converted into Founder Broadband Network Services Co., Ltd. (方正寬帶網絡服務有限公司) in April 2014.

Mr. HO Yuk Ming, Hugo (何育明), aged 43, was appointed as our independent non-executive Director in August 2013. Mr. Ho is also the chairman of the audit committee and a member of the nomination committee.

Mr. Ho Yuk Ming, Hugo graduated from Hong Kong Shue Yan College (now known as Hong Kong Shue Yan University) with an honours diploma in accounting in July 1996. He was admitted as an associate of the Hong Kong Society of Accountants (now known as Hong Kong Institute of Certified Public Accountants) in March 2000 and is a certified public accountant in Hong Kong.

Mr. Ho Yuk Ming, Hugo has over 10 years of experience in auditing, accounting and finance related matters. As of the Latest Practicable Date, Mr. Ho has worked in the following companies listed on the Stock Exchange:

Name	Stock Code	Position	Tenure
Best Wide Group Limited	464 (delisted in November 2001)	accounting manager	May 2000 to July 2006
National United Resources Holdings Limited (formerly known as eCyberChina Holdings Limited at the material time)	254	executive director financial controller	March 2004 to September 2004 March 2004 to December 2004
V1 Group Limited (formerly known as Yanion International Holdings Limited at the material time)	82	executive director qualified accountant	January 2005 to February 2006 April 2005 to March 2006
United Energy Group Limited	467	accounting manager company secretary	September 2006 to March 2010 April 2008 to February 2010
Shenzhen Mingwah Aohan High Technology Corporation Limited	8301	company secretary	July 2013 to 28 February 2014

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

From April 2010 to February 2014, Mr. Ho Yuk Ming, Hugo has also acted as the accounting manager of Carlico International Group Holdings Limited (formerly known as Kinco Enterprises Limited). Mr. Ho has also acted as the financial controller of Great China Brokerage Limited on a part-time basis from October 2012 to February 2014. Since April 2014, Mr. Ho has also served as the chief financial officer of Future Bright Mining Holdings Limited.

Supervisors

In accordance with the PRC Company Law and our Articles of Association, we have established a Supervisory Committee to monitor our financial matters and oversee the actions of our Board and our management personnel. Our Supervisory Committee consists of three Supervisors, of whom two are appointed by our Shareholders and one is appointed by our employees. Our Supervisors are appointed for a term of three years, after which they may be re-elected. The powers and duties of our Supervisory Committee include: (i) reviewing and verifying the periodic reports prepared by our Board and providing written examination reports; (ii) examining our financial affairs and information; (iii) overseeing the actions of our Board and our management personnel and proposing dismissal of our Directors and management personnel who have acted in violation of the laws, administrative stipulations and our Articles of Association; (iv) requesting Directors and management personnel to rectify any actions that are damaging to our Company's interest; and (v) exercising other powers, functions and duties as conferred by our Articles of Association.

The following table sets forth information regarding our Supervisors:

Name	Age
Mr. PENG Jiashan (彭加山)	51
Ms. WEI Yi (危奕)	44
Ms. YANG Jinghua (楊靜華)	33

Mr. PENG Jiashan (彭加山), aged 51, was appointed as our Supervisor as a shareholder representative with effect from 15 August 2014. Mr. Peng graduated from Jiangsu University (江蘇大學) majoring in mechanical and electronic engineering (機械電子工程) in July 2002. Mr. Peng received the qualification of engineer (工程師) from 無錫市人事局 (Wuxi City Personnel Bureau*) in September 2003.

From July 1988 to September 1991, Mr. Peng Jiashan worked in 無錫機械製造學校 (Wuxi Institute of Machinery Manufacturing, currently known as Wuxi School of Technology (無錫職業技術學院)) as an internship tutor (實習指導老師). From September 1991 to August 2005, Mr. Peng worked in 江陰市交通職工學校 (Jiangyin City Transport Workers School*) as a teacher. Since August 2005 till now, Mr. Peng has worked in 江蘇省江陰職業技術教育中心校 (Jiangsu Provincial Jiangyin Central School of Vocational Technology Education*, currently known as 江蘇省江陰中等專業學校 (Jiangsu Provincial Jiangyin Secondary Professional School*)) as a teacher. Mr. Peng has been granted jointly by 中共江陰市交通局委員會 (Jiangyin City Transport Bureau Commission*) and Jiangyin City Transport Bureau the title of 先進生產(工作)者 (advanced (working) producer*) in February 2000 and January 2001, respectively.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms. WEI Yi (危奕), aged 44, was appointed as our Supervisor as a shareholder representative with effect from 15 August 2014. Ms. Wei obtained a bachelor's degree in engineering majoring in electronic precision machinery (電子精密機械) from Southeast University (東南大學) in July 1991. From August 1996 to July 1999, Ms. Wei studied Modern Financial Accounting courses at Xidian University (西安電子科技大學) and graduated from Xidian University in July 1997. Ms. Wei received the certificate of accounting professional issued by the Financial Department of Shaanxi Province (陝西省財政廳) in April 2003.

After graduating from Southeast University, Ms. Wei once worked as an engineer in 中國人民解放軍總後勤部 (General Logistics Department of the People's Liberation Army*). From January 2005 to December 2008, Ms. Wei worked as the chief financial officer at 陝西紅星鍋爐有限公司 (Shaanxi Red Star Boiler Company Limited*). Since May 2009 till now, Ms. Wei has worked as the deputy general manager of 卓穗電子科技(深圳)有限公司 (Zhuo Sui Electronic Science and Technology (Shenzhen) Company Limited*).

Ms. YANG Jinghua (楊靜華), aged 33, was appointed as our Supervisor as the employee representative with effect from July 2012. Ms. Yang graduated with a major in business administration (modern corporate administration) from 中央廣播電視大學 (China Central Radio and TV University*) in May 2006. From July 2000 to June 2006, she worked in Wuxi Alps Electronic Company Limited (無錫市阿爾卑斯電子有限公司) and her last position was training officer. From June 2006 to February 2007, she worked in Nippon Express (China) Company Limited (天字客貨運輸服務有限公司無錫分公司 (now known as 日通國際物流(中國)有限公司)), which was engaged in statistics work. Since May 2009, Ms. Yang has worked in our Company on personnel related work.

Disclosure Required under Rule 13.51(2) of the Listing Rules

無錫凱迪金屬製品有限公司 (Wuxi Kaidi Metal Products Company Limited*) (“Wuxi Kaidi”)

Mr. Zhang Degang, our executive Director, was a supervisor of Wuxi Kaidi, which was a limited liability company established in the PRC on 27 February 2007. He was also the holder of 35% of the equity interest in Wuxi Kaidi. As confirmed by Mr. Zhang Degang, (i) Wuxi Kaidi had been dormant since its establishment and had never commenced business; (ii) the business licence of Wuxi Kaidi was once revoked for its failure to attend annual examination; and (iii) Wuxi Kaidi was solvent at the time of its business licence being revoked. Subsequently, Wuxi Kaidi applied for members' voluntary winding up and its deregistration was approved by 無錫市濱湖工商行政管理局 (Administration for Industry & Commerce of Binhu, Wuxi City*) in June 2012.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

江陰三知工控有限公司 (Jiangyin Sanzhi Gongkong Company Limited*)

Mr. Zhang Deqiang, our executive Director, was the supervisor of Jiangyin Sanzhi; while Ms. Zhang Jinghua, our executive Director, was the legal representative, director and manager of Jiangyin Sanzhi. Jiangyin Sanzhi was a limited liability company established in the PRC on 14 October 2002, which was principally engaged in the installation, modification, repair and maintenance of industrial automatic control equipment. As confirmed by Mr. Zhang Deqiang and Ms. Zhang Jinghua, Jiangyin Sanzhi had ceased its business in 2005 and filed a deregistration application to the relevant tax authority, which was approved to proceed with onward deregistration procedure on 7 June 2005. However, the subsequent deregistration procedure was not completed. Jiangyin Sanzhi ceased attending annual examination since then and the business licence of Jiangyin Sanzhi was revoked by 無錫市江陰工商行政管理局 (Administration for Industry & Commerce of Jiangyin, Wuxi City*) in January 2006 for its failure to attend annual examination. Each of Mr. Zhang Deqiang and Ms. Zhang Jinghua confirmed that Jiangyin Sanzhi was solvent at the time of its licence being revoked. Jiangyin Sanzhi was subsequently deregistered on 23 October 2013.

Mr. Zhang Deqiang and Ms. Zhang Jinghua confirmed that Jiangyin Sanzhi was solvent at the time of its business license being revoked.

Save as disclosed, each of our Directors and Supervisors confirms with respect to him/her that: (i) he/she has not held any directorships in the last three years in any public companies the securities of which are listed on any securities market in Hong Kong or overseas; (ii) he/she does not have any relationship with any other Directors, senior management or substantial or Controlling Shareholders of our Company; (iii) he/she does not hold any positions in our Company or other members of our Group; (iv) he/she does not have any interests in the Shares within the meaning of Part XV of the SFO; (v) there is no other information that should be disclosed in respect of him/her pursuant to the requirements under Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules; and (vi) there are no other matters that need to be brought to the attention of our Shareholders.

SENIOR MANAGEMENT

Mr. MA Jinlong (馬錦龍), aged 38, joined our Group as our financial controller in March 2012 and started to serve as the secretary of our Board of Directors since July 2012.

Mr. Ma Jinlong graduated from Tianjin University (天津大學) in July 2003 majoring in business administration through distance learning. He obtained a qualification certificate of speciality and technology in accounting (intermediate level) approved and issued by the Ministry of Personnel of the PRC (中華人民共和國人事部) and conferred by the Ministry of Finance of the PRC (中華人民共和國財政部) in May 2004. Mr. Ma obtained a qualification certificate of speciality and technology in audit (intermediate level) approved and authorised by the Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部) and the National Audit Office of the PRC (中華人民共和國審計署) in October 2008.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

From November 1997 to April 1999, Mr. Ma worked as a general officer in 上海東方明珠星際娛樂有限公司 (Shanghai Dongfang Mingzhu Xingji Entertainment Company Limited*). From June 1999 to October 2003, Mr. Ma Jinlong worked in the finance department of 上海華綸印染有限公司 (Shanghai Hualun Printing and Dyeing Company Limited*). From October 2003 to February 2008, Mr. Ma worked in 上海滬邦印染有限公司 (Shanghai Hubang Printing and Dyeing Company Limited*) as finance manager, assistant to general manager and marketing manager. From March 2008 to February 2012, he worked in Shanghai Tofflon Science and Technology Company Limited (上海東富龍科技股份有限公司) (Shenzhen Stock Exchange stock code: 300171) as finance manager and financial controller.

Mr. XU Weigang (徐偉剛), aged 41, was appointed as the vice-general manager of our Company in July 2012.

Mr. Xu graduated from Jiang Su Cheng Shi Xue Yuan (江蘇城市學院) majoring in business administration in July 2012.

From 1994 to June 2004, Mr. Xu Weigang worked in China Bekaert Steel Cord Co. Ltd. (中國貝卡爾特鋼簾線有限公司). From July 2004 to June 2006, he worked in Bekaert Technology and Engineering (Jiangyin) Co. Ltd. (貝卡爾特技術工程(江陰)有限公司). From August 2007 to April 2008, he operated 江陰市臨港食品廠 (Jiangyin City Lingang Food Factory*), which was engaged in the business of manufacturing and processing of dry-fried food. In May 2008, Mr. Xu joined our Company as head of production department (製造部部長), and was promoted to vice-general manager (副總經理) in July 2012. He is responsible for the management and daily operation of our factory sites, and plays an active role in the quality control of our Company's products.

Mr. DENG Jianxing (鄧建興), aged 60, was appointed as the vice-general manager of our Company in July 2012.

Mr. Deng was qualified by 中國人民共和國勞動部 (the Ministry of Labour of the PRC*) as advanced level technician (高級技師) in November 1998. From 1970 to 2005, he worked in Haiying Enterprise Group Company Limited (海鷹企業集團有限責任公司) as a technical staff. From July 2005 to February 2009, Mr. Deng worked in Wuxi City Dechun Technology Company Limited (無錫市德純科技有限公司) as the head of technical department (技術主管). In February 2009, Mr. Deng joined our Company as the head of manufacturing department, and was subsequently appointed as our vice-general manager (副總經理) in July 2012.

Ms. HO Wing Yan (何詠欣), aged 33, was appointed as the company secretary of our Company on 16 August 2013. She graduated from Hong Kong Baptist University (香港浸會大學) and obtained a bachelor's degree in business administration (applied economics) in November 2004. She has also obtained a master degree of corporate governance from The Open University of Hong Kong (香港公開大學) in June 2009. She was admitted as an associate of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries in November 2009. Ms. Ho joined BMI Corporate Services Limited in

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

July 2009 and is currently its director. Ms. Ho has worked for several companies listed on the Stock Exchange and has extensive experience in the company secretarial field for listed companies. Ms. Ho is currently the company secretary of the following companies listed on the Stock Exchange:

Name	Stock Code	Position	Tenure
Artini China Co. Ltd.	789	company secretary	December 2013 till now
Chanceton Financial Group Limited	8020	company secretary	December 2011 till now
China Wood Optimization (Holding) Limited	8099	company secretary	July 2012 till now
Daqing Dairy Holdings Limited (formerly known as Global Dairy Holdings Limited)	1007	company secretary	April 2010 till now
Great China Holdings Limited	141	company secretary	August 2014 till now
HL Technology Group Limited	1087	company secretary	July 2010 till now
Huazhong Holdings Company Limited	6830	company secretary	February 2013 till now
上海交大慧谷信息產業股份 有限公司 (Shanghai Jiaoda Withub Information Industrial Company Limited*)	8205	company secretary	February 2010 till now
Winfoong International Limited	63	company secretary	April 2014 till now

As Ms. Ho is supported by different designated teams of professional staff within BMI Corporate Services Limited, she is confident that she is able to allocate sufficient time and has professional resources to perform her role as the company secretary of our Company.

Each of the senior management has not held any directorships in the past three years in other public companies the securities of which are listed on any securities market in Hong Kong or overseas.

COMPANY SECRETARY

We have appointed Ms. Ho Wing Yan as the company secretary of our Company. Please see the paragraph headed “Senior Management” in this section above for her biographical details.

BOARD COMMITTEES

Audit committee

We have established the audit committee with written terms of reference adopted on 16 August 2013 in compliance with Rule 3.22 of the Listing Rules and paragraph C.3 of the Code on Corporate Governance Practice as set out in Appendix 14 to the Listing Rules. The primary

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

duties of the audit committee, among other things, are to make recommendations to our Board on the appointment and removal of external auditors, review the financial statements and material advice in respect of financial reporting, and oversee internal control procedures of our Company. At present, the audit committee of our Company consists of three members, namely Mr. Ho Yuk Ming, Hugo, Mr. Liu Chaojian and Mr. Gao Feng. Mr. Ho Yuk Ming, Hugo is the chairman of the audit committee.

Remuneration and appraisal committee

We have established the remuneration and appraisal committee with written terms of reference adopted on 16 August 2013 in compliance with Rule 3.26 of the Listing Rules and paragraph B.1 of the Code on Corporate Governance Practice as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration and appraisal committee include the formulation and recommendation to our Board on the overall policy and structure for the remuneration of all of our Directors and senior management of our Group; the establishment of a formal and transparent procedure for developing policy on remuneration; the determination of specific remuneration packages of all executive Directors and senior management in the manner specified in the terms of reference; the recommendation to our Board of the remuneration of non-executive Directors; review and approval of performance-based remuneration; and review and recommendation to our Shareholders as to the fairness and reasonableness of the terms of any Director's service agreement which is subject to the prior approval of our Shareholders in any general meeting pursuant to the Listing Rules.

The remuneration and appraisal committee consists of Mr. Liu Chaojian, Mr. Gao Fuping and Mr. Zhang Deqiang. Mr. Liu Chaojian is the chairman of the remuneration and appraisal committee.

Nomination committee

We have established the nomination committee with written terms of reference adopted on 16 August 2013 in compliance with paragraph A5 of the Code on Corporate Governance Practice as set out in Appendix 14 to the Listing Rules. The primary function of the nomination committee is to make recommendations to our Board regarding candidates to fill vacancies on our Board. The nomination committee consists of three members, namely Mr. Zhang Degang, Mr. Ho Yuk Ming, Hugo and Mr. Gao Fuping. The chairman of the nomination committee is Mr. Zhang Degang.

Strategic committee

We have established the strategic committee with written terms of reference adopted on 20 July 2012. The primary duties of the strategic committee are to deliberate on and to propose suggestions with respect to our Company's long-term development strategic plans, major investments or plans that are subject to the approval by our Board pursuant to our Articles of Association, major capital operations and asset operation projects. The strategic committee consists of three members, namely Mr. Zhang Degang, Mr. Zhang Deqiang and Mr. Liu Chaojian. The chairman of the strategic committee is Mr. Zhang Degang.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Corporate Governance

We are committed to achieving high standards of corporate governance with a view to safeguarding the interests of our Shareholders as a whole. To accomplish this, we will comply with the code provisions set out in the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules after the Listing.

COMPLIANCE ADVISER

Our Company has appointed Cinda International Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise our Company in the following circumstances:

- (1) before the publication of any regulatory announcement, circular or financial report;
- (2) where a transaction, which might be a notifiable or connected transaction, is contemplated including but not limited to share issues and share repurchases;
- (3) where our Company proposes 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 operation of our Group deviate from any forecast, estimate, or other information in this prospectus; and
- (4) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the H Shares.

The term of appointment of the compliance adviser shall commence on the Listing Date and end on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date.

REMUNERATION OF DIRECTORS AND SUPERVISORS

Our Directors receive remuneration in the form of salaries, benefits in kind, discretionary bonuses and retirement scheme contributions made on their behalf. The aggregate amount of Directors' remuneration incurred for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014 was approximately RMB1,572,684, RMB1,498,840, RMB1,640,789 and RMB827,158, respectively. The aggregate amount of Supervisors' remuneration incurred for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014 was approximately RMB2,044,160, RMB284,332, RMB296,981 and RMB153,784, respectively.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

We have not paid any remuneration to our Directors, Supervisors or the five highest paid individuals as an inducement to join or upon joining us. We have not paid any compensation for loss of office to our Directors, past Directors, Supervisors, past Supervisors or the five highest paid individuals for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014. Furthermore, none of our Directors or Supervisors had waived any remuneration during the same period.

The aggregate amount of salaries, benefits in kind, discretionary bonuses and retirement scheme contributions to our five highest paid individuals of our Company, including Directors, for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014 was approximately RMB15,937,309, RMB8,979,069, RMB2,149,449 and RMB1,003,412, respectively.

Except for the above, no other payments have been paid or are payable in respect of the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, by us to our Directors and Supervisors.

Under the arrangements currently in force, the aggregate amount of remuneration (excluding any discretionary bonus which may be paid) and benefits in kind (including any retirement scheme contribution) payable by us to our Directors and Supervisors for the year ending 31 December 2014 is estimated to be approximately RMB2,000,000.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

As of the Latest Practicable Date, the following persons directly or indirectly controlled, or were entitled to exercise, or control the exercise of, 10% or more of our Shares:

Shareholder	Number of Shares held as of the Latest Practicable Date	Nature of interest	Approximate percentage of shareholding in the total share capital of our Company as of the Latest Practicable Date
Mr. Zhang Degang	43,221,504 Domestic Shares	Beneficial owner	45.02%
	34,010,496 Domestic Shares	Interest held jointly with another person ^(Note 1)	35.43%
	4,416,000 Domestic Shares	Interest in controlled corporation ^(Note 2)	4.60%
Mr. Zhang Deqiang	29,983,104 Domestic Shares	Beneficial owner	31.23%
	47,248,896 Domestic Shares	Interest held jointly with another person ^(Note 1)	49.22%
	4,416,000 Domestic Shares	Interest in controlled corporation ^(Note 2)	4.60%
Ms. Zhang Jinghua	4,027,392 Domestic Shares	Beneficial owner	4.20%
	77,620,608 Domestic Shares	Interest held jointly with another person ^(Note 1)	80.85%

Notes:

- (1) Mr. Zhang Degang, Mr. Zhang Deqiang and Ms. Zhang Jinghua are persons acting in concert and accordingly each of them is deemed to be interested in the Shares held by the others. By the Acting in Concert Agreement dated 26 July 2013, each of Mr. Zhang Degang, Mr. Zhang Deqiang and Ms. Zhang Jinghua confirmed that they have exercised their voting rights at the meetings of the shareholders and/or directors of members of our Group in unanimity since the establishment of Sanzhi Gongkong on 17 April 2009, and will continue to do so.
- (2) Mr. Zhang Degang and Mr. Zhang Deqiang are two of the general partners of Shunxin and are therefore deemed to be interested in the Shares held by Shunxin.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, each of the following persons/entities will, immediately following the completion of the Global Offering (without taking into account any H Shares which may be allotted and issued upon any exercise of the Over-allotment Option), have an interest and/or short position in the Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, 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 our general meetings:

<u>Shareholder</u>	<u>Number of Shares held after the Global Offering</u>	<u>Nature of interest</u>	<u>Approximate percentage of shareholding in the total share capital of our Company after the Global Offering^(Note 1)</u>
Mr. Zhang Degang	43,221,504 Domestic Shares	Beneficial owner	33.77%
	34,010,496 Domestic Shares	Interest held jointly with another person ^(Note 2)	26.57%
	4,416,000 Domestic Shares	Interest in controlled corporation ^(Note 3)	3.45%
Mr. Zhang Deqiang	29,983,104 Domestic Shares	Beneficial owner	23.42%
	47,248,896 Domestic Shares	Interest held jointly with another person ^(Note 2)	36.92%
	4,416,000 Domestic Shares	Interest in controlled corporation ^(Note 3)	3.45%
Ms. Zhang Jinghua	4,027,392 Domestic Shares	Beneficial owner	3.15%
	77,620,608 Domestic Shares	Interest held jointly with another person ^(Note 2)	60.64%

Notes:

- (1) The calculation is based on the assumption that the Over-allotment Option is not exercised and the total number of 128,000,000 Shares in issue after the Global Offering.
- (2) Mr. Zhang Degang, Mr. Zhang Deqiang and Ms. Zhang Jinghua are persons acting in concert and accordingly each of them is deemed to be interested in the Shares held by the others. By the Acting in Concert Agreement dated 26 July 2013, each of Mr. Zhang Degang, Mr. Zhang Deqiang and Ms. Zhang Jinghua confirmed that they have exercised their voting rights at the meetings of the shareholders and/or directors of members of our Group in unanimity since the establishment of Sanzhi Gongkong on 17 April 2009, and will continue to do so.
- (3) Mr. Zhang Degang and Mr. Zhang Deqiang are two of the general partners of Shunxin and are therefore deemed to be interested in the Shares held by Shunxin.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed above, our Directors are not aware of any persons who will, immediately following completion of the Global Offering, have an interest or a short position in the Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at our general meetings. Our Directors are not aware of any arrangement which may result in a change of control of our Company at any subsequent date.

SHARE CAPITAL

SHARE CAPITAL

As of the date of this prospectus, the registered share capital of our Company is RMB96,000,000, divided into 96,000,000 Domestic Shares with a nominal value of RMB1.00 each.

	Number of Shares of RMB1.00 each	Approximate percentage of total share capital
Domestic Shares held by our Promoters	<u>96,000,000</u>	<u>100%</u>

Immediately after completion of the Global Offering, and assuming the Over-allotment Option is not exercised, our share capital will be as follows:

	Number of Shares of RMB1.00 each	Approximate percentage of total share capital
Domestic Shares held by our Promoters ^(Note)	<u>96,000,000</u>	<u>75%</u>
H Shares issued pursuant to the Global Offering	<u>32,000,000</u>	<u>25%</u>
Total share capital	<u>128,000,000</u>	<u>100%</u>

Note: By virtue of the Company Law, the Domestic Shares held by our Promoters are not transferable within one year of the Listing Date.

Immediately after completion of the Global Offering, and assuming the Over-allotment Option is exercised in full, our share capital will be as follows:

	Number of Shares of RMB1.00 each	Approximate percentage of total share capital
Domestic Shares held by our Promoters ^(Note)	<u>96,000,000</u>	<u>72.29%</u>
H Shares issued pursuant to the Global Offering	<u>36,800,000</u>	<u>27.71%</u>
Total share capital	<u>132,800,000</u>	<u>100%</u>

Note: By virtue of the Company Law, the Domestic Shares held by our Promoters are not transferable within one year of the Listing Date.

SHARE CAPITAL

OUR SHARES

Our Domestic Shares and H Shares are both ordinary Shares in the share capital of our Company. H Shares may only be subscribed for and traded in Hong Kong dollars. Domestic Shares, on the other hand, may only be subscribed for and transferred in Renminbi. Apart from certain qualified domestic institutional investors in the PRC, H Shares generally cannot be subscribed for by or traded between legal or natural persons of the PRC. Domestic Shares, on the other hand, can only be subscribed for by and transferred between legal or natural persons of the PRC, qualified foreign institutional investors or qualified foreign strategic investors. We must pay all dividends in respect of H Shares in Hong Kong dollars and all dividends in respect of Domestic Shares in Renminbi.

Our Promoters hold all existing Domestic Shares as promoter shares (as defined in the Company Law). By virtue of the Company Law, the promoter shares are not transferable within one year of the Listing Date.

Except as described in this prospectus and in relation to the dispatch of notices and financial reports to our Shareholders, dispute resolution, registration of Shares in different parts of our register of Shareholders, the method of share transfer and the appointment of dividend receiving agents, which are all provided for in the Articles of Association and summarised in Appendix VI to this prospectus, our Domestic Shares and our H Shares will rank pari passu with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. However, the transfer of Domestic Shares is subject to such restrictions as the PRC law may impose from time to time. Save for the Global Offering, we do not propose to carry out any public or private issue or to place securities simultaneously with the Global Offering or within the next six months from the Listing Date. We have not approved any share issue plan other than the Global Offering.

CONVERSION OF OUR DOMESTIC SHARES INTO H SHARES

Conversion of Domestic Shares

Upon the completion of the Global Offering, we will have two classes of ordinary Shares, H Shares and Domestic Shares. All of our Domestic Shares are unlisted Shares which are not listed or traded on any stock exchange. According to the stipulations by the State Council's securities regulatory authority and the Articles of Association, our Domestic Shares may be converted into H Shares, and such converted H Shares may be listed or traded on an overseas stock exchange, provided that prior to the conversion and trading of such converted shares any requisite internal approval processes (but it does not require Shareholders' approval by class) shall have been duly completed and the approval from the relevant PRC regulatory authorities, including the CSRC, shall have been obtained (the "Arrangement"). In addition, such conversion, trading and listing shall in all respects comply with the regulations prescribed by the State Council's securities regulatory authorities and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange. All of our Domestic Shares are subject to the Arrangement and may be converted into H Shares upon the approval of the relevant regulatory authorities, including the CSRC and the Stock Exchange.

If any of our Domestic Shares are to be converted and to be traded as H Shares on the Stock Exchange, such conversion will need to obtain the approval of the relevant PRC regulatory authorities including the CSRC. Approval of the Stock Exchange is required for the listing of such converted Shares on the Stock Exchange. Based on the methodology and

SHARE CAPITAL

procedures for the conversion of our Domestic Shares into H Shares as described in this section, we can apply for the listing of all or any portion of our Domestic Shares on the Stock Exchange as H Shares in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Stock Exchange and delivery of Shares for entry on our H Share register. As any listing of additional shares after our initial listing on the Stock Exchange is ordinarily considered by the Stock Exchange to be a purely administrative matter, it does not require such prior application for listing at the time of our initial listing in Hong Kong.

No class shareholder voting is required for the listing and trading of the converted Shares on an overseas stock exchange. Any application for listing of the converted Shares on the Stock Exchange after our initial listing is subject to prior notification by way of announcement to inform our Shareholders and the public of any proposed conversion.

Please see the paragraph headed “Risk Factors – Risks relating to the Global Offering – Any possible conversion of our Domestic Shares into H Shares in the future could increase the supply of our H Shares in the market and negatively impact the market price of our H Shares” in this prospectus.

Mechanism and Procedure for Conversion

After all the requisite approvals have been obtained, the following procedure will need to be completed in order to effect the conversion: the relevant Domestic Shares will be withdrawn from the Domestic Share register and we will re-register such Shares on our H Share register maintained in Hong Kong and instruct our H Share Registrar to issue H Share certificates. Registration on our H Share register will be conditional on (a) our H Share Registrar lodging with the Stock Exchange a letter confirming the proper entry of the relevant H Shares on our H Share register and the due dispatch of H Share certificates and (b) the admission of the H Shares to trade on the Stock Exchange in compliance with the Listing Rules, the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the converted Shares are re-registered on our H Share register, such Shares would not be listed as H Shares.

To our Directors’ knowledge, none of our Shareholders currently proposes to convert any of the Domestic Shares held by them into H Shares.

TRANSFER OF SHARES ISSUED PRIOR TO LISTING DATE

The Company Law provides that in relation to the Hong Kong public offering of a company, the shares issued by a company prior to the Hong Kong public offering shall not be transferred within a period of one year from the date on which the publicly offered shares are traded on any stock exchange. Accordingly, Shares issued by our Company prior to the Listing Date shall be subject to this statutory restriction and not be transferred within a period of one year from the Listing Date.

REGISTRATION OF SHARES NOT LISTED ON OVERSEAS STOCK EXCHANGE

According to the Notice of Centralised Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange (《關於境外上市公司非境外上市股份集中登記存管有關事宜的通知》) issued by the CSRC, an overseas listed company is required to register its shares that are not listed on the overseas stock exchange with China Securities Depository and Clearing Corporation Limited within 15 Business Days upon Listing.

FINANCIAL INFORMATION

You should read the following discussion and analysis of our Group's financial condition and results of operations in conjunction with our consolidated financial statements for each of the three years ended 31 December 2013 and the six months ended 30 June 2014 together with the accompanying notes, set out in Appendix I to this prospectus. The consolidated financial statements have been prepared in accordance with HKFRS. You should read the Accountant's Report in Appendix I to this prospectus and not rely merely on the information contained in this section.

The following discussion and analysis may contain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by our Company in light of our experience and perception of historical trends, current condition and expected future developments, as well as other factors that it believes are appropriate under the circumstances. However, whether actual outcome and developments will meet the expectations and predictions of our Company depends on a number of factors over which our Company has no control. For additional information, please refer to the section headed "Risk Factors" in this prospectus.

OVERVIEW

We are an integrated production solution provider of steel wire products in the PRC. We are principally engaged in the research and development, design, manufacturing, equipment supply, installation, testing, repair and maintenance of production lines for manufacturing steel wire products pursuant to customers' specific production requirements. According to Frost & Sullivan, in terms of revenue, we were the largest manufacturer for radial type cord, sawing wire and hose wire production equipment manufacturers with a market share of 14.3%, and the largest brass electroplating wire production line manufacturer in the PRC with a market share of 44.9% in 2013.

Our product portfolio covers brass electroplating wire production lines, intermediate wire heat treatment production lines, wire rod preparation lines, zinc hot plating production lines, tin bronze plating wire production lines and standalone machines. We sell the products either on a standalone or an integrated basis to accommodate various needs of our customers. We also provide equipment modification, and after-sales repair and maintenance services to customers during which revenue is generated from the sales of mould repairing equipment, component parts, and accessories.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Our Company was converted into a joint stock company with limited liability from our Predecessor Company under the relevant PRC laws and regulations on 24 July 2012 with a registered capital of RMB96 million. As a result of the Reorganisation, our Company became the holding company of the subsidiaries now comprising our Group. Please refer to the section headed "History, Development and Reorganisation" for further details of our Reorganisation.

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As our Company and our subsidiaries involved in the Reorganisation are under common control of Mr. Zhang Degang, Mr. Zhang Deqiang and Ms. Zhang Jinghua both before and after the Reorganisation and the control is not transitory, the Reorganisation has been accounted for as a reorganisation of business under common control and the consolidated financial statements of our Group have been prepared using the principle of merger accounting.

The consolidated financial statements present the consolidated results, cash flows and financial position of the companies comprising our Group as if the structure of our Group had been in existence throughout the Track Record Period or since their respective dates of incorporation/establishment or acquisition, whichever is the shorter period.

FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following are some factors which have, and will continue to have, a material impact on our results of operations and financial condition.

Conditions and regulations affecting the steel wire product manufacturing industry

Our business is affected by conditions in the PRC steel wire product manufacturing industry. During the Track Record Period, almost all of our revenue was generated from the sales of production lines, equipment and accessories to the steel wire product manufacturers in the PRC. The demand for our products depends on a variety of factors, including the demand for steel wire products from downstream industries, changes in general economic conditions, equipment procurement, demand for upgrade of equipment, our customers' replacement or repair cycles, overall product life cycles of steel wire product manufacturing equipment and competitive pressure.

In particular, the demand for steel wire products from downstream industries such as automotive, solar photovoltaic, agricultural machinery, coal mining, oil pipeline and construction machinery industries are subject to, or significantly affected by, a wide array of regulations, including developmental, environmental and health and safety laws, regulations and policies such as 《輪胎產業政策》 (Tyre Industry Policy*). These PRC laws, regulations and policies are expected to continue to evolve in ways we cannot predict and may have a material effect on the demand for the steel wire products.

Any changes in demand for and prices of steel wire products and in turn the demand for steel wire product manufacturing equipment in the PRC, could materially affect our business, results of operations and financial condition.

Product mix

Our products have different gross profit margins. In general, our brass electroplating wire production lines have a relatively large contract value and have a higher gross profit margin due to our proprietary technologies incorporated in our design. Therefore, an increase in sales

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from our brass electroplating wire production lines may result in an increase in revenues and gross profit margin, and vice versa. Our product offerings also cover standalone machines, such as double-twist stranding machines and wet drawing machines, and we also plan to expand our product offerings, such as to provide a comprehensive set of production lines for manufacturing steel wire products to our customers. These products may not have the gross profit margin as high as our brass electroplating wire production lines. As such, increase in the proportion of sales of standalone machines, other production lines and other product offerings could have an adversely impact on our overall gross profit margin.

Timing of our cash flow and revenue recognition

Our operations could require our Group to utilise large sums of working capital, sometimes on short notice. For example, we usually receive a first payment from customers of 20% to 30% of the contract value either upon signing of the contract or within a specific period (which is usually within one week from the date of the contract). In order to ensure the manufacturing progress of our products, we may sign purchase contracts with raw materials and equipment suppliers that require cash expenditure throughout our manufacturing process. With payment terms given by our suppliers typically within three months, our obligation to pay may not be in the same financial year as we sign the sales contracts. This may result in timing mismatches. As such, our cash flows from operating activities are relatively uneven, and therefore we may record cash outflow from operating activities.

Although we did not grant credit terms to customers in the sales contract, we in effect granted credit terms to certain customers in view of our trade receivables remaining outstanding and being past due. We have high trade receivable balances of RMB239.3 million, RMB192.9 million, RMB240.9 million and RMB205.0 million, and with turnover days of our trade receivables at 187.6 days, 217.6 days, 275.7 days and 266.6 days as of the end of each Track Record Period. The high trade receivable balances and increase in turnover days of trade receivables during the Track Record Period was mainly because we did not strictly enforce our contractual payment terms in light of the creditworthiness of our customers and that we aim to maintain a harmonious business relationship with our customers. Some of our major customers are companies (or subsidiaries of companies) listed on the Stock Exchange or the Shenzhen Stock Exchange. The delay in settlement of payment by substantial number of our customers may result in untimely cash inflow and cash outflow mismatch and significant cash flow shortcomings.

We only recognise revenue upon the receipt of acceptance certificate issued by our customers after passing the final on-site testing of our products. During the Track Record Period, we experienced delays in on-site installation, final testing and trial production of our products, which had delayed the timing of revenue recognition of our sales. The delays were beyond our control and largely depended on the readiness of testing and production on the part of our customers. This may adversely affect our operational performance and financial results.

Research and development

We have developed several landmark products, such as the brass electroplating wire production lines, intermediate wire heat treatment production lines and double-twist stranding machines in the PRC. We believe our research and development capabilities have been and will continue to be critical to our business and competitiveness. Please refer to the section headed “Business – Research and Development” for further details.

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To enhance our competitiveness, we have invested substantially in research and development. Our total expenditures for research and development for years 2011, 2012 and 2013 and the first half of 2014 were RMB20.0 million, RMB16.4 million, RMB14.0 million and RMB10.3 million, respectively. We are setting up our New Research & Development Centre, which is expected to commence operation by the first half of 2015. Subject to the market conditions, we will recruit about 21 in-house research and development experts by the first half of 2015. We intend to continue to enhance our research and development capabilities and maintain our leadership in the industry by fully utilising our research and development facilities and resources. We have also outsourced some of the research and development, and have cooperated with various universities and research institute in the PRC on certain designated development projects. For the years 2011 and 2012, our outsourced research and development expenses were RMB12.3 million and RMB4.9 million respectively. We did not recognise any outsourced research and development expenses for the year 2013 and the first half of 2014 as we did not have any collaboration with universities and the research institute during that year. Our ability to develop new products, improve existing products and enhance our manufacturing processes will have a material effect on our production and sales volumes and, consequently, our business, results of operations, financial condition and profitability.

Competition

As stated in the section headed “Industry Overview” of this prospectus, we were the leading manufacturer of brass electroplating wire production lines in the PRC with 44.9% of the market share in 2013. Apart from a few major players, the industry comprises a large number of relatively small manufacturers. Our major competitors include a standalone machine manufacturer in Jiangsu, the PRC, whose products include wet drawing machines, double-twist stranding machines, and dry drawing machines. Any intensified competition among major players in terms of pricing would adversely affect our profitability.

CRITICAL ACCOUNTING POLICIES

Our financial condition and results of operations are sensitive to accounting policies, assumptions and estimates that underlie the preparation of our consolidated financial statements. Our financial information is prepared in accordance with HKFRS, which requires certain assumptions and estimates be made which affect our financial information. Significant accounting policies are those that require our management to exercise judgment and make estimates that could result in significantly different results should future events affecting estimates differ from the management’s current judgments. These policies involve assumptions and estimates important to the portrayal and understanding of our results of operations and financial condition. These policies are fully set forth in the “Accountant’s Report – Summary of Significant Accounting Policies” of Appendix I to this prospectus. We have identified the following policies as critical to understand our results of operations and financial condition:

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes.

FINANCIAL INFORMATION

For sales of goods, installments received on goods sold prior to the date of revenue recognition are recorded as “advances from customers”. We recognise revenue at the full amount of agreed selling price when the risk and reward of the goods has been transferred to the customer and the collection of related consideration is reasonably assured, which is usually upon (1) delivery of products to the customer, (2) completion of the installation and on-site testing (if required in sale contract), and (3) the acceptance by the customer of the equipment without any further unfulfilled obligation.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

Impairment of receivables

We assess at the end of each Track Record Period whether there is objective evidence that a receivable is impaired. Evidence of impairment may include indications that the debtors or a group of debtors are/is experiencing significant finance difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other finance reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The amount of impairment is measured as the difference between the receivable’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the receivable’s original effective interest rate. The carrying amount of the receivable is reduced and the amount of impairment is recognised in the consolidated income statement.

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SUMMARY OF RESULTS OF OPERATIONS

The following table sets out the selected financial information of our Group during the Track Record Period, which are derived from, and should be read in conjunction with, the consolidated financial information set out in the Accountant's Report set out in Appendix I in this prospectus.

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB	RMB	RMB	RMB	RMB
Revenue	465,667,295	323,596,692	318,948,014	183,834,055	140,294,591
Cost of sales	(253,976,804)	(130,253,706)	(133,125,571)	(77,376,398)	(58,852,673)
Gross profit	211,690,491	193,342,986	185,822,443	106,457,657	81,441,918
Selling expenses	(7,866,194)	(5,266,985)	(5,166,110)	(2,141,669)	(3,274,223)
Administrative expenses	(71,969,962)	(59,200,706)	(47,565,529)	(27,966,072)	(11,612,133)
Other income	12,302,243	20,729,619	20,270,410	5,667,539	3,062,443
Other (losses)/gains – net	(1,242,157)	80,146	(13,912)	19,705	51,644
Operating profit	142,914,421	149,685,060	153,347,302	82,037,160	69,669,649
Net finance income	374,149	840,029	113,541	197,821	140,994
Profit before income tax	143,288,570	150,525,089	153,460,843	82,234,981	69,810,643
Income tax expense	(33,192,048)	(25,256,584)	(22,468,595)	(16,532,035)	(14,360,271)
Profit for the year	<u>110,096,522</u>	<u>125,268,505</u>	<u>130,992,248</u>	<u>65,702,946</u>	<u>55,450,372</u>

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DESCRIPTION OF THE MAJOR COMPONENTS OF THE CONSOLIDATED INCOME STATEMENTS

Revenue

Our revenue is derived primarily from the sales of our products to the customers. Our principal products are brass electroplating wire production lines, intermediate wire heat treatment production lines, wire rod preparation lines, zinc hot plating production lines and standalone machines. The table below represents our revenue generated from the sale of principal products during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2011		2012		2013		2013		2014	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
Brass electroplating wire production lines	161,820,512	34.8	222,458,343	68.7	230,114,221	72.1	133,195,025	72.5	96,876,068	69.0
Other production lines	29,053,572	6.2	53,353,351	16.5	9,452,838	3.0	7,820,513	4.2	3,589,744	2.6
Standalone machines	229,655,419	49.3	18,947,008	5.8	41,564,103	13.0	32,588,034	17.7	28,512,820	20.3
Other mould repairing equipment, component parts, and accessories	45,137,792	9.7	28,837,990	9.0	37,816,852	11.9	10,230,483	5.6	11,315,959	8.1
	<u>465,667,295</u>	<u>100</u>	<u>323,596,692</u>	<u>100</u>	<u>318,948,014</u>	<u>100</u>	<u>183,834,055</u>	<u>100</u>	<u>140,294,591</u>	<u>100</u>

We historically derived our revenue primarily from the sales of brass electroplating wire production lines which accounted for 34.8%, 68.7%, 72.1% and 69.0% of our total revenue during the Track Record Period, respectively, while the percentage of sales of other production lines increased from 6.2% in 2011 to 16.5% in 2012, but then decreased to 3.0% in 2013 and 2.6% in the first half of 2014.

Our revenue decreased from RMB465.7 million for 2011 to RMB323.6 million for 2012, and then slightly further decreased to RMB318.9 million for 2013. The significant decrease in 2012 was mainly attributable to the significant movement in the revenue from sales of standalone machines from 2011 to 2012.

The sales of standalone machines, principally comprising the double-twist stranding machines and wet drawing machines, experienced a significant fluctuation during the Track Record Period. The sales decreased by 91.7% in 2012, then increased by 119.4% in 2013. Revenue from sales of standalone machines accounted for 49.3%, 5.8%, 13.0% and 20.3% of our total revenue during the Track Record Period.

The decrease in 2012 was mainly attributable to the decrease in demand for our wet drawing machines which are necessary manufacturing equipment for producing sawing wires, and our double-twist stranding machines which are used in manufacturing radial tyre cords.

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The sawing wires are used in precision cutting or forming of photovoltaic solar panes in the solar photovoltaic industry. The PRC government has adopted policies in support of the photovoltaic industry which is believed to have led to substantial growth in the installed capacity of photovoltaic sales panels in the PRC. Please refer to the paragraph headed “Industry Overview – Analysis of the Chinese Photovoltaic Market” of this prospectus.

The market demand for photovoltaic products had a direct and significant impact on our performance during the Track Record Period. Going forward, the Chinese photovoltaic industry is expected to remain a material factor affecting our performance as the industry sustains a steady growth as envisaged by the Frost & Sullivan Report.

Our revenue from sales of standalone machines increased to RMB41.6 million for 2013. The increase was primarily due to the increase in sales of double-twist stranding machines as a result of the growth in demand of radial tyre cord in automotive industry.

Our revenue decreased from RMB183.8 million for the first half of 2013 to RMB140.3 million for the first half of 2014. The significant decrease was mainly attributable to the decrease in number of our brass electroplating wire production lines acknowledged and accepted by our customers during the period. For example, one customer was still in the process of testing one brass electroplating wire production line with the sales amount of RMB13.7 million in the first half of 2014. The testing process is expected to complete in the second half of 2014.

The decrease was also attributable to the decrease in revenue from sales of our standalone machines by 12.5% in the first half of 2014 as compared to our sales in the first half of 2013. The decrease was partly because a higher proportion of double-twist stranding machines which were used to produce different types of wire thread bunches and with a lower average selling price was sold during the period. In addition, we endeavour to grow our market share by reducing the average selling price of our standalone machines. For the first half of 2014, our sales of standalone machines included only double-twist stranding machines, and their average selling price decreased from RMB0.3 million for the first half of 2013 to RMB0.2 million for the first half of 2014.

From 1 July 2014 to the Latest Practicable Date, we entered into one sales contract in relation to the standalone machines with a total contract value of RMB41.3 million. As this is still a significant short-coming as compared to our sales of standalone machines in 2011, the Directors expect it unlikely that the sales of standalone machines would revert to the historic sales level of 2011 in the year 2014.

However, the Directors believe that there will be a steady growth of sales for these products, having taken into account Frost & Sullivan’s view that the Chinese photovoltaic industry should sustain a steady growth at a moderate rate in the near future, and that the growth of Chinese photovoltaic industry will support a steady growth of demand for sawing wires.

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We historically derived our revenue primarily from the sales of brass electroplating wire production lines, which are applied in the manufacturing of radial tyre cords, steel sawing wires and hose wires. Hose wires are in turn applied in various industries, including coal mining, agricultural machinery, construction machinery and oil pipeline industries. During the Track Record Period, we did not notice a material impact on our sales of brass electroplating production lines as a result of fluctuations in performance of the coal mining industry.

We also provide equipment modification and after-sales repair and maintenance services to our customers, during which we generated revenue from sales of mould repairing equipment, component parts and accessories. For after-sales repair and maintenance services, the accessories are provided to our customers free of charge during the quality warranty period of our products which is usually one year, but will be charged after the expiry of the quality warranty period. Revenue from sale of the mould repairing equipment, component parts and accessories under the equipment modification and after-sales services accounted for 9.7%, 9.0%, 11.9% and 8.1% of our total revenue during the Track Record Period.

Cost of sales

Our cost of sales mainly comprised cost of materials, employee benefit expenses and manufacturing overhead costs such as depreciation and utility charges. The following table sets out the breakdown of the cost of sales of our Group for the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2011		2012		2013		2013		2014	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
Cost of materials	201,229,105	79.2	101,892,351	78.2	107,260,280	80.6	62,078,506	80.2	50,063,658	85.1
Employee benefit expenses	8,170,390	3.2	7,437,100	5.7	9,017,764	6.7	4,915,789	6.4	4,026,565	6.8
Manufacturing overhead	28,786,280	11.4	20,924,255	16.1	16,847,527	12.7	10,382,103	13.4	4,762,450	8.1
Share-based payments	15,791,029	6.2	-	-	-	-	-	-	-	-
	<u>253,976,804</u>	<u>100</u>	<u>130,253,706</u>	<u>100</u>	<u>133,125,571</u>	<u>100</u>	<u>77,376,398</u>	<u>100</u>	<u>58,852,673</u>	<u>100</u>

The share-based payments related to the transfer of the Shares by Mr. Zhang Degang and Mr. Zhang Deqiang to Shunxin and the transfer of Shunxin's shares to employees at a price below the market price as consideration for the services received by our Group. The share-based arrangement was accounted for as the equity-settled share-based payments in our consolidated financial statements as it was share-based transaction settled by the shareholders on behalf of our Group receiving services. As there is no vesting condition contained in the share-based arrangement, the expense derived from the share-based payment was recognised upon the grant date and will have no impact on our profit going forward.

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The largest component of our cost of sales was cost of materials, which amounted to RMB201.2 million, RMB101.9 million, RMB107.3 million and RMB50.1 million, representing 79.2%, 78.2%, 80.6% and 85.1% of our total cost of sales, respectively, during the Track Record Period.

The table below sets out the details of raw materials and consumables used in our cost of sales during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2011		2012		2013		2013		2014	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
Tailored components made under our specific design	99,726,477	49.6	45,677,009	44.8	46,999,978	43.8	28,729,983	46.3	24,703,751	49.3
Electrical components	61,458,108	30.5	32,727,310	32.1	34,703,753	32.4	19,174,029	30.9	14,552,136	29.1
General parts	30,583,583	15.2	17,273,390	17.0	19,710,377	18.4	11,059,894	17.8	8,530,147	17.0
Other materials	9,460,937	4.7	6,214,642	6.1	5,846,172	5.4	3,114,600	5.0	2,277,624	4.6
	<u>201,229,105</u>	<u>100</u>	<u>101,892,351</u>	<u>100</u>	<u>107,260,280</u>	<u>100</u>	<u>62,078,506</u>	<u>100</u>	<u>50,063,658</u>	<u>100</u>

While the cost of materials accounted for a significant part of our cost of sales during the Track Record Period, we have wide diversified range of materials of over 1,000 types involved in our production. For example, purchases of IGBT, our single largest type of raw materials used in our brass electroplating wire production lines, accounted for 5.4%, 7.5%, 5.4% and 8.7% of our total purchases of raw materials during the Track Record Period. Accordingly, we consider that the increase or decrease in the purchase cost of any particular type of materials will not have a significant impact on our profit margins.

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Gross profit and gross profit margin

The table below sets out our gross profit and gross profit margin by principal products during the Track Record Period:

	Year ended 31 December				Six months ended 30 June						
	2011		2012		2013		2014				
	RMB	%	RMB	%	RMB	%	RMB	%			
Brass electroplating wire production lines	106,092,887	65.6	145,002,148	65.2	146,053,721	63.5	83,534,800	62.7	68,718,244	70.9	84.4
Other production lines	11,729,263	40.4	27,185,117	51.0	3,810,066	40.3	3,360,229	43.0	751,619	20.9	0.9
Standalone machines	74,956,522	32.6	5,869,098	31.0	16,312,543	39.2	13,641,547	41.9	6,780,115	23.8	8.3
Other mould repairing equipment, component parts, components and accessories	18,911,819	41.9	15,286,623	53.0	19,646,113	52.0	5,921,081	57.9	5,191,940	45.9	6.4
	211,690,491	45.5	193,342,986	59.7	185,822,443	58.3	106,457,657	57.9	81,441,918	58.1	100.0

Our brass electroplating wire production lines had a relatively high gross profit margin of 65.6%, 65.2%, 63.5% and 70.9% during each Track Record Period. This was mainly due to our proprietary technologies incorporated in our design, and our dominant market share in the PRC. In addition, we believe that our “Sunlit” (盛力達) brand is well recognised by the market and customers in the PRC, and our products also received a number of awards and accolades accredited by various organisations or government authorities.

We priced our products based on, among other things, the prevailing market price of similar products. In terms of market price, imported equipment generally carries a substantial higher price tags than domestic equipment. With a standard and quality we believe comparable to those of the imported equipment, our brass electroplating wire production lines were therefore priced with reference to those of the imported equipment. While there was still a significant price margin that the imported equipment over our brass electroplating wire production lines, our selling price had already allowed us to generate a relatively high gross profit margin for our brass electroplating wire production lines during the Track Record Period.

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Other income

Our other income increased by 68.5% from RMB12.3 million for 2011 to RMB20.7 million for 2012, and slightly decrease by 2.2% to RMB20.3 million for 2013. Our other income decreased by 46.0% from RMB5.7 million for the first half of 2013 to RMB3.1 million for the first half of 2014. Other income primarily comprised VAT refunds and government subsidies.

Pursuant to 《鼓勵軟件產業和集成電路產業發展有關稅收政策問題的通知》 (Notice in respect of the Encouragement of Development of Software and Integrated Circuit industries*) jointly issued by the MOF, State Administration of Taxation and General Administration and Custom on Taxation Policy and 《國務院關於印發進一步鼓勵軟件產業和集成電路產業發展若干政策的通知》 (Notices on Issuing Policies on Further Encouraging the Development of Software and Integrated Circuits Industry*) issued by the State Council, the sales of self-developed software products of our Company and Haisheng Software are entitled to VAT refunds from July 2010 until June 2015 and December 2011 until October 2016, respectively.

Our government subsidies represent subsidies for our scientific research projects and corporate development subsidies, as well as incentive for our Company's listing plan.

Our other income as a percentage of our total revenue were 2.6%, 6.4%, 6.4% and 2.2% during the Track Record Period.

Selling expenses

Our selling expenses mainly comprised transportation expenses for delivery of our products and travelling expenses for promotion of our products and participation in various industry exhibitions. During the Track Record Period, our selling expenses represent 1.7%, 1.6%, 1.6% and 2.3% of our total revenue, respectively. The following table sets out the breakdown of our selling expenses incurred:

	Year ended 31 December						Six months ended 30 June			
	2011		2012		2013		2013		2014	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
Transportation expenses	5,727,980	72.8	3,123,116	59.3	2,550,246	49.4	1,392,468	65.0	1,364,334	41.7
Travelling expenses	–	–	878,007	16.7	717,860	13.9	348,484	16.3	301,233	9.2
Promotional expenses	137,000	1.8	580,504	11.0	294,551	5.7	7,350	0.3	64,736	2.0
Depreciation and amortisation	–	–	–	–	–	–	–	–	215,289	6.6
Quality warranty provisions	550,160	7.0	203,572	3.9	385,366	7.4	122,315	5.7	273,922	8.3
Share-based payments	1,299,554	16.5	–	–	–	–	–	–	–	–
Staff costs	–	–	455,468	8.6	1,172,956	22.7	254,000	11.9	985,915	30.1
Others	151,500	1.9	26,318	0.5	45,131	0.9	17,052	0.8	68,794	2.1
	<u>7,866,194</u>	<u>100</u>	<u>5,266,985</u>	<u>100</u>	<u>5,166,110</u>	<u>100</u>	<u>2,141,669</u>	<u>100</u>	<u>3,274,223</u>	<u>100</u>

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Administrative expenses

Our administrative expenses mainly comprised research and development expenses, employee benefit expenses and allowance for impairment of receivables. During the Track Record Period, our administrative expenses represent 15.5%, 18.3%, 14.9% and 8.3% of our total revenue, respectively. The following table sets out the breakdown of our administrative expenses incurred:

	Year ended 31 December						Six months ended 30 June			
	2011		2012		2013		2013		2014	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
Research and development expenses	19,964,621	27.7	16,423,126	27.8	14,010,272	29.5	6,990,959	25.0	10,263,523	88.4
Allowance (reversal of allowance) for impairment of receivables	17,443,902	24.2	8,436,202	14.3	11,459,553	24.1	5,800,221	20.7	(11,494,622)	(99.0)
Employee benefit expenses	7,831,598	11.0	11,092,209	18.7	8,198,594	17.1	5,388,018	19.3	4,163,256	35.9
Share-based payments	13,555,796	18.8	6,942,545	11.7	-	-	-	-	-	-
Entertainment expenses	3,627,015	5.0	4,308,150	7.3	3,875,736	8.1	2,304,907	8.2	1,843,706	15.9
Travelling expenses	1,872,221	2.6	1,851,057	3.1	2,654,994	5.6	846,991	3.0	1,175,265	10.1
Depreciation and amortisation	1,280,028	1.8	2,431,817	4.1	2,139,183	4.5	1,082,984	3.9	1,093,315	9.4
Other taxes	1,629,879	2.3	1,716,733	2.9	2,059,817	4.3	1,133,868	4.1	908,692	7.8
Office expenses	3,075,019	4.3	3,628,611	6.1	1,977,566	4.2	970,595	3.5	713,060	6.1
Professional fees	1,439,143	2.0	2,237,095	3.8	743,806	1.6	293,557	1.0	2,838,072	24.4
Charitable donation	30,000	-	20,000	-	320,000	0.7	-	-	-	-
Other expenses	220,740	0.3	113,161	0.2	126,008	0.3	32,129	0.1	107,866	0.8
Listing expenses	-	-	-	-	-	-	3,121,843	11.2	-	-
	<u>71,969,962</u>	<u>100</u>	<u>59,200,706</u>	<u>100</u>	<u>47,565,529</u>	<u>100</u>	<u>27,966,072</u>	<u>100</u>	<u>11,612,133</u>	<u>100</u>

Finance income/(cost), net

Our finance income mainly comprised bank interest income and interest income on wealth management products. Our finance costs mainly comprised interest expense paid for bank borrowings and discount of notes receivable. During the Track Record Period, our net finance income represent 0.1%, 0.3%, 0.1% and 0.1% of our total revenue, respectively. The following table sets out the breakdown of our net finance income/(cost):

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB	RMB	RMB	RMB	RMB
Finance income:					
- Bank interest income	449,412	992,005	1,938,541	1,107,821	1,050,994
- Interest income on wealth management products	638,898	1,403,320	-	-	-
	<u>1,088,310</u>	<u>2,395,325</u>	<u>1,938,541</u>	<u>1,107,821</u>	<u>1,050,994</u>
Finance costs:					
- Interest expense for bank borrowings	(76,151)	(1,555,296)	(1,825,000)	(910,000)	(910,000)
- Discount of notes receivable	(638,010)	-	-	-	-
	<u>(714,161)</u>	<u>(1,555,296)</u>	<u>(1,825,000)</u>	<u>(910,000)</u>	<u>(910,000)</u>
Finance income net	<u>374,149</u>	<u>840,029</u>	<u>113,541</u>	<u>197,821</u>	<u>140,994</u>

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During the Track Record Period, we invested in certain wealth management products from which we derived interest income of RMB0.6 million, RMB1.4 million, nil and nil, respectively. We ceased investing in these products since August 2012. In relation to our investment and treasury policies in the future, our Directors confirm that we will take a conservative approach, and focus on our core business development. Our Directors confirm that we do not expect to engage in further investment in wealth management products.

Taxation

Our applicable PRC corporate income tax (“CIT”) rate is 25% according to the New CIT Law. Under the relevant regulations of the New CIT Law, we qualified as High/New Tech Enterprise in 2010, valid for three years. Accordingly we enjoyed privileged CIT rate of 15% from 2010 to 2012. As a renewal of our High/New Tech Enterprise qualification, we were granted with a new certificate of High/New Tech Enterprise dated 11 December 2013 with a validity period of three years from 2013 to 2015. Therefore, we applied 25% as the CIT rate for the first half of 2013, and 15% as the CIT rate for the full year 2013 and the first half of 2014.

Haisheng Software, our subsidiary, qualified as a newly established software enterprise under the New CIT Law in 2012. According to relevant tax regulations, Haisheng Software is exempt from CIT for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing either from the first year of commercial operations or from the first year of profitable operation after offsetting tax losses generated in prior years.

Our effective tax rate (being the ratio of our income tax expenses to our profit before income tax) was 23.2%, 16.8%, 14.6% and 20.6% for each Track Record Period. The higher effective tax rates in 2011 was partly due to an increase in share-based payments which are non-deductible expenses. We recorded a relatively lower effective tax rate in 2012 and 2013 as a result of the preferential income tax reduction and tax holiday of certain of our subsidiaries that we were entitled. The higher effective tax rate for the first half of 2014 was due to the increase in applicable tax rates for our subsidiary, Haisheng Software, from 0% in 2013 to 12.5% for the first half of 2014.

We have a higher effective tax rate for the first half of 2013 of 20.1% than that for the full year 2013 of 14.6%. It was because we applied the standard tax rate of 25% for the six months ended 30 June 2013 before the renewal of our High/New Tech Enterprise qualification.

Comparison of our results for 2011 and 2012

Revenue

Our revenue decreased by 30.5% from RMB465.7 million for 2011 to RMB323.6 million for 2012. The decrease was mainly attributable to the significant decrease in the revenue from sales of standalone machines by 91.7% from RMB229.7 million for 2011 to RMB18.9 million for 2012.

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Brass electroplating wire production lines. Revenue from sales of brass electroplating wire production lines increased by 37.5% from RMB161.8 million for 2011 to RMB222.5 million for 2012, primarily due to an increase in the average selling price of brass electroplating wire production lines from RMB13.5 million per set to RMB18.5 million per set as a result of a different mix of machinery included in the production lines. The number of production lines completed and recognised as revenue remained the same at 12 sets.

Other production lines. Revenue from sales of other production lines increased by 83.6% from RMB29.1 million for 2011 to RMB53.4 million for 2012. The increase was primarily due to an increase in average selling price of our other production lines from RMB1.2 million per set in 2011 to RMB2.2 million per set in 2012. The increase in average selling price was due to a different mix of machinery included in the other production lines.

Standalone machines. Standalone machines include double-twist stranding machines and wet drawing machines. Revenue from sales of standalone machines decreased by 91.7% from RMB229.7 million for 2011 to RMB18.9 million for 2012. Wet drawing machines are the necessary equipment for producing sawing wires, the main application of which is used in precision cutting of wafer or forming of photovoltaic solar panels in the solar photovoltaic industry. As set out in the section headed “Industry Overview”, the growth rate of China’s photovoltaic wafer production for 2012 only recorded a mild increase compared with a robust growth in 2011 due in part to the anti-dumping sanctions against Chinese photovoltaic companies by the EU during the period. As a result, the growth of solar photovoltaic industry also slow down and resulted in a smaller demand in the sawing wires production equipment.

Mould repairing equipment, component parts, and accessories. Revenue from sales of mould repairing equipment, component parts, and accessories decreased by 36.1% from RMB45.1 million for 2011 to RMB28.8 million for 2012, primarily as a result of a decrease in sales of parts and components for equipment relating to solar photovoltaic industry.

Cost of sales

Our cost of sales decreased by 48.7% from RMB254.0 million for 2011 to RMB130.3 million for 2012.

Cost of materials. The cost of materials decreased by 49.4% from RMB201.2 million for 2011 to RMB101.9 million for 2012, primarily as a result of (i) a decrease in our revenue in 2012; (ii) the proportion of brass electroplating wire production lines to our total revenue increased substantially and our brass electroplating wire production lines had a relatively higher gross profit margin, and had a lower cost of materials as compared to other products.

Employee benefit expenses. Employee benefit expenses decreased by 9.0% from RMB8.2 million for 2011 to RMB7.4 million for 2012, primarily due to a decrease in our revenue in 2012.

Manufacturing overhead. Our manufacturing overhead costs decreased by 27.3% from RMB28.8 million for 2011 to RMB20.9 million for 2012, primarily due to a decrease in our revenue in 2012.

FINANCIAL INFORMATION

Gross profit and gross profit margin

Our gross profit decreased by 8.7% from RMB211.7 million for 2011 to RMB193.3 million for 2012. Our overall gross profit margin increased from 45.5% for 2011 to 59.7% for 2012.

The increase in our overall gross profit margin in 2012 was due to the increased proportion of our brass electroplating wire production lines in the product mix, which had a higher gross profit margin to our total revenue. The proportion of sales revenue of our brass electroplating wire production lines to our total revenue increased from 34.8% for 2011 to 68.7% for 2012.

The increase in gross profit margin for other production lines was due to the higher proportion of intermediate wire heat treatment production lines sold in 2012, which had a higher gross profit margin.

The respective gross profit margin of our standalone machines remained relatively steady in 2012. We believe that this was mainly because our products were mature products and we had established stable relationships with our major customers and suppliers.

Other income

Our other income increased by 68.5% from RMB12.3 million for 2011 to RMB20.7 million for 2012, primarily due to a significant increase in government subsidies from Wuxi local government in 2012 as an incentive for our listing plan and to support our corporate development.

Other gains and losses

We turned our net other losses of RMB1.2 million for 2011 to net other gains of RMB0.1 million for 2012, primarily due to absence of surcharge imposed by the PRC tax authority in 2012.

Selling expenses

Our selling expenses include transportation expenses and travelling expenses. Our selling expenses decreased by 33.0% from RMB7.9 million for 2011 to RMB5.3 million for 2012, primarily as a result of a decrease in transportation expenses and no share-based payments in 2012. The decrease in transportation expenses was due to a decrease in number of units of products delivered to customers.

Administrative expenses

Our administrative expenses include research and development expenses and employee benefit expenses. Our administrative expenses decreased by 17.7% from RMB72.0 million for 2011 to RMB59.2 million for 2012, primarily as a result of a decrease in research and development expenses, allowance for impairment of receivables and share-based payments.

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Our research and development expenses decreased by 17.7% from RMB20.0 million for 2011 to RMB16.4 million for 2012. The decrease in research and development expenses was mainly due to a decrease in fees paid to universities and institute during the year, as we intended to rely more on our internal research capabilities.

Net finance income

Our finance income increased by 120.1% from RMB1.1 million for 2011 to RMB2.4 million for 2012, primarily due to an increase in interest income on wealth management products, and on bank deposits.

Our finance costs increased by 117.8% from RMB0.7 million for 2011 to RMB1.6 million for 2012, primarily due to an increase in interest expenses in bank borrowings.

Profit before income tax

As a result of the above, our profit before income tax increased by 5.1% from RMB143.3 million for 2011 to RMB150.5 million for 2012.

Income tax expenses

Our income tax expenses decreased by 23.9% from RMB33.2 million for 2011 to RMB25.3 million for 2012. The effective tax rates (being the ratio of our income tax expenses to our profit before income tax) for the years 2011 and 2012 were 23.2% and 16.8%, respectively. The decrease in effective tax rates was partly as a result of the tax effects of an increase in preferential income tax treatment applicable to our Company and our subsidiaries, and a decrease in non-deductible share-based payments from RMB4.6 million in 2011 to RMB1.0 million in 2012 and an increase in preferential tax we enjoyed, as (i) the preferential tax enjoyed by our Company, who qualified as High/New Tech Enterprise and enjoyed preferential tax rate of 15% from 2010 to 2012, increased from RMB6.7 million in 2011 to RMB7.4 million in 2012, which was in line with the fluctuation of profits before tax of the Company; and (ii) Haisheng Software, one of our subsidiaries, qualified as a newly established software enterprise under the New CIT Law and the relevant income tax of RMB2.7 million was exempted in 2012 as a result.

Profit for the year

As a result of the increase in our profit before income tax, our profit for the year increased by 13.8% from RMB110.1 million for 2011 to RMB125.3 million for 2012.

Comparison of our results for 2012 and 2013

Revenue

Our revenue slightly decreased by 1.4% from RMB323.6 million for 2012 to RMB318.9 million for 2013.

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Brass electroplating wire production lines. Revenue from sales of brass electroplating wire production lines slightly increased by 3.4% from RMB222.5 million for 2012 to RMB230.1 million for 2013. The increase was mainly due to an increase in number of production lines accepted by our customers after testing from 12 sets for 2012 to 13 sets for 2013, which was partially offset by the decrease in the average selling price from RMB18.5 million per set in 2012 to RMB17.7 million per set in 2013 due to a different mix of machinery comprised in our brass electroplating wire production lines.

Other production lines. Revenue from sales of other production lines decreased by 82.3% from RMB53.4 million for 2012 to RMB9.5 million for 2013. This was primarily due to the drop in sales of our intermediate wire heat treatment production lines. Our customers normally purchase our intermediate wire heat treatment production lines when they planned for major production expansion.

Standalone machines. Revenue from sales of standalone machines increased by 119.4% from RMB18.9 million for 2012 to RMB41.6 million for 2013. The increase was primarily due to the increase in sales of double-twist stranding machines as a result of the growth in demand of radial tyre cord in automotive industry.

Mould repairing equipment, component parts and accessories. Revenue from sales of mould repairing equipment, component parts, and accessories increased by 31.1% from RMB28.8 million for 2012 to RMB37.8 million for 2013, primarily as a result of an increase in revenue from equipment modification services provided to customers in the second half of 2013.

Cost of sales

Our cost of sales slightly increased by 2.2% from RMB130.3 million for 2012 to RMB133.1 million for 2013.

Cost of Materials. The cost of materials increased by 5.3% from RMB101.9 million for 2012 to RMB107.3 million for 2013.

Employee benefit expenses. Employee benefit expenses increased by 21.3% from RMB7.4 million for 2012 to RMB9.0 million for 2013.

The increase in cost of materials was due to an increase in sales of standalone machines which had a higher cost of sales to selling price ratio as compared to other products. The increase in employee benefit expenses was due to the redesignation of staff from the administration department to selling department to strengthen our business promotion.

Manufacturing overhead. Our manufacturing overhead costs decreased by 19.5% from RMB20.9 million for 2012 to RMB16.8 million for 2013. The decrease in manufacturing overhead costs was primarily because we ceased engaging external installation labour in 2013.

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Gross profit and gross profit margin

Our gross profit decreased by 3.9% from RMB193.3 million for 2012 to RMB185.8 million for 2013. Our overall gross profit margin decreased slightly from 59.7% for 2012 to 58.3% for 2013 due to the increase in sales of standalone machines which have a relatively lower gross profit margin as compared to our brass electroplating wire production lines.

Other income

Our other income decreased by 2.2% from RMB20.7 million for 2012 to RMB20.3 million for 2013, primarily due to a decrease in VAT refunds which was partially offset by an increase in the government subsidies. The decrease in VAT refunds was attributable to the decrease in the sale of self-developed software for which our Company and our subsidiary, Haisheng Software, were entitled to the VAT refunds.

Selling expenses

Our selling expenses decreased by 1.9% from RMB5.3 million for 2012 to RMB5.2 million for 2013, primarily due to a decrease in transportation expenses, which was partially offset by an increase in staff cost for our business promotion.

Administrative expenses

Our administrative expenses decreased by 19.7% from RMB59.2 million for 2012 to RMB47.6 million for 2013, primarily due to the absence of share-based payments, a decrease in employee benefit expenses, and research and development expenses, which was partially offset by an increase in allowance for impairment of receivables. The decrease in employee benefit expenses by 26.1% from RMB11.1 million for 2012 to RMB8.2 million for 2013 was primarily due to the redesignation of staff from the administration department to the research and development department, as well as selling department. Our research and development expenses decreased by 14.7% from RMB16.4 million for 2012 to RMB14.0 million for 2013. The decrease in research and development expenses was mainly because we did not incur any outsourced research and development expenses during 2013, as we intended to rely more on our internal research capabilities.

Net finance income

Our net finance income decreased by 86.5% from RMB0.8 million for 2012 to RMB0.1 million for 2013, primarily because we ceased investing in the wealth management products since August 2012, and received no interest income from such investment in 2013.

Profit before income tax

Our profit before income tax slightly increased by 2.0% from RMB150.5 million for 2012 to RMB153.5 million for 2013.

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Income tax expenses

Our income tax expenses decreased by 11.0% from RMB25.3 million for 2012 to RMB22.5 million for 2013. Our effective tax rates (being the ratio of our income tax expenses to our profit before income tax) slightly decreased from 16.8% for 2012 to 14.6% for 2013. The decrease in the effective tax rate was due to the preferential income tax reduction available to us. In particular, Haisheng Software was exempt from CIT in 2013.

Profit for the year

As a result of the above, our profit for the year slightly increased by 4.6% from RMB125.3 million for 2012 to RMB131.0 million for 2013.

Comparison of our results for the first halves of 2013 and 2014

Revenue

Our revenue decreased by 23.7% from RMB183.8 million for the first half of 2013 to RMB140.3 million for the first half of 2014.

Brass electroplating wire production lines. Revenue from sales of brass electroplating wire production lines decreased by 27.3% from RMB133.2 million for the first half of 2013 to RMB96.9 million for the first half of 2014. The decrease was mainly due to a decrease in number of production lines accepted by our customers after testing due to the delay on their part from eight sets for the first half of 2013 to five sets for the first half of 2014. It was partially offset by an increase in the average selling price of brass electroplating wire production lines from RMB16.6 million per set in the first half of 2013 to RMB19.4 million per set in the first half of 2014. The increase in average selling price was due to our brass electroplating wire production lines equipped with a new version of our patented IGBT component.

Other production lines. Revenue from sales of other production lines decreased by 54.1% from RMB7.8 million for the first half of 2013 to RMB3.6 million for the first half of 2014. The decrease was due to the respective decrease in number of wire rod preparation lines and intermediate wire heat treatment production line recognised as sales from five sets and one set for the first half of 2013 to three sets and none for the first half of 2014. Our customers normally purchase these other production lines when they planned for major production expansion. The average selling price of our wire rod preparation lines however increased from RMB0.3 million for the first half of 2013 to RMB0.5 million for the first half of 2014.

Standalone machines. Revenue from sales of standalone machines decreased by 12.5% from RMB32.6 million for the first half of 2013 to RMB28.5 million for the first half of 2014. The decrease was due to the decrease in average selling price of double-twist stranding machines from RMB0.3 million per set in the first half of 2013 to RMB0.2 million per set in the first half of 2014. For the first half of 2014, we sold a higher proportion of double-twist standing machines which were used to produce different types of wire thread bunches and with a lower average selling price.

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In addition, we endeavoured to expand our market share by reducing the average selling price of our standalone machines. For the first half of 2014, we sold 176 sets of standalone machines as compared to 134 sets for the first half of 2013.

Mould repairing equipment, component parts and accessories. Revenue from sales of mould repairing equipment, component parts, and accessories increased by 10.6% from RMB10.2 million for the first half of 2013 to RMB11.3 million for the first half of 2014, primarily as a result of an increase in revenue from equipment modification services provided to customers in the first half of 2014.

Cost of sales

Our cost of sales decreased by 23.9% from RMB77.4 million for the first half of 2013 to RMB58.9 million for the first half of 2014.

Cost of Materials. The cost of materials decreased by 19.4% from RMB62.1 million for the first half of 2013 to RMB50.1 million for the first half of 2014.

Employee benefit expenses. Employee benefit expenses decreased by 18.1% from RMB4.9 million for the first half of 2013 to RMB4.0 million for the first half of 2014.

Manufacturing overhead. Our manufacturing overhead costs decreased by 54.1% from RMB10.4 million for the first half of 2013 to RMB4.8 million for the first half of 2014.

The decrease in cost of materials and employee benefit expenses costs was in line with the decrease in revenue. The decrease in manufacturing overhead was mainly because of the decrease in external installation labour costs allocated to the products sold during the first half of 2014 after we ceased to engage the external installation labours since 2013, the expiry of the lease of the three manufacturing facilities in Huishan District, and the decrease of other tax charges in line with the decrease in revenue during the period.

Gross profit and gross profit margin

Our gross profit decreased by 23.5% from RMB106.5 million for the first half of 2013 to RMB81.4 million for the first half of 2014 which was in line with the decrease in our revenue. Our overall gross profit margin remained relatively steady for the first half of 2014. The relatively steady overall gross profit margin was mainly the result of an increase in the gross profit margin of our brass electroplating wire production lines which was offset by the decrease in gross profit margin of our other production lines and standalone machines.

The decrease in gross profit margin of our other production lines was due to the sales of a zinc hot plating wire production line which was equipped with a new technology and sold to a client on a trial basis, and therefore contributed a lower gross profit margin, whereas the decrease for our standalone machines was the result of our strategy to expand our market share by reducing the average selling price of our standalone machines amid intense competition in the market.

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Other income

Our other income significantly decreased by 46.0% from RMB5.7 million for the first half of 2013 to RMB3.1 million for the first half of 2014, primarily due to the absence of government subsidies as an incentive for our listing plan.

Selling expenses

Our selling expenses increased by 52.9% from RMB2.1 million for the first half of 2013 to RMB3.3 million for the first half of 2014, primarily due to an increase in staff costs and quality warranty provision, which was partially offset by a decrease in travelling expenses for business promotion.

Administrative expenses

Our administrative expenses decreased by 58.5% from RMB28.0 million for the first half of 2013 to RMB11.6 million for the first half of 2014, primarily due to the reversal of impairment of receivables and the absence of listing expenses, which was partially offset by the increase in research and development expenses from RMB7.0 million for the first half of 2013 to RMB10.3 million for the first half of 2014.

Finance income/(cost), net

Both our finance income and finance cost remained stable for the first halves of 2013 and 2014.

Profit before income tax

Our profit before income tax decreased by 15.1% from RMB82.2 million for the first half of 2013 to RMB69.8 million for the first half of 2014.

Income tax expenses

Our income tax expenses decreased by 13.1% from RMB16.5 million for the first half of 2013 to RMB14.4 million for the first half of 2014. The effective tax rates (being the ratio of our income tax expenses to our profit before income tax) also remained stable for the first halves of 2013 and 2014, at 20.1% and 20.6% respectively.

Profit for the period

As a result of the above, our profit for the period decreased by 15.6% from RMB65.7 million for the first half of 2013 to RMB55.5 million for the first half of 2014.

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RECENT DEVELOPMENTS SUBSEQUENT TO 30 JUNE 2014

Since 1 July 2014 and up to the Latest Practicable Date, we entered into 15 new contracts with an aggregated contract value of RMB129.4 million. Based on, amongst others, our sales information up to 31 August 2014, the contracts on hand, our production progress and our communication with our customers up to the Latest Practicable Date, we expect an increase in sales of double-twist stranding machines in our sales mix in the second half of 2014 (which has a lower gross profit margin as compared with our brass electroplating wire production lines), and in consequence, a decrease in overall gross profit margin percentage for the second half of 2014 as compared with that for the first half.

Our revenue, gross profit, and profit for the period decreased by 23.7%, 23.5% and 15.6% respectively for the first half of 2014, as compared with those for the first half of 2013. In light of our performance in the first half of 2014, and on the assumption that there will be no material adverse changes in the product delivery schedule of our customers subsequent to the Latest Practicable Date and/or any material deterioration of our trade receivables position, we expect our revenue, gross profit and profit for the year will experience a decrease for the full year 2014 as compared with the full year 2013.

The decrease is consistent with the decrease in revenue, gross profit and profit for the period for the first half of 2014 when compared with the first half of 2013, which was due to a number of delays in the testing and trial production of our products due to changes in customers' implementation and capital expenditure schedules. We confirm that there has been no order cancellation among the said delays. Please refer to the sections headed "Risk Factors – The delay in settlement of payments by our customers notwithstanding our internal control measures may result in untimely and significant cash flow shortcomings in the future and may adversely impact our cash position and results of operation" and "Risk Factors – The lengthy process of delivery, on-site installation, testing or trial production of our products or any delay thereof may affect our revenue recognition, cash flow position, and results of our operation and may cause material fluctuation in our revenue in the future" for further details.

For the first half of 2014, our Group received subsidies and incentive of RMB1.3 million from the PRC government authorities for our scientific research projects, corporate development, and our listing plan. For the two months ended 31 August 2014, we received subsidies from the PRC government of only RMB58,000, and we may or may not receive any further subsidies or incentive for the remaining of the year 2014. Please refer to the paragraph headed "Risk Factors – We may not receive further government subsidies and the loss of which may affect our financial position" of this prospectus for further details.

Since the introduction of the enhanced internal control measures in May 2013, collection of the trade receivables has been improving. As of 31 August 2014, RMB27.4 million, or 13.4%, of the trade receivables as of 30 June 2014 had been subsequently settled.

As of 31 August 2014, our cash and cash equivalent on hand were RMB175.5 million, and our unutilised banking facilities were RMB6.5 million. Our Group had outstanding bank borrowings of RMB106.2 million, of which RMB26.2 million will be repaid with the net proceeds from the Global Offering. For details, please refer to the section headed "Future Plans and Use of Proceeds" of this prospectus.

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The total listing-related expenses are expected to be about HK\$56.2 million (based on the Offer Price of HK\$7.72 and before the exercise of the Over-allotment Option), of which approximately HK\$52.7 million is directly attributable to the issue of new H Shares to the public and is to be accounted for as a deduction from equity upon Listing. The remaining estimated expenses of HK\$3.5 million are expected to be charged to our Group's consolidated income statements for the year ending 31 December 2014. Our listing-related expenses are subject to adjustments based on the actual amount we will incur upon completion of the Listing.

We confirm that the listing-related expenses are not expected to have material adverse impact on our financial position and up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since 30 June 2014.

Pursuant to a resolution of the Shareholders' meeting dated 15 August 2014, our Company declared a special dividend of RMB120 million to our 13 then shareholders. This dividend payable had not been recognised as a liability in the consolidated financial statements of the Group as of 30 June 2014, and had been paid on 15 September 2014 to our 13 then shareholders (net of the amount we withheld for payment of individual income tax applicable to individual shareholders). The investors for the Global Offering are not entitled to the special dividend. The special dividend was paid out of historical profits of our Company, and our Directors consider that the Company has sufficient cash or cash alternatives for payment of the special dividend which will have no adverse impact on our operating cash and financial positions.

LIQUIDITY AND CAPITAL RESOURCES

Working capital

We have historically met our working capital and other liquidity requirements from cash generated by our operations, bank borrowings and capital injection by shareholders, if required. Our cash needs have been related primarily to costs associated with manufacturing, sales and the expansion of our manufacturing capacity. Going forward, we believe our working capital and other liquidity requirements will be satisfied through a combination of cash generated from our operating activities, banking facilities made available to our Group and the net proceeds from the Global Offering. We will use part of the proceeds from the Global Offering to fulfil our capital needs for future expansion.

As of 31 August 2014, we had banking facilities amounting to RMB100.0 million, of which RMB93.5 million was utilised, and a project loan of RMB100.0 million for the financing of the construction costs of the New Wuxi Facility, of which RMB26.2 million had been drawn down. We expect to repay entire outstanding balance of the project loan with the net proceeds from the Global Offering. For details, please refer to the "Future Plans and Use of Proceeds" section of the prospectus.

We have not experienced any difficulties in repaying our debts as and when they fall due during the Track Record Period. However, our ability to meet our working capital requirements, debt repayment or capital required for our expansion plan for our manufacturing

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facilities is highly dependent on our future operating performance and cash flows, which could be affected by various factors such as future economic climate, regulatory environment and the growth of business of our customers.

Our Directors are of the opinion that, taking into account the presently available banking facilities and internal financial resources of our Group and the estimated net proceeds of the Global Offering, our Group has sufficient working capital for at least the next 12 months from the date of this prospectus.

Cash flows

The primary uses of cash are to satisfy the working capital needs. Since our Group's establishment, the working capital needs have been financed through a combination of cash generated from our operations, bank borrowings and capital injection by shareholders. The table below sets out a selected summary of our consolidated cash flow statements for the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB	RMB	RMB	RMB	RMB
Net cash generated from operating activities	131,322,381	2,728,674	27,982,310	47,416,892	21,260,113
Net cash generated (used in)/ generated from investing activities	(23,739,434)	(5,327,654)	(48,207,027)	(13,693,119)	70,499
Net cash (used in)/generated from financing activities	(122,278,859)	74,835,961	6,026,934	–	4,938,612
Cash and cash equivalents as of the beginning of the year/period	39,335,130	24,639,218	96,876,199	96,876,199	82,678,416
Cash and cash equivalents at end of the year/period	24,639,218	96,876,199	82,678,416	130,599,972	108,447,640

Please refer to the Accountant's Report in Appendix I to this prospectus for further information on our Group's cash flows.

Net cash generated from operating activities

Our cash inflows from operating activities consist of (i) cash generated from operations, (ii) interest paid and (iii) income tax paid.

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For 2011, we recorded net cash generated from operating activities of RMB131.3 million, which comprised operating cash flows before working capital changes of RMB194.8 million, adjusted for interest paid of RMB0.7 million, income tax paid of RMB46.0 million, and net working capital inflow of RMB16.8 million. The net working capital inflow primarily reflected: (i) an increase in advance from customers of RMB37.5 million due to increased receipt from our customer as a result of an increase in work in progress in 2011, (ii) an increase in trade and other payables of RMB20.8 million for our increased work in progress in 2011, and (iii) an increase in trade and other receivables of RMB69.4 million due to increased sales in 2011.

For 2012, we recorded net cash generated from operating activities of RMB2.7 million, which comprised operating cash flows before working capital changes of RMB170.3 million, adjusted for interest paid of RMB1.5 million, income tax paid of RMB42.3 million, and net working capital outflow of RMB123.7 million. The net working capital outflow primarily reflected: (i) a decrease in trade and other receivables of RMB37.5 million due to the settlement of trade receivables by one of our top five customers of RMB120.9 million in 2012, (ii) a decrease in inventories of RMB36.0 million mainly due to reduced orders of our standalone machines on hand in 2012, (iii) a decrease in advance from customers of RMB159.6 million also due to the realisation of the advance of customers as revenue upon the customers' acceptance of goods, and (iv) a decrease in trade and other payables of RMB34.4 million due to decrease of our production of standalone machines in line with the decrease in our sales of standalone machines in the year.

For 2013, we recorded net cash generated from operating activities of RMB28.0 million, which comprised operating cash flows before working capital changes of RMB170.8 million, adjusted for interest paid of RMB1.8 million and income tax paid of RMB17.1 million, and net working capital outflow of RMB123.9 million. The net working capital outflow primarily reflected: (i) a decrease in inventories of RMB34.4 million, (ii) an increase in trade and other payables of RMB26.8 million, (iii) a decrease in advance from customers of RMB94.6 million due to a decrease in orders on hand, and (iv) an increase in trade and other receivables of RMB86.8 million as certain of our customers did not follow the payment terms under the contracts before we implement measures for strengthening the control of trade receivables since May 2013.

For the first half of 2013, we recorded net cash generated from operating activities of RMB47.4 million, which comprised operating cash flows before working capital changes of RMB94.1 million, adjusted for interest paid of RMB0.9 million and income tax paid of RMB4.7 million, and net working capital outflow of RMB38.0 million. The net working capital outflow primarily reflected: (i) a decrease in inventories of RMB39.7 million, (ii) an increase in trade and other payables of RMB12.9 million, (iii) a decrease in advance from customers of RMB55.6 million due to a decrease in orders on hand, and (iv) an increase in trade and other receivables of RMB38.6 million as certain of our customers did not follow the payment terms under the contracts and we did not strictly enforce our contractual terms with our customers.

For the first half of 2014, we recorded net cash generated from operating activities of RMB21.3 million, which comprised operating cash flows before working capital changes of

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RMB61.4 million, adjusted for interest paid of RMB0.9 million and income tax paid of RMB10.4 million, and net working capital outflow of RMB28.8 million. The net working capital outflow primarily reflected: (i) a decrease in inventories of RMB11.5 million, (ii) a decrease in trade and other payables of RMB26.9 million, (iii) a decrease in advance from customers of RMB31.6 million due to a decrease in orders on hand, and (iv) a decrease in trade and other receivables of RMB18.2 million reflecting our effort to collect our long outstanding accounts receivable during the period.

Net cash generated used in investing activities

Our cash outflows used in investing activities consist primarily of (i) our purchase of property, plant and equipment, and (ii) our acquisition of a subsidiary. Our cash inflows from investing activities consist primarily of proceeds from disposal of investments.

For 2011, net cash used in investing activities was RMB23.7 million, comprising primarily of: (i) acquisition of a subsidiary of RMB36.4 million, (ii) purchase of property, plant and equipment of RMB6.3 million, which were partially offset by proceeds from disposal of investments of RMB15.3 million.

For 2012, net cash used in investing activities was RMB5.3 million, comprising primarily of: (i) an increase of restricted bank deposits for bills payable of RMB9.4 million, (ii) purchase of property, plant and equipment of RMB7.4 million, which were partially offset by proceeds from disposal of investments of RMB11.4 million.

For 2013, net cash used in investing activities was RMB48.2 million comprising primarily of: (i) purchase of property, plant and equipment of RMB32.4 million, and (ii) an increase of restricted bank deposits for bills payable of RMB16.1 million, which were partially offset by proceeds from disposal of property, plant and equipment of RMB0.3 million.

For the first half of 2013, net cash used in investing activities was RMB13.7 million comprising primarily of purchase of property, plant and equipment of RMB15.5 million, which was partially offset by the release of restricted bank deposits for bills payable of RMB1.7 million.

For the first half of 2014, net cash generated from investing activities was RMB70,499 comprising primarily of purchase of property, plant and equipment of RMB11.9 million, which was partially offset by the release of restricted bank deposits for bills payable of RMB11.9 million.

Net cash flows from financing activities

Our cash outflows used in financing activities consist primarily of the dividends we paid to our shareholders and repayment of bank borrowings. Our cash inflow from financing activities consist primarily of capital contribution from the Pre-IPO Investors and proceeds from bank borrowings.

For 2011, net cash used in financing activities was RMB122.3 million, comprising primarily the dividends we paid to our shareholders of RMB104.4 million and consideration paid for common control combination of RMB30.5 million, which were partially offset by the proceeds we received from bank borrowings.

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For 2012, net cash generated from financing activities was RMB74.8 million, comprising primarily the capital contribution from shareholders and proceeds from bank borrowings of RMB50.0 million, which were partially offset by the dividends we paid to our shareholders of RMB101.8 million and repayment of bank borrowings of RMB33.0 million.

For 2013, net cash generated from financing activities was RMB6.0 million, comprising primarily the proceeds from bank borrowing of RMB46.5 million, which were partially offset by repayment of bank borrowings of RMB30.0 million and payment for listing-related expenses of RMB10.5 million.

For the first half of 2013, we had no cash used in or generated from financing activities.

For the first half of 2014, net cash generated from financing activities was RMB4.9 million, comprising primarily the proceeds from bank borrowing of RMB8.0 million, which were partially offset by payment for listing-related expenses of RMB3.6 million.

NET CURRENT ASSETS/LIABILITIES

The table below sets out our Group's current assets and liabilities as of the dates indicated:

	As of 31 December			As of 30 June	As of 31 August
	2011	2012	2013	2014	2014
	RMB	RMB	RMB	RMB	(Unaudited) RMB
Current assets					
Inventories	241,308,080	205,327,567	170,903,597	159,410,632	155,290,579
Prepayment for current income tax	263,526	3,128,307	–	1,830,155	1,435,926
Prepayments	19,393,034	22,529,081	36,765,175	40,569,690	42,366,143
Trade and other receivables	295,908,246	239,983,396	315,333,281	305,302,822	264,972,449
Restricted cash	–	9,444,076	25,573,690	13,648,790	13,990,996
Cash and cash equivalents	24,639,218	96,876,199	82,678,416	108,947,640	175,499,096
	<u>581,512,104</u>	<u>577,288,626</u>	<u>631,254,159</u>	<u>629,709,729</u>	<u>653,555,189</u>
Current liabilities					
Trade and other payables	97,403,713	62,730,391	93,784,429	69,057,927	54,396,530
Advance from customers	377,485,950	217,906,740	123,269,614	91,683,924	79,176,460
Current income tax liabilities	5,435,316	4,297,238	8,224,381	6,921,904	–
Borrowings	13,000,000	30,000,000	46,543,600	54,543,600	106,249,691
Dividend payable	101,764,039	–	–	–	120,000,000
	<u>595,089,018</u>	<u>314,934,369</u>	<u>271,822,024</u>	<u>222,207,355</u>	<u>359,822,681</u>
Net current (liabilities)/assets	<u>(13,576,914)</u>	<u>262,354,257</u>	<u>359,432,135</u>	<u>407,502,374</u>	<u>293,732,508</u>

We recorded net current liabilities of RMB13.6 million as of the year-end 2011, and net current assets of RMB262.4 million as of the year-end 2012, RMB359.4 million as of year-end 2013, and RMB407.5 million as of 30 June 2014. The net current liabilities position as of the year-end 2011 was mainly attributable to the payment of dividend of RMB101.8 million for 2011.

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On 31 July 2014, we have drawn down RMB50 million out of the existing facilities of RMB100 million granted by a bank, and therefore, increased our bank borrowings to RMB106.2 million, and cash and cash equivalents to RMB175.5 million as of 31 August 2014. The funds was used to finance our general working capital needs and payment of the special dividend of RMB120 million before the Listing. As of 31 August 2014, we recorded net current assets of RMB293.7 million.

Trade and other receivables

Our trade and other receivables primarily comprise notes receivable from customers, trade receivables due from third parties and related parties, investment in wealth management products and other receivables. Our trade and other receivables represent receivables from the sales of our products, which are usually settled by way of bank transfer, bank's acceptance bills and commercial acceptance bills.

Trade and other receivables as of the end of each Track Record Period mainly represented the outstanding amounts receivables by our Group from our customers less any allowance for impairment of trade receivables.

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The following table sets out a summary of our trade and other receivables as of the dates indicated:

	As of 31 December			As of 30 June
	2011	2012	2013	2014
	RMB	RMB	RMB	RMB
Trade receivables				
– Related parties	11,903,003	1,540,693	1,543,053	12,053
– Third parties	227,442,815	191,396,716	239,351,743	204,969,371
Total trade receivables	239,345,818	192,937,409	240,894,796	204,981,424
Less: allowance for impairment of trade receivables	(25,583,447)	(34,019,649)	(45,201,202)	(33,586,580)
Trade receivables – net	213,762,371	158,917,760	195,693,594	171,394,844
Notes receivable (<i>Note 1</i>)	71,580,000	80,797,340	119,399,822	133,487,050
Investment in wealth management products (<i>Note 2</i>)	10,010,000	–	–	–
Other receivables from third parties	555,875	268,296	239,865	420,928
	<u>295,908,246</u>	<u>239,983,396</u>	<u>315,333,281</u>	<u>305,302,822</u>
Turnover days of trade receivables (in days) (<i>Note 3</i>)	<u>187.6</u>	<u>217.6</u>	<u>275.7</u>	<u>266.6</u>
Total trade receivables to:				
– current assets (%)	<u>41.2</u>	<u>33.4</u>	<u>38.2</u>	<u>32.6</u>
– net assets (%)	<u>320.1</u>	<u>52.6</u>	<u>48.4</u>	<u>37.0</u>

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Notes:

- (1) The following table sets forth an analysis of our notes receivables as of the dates indicated:

	As of 31 December			As of 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Bank acceptance notes	61,580.0	73,897.3	103,819.8	75,601.0
Commercial notes	10,000.0	6,900.0	15,580.0	57,886.0
	<u>71,580.0</u>	<u>80,797.3</u>	<u>119,399.8</u>	<u>133,487.0</u>

The bank acceptance notes and commercial notes are bills of exchange. Our customers settled our outstanding trade receivables with these bank acceptance notes and commercial notes, and our Directors confirmed that all of them were received in the course of trade. As of 31 August 2014, RMB22.6 million or 39.1% of the commercial notes outstanding as of 30 June 2014 were matured and fully settled.

- (2) The wealth management products were issued by commercial banks, bearing fixed return rates of 7.01% per annum. We ceased investing in these products since August 2012.
- (3) Turnover days of trade receivables are calculated by dividing the trade receivables by revenue and then multiplying this figure by 365 days (for the years 2011, 2012 and 2013) or 182.5 days (for the six months ended 30 June 2014).

The following table sets forth the aging analysis based on recognition date of the gross trade receivables as of 30 June 2014 by each stage of payment:

	Within one year	1 to 2 years	2 to 3 years	3 years above	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Delivery payment (Notes 1)	13,953.3	10,859.0	4,061.3	54.0	28,927.6
Acceptance payment (Note 2)	52,598.3	27,932.5	19,763.4	2,937.5	103,231.7
Quality warranty payment (Note 3)	26,251.3	17,803.1	22,235.3	6,532.4	72,822.1
Total trade receivables	<u>92,802.9</u>	<u>56,594.6</u>	<u>46,060.0</u>	<u>9,523.9</u>	<u>204,981.4</u>

Notes:

- (1) Under the sales contracts, our customers are normally required to pay 20% to 40% of the contract value upon our customers' initial acceptance of our products after preliminary check of the products and before delivery ("Delivery Instalment"). Delivery payment receivables are the Delivery Instalment due from the customers for the products upon we received acceptance certificate from our customers.

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- (2) Under the sales contracts, our customers are normally required to pay 15% to 30% of the contract value after our receipt of acceptance certificate from our customers. Acceptance payment receivables are the amounts due from the customers after the on-site testing and inspection of the products have been completed and acceptance of products have been acknowledged by our customers, and receipts of acceptance certificate have been issued to us.
- (3) the quality warranty receivables usually representing 5% to 10% of the contract value which will be received from customers upon expiry of quality warranty period.

Our trade receivables decreased by 19.4% from RMB239.3 million as of the year-end 2011 to RMB192.9 million as of the year-end 2012, then increased by 24.9% to RMB240.9 million as of the year-end 2013 and decreased by 14.9% to RMB205.0 million as of 30 June 2014. The decrease in 2012 was mainly attributable to settlements of certain trade receivables by one of our major customers of RMB120.9 million during the period.

There may be a number of reasons why our customers choose to delay in making payments, such as when they prioritise use of capital on their own operations and development. Based on our Directors' relationship with and understanding of our customers, our Directors have no reason to believe that the delay was due to financial difficulties on the part of our customers. Some of our major customers are companies (or subsidiaries of companies) listed on the Stock Exchange or the Shenzhen Stock Exchange. Of our top five trade receivables as of 30 June 2014, all of the relevant customers are in the manufacturing and sales of radial tyre cord and/or sawing wire business and have a registered capital of at least RMB98.8 million and incorporated since 2010.

Although we did not grant credit terms to customers under our sales contracts, we in effect granted credit terms to certain customers in view of our trade receivables remaining outstanding and being past due. Our high trade receivable balances during the Track Record Period were mainly because we did not strictly enforce our contractual payment terms before May 2013.

The following tables set forth an aging analysis of our trade receivables that were past due but not impaired as of the dates indicated:

Past due but not impaired as of 30 June 2014

	Past due within 1 year	Past due for 1-2 year	Past due for 2-3 year	Past due for over 3 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Delivery payment	9,972.7	1,863.7	54.1	–	11,890.5
Acceptance payment	49,159.9	5,996.3	1,073.2	26.3	56,255.7
Quality warrant payment	12,986.1	4,277.9	1,788.4	–	19,052.4
Total	72,118.7	12,137.9	2,915.7	26.3	87,198.6

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Past due but not impaired as of 31 December 2013

	Past due within 1 year	Past due for 1-2 year	Past due for 2-3 year	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Delivery payment	22,889.1	6,503.0	6,108.0	35,500.1
Acceptance payment	20,722.5	5,379.8	6,074.9	32,177.2
Quality warrant payment	4,804.0	22,401.9	1,722.9	28,928.8
Total	48,415.6	34,284.7	13,905.8	96,606.1

Past due but not impaired as of 31 December 2012

	Past due within 1 year	Past due for 1-2 year	Past due for 2-3 year	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Delivery payment	29,396.7	3,385.6	702.2	33,484.5
Acceptance payment	21,762.1	13,279.7	–	35,041.8
Quality warrant payment	23,250.9	1,500.0	116.0	24,866.9
Total	74,409.7	18,165.3	818.2	93,393.2

Past due but not impaired as of 31 December 2011

	Past due within 1 year	Past due for 1-2 year	Past due for 2-3 year	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Delivery payment	48,479.3	20,842.8	–	69,322.1
Acceptance payment	46,040.7	12,152.3	47.5	58,240.5
Quality warrant payment	21,407.2	2,178.9	–	23,586.1
Total	115,927.2	35,174.0	47.5	151,148.7

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As of the end of each Track Record Period, trade receivables of RMB61.0 million, RMB90.8 million, RMB125.8 million and RMB39.2 million were wholly or partially impaired. The following table sets forth the movement of allowance for impairment of trade receivables as of the dates indicated:

	As of 31 December			As of 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
As of the beginning of year/period	8,139.5	25,583.4	34,019.6	45,201.2
Allowance (reversal of allowance) for receivables impairment – net	17,443.9	8,436.2	11,459.6	(11,494.6)
Receivables written-off as uncollectible	–	–	(278.0)	(120.0)
At end of year/period	<u>25,583.4</u>	<u>34,019.6</u>	<u>45,201.2</u>	<u>33,586.6</u>

The following table sets forth an aging analysis of our allowance for impairment of trade receivables as of the dates indicated:

	As of 31 December			As of 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	10,832.8	2,942.6	5,460.1	5,669.2
1-2 years	13,650.6	14,581.2	17,407.1	14,826.1
2-3 years	1,100.0	15,395.8	14,664.3	13,091.2
Over 3 years	–	1,100.0	7,669.7	–
	<u>25,583.4</u>	<u>34,019.6</u>	<u>45,201.2</u>	<u>33,586.6</u>

The amount of the loss is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the receivable's original effective interest rate. The carrying amount of the receivable is reduced and the amount of the loss is recognised in the consolidated income statements.

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Our Group assesses at the end of each reporting period whether there is objective evidence that a receivable is impaired. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant finance difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other finance reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The increase in provision in 2012 was mainly in relation to the provision made for one customer who had long outstanding receivables during the period. The increase in provision in 2013 was primarily due to the provisions made for two customers, one of them whose receivable had been long outstanding and had made no subsequent settlement. The other customer did not settle the outstanding balances for the goods delivered. Except for the above, there was no significant increase in provisions made in respect of most of the debtors as there was no indication of further deterioration in the recoverable amounts. The decrease in provision as of 30 June 2014 compared with that as of the year-end 2013 was mainly because of the recovering of long aged accounts receivable during the first half of 2014 as a result of the enhanced internal control measures adopted since May 2013. We have agreed repayment schedule with major debtors in later 2013 and the first half of 2014. Most of the debtors who signed the repayment agreements have generally settled the outstanding receivables in line with the agreed time table and amount till August 2014. Details of such enhanced internal control measures are set out in the paragraph headed “Measures for Strengthening the Control of Trade Receivables” below.

The reversal in the first half of 2014 was partly attributable to the recovery of the trade receivables due from one of the Group’s top five customers for the years 2012 and 2013, with whom the Group has about five years of business relationship. As of the year-end 2013, the trade receivables due from this customer amounted to RMB34.9 million, of which the Group made a provision of impairment losses of RMB14.0 million. This customer agreed to settle RMB2.5 million per month from February 2014 till the whole outstanding balance is fully settled. From January to August 2014, this customer has settled in total RMB18.5 million with the Group. Given that this customer has demonstrated its ability and willingness to settle the receivables, the Directors are confident that the balances due are recoverable, and the Group has therefore reversed the entire relevant provision made as of the year-end 2013.

Our Directors worked closely with the sales team to keep abreast of the circumstances surrounding those long-due trade receivables, and considered the following factors when assessing the appropriate provision to be made: (i) the financial strength of the customer in question and whether it was in a healthy state of operation; (ii) history or indication of default or delinquency; and (iii) whether the customer had an on-going business relationship with the Group. Having taken the above into account, our Directors considered the provision made in relation to the trade receivables as of 30 June 2014 adequate notwithstanding that RMB112.2 million were aged over one year from the date of recognition.

Having considered our cash and cash equivalents balance, and banking facilities available to us, our Directors are of the view that the long trade receivables turnover days during the Track Record Period did not and will not have a material adverse impact on our overall liquidity.

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Measures for Strengthening the Control of Trade Receivables

To strengthen the control of our trade receivables, we have since May 2013 adopted the following measures:

1. Our sales department reviews and keeps record of the customer's information, including copies of the customer's business registration certificate, tax registration certificate, etc.
2. We assess the creditworthiness of a customer by closely examine a number of indicators which include its financial and operational conditions (including whether the customer's production facilities are in full operation, the site of the facilities, scale of operation, and the customer's amount of investments in property, plant and equipment), its credit rating and competitive landscape of the market. Based on such assessment and the value of the relevant contract, we set a maximum balance of amount due allowable for a customer.
3. Our finance department monitors the overdue trade receivables and direct the sales personnel to follow up the collection of the trade receivables.
4. Our sales department sets up a credit profile for each customer. Record relating to the transactions with the customer is updated monthly to monitor the amount of sales, payment, accumulated amount outstanding, amount overdue and unpaid, and accumulated bad debts made as of the end of the month.
5. Our standard sales contract, as a credit control measure, requires the customer to settle 20% to 40% of the contract sum before product delivery, in addition to the initial payment of 20% to 30% of the contract sum.
6. Our finance department monitors and updates the customer's trade receivables position from time to time, keep track of the movement of the trade receivables, and ensure that the outstanding amounts due do not exceed the maximum balance allowable for a customer.
7. At the beginning of the month, our finance department provides information on the customer's credit position up to the end of the previous month for our sales department to follow up. Our finance department also provides an aging analysis on the customers' trade receivables to the sales manager, Mr. Ou Guojian (偶國建), periodically.
8. Personnel from our sales department and after-sales services department follows up on a monthly basis, and ensures that on-site testing and installation of our products are completed on a timely basis. Our sales department also keeps a close contact with the customers to identify any indication of deterioration of recoverability.
9. For those long overdue trade receivables, our finance department collects all relevant information for our sales manager, Mr. Ou Guojian (偶國建) and our financial controller, Mr. Ma Jinlong (馬錦龍) to follow up, and to closely monitor the outstanding trade receivables.

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10. Finally, if the trade receivables still remain outstanding, we seek the approval from our executive Director and general manager, Mr. Zhang Deqiang, to initiate legal action for collection.

As of 31 August 2014, RMB27.4 million, or 13.4%, of the trade receivables as of 30 June 2014 had been subsequently settled.

Effectiveness of our control measures

Our Directors consider the implementation of our control measures in May 2013 to be effective. In particular, for first half of 2014, we collected amounts for settlement of receivables and advance payments from customers of RMB168.4 million, which is significantly over the RMB96.4 million and RMB134.2 million we collected for the first and second half of 2013. Set out below is a comparison of our collection, and related trade receivables movement, for the first and second half of 2013, and first half of 2014:

	As of 30 June 2013/for the six months ended 30 June 2013	As of 31 December 2013/for the six months ended 31 December 2013	As of 30 June 2014/for the six months ended 30 June 2014
	RMB'000	RMB'000	RMB'000
Trade receivables opening	192,937	255,992	240,895
Sales (inclusive of respective output VAT) during the period	215,086	158,083	164,145
Advances from customers opening	217,907	162,262	123,270
Advances from customers closing	162,262	123,270	91,684
Decrease in advances from customers	(55,645)	(38,992)	(31,586)
Settlement during the period	(96,386)	(134,188)	(168,473)
Trade receivables closing	<u>255,992</u>	<u>240,895</u>	<u>204,981</u>

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After our strengthened control measures, we started to collect our trade receivables much earlier than we previously did during the Track Record Period. Set out below is a comparison of the average number of days we received payments from customers during different stages of our business model before and after implementation of our control measures in May 2013 up to 30 June 2014:

<u>Average number of days</u>	<u>Major production lines (Note 1)</u>		<u>Standalone machines</u>	
	<u>During Track Record Period</u>	<u>After implementation of control measures</u>	<u>During Track Record Period</u>	<u>After implementation of control measures</u>
From delivery of products to receipt of delivery payments	230 days	-14 days <i>(Note 2)</i>	416 days	6.6 days
From customers issuing the receipt certificate to acceptance payment	225 days	142 days	575 days	254 days
From the end of quality warranty period to receipt of the quality warranty payment	338 days	7 days	604 days	56 days

Notes:

1. Major production lines include brass electroplating wire production lines and other production lines.
2. Under our control measures, we require the customer to settle 20% to 40% of the contract sum before product delivery, and as a result, the lead time is negative.
3. The average number of days for receipt of payments set out above did not take into account (i) the trade receivables of RMB205.0 million which had not been settled as of 30 June 2014 and (ii) a number of completed sales where a customer made advances significantly earlier than the contractual payment terms. For instance, we did not take into account a customer who paid the full contract sum upon contract signing or almost two years ahead of product acceptance and hence revenue recognition, which would yield -646 days. Including these early payments into the calculation would distort the analysis.

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Not only did we collect our trade receivables earlier, we also improved our collection of trade receivables which were long outstanding, as a result of our strengthened control measures based on our subsequent settlement after the Track Record Period. Set out below is an aging analysis of our trade receivables and the corresponding subsequent settlement:

	Trade receivables as of 30 June 2014	Subsequent settlement up to 31 August 2014	Outstanding trade receivables as of 31 August 2014	Percentage of subsequent settlement
	RMB'000	RMB'000	RMB'000	%
Up to 1 year	92,802.9	17,269.5	75,533.4	18.6
1-2 years	56,594.5	3,361.1	53,233.4	5.9
2-3 years	46,060.1	6,262.6	39,797.5	13.6
Over 3 years	9,523.9	500.0	9,023.9	5.3
	<u>204,981.4</u>	<u>27,393.2</u>	<u>177,588.2</u>	<u>13.4</u>

As of 31 August 2014, RMB27.4 million, or 13.4%, of our trade receivables as of 30 June 2014 were subsequent settled. As of 31 August 2014, we collected 5.3% of our long outstanding trade receivables over three years, and 13.6% of trade receivables aged from two to three years.

Having considered the shortened collection period after the implementation of our control measures in May 2013, and the subsequent settlement of the long outstanding trade receivables up to 31 August 2014, our Directors are of the view that our control measures are adequate, effective and sufficient.

Turnover days of trade receivables were 187.6 days, 217.6 days, 275.7 days and 266.6 days as of the end of each Track Record Period. The increase in turnover days of trade receivables as of the year-ends 2011, 2012 and 2013 was mainly because we did not strictly enforce our contractual payment terms in light of the creditworthiness of our customers and that we aim to maintain a harmonious business relationship with our customers. As a result of the strengthened internal control measures introduced in May 2013, the aging of our trade receivable was under control and our turnover days reduced from 275.7 days as of the year-end 2013 to 266.6 days as of 30 June 2014. The measure to incorporate a contract term requiring customer to settle 40-70% of the contract sum prior to product delivery can only be applied to new contracts from second half of 2013 onward, while a significant portion of the trade receivables outstanding as of 30 June 2014 are attributable to contracts which were entered into before May 2013. Accordingly, it will take more time for the effect of the control measures to be fully reflected in the trade receivables turnover days.

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Inventories

The following table sets forth our inventories as of the dates indicated:

	As of 31 December			As of 30 June
	2011	2012	2013	2014
	RMB	RMB	RMB	RMB
Raw materials	28,765,219	24,491,809	22,134,254	18,397,110
Work in progress	193,725,684	129,658,184	78,270,041	84,079,309
Finished goods	18,817,177	51,177,574	70,499,302	56,934,213
	241,308,080	205,327,567	170,903,597	159,410,632

Raw materials mainly comprised parts and components such as tailored components made under our specific design, electrical components, general parts and other materials used in the assembly and manufacture of our products. Work in progress represented semi-finished products assembled at our manufacturing facilities and our production lines which have been delivered to our customers but have not passed the final testing and inspection at customers' premises. Finished goods represented standalone machines which have not been delivered to our customers or pending the customers to issue the acceptance certificate to us. The value of inventories accounted for 36.0%, 30.1%, 22.2% and 20.5% of our total assets as of the end of each Track Record Period.

The significant inventories balance was primarily due to our relatively long manufacturing, on-site installation and testing cycle as our delivered products which require further on-site installation and testing had been recorded as work in progress in our inventories if the products had not passed the final testing and inspection at the customers' premises. As most of our systems and products are custom-built pursuant to our customers' requirement and specifications, we do not manufacture our products in advance to meet future demand. All our work in progress and finished goods are manufactured based on the sales contract entered into with, as well as specifications agreed by, our customers. Upon acceptance of the goods by the customers, the corresponding inventories as finished goods will be recognised as sales, and work in progress will be converted into cost of sales.

Our work in progress decreased by 33.1% from RMB193.7 million as of the year-end 2011 to RMB129.7 million as of the year-end 2012, by 39.6% to RMB78.3 million as of the year-end 2013 and then slightly increased by 7.4% to RMB84.1 million as of 30 June 2014. The decrease was due to the decrease in the orders on hand for brass electroplating wire production lines during the period.

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Our finished goods increased by 172.0% from RMB18.8 million as of the year-end 2011 to RMB51.2 million as of the year-end 2012 by 37.8% to RMB70.5 million as of the year-end 2013, and decreased by 19.2% to RMB56.9 million as of 30 June 2014. The changes in the balance of our finished goods as of the end of each Track Record Period were due to the variance in quantity of standalone machines pending delivery to or acceptance by our customers as of the respective year-end or period-end.

As a result, our inventory decreased by 14.9% from RMB241.3 million as of the year-end 2011 to RMB205.3 million as of the year-end 2012, by 16.8% to RMB170.9 million as of the year-end 2013 and by 6.7% to RMB159.4 million as of 30 June 2014. Such decrease was also partly attributable to our tightening up of our inventories control taking into account our anticipated production schedule. In particular, we aim to procure our future sales contracts to include an unequivocal deemed acceptance provision. Please refer to the paragraph headed “Inventories control measures” below for further details.

The following table sets out a summary of our average inventory turnover days during the Track Record Period:

	Year ended 31 December			Six months ended 30 June
	2011	2012	2013	2014
	(days)	(days)	(days)	(days)
Raw material turnover days	22.5	27.6	25.3	23.9
Work in progress turnover days	151.9	146.3	89.6	109.4
Finished goods turnover days	<u>14.7</u>	<u>57.7</u>	<u>80.7</u>	<u>74.1</u>
Inventory turnover days	<u><u>189.1</u></u>	<u><u>231.6</u></u>	<u><u>195.6</u></u>	<u><u>207.4</u></u>

Note: Turnover days of raw materials, work in progress, finished goods and inventories are calculated by dividing their respective amount by revenue and then multiplying this figure by 365 days (for the years 2011, 2012 and 2013) or 182.5 days (for the six months ended 30 June 2014).

The inventory turnover days during the Track Record Period were 189.1 days, 231.6 days, 195.6 days and 207.4 days. Of the inventories that were aged over one year, the vast majority are work in progress. Our inventory turnover days were relatively high primarily due to the relatively long time taken from commencement of manufacturing, product delivery to satisfactory completion of on-site testing and final acceptance of our products. This entire process from contract signing to final acceptance of our products has taken on average 444 days for major production lines and 421 days for standalone machines during the Track Record Period. The slightly shorter inventory turnover days in 2011 were due to the higher proportion of standalone machines in our product mix. Standalone machines take a shorter period for testing and final inspections as compared to that for production lines.

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During the Track Record Period, there were also occasions that our customers requested our Group to delay the scheduled delivery of our products under the sales contract because their production sites were still under construction and were not ready for on-site installation of our products.

The following table sets out an aging analysis as of the dates indicated:

	As of 31 December			As of 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Up to 1 year	206,944.1	101,164.2	104,530.4	91,514.6
1 to 2 year	34,364.0	80,915.9	24,174.7	39,366.5
Over 2 year	–	23,247.5	42,198.5	28,529.5
	241,308.1	205,327.6	170,903.6	159,410.6

As of 31 August 2014, RMB16.6 million, or 10.4%, of our inventories as of 30 June 2014 had been subsequently utilised/sold.

Our accounting policy for inventories is to state them at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

For finished goods and work in progress, our Directors estimate that their net realizable value exceeds the cost, given our expected positive gross profit margin from sales based on our contracts on hand as of 31 August 2014 and the overall gross profit margins of our products at a range of 45.5% to 59.7% during the Track Record Period. The Directors consider that the possibility of the selling price of our products being reduced to the extent that will result in our gross profit margins being close to the breakeven point is remote. In addition, we usually require a first payment of 20% to 30% of the total value to be paid upon signing of the relevant contract and up to 20% to 40% of the contract sum after delivery of products to our customers. These advance payments from customers are also sufficient to cover the cost of manufacturing. As such, we did not make any provision for our inventories, and our Directors are of the view that the long inventory turnover days would not have a material adverse effect on our cash flow position.

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Inventories control measures

With a view to further shorten the inventory turnover days, we have implemented the following measures. In terms of our inventory management, our sales department and finance department usually meet monthly to review our inventory level, and set specific goals to reduce the level of our aged inventories.

We employ enterprise resource planning systems to monitor our production process and the level of our inventories. We evaluate our sales and orders on hand from time to time to determine the ideal raw materials inventory level. We also monitor our procurement process so that the timing of purchases of raw materials and production of finished goods are optimized to reduce our inventory holding days.

For finished goods and work in progress that are delivered to our customers but not yet installed, tested or acknowledged acceptance by them, we assign our sales personnel to visit our customers' site from time to time to review the installation and testing progress of our products. We also make sure that our finished goods and work in progress are safe and secured, and properly stored in good condition at the customers' premises. In cases where the installation and testing processes take longer time than expected, our sales personnel will inform our sales manager and report to the senior management, and to consider any follow up actions. This may include our sales manager to engage in more frequent contacts with the customers and to provide any technical assistance to the customers as necessary.

We aim to procure our future sales contracts to include an unequivocal deemed acceptance provision to take effect three months after the completion of installation and testing of products (even if no acceptance certificate is issued) or six months after the delivery of our products, whichever is earlier. Out of the 39 new sales contracts with a total contract value of RMB319.7 million that we have entered into after September 2013 and up to August 2014, we are able to include the unequivocal deemed acceptance provision in 17 of them with a total contract value of RMB275.2 million (including all of our four new sales contracts of brass electroplating wire production lines), representing 86.1% of the total contract value. It is expected that due to our leading market position as the largest brass electroplating wire production line manufacturer in the PRC with 44.9% market share in 2013, as well as our strong research and development capabilities, we have a relatively stronger bargaining power in stipulating the new contract term in the sales of brass electroplating wire production lines on existing customers without any material adverse impact on our sales.

However, we may not be in as strong a position in stipulating new contract terms in the sales other than the brass electroplating wire production lines with the existing customers due to more intense market competition for these markets. Nevertheless, in view that over 68% of our sales were generated from the sales of brass electroplating wire production lines for the years 2012 and 2013, and the first half of 2014, and that certain of the orders are negotiated and entered into on an integrated basis (i.e. a package including both brass electroplating wire production lines and other products of the Group), our Directors do not consider the lack of the new contract term in certain sales contracts would render the overall control measures ineffective. There might be risk that if we insist on the addition of the new contract term, we may lose certain business. This may adversely affect our operational performance and financial

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results. For further details, please refer to the section headed “Risk Factors – Risks Relating to Our Business and Operations – The lengthy process of delivery, on-site installation, testing or trial production of our products or any delay thereof may affect our revenue recognition, cash flow position and results of our operation and may cause material fluctuation in our revenue in the future” of this prospectus.

Trade and other payables

Our trade payables mainly represented the amounts payable to suppliers for purchase of raw materials including electrical components, tailored components made under our specific design, general parts and other materials in our manufacturing process, and other taxes payables.

The following table sets out a summary of our trade and other payables as of the dates indicated:

	As of 31 December			As of 30 June
	2011	2012	2013	2014
	RMB	RMB	RMB	RMB
Trade payables				
– Related parties	10,332,695	–	–	–
– Third parties	49,423,081	33,842,286	30,072,975	21,241,166
Total trade payables	59,755,776	33,842,286	30,072,975	21,241,166
Notes payable	15,360,000	19,032,905	49,006,472	31,252,815
Payables for property, plant and equipment	50,200	200,000	4,445,886	6,672,992
Other taxes payable	16,807,480	1,352,031	1,703,267	2,192,534
Interest payable	24,873	50,000	72,300	50,000
Employee benefits payable	3,205,336	3,101,593	2,671,445	2,115,059
Provision for expenses				
quality warranty	698,501	485,395	478,422	433,519
Quality warranty deposits from suppliers	–	4,170,000	4,170,000	4,170,000
Others payable to related parties	400,000	–	–	–
Others payable to third parties (<i>Note 1</i>)	1,101,547	496,181	1,163,662	929,842
	<u>97,403,713</u>	<u>62,730,391</u>	<u>93,784,429</u>	<u>69,057,927</u>
Turnover days of trade payables (in days) (<i>Note 2</i>)	<u>46.8</u>	<u>38.2</u>	<u>34.4</u>	<u>27.6</u>

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Notes:

- (1) Other payable to third parties mainly include accrual for research and design fees, transportation fees payable, and others.
- (2) Turnover days of trade payables are calculated by dividing the trade payables by revenue and then multiplying this figure by 365 days (for the years 2011, 2012 and 2013) or 182.5 days (for the six months ended 30 June 2014).

Our trade payables decreased by 43.4% from RMB59.8 million as of the year-end 2011 to RMB33.8 million as of the year-end 2012 due to the decrease of our production of standalone machines in lines with the decrease in our sales of standalone machines in 2012. As of the year-end 2013, our trade payables amounted to RMB30.1 million, representing a decrease of 11.1%. As of 30 June 2014, our trade payables decreased by 29.4% due to decrease in purchase of raw materials during the period which was in line with the decrease in the balance of inventory as of 30 June 2014.

We order raw materials and components from our suppliers through individual purchase agreements, with payment terms typically within three months. Trade payables turnover days were 46.8 days, 38.2 days, 34.4 days and 27.6 days for the Track Record Period, respectively. Our turnover days during the Track Record Period were on a decreasing trend and were mainly due to prompt settlement of our trade payables at the request of our suppliers in view of the tighten lending policy in China and economic environment in recent years.

The following table sets forth an aging analysis of our trade payables as of the dates indicated:

	As of 31 December			As of 30 June
	2011	2012	2013	2014
	RMB	RMB	RMB	RMB
Up to 1 year	51,305,158	31,281,601	26,520,078	18,545,599
1-2 years	8,433,748	2,545,759	1,714,653	374,551
2-3 years	16,870	14,926	1,838,244	2,321,016
	59,755,776	33,842,286	30,072,975	21,241,166

As of 31 August 2014, RMB10.1 million, or 47.6%, of our trade payables as of 30 June 2014 were subsequently settled.

Our notes payables increased by 157.5% from RMB19.0 million as of the year-end 2012 to RMB49.0 million as of the year-end 2013. The increase was for the enhancement of our working capital management, where we used more notes to settle our payments to suppliers. The decrease in our notes payable to RMB31.3 million as of 30 June 2014 was mainly due to subsequent repayment of the notes.

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Advances from customers

Our receipts in advance from customers mainly represented the first payments and product delivery payments we received from customers, which amounted to RMB377.5 million, RMB217.9 million, RMB123.3 million and RMB91.7 million as of the end of each Track Record Period, respectively. The decrease in our advance from customers from 2011 to 2013 and to the first half of 2014 was primarily due to, amongst others, (i) decrease in new contracts entered into during the relevant periods. Generally, the advances from customers as a percentage of our inventories is the highest upon the date of the entering into the new sales contract and when the first deposit is received, as the inventory balance for such project is nil on that date; and (ii) we did not strictly enforce our contractual payment terms in light of the creditworthiness of the customers and that we aim to maintain a harmonious business relationship with the customers. In some instances, delivery of products, relevant testing and installation work were sometimes conducted without receiving the required level of contract value.

We generally require our customers to make first payments equal to 20% to 30% of the contract value upon signing of the contract or within a specific period from the date of the contract, and a product delivery payment of 20% to 40% of the contract value upon acceptance of our products after preliminary checking and before delivery. Receipts in advance from customers would generally be recorded as current liabilities in our balance sheet when they are received by us in accordance with the terms of the relevant contracts. Such advance from customers are recognised as our revenue upon receipt of acceptance certificate issued by our customers. The advance payment enables us to have the initial funding for the production, and covers a significant part of our cost of manufacturing for the relevant products. It thus helps us mitigate the risk of non-recovery of costs or expenses incurred.

INDEBTEDNESS

The following table sets out our indebtedness as of the dates indicated:

	As of 31 December			As of 30 June	As of 31 August
	2011	2012	2013	2014	2014
	RMB	RMB	RMB	RMB	RMB
Secured bank borrowings	13,000,000	–	16,543,600	24,543,600	26,249,691
Unsecured bank borrowings	–	30,000,000	30,000,000	30,000,000	80,000,000
	13,000,000	30,000,000	46,543,600	54,543,600	106,249,691

FINANCIAL INFORMATION

As of the year-end 2011, the secured bank borrowings were secured by the land use rights and buildings of the Group, which were repaid during 2012. As of the year-end 2013 and 30 June 2014, the bank borrowing of RMB16.5 million and RMB24.5 million was respectively secured by the land use rights of the Group. The carrying amounts of our borrowings were all denominated in RMB and the weighted average effective interest rates as of the dates indicated were as follows:

	As of 31 December			As of 30 June
	2011	2012	2013	2014
Bank borrowings				
– short terms	6.89%	6.00%	6.05%	6.07%

As of 31 August 2014, our Group had outstanding bank borrowings of RMB106.2 million, representing unsecured short-term bank borrowings of RMB80.0 million and secured bank borrowings of RMB26.2 million. As of 31 August 2014, we have unrestricted unutilised banking facilities of RMB6.5 million.

Save as described in this section, as of 31 August 2014, our Group did not have any outstanding mortgages, charges, pledges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, acceptance liabilities, acceptance credits, any guarantees or other significant contingent liabilities.

Our Directors confirmed that during the Track Record Period and as of the Latest Practicable Date:

- (i) we were not in breach of any covenants under our banking facilities or other payables and credit facilities;
- (ii) we were not subject to any loan recall or early repayment request by our lenders;
- (iii) we did not encounter any difficulty in obtaining external borrowings necessary for our operations;
- (iv) there was no significant increase in the interest rates for our banking facilities; and
- (v) there was no default in payment of bank borrowings.

Our Directors confirm that there has not been any material change in the indebtedness and contingent liabilities of our Group since 31 August 2014 and up to the date of this prospectus.

FINANCIAL INFORMATION

CAPITAL COMMITMENT

We have entered into several contractual obligations that are related to our commitments for the acquisition of property, plant and equipment to be installed in our New Wuxi Facility. The following table sets forth our capital expenditures contracted but not provided for in respect of acquisition of property, plant and equipment as of each period end during the Track Record Period.

	As of 31 December			As of 30 June
	2011	2012	2013	2014
	RMB	RMB	RMB	RMB
Property, plant and equipment	<u>–</u>	<u>463,371</u>	<u>33,290,377</u>	<u>22,337,037</u>

RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into several sales and purchase transactions with related parties. During the six months ended 30 June 2014, we had contracted sales of RMB17.7 million with 合肥得一新材料科技有限公司 (Hefei De Yi New Materials Technology Company Limited*) (“Hefei Technology”). For details of our relationship with Hefei Technology, please refer to section headed “Relationship with Controlling Shareholders – Excluded Businesses of our Controlling Shareholders”.

In our Directors’ opinion, the related party transactions were carried out in the normal course of business and on normal commercial terms negotiated between the Group and the respective related parties.

Amongst the related party transactions, we purchased goods from 江陰貝特機械工程有限公司 (Jiangyin Beite Machinery and Engineering Company Limited*) (a company controlled by Mr. Zhang Degang and Mr. Zhang Deqiang) (“Jiangyin Beite”), and 江陰三佳工控機械有限公司 (Jiangyin Sanjia Gongkong Machinery Company Limited*) (a company controlled by close relatives of Mr. Zhang Degang and Mr. Zhang Deqiang) (“Jiangyin Sanjia”). However, we had ceased these transactions since 2012, and at the time of listing, we will not have any non-exempt continuing connected transaction.

Set out below are balances with related parties as of the dates indicated which were interest free, unsecured and had no fixed payment terms. These balances are all denominated in RMB. Other than trade receivables and advances from customers, all the remaining balances are settled before Listing.

FINANCIAL INFORMATION

Balances with related parties

	As of 31 December			As of
	2011	2012	2013	30 June
	RMB	RMB	RMB	2014
(i) Trade and other receivables				
– Hefei Technology	3,139,200	1,531,000	1,533,360	2,360
– Jiangsu Li Ao New Material Technology Company Limited	2,265,010	–	–	–
– Hefei Investment	6,498,793	9,693	9,693	9,693
	<u>11,903,003</u>	<u>1,540,693</u>	<u>1,543,053</u>	<u>12,053</u>
(ii) Trade and other payables				
Trade payables:				
– Jiangyin Beite	4,595,021	–	–	–
– Jiangyin Sanjia	5,737,674	–	–	–
	<u>10,332,695</u>	<u>–</u>	<u>–</u>	<u>–</u>
Other payables:				
– Mr. Zhang Degang	400,000	–	–	–
	<u>10,732,695</u>	<u>–</u>	<u>–</u>	<u>–</u>
(iii) Advances from customers (Note)				
– Hefei Technology	21,559,754	11,773	58,825	4,800,000
(iv) Dividends payable				
– Mr. Zhang Degang	54,123,712	–	–	–
– Mr. Zhang Deqiang	41,685,232	–	–	–
– Ms. Zhu Yingxuan	5,955,095	–	–	–
	<u>101,764,039</u>	<u>–</u>	<u>–</u>	<u>–</u>

Note: The advances from customers were trading in nature.

FINANCIAL INFORMATION

KEY FINANCIAL RATIOS

The following table sets out key financial ratios of our Group during the Track Record Period:

	Year ended 31 December			Six months ended 30 June
	2011	2012	2013	2014
Profitability ratios				
Gross profit margin ¹ (%)	45.5	59.7	58.3	58.1
Net profit margin ² (%)	23.6	38.7	41.1	39.5
Return on equity ³ (%)	147.2	34.1	26.3	10.0
Return on assets ⁴ (%)	16.4	18.4	17.0	7.1
	As of 31 December			As of 30 June
	2011	2012	2013	2014
Liquidity ratios				
Current ratio ⁵ (times)	1.0	1.8	2.3	2.8
Quick ratio ⁶ (times)	0.6	1.2	1.7	2.1
Capital adequacy ratios				
Gearing ratio ⁷ (%)	17.4	8.2	9.3	9.8

Notes:

- (1) Gross profit margin is gross profit divided by turnover and multiplied by 100%.
- (2) Net profit margin is profit attributable to owners of our Company divided by turnover and multiplied by 100%.
- (3) Return on equity is profit attributable to owners of our Company divided by equity attributable to owners of our Company and multiplied by 100%.
- (4) Return on assets is profit attributable to owners of our Company divided by the total assets and multiplied by 100%.
- (5) Current ratio is current assets divided by current liabilities.
- (6) Quick ratio is current assets after deducting inventories and divided by current liabilities.
- (7) Gearing ratio equals total borrowings as of the end of the year/period divided by total equity as of the end of the year/period and multiplied by 100%.

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Analysis of Selected Key Financial Ratios

Gross profit margin and net profit margin

Our gross profit margin and net profit margin had been on a similar trend during the Track Record Period. The increase in gross profit margin in 2012 were mainly attributable to the change in contribution to total revenue of our higher profit margin product, namely brass electroplating wire production lines. Our gross profit margin remained relatively stable in 2013 and for the first half of 2014. The increase in net profit margin in 2012 and 2013 was mainly attributable to the absence of the share based payments of RMB15.8 million in 2011.

Return on equity

Our return on equity decreased from 147.2% in 2011 to 34.1% in 2012 as a result of the capital injection in 2012. Our return on equity decreased to 26.3% in 2013 primarily due to the increase in our retained earning from RMB51.3 million in 2012 to RMB170.0 million in 2013. Our return on equity decreased to 10.0% in the first half of 2014 was primarily because a half-year profit was used in the calculation, the decrease in our net profit and the increase in equity as a result of accumulation of profit during the period.

Return on assets

Our return of assets increased from 16.4% in 2011 to 18.4% in 2012, then decreased to 17.0% in 2013. The increase in return on assets in 2012 was mainly attributable to an increase in profit generated during the year. Our return on assets decreased in 2013 primarily due to the increase in our trade and other receivables and the construction costs of the New Wuxi Facility. Our return on assets decreased to 7.1% in the first half of 2014 was primarily because a half-year profit was used in the calculation, and the decrease in our net profit during the period.

Current ratio and quick ratio

Our current ratio was 1.0, 1.8, 2.3 and 2.8 during the Track Record Period, and both our current ratio and quick ratio were in an upward trend, respectively.

Gearing ratio

Our gearing ratio decreased from 17.4% in 2011 to 8.2% in 2012 primarily as a result of the capital injection in 2012. The ratio remained stable at 9.3% in 2013 and 9.8% in the first half of 2014.

FINANCIAL INFORMATION

FINANCIAL AND CAPITAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Our Group's activities expose it to a variety of financial risks such as market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk), credit risk and liquidity risk. Our Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on our Group's financial performance.

Market risk

Foreign exchange risk

We operate only within the PRC and virtually all our revenues and expenses are denominated and settled in RMB with the exception of export sales (approximately 0.7% of total sales for the year 2013) that are denominated in USD. We had no export sale for the years 2011 and 2012, and the first half of 2014. We have negligible foreign exchange risk exposure and do not use any financial instrument for hedging.

Cash flow and fair value interests rate risk

Our income and operating cash flows are substantially independent of changes in market interest rates as we have no significant interest-bearing assets and liabilities other than our bank deposits and borrowings. Borrowings at variable rates expose our Group to cash flow interest-rate risk. Bank deposits and borrowings at fixed rates expose our Group to fair value interest-rate risk. We have not hedged our cash flow and fair value interest rate risk. We monitor interest rate fluctuation to ensure that exposure to interest rate risk is within an acceptable level.

Credit risk

Credit risk arises from cash and cash equivalents, restricted bank deposits and trade and other receivables. The carrying amounts or the undiscounted nominal amounts, where applicable, of each class of these financial assets represent our maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage the risk with respect to cash and cash equivalents, restricted bank deposits are placed with highly reputable financial institutions.

We have policies in place to ensure that products are sold to customers with appropriate credit history. We assess the creditworthiness of a customer by closely examine a number of indicators which include its financial and operational conditions (including whether the customer's production facilities are in full operation, the site of the facilities, scale of operation, and the customer's amount of investments in property, plant and equipment), its credit rating and competitive landscape of the market. Based on such assessment and the value of the relevant contract, we set a maximum balance of amount due allowable for a customer.

FINANCIAL INFORMATION

The finance department of the Group monitors the past due trade receivables and directs the sales personnel to follow up the collection of the trade receivables. Our sales department also sets up a credit profile for each customer.

Record relating to the transactions with the customer is updated monthly to monitor the amount of sales, payment, accumulated amount outstanding, amount past due and unpaid, and accumulated bad debts made as of the end of the month. Our finance department monitors and updates the customer's trade receivables position from time to time, keeps track of the movement of the trade receivables, and ensures that the outstanding amounts due do not exceed the maximum balance allowable for a customer. Specific review on the recoverability of past due is performed on a regular basis. Normally we do not require collateral from trade debtors.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, we aim at maintaining flexibility in funding by maintaining adequate amount of cash and cash equivalents.

DIVIDEND POLICY

At the Shareholders' meeting held on 12 June 2014, it was resolved that a dividend policy be adopted for the distribution of profits. In principle, our Directors will recommend for Shareholders' approval in Shareholders' meeting for a payment of dividends in the future after taking into account such factors as our results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on our Articles of Association, the laws of the PRC, other applicable laws and regulations and other relevant factors. In particular, under applicable PRC laws and our Articles of Association, we can only distribute dividends out of our after-tax profit after the following allocations have been made: (i) recovery of accumulated losses, if any; (ii) mandatory allocations to the statutory common reserve fund equivalent to 10% of our after-tax profit, as determined under PRC GAAP, unless the common reserve fund reaches 50% of our registered capital or above; and (iii) allocations, if any, to a discretionary common reserve fund, that is approved by our shareholders in a shareholders' meeting.

Subject to the factors described above, our current dividend policy is to distribute a dividend in cash of no less than 10% of the total profits available for distribution for that particular financial year, subject to Shareholders' approval. The cash portion is expected to be no less than 20% of our annual dividend, and our cumulative dividend in cash for any three consecutive years to be no less than 30% of the average annual distributable profits of that three-year period.

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Unless otherwise provided in the Articles of Association, holders of our H Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the H Shares. The declaration, payment and amount of dividend distribution will be subject to our Board's discretion which will be made in accordance with the relevant requirements under our Articles of Association, and the dividend distribution proposal by our Board and any changes to the dividend policy will be subject to Shareholders' approval as required by the Articles of Association.

In 2011, we declared cash dividends of RMB189.3 million. For further details regarding these dividends, please refer to note 30 to the accountant's report included as Appendix I to this prospectus. Pursuant to a resolution of the Shareholders' meeting dated 15 August 2014, we declared a dividend of RMB1.25 per share in 2014. This dividend payable, amounting to RMB120 million, has not been recognised as a liability in the Group's consolidated financial statements as of 30 June 2014, and has been paid on 15 September 2014 to our 13 then shareholders (net of the amount we withheld for payment of individual income tax applicable to individual 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.

Pursuant to the applicable provisions of the New CIT Law and the Provision for Implementation of Corporate Income Tax Law of the PRC that came into effect in 2008, we shall as withholding agent be obliged to withhold 10% corporate income tax when we distribute dividend to non-resident enterprise holders of H shares.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted net tangible assets of our Company, which has been prepared based on the audited consolidated net tangible assets of our Company attributable to the owners of our Company as of 30 June 2014 as extracted from the accountant's report, the text of which is set out in Appendix I to this prospectus, adjusted as described below.

The unaudited pro forma statement of adjusted net tangible assets has been prepared to show the effect of the Global Offering as if it had taken place on 30 June 2014 assuming the Over-allotment Option is not exercised. The statement has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our financial position as of 30 June 2014 or at any future dates following the Global Offering.

FINANCIAL INFORMATION

	Audited consolidated net tangible assets attributable to owners of our Company as of 30 June 2014 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾	Unaudited pro forma adjusted net tangible assets attributable to the owners of our Company	Unaudited pro forma adjusted net tangible assets per Share ⁽³⁾	
	(RMB in thousands)			RMB	HK\$
Based on the Offer Price of HK\$7.72 per Offer Share	553,522	151,308	705,250	5.51	6.98

Notes:

- (1) The audited consolidated net tangible assets attributable to owners of the Company as of 30 June 2014 is extracted from the section headed “Appendix I – Accountant’s Report” in this prospectus, which is based on the audited consolidated net assets of the Group attributable to owners of the Company as of 30 June 2014 of approximately RMB553,941,937 with an adjustment for the intangible assets as of 30 June 2014 of approximately RMB419,787.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Shares and the Offer Price of HK\$7.72 per Offer Share, after deducting the underwriting fees and other related expenses, and does not take into account any H Shares that may be allotted and issued upon exercise of the Over-allotment Option.
- (3) The unaudited pro forma net tangible assets per Share is calculated based on 128,000,000 Shares, being the number of shares in issue immediately following the completion of the Global Offering without taking into account any H Shares that may be issued upon exercise of the Over-allotment Option.
- (4) No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2014. In particular, the unaudited pro forma adjusted net tangible assets of our Group do not take into account the dividend of RMB120 million declared by our Company in August 2014, which has been paid in full in September 2014 to the shareholders. The unaudited pro forma net tangible assets per share would have been HK\$5.79 per share based on the Offer Price of HK\$7.72 after taking into account the declaration of such dividend.
- (5) For the purpose of the estimated net proceeds from the Global Offering, the translation of RMB into HK\$ was made at the rate of RMB0.7891 to HK\$1.0000.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors have confirmed that they are currently not aware of any circumstance subsisting as of the Latest Practicable Date that triggered disclosure obligations under Rules 13.13 to 13.19 of the Listing Rules.

DISTRIBUTABLE RESERVES

As of 30 June 2014, our reserves available for distribution to our owners amounted to RMB214.3 million, of which RMB120.0 million had been reserved for distribution of dividend declared by us pursuant to a resolution of the Shareholders’ meeting dated 15 August 2014.

FINANCIAL INFORMATION

LISTING-RELATED EXPENSES

The total listing-related expenses are expected to be about HK\$56.2 million (based on the Offer Price at HK\$7.72 and before the exercise of the Over-allotment Option), of which approximately HK\$52.7 million is directly attributable to the issue of new H Shares to the public and is to be accounted for as a deduction from equity upon Listing. The remaining estimated expenses of HK\$3.5 million are expected to be charged to our Group's consolidated income statements for the year ending 31 December 2014. Our listing-related expenses are subject to adjustments based on the actual amount we will incur upon completion of the Listing.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, as of the date of this prospectus, there has been no material adverse change to our financial or trading position or prospects since 30 June 2014, being the date to which our most recent audited consolidated financial statements were prepared, and since that date, there has been no event up to the date of this prospectus that would materially affect the information shown in our consolidated financial information included in the accountant's report set out in Appendix I to this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See “Business – Business Strategies” for details of our future plans.

USE OF PROCEEDS

We estimate that the net proceeds we will receive from the Global Offering (after deducting underwriting commissions, fees and anticipated expenses payable by our Group in connection with the Global Offering) will be HK\$210.0 million, assuming the Over-allotment Option is not exercised and based on an Offer Price of HK\$7.72 per H Share. We currently intend to apply these net proceeds for the following purposes, assuming the Over-allotment Option is not exercised:

- up to 77.8%, or HK\$163.5 million, will be used to partially fund the construction of the New Wuxi Facility and New Research & Development Centre, including (i) HK\$126.7 million for the repayment of bank loans incurred specifically for the construction of the New Wuxi Facility at the interest rate based on three-year financial institution RMB lending base rate announced by People’s Bank of China and with a maturity date on 20 December 2016. The available loan facilities was RMB100.0 million (equivalent of HK\$126.7 million as of the Latest Practicable Date). As of 31 August 2014, balance of RMB26.2 million of the loan had been drawn down; and (ii) HK\$36.8 million for satisfying further construction cost of and fixed assets investment in our New Wuxi Facility, for further improvement and enhancement of our manufacturing capacity and research and development capabilities. For further details about the New Wuxi Facility, please refer to the section headed “Business – Expansion Plan” of this prospectus.
- up to 12.2%, or HK\$25.5 million, will be devoted to certain targeted research and development projects which mainly relate to (i) technical improvements of our existing products; and (ii) development of potential new products. For further details about our research and development plan, please refer to the section headed “Business – Research and Development” of this prospectus.
- the remaining balance of 10.0%, or HK\$21.0 million, will be used for general working capital and other general corporate purposes.

If the Over-allotment Option is exercised in full, the net proceeds from the Global Offering will change to HK\$244.6 million, based on an Offer Price of HK\$7.72 per H Share. In such events, except the fixed intended use of the net proceeds in the construction of our New Wuxi Facility and Research & Development Centre mentioned above, we will increase or decrease the intended use of the net proceeds for the above purposes on a pro-rata basis.

To the extent that the net proceeds are not immediately applied to the above purposes, we intend to deposit the same into short-term deposits with banks or financial institutions in Hong Kong or the PRC as permitted by the relevant laws and regulations. Our PRC Legal Advisers are of the view that there is no legal impediment in remittance to the PRC provided that relevant registration with SAFE for the Listing is completed within 15 working days after the Global Offering. We will comply with the PRC laws in respect of foreign exchange registration and proceeds remittance.

UNDERWRITING

HONG KONG UNDERWRITERS

China Merchants Securities
Ping An
SBI
Sun International
CMBI

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering the Hong Kong 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 (i) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the H Shares to be offered pursuant to the Global Offering as mentioned herein (including the additional H Shares to be issued pursuant to the exercise of the Over-allotment Option) and (ii) certain other conditions set out in the Hong Kong Underwriting Agreement having become unconditional in accordance with its terms, the Hong Kong Underwriters have agreed severally to subscribe or procure subscribers for, their respective applicable proportions of the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe for, or procure subscribers for, the Hong Kong Offer Shares are subject to termination. The Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) shall be entitled to terminate their obligations under the Hong Kong Underwriting Agreement, if at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date:

- (a) there shall develop, occur, exist or come into effect:
 - (i) any change or development involving a prospective change in, or any event or series of events resulting or likely to result in or representing any change or development in local, national, regional or international financial, political, military, industrial, legal, economic, currency market, fiscal or regulatory or market matters or conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Renminbi against any foreign currencies) in or affecting Hong Kong, China, the United States, the United Kingdom, Canada, the EU (or any member thereof), Japan or Singapore (each a “**Relevant Jurisdiction**”); or

UNDERWRITING

- (ii) any new law or regulation or any change or development involving a prospective change in any existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any Relevant Jurisdiction; or
- (iii) any event or series of events beyond the control of the Hong Kong Underwriters, including but not limited to in the nature of force majeure such as acts of government, strikes, lock-outs, fire, explosion, flooding, tsunami, earthquake, volcano eruption, ice-storm, civil commotion, acts of war, riot, public disorder, acts of terrorism (whether or not responsibility has been claimed), acts of God, epidemic, outbreak of infectious disease (including but not limited to Severe Acute Respiratory Syndrome (SARS) and Influenza A (H5N1) or swine or avian influenza or such related/mutated forms, accident or interruption or delay in transportation), in or affecting any Relevant Jurisdiction; or
- (iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or act for terrorism or other state of emergency or calamity or wide-spread epidemic or political or social crisis involving or affecting, directly or indirectly, any Relevant Jurisdiction; or
- (v) the imposition or declaration of (A) any moratorium, suspension, restriction or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the NYSE Amex Equities, the Nasdaq National Market, the London Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Tokyo Stock Exchange or any other major international stock exchange; or (B) a general moratorium on banking activities (commercial or otherwise) in any Relevant Jurisdiction declared by the relevant authorities, or a disruption in banking activities (commercial or otherwise) or foreign exchange trading or securities settlement or clearance services in or affecting any Relevant Jurisdiction or any jurisdiction where the stock exchange referred to in paragraph (A) above is located; or
- (vi) any change or development or event involving a prospective change in taxation or exchange controls (or the implementation of any exchange control), currency exchange rates or foreign investment regulations in any Relevant Jurisdiction; or
- (vii) any imposition of economic or other sanctions against any member of our Group, in whatever form, directly or indirectly, by any Relevant Jurisdiction or any governmental authority of any Relevant Jurisdiction; or
- (viii) any change or development or event involving a prospective change in the assets, liabilities, profit, losses, performance, condition, business, financial, earnings, trading position or prospects of our Group; or
- (ix) the commencement by any judicial, political or regulatory body or organisation of any public action against any member of our Group or the respective directors, supervisors or an announcement by any judicial, political or regulatory body or organisation that it intends to take any such action; or

UNDERWRITING

- (x) other than with the approval of the Sole Global Coordinator, the issue or requirement to issue by us of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated subscription of H Shares) pursuant to the Companies (WUMP) Ordinance, the Listing Rules, the SFO or any other applicable laws, or any requirement or request of the Stock Exchange, the SFC and/or the CSRC; or
- (xi) 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 makes any compromise or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or
- (xii) a valid demand by any creditor for repayment or payment of indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity, or any loss or damage sustained by any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person); or
- (xiii) any litigation or claim being threatened or instigated against any member of our Group or their respective directors or any of our Controlling Shareholders; or
- (xiv) any contravention by any member of our Group of the Companies Ordinance, the Companies (WUMP) Ordinance or the Listing Rules or applicable Laws; or
- (xv) a prohibition on us by any governmental authority for whatever reason from allotting or selling the Offer Shares (including the additional H Shares that may be allotted and issued by us upon the exercise of the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (xvi) non-compliance of this prospectus (or any other documents used in connection with the Global Offering) or any aspect of the Global Offering with the Companies (WUMP) Ordinance, the Listing Rules or any other applicable Laws; or
- (xvii) the change or prospective change or a materialisation of any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (xviii) a Director or a Supervisor being charged or indicted or retained with an indictable offence or prohibited by operation of laws or otherwise disqualified from directorship or taking part in the management of a company; or
- (xix) the chairman or any of the chief executives of our Company vacating his or her office, and which any of the above cases and in the sole opinion of Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters):
 - (A) is or may or will be or is likely to be adverse to, or prejudicially affect, the operations, business or financial or trading position or other conditions or prospects of our Company or our Group as a whole, or to any present or prospective shareholders of our Company in his/her/its capacity as such; or

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- (B) has or may have or will have or is likely to have an adverse effect on the success of the Global Offering, or the level of Offer Shares being applied for or accepted or the distribution of Offer Shares being applied for or accepted or the distribution of Offer Shares and/or make it impracticable or inadvisable for any part of the Hong Kong Underwriting Agreement, or the Global Offering to be performed or implemented as envisaged; or
 - (C) makes or may make or will or is likely to make it inadvisable, impracticable, inexpedient or not commercially viable to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus; or
 - (D) would have the effect of making any part of the Hong Kong Underwriting Agreement 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 Hong Kong Underwriting Agreement,
- (b) there has come to the notice of the Sole Global Coordinator:
- (i) that any statement contained in any of this prospectus, the Application Forms, the preliminary international offering circular, the final international offering circular, the post hearing information pack and the formal notice, together with any announcements, documents, materials, communications or information whatsoever made, given, released or issued arising out of, in relation to or in connection with the Global Offering (whether or not approved by the Sole Global Coordinator or any of the Joint Bookrunners or any of the Hong Kong Underwriters), or, in each case, any supplement or amendment thereto (the “**Offer Documents**”) or announcements considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its sole and absolute opinion to be material in the context of the Global Offering, was, when it was issued, or has become, untrue, incomplete, inaccurate or misleading in any respect or that any estimate, forecast, expression of opinion, intention or expectation expressed in any of the Offer Documents or announcements considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its sole and absolute opinion is not, in all respects, fair and honest or based on reasonable assumptions; or
 - (ii) that any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission from this prospectus; or
 - (iii) any breach of any of the representations, warranties, obligations or undertakings given by or imposed upon any party to the Hong Kong Underwriting Agreement and the International Underwriting Agreement (other than any of the Hong Kong Underwriters or the International Underwriters) or any matter or event showing any of such representations, warranties, obligations or undertakings to be untrue, incomplete, inaccurate, misleading or having been breached in any respect when given or repeated; or

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- (iv) any matter, event, act or omission which gives or is likely to give rise to any liability of any of our Company, our Controlling Shareholders and our executive Directors pursuant to the indemnities referred to in the Hong Kong Underwriting Agreement or the International Underwriting Agreement given by our Company, our Controlling Shareholders and our executive Directors or any of them; or
- (v) any change or prospective adverse change or development (whether or not permanent) in the earnings, conditions, business, business affairs, assets and liabilities, properties, results of operations, profits, losses or in the financial or trading position or prospects or performance of any member of our Group or our Group as a whole; or
- (vi) any litigation or claim being threatened or instigated against any member of our Group; or
- (vii) the approval (other than subject to customary conditions) by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the H Shares to be issued (including any additional H Shares that may be issued pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (viii) we withdraw any of the Offer Documents (and/or any other documents used in connection with the contemplated subscription of the Offer Shares) or the Global Offering; or
- (ix) any person (other than the Hong Kong Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents and/or any other documents used in connection with the contemplated subscription of the Offer Shares, or to the issue of any of the Offer Documents.

International Placing

In connection with the International Placing, we have entered into the International Underwriting Agreement with, among others, the International Underwriters, the Sole Global Coordinator on 29 October 2014.

Under the International Underwriting Agreement, subject to the conditions set forth therein, the International Underwriters have severally agreed to purchase or procure purchasers for the International Placing Shares initially being offered pursuant to the International Placing. The International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement.

We grant to the Sole Global Coordinator, on behalf of the International Underwriters, the Over-allotment Option exercisable at any time and from time to time from the Listing Date until the 30th day after the last date for lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 4,800,000 additional H Shares, representing 15% of the initial Offer Shares, at the same price per Offer Share under the International Placing, solely to cover over-allocations, if any, in the International Placing.

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Commissions and expenses

The Hong Kong Underwriters will receive an underwriting commission of 5.2% on the aggregate Offer Price of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering, out of which they will pay any sub-underwriting commission. The International Underwriters will receive an underwriting commission of 5.2% on the aggregate Offer Price of the International Placing Shares initially offered under the International Placing. In addition, we may, in our sole discretion, pay to the Underwriters an additional discretionary incentive fee of up to 1.0% of the Offer Price in respect of all of the Hong Kong Offer shares solely to the Sole Global Coordinator in connection with the services provided in the Global Offering. For unsubscribed Hong Kong Offer Shares reallocated to the International Placing, we will pay an underwriting commission at the rate applicable to the International Placing and such commission will be paid to the Sole Global Coordinator and the relevant International Underwriters (but not the Hong Kong underwriters).

The aggregate commissions and fees, together with the listing fees, SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the Global Offering are estimated to be HK\$56.2 million in total (based on the Offer Price of HK\$7.72, and assuming the Over-allotment Option is not exercised) and will be payable by our Group.

UNDERTAKINGS TO THE STOCK EXCHANGE PURSUANT TO THE LISTING RULES

Undertakings by our Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that save in connection with the Global Offering or the Over-allotment Option, no further H Shares or securities convertible into equity securities will be issued by our Company, or form the subject of any agreement by our Company to such an issue, within six months from the date on which our H Shares first commence dealing on the Stock Exchange (whether or not such issue of H Shares or securities will be completed within six months from the Listing Date) except in the circumstances permitted pursuant to Rule 10.08 of the Listing Rules.

Undertakings by our Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders (namely Mr. Zhang Degang, Mr. Zhang Deqiang and Ms. Zhang Jinghua) has undertaken to the Stock Exchange, our Company, the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Underwriters) that save as disclosed in this prospectus and except pursuant to the Global Offering (including the Over-allotment Option), he or she will not and shall procure that the relevant registered holder(s) will not:

- (a) in the period commencing on the date by reference to which disclosure of his or her shareholding is made in this prospectus and ending on the date which is six months from the date on which dealings in our H 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 securities of our Company in respect of which he or she is shown by this prospectus to be the beneficial owner (whether direct or indirect);

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- (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 securities referred to in the above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or she would cease to be the controlling shareholders (as the term is defined in the Listing Rules) of our Company.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders (namely Mr. Zhang Degang, Mr. Zhang Deqiang and Ms. Zhang Jinghua) has also undertaken to the Stock Exchange, to our Company, the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Underwriters) that within the period commencing on the date by reference to which disclosure of his or her shareholding is made in this prospectus and ending on the date which is 12 months from the date on which dealings in the H Shares of our Company commence on the Stock Exchange, he shall:

- (1) when he or she pledges or charges any Shares or other securities beneficially owned by him or her or it in favour of an authorised institution pursuant to Note 2 to Rule 10.07(2), immediately inform our Company of such pledge or charge together with the number of securities so pledged or charged; and
- (2) when he or she receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged securities will be disposed of, immediately inform our Company of such indications.

UNDERTAKINGS PURSUANT TO THE UNDERWRITING AGREEMENTS

We have undertaken to each of the Sole Global Coordinator, the Sole Sponsor, the Hong Kong Underwriters and the International Underwriters that except pursuant to the Global Offering (including pursuant to the Over-allotment Option), or with the prior written consent of the Sole Global Coordinator, and unless in compliance with the requirements of the Listing Rules, we shall not at any time from the date of the Hong Kong Underwriting Agreement until the expiry of six months from the Listing Date (the “**First Six-Month Period**”),

- (a) offer, accept subscription for, pledge, issue, sell, lend, mortgage, assign, charge, contract to issue or sell, sell any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any H Shares or other equity securities of our Company or any shares or other equity securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, but not limited to, any securities that are convertible into or exchangeable or exercisable for, or that represent the right to receive, or any warrants or other rights to purchase, any H Shares or other securities of our Company or any shares or other securities of such other member of our Group, as applicable or any interest in any of the foregoing) or any of the rights attaching to any such share capital, including but not limited to rights as to voting, dividend or distribution; or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any H Shares or other equity securities of our Company or any shares or other equity securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, but not limited to, any securities that are convertible into or exchangeable or exercisable for, or that represent the right to receive, or any

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warrants or other rights to purchase, any H Shares or other securities of our Company or any shares or other securities of such other member of our Group, as applicable or any interest in any of the foregoing) or any of the rights attaching to any such share capital, including but not limited to rights as to voting, dividend or distribution; or

- (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or
- (d) agree or contract to, or publicly announce any intention to enter into, any transaction described in (a) or (b) above;

in each case, whether any such transaction described in (a) or (b) or (c) above is to be settled by delivery of H Shares or other securities, in cash or otherwise.

Each of our Controlling Shareholders (namely Mr. Zhang Degang, Mr. Zhang Deqiang and Ms. Zhang Jinghua) has undertaken to each of the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, our Company and the Hong Kong Underwriters that, except pursuant to the Global Offering, without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (i) at any time during the First Six-Month Period, he or she shall not, and shall procure that the relevant registered holder(s) and his or her close associates and companies controlled by him/her and any nominee or trustee holding in trust for him or her shall not:
 - (a) offer, accept subscription for, pledge, mortgage, charge (other than any pledge or charge of the issued share capital of our Company after the Global Offering in favour of an authorised institution as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan), sell, lend, assign, contract to sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, assign or otherwise transfer or dispose of, either directly or indirectly, or repurchase, conditionally or unconditionally, any H Shares or other securities of our Company or any interest therein (including without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any H Shares or any such other securities, as applicable or any interest in any of the foregoing) in respect of which he or she is shown in this prospectus to be the beneficial owner (as defined in Rule 10.07(2) of the Listing Rules) (the “**Relevant Securities**”) or any of the rights attaching to any such share capital, including but not limited to rights as to voting, dividend or distribution; or
 - (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any of the Relevant Securities or any interest therein or any of the rights attaching to any such share capital, including but not limited to rights as to voting, dividend or distribution; or
 - (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or

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- (d) agree or contract to, or publicly announce any intention to enter into, any transaction described in (a) or (b) or (c) above,

in each case, whether any such transaction is to be settled by delivery of the Relevant Securities, in cash or otherwise; and

- (ii) during the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), he or she will not enter into any of the transactions specified in (a), (b) or (c) above or agree or contract to or publicly announce any intention to enter into any such transaction if, immediately following such transfer or disposal, or upon the exercise or enforcement of such options, rights, interests or encumbrances, it will cease to be “controlling shareholders” (as the term is defined in the Listing Rules) of our Company; and
- (iii) until the expiry of the Second Six-Month Period, in the event that he or she enters into any such transactions or agrees or contracts to, or publicly announces any intention to enter into any such transactions, he or she will take all reasonable steps to ensure that he or she will not create a disorderly or false market for the securities of our Company.

Each of our Controlling Shareholders has further undertaken to each of our Company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, from the date of the Hong Kong Underwriting Agreement up to and including the expiry of the Second Six-Month Period, he or she will:

- (i) when he/she pledges or charges any securities or interests or any of the rights attaching to any such share capital, including but not limited to rights as to voting, dividend or distribution in the securities of our Company, immediately inform our Company and the Sole Global Coordinator in writing of such pledge or charge together with the number of securities and nature of interest so pledged or charged; and
- (ii) if and when he or she receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in or rights attaching to the securities of our Company will be sold, transferred or disposed of, immediately inform our Company and the Sole Global Coordinator in writing of such indications.

THE SOLE SPONSOR’S AND UNDERWRITERS’ INTEREST IN OUR COMPANY

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

The Underwriters will receive an underwriting commission of 5.2% of the aggregate Offer Price payable for the Offer Shares. Particulars of these commission and expenses are set forth under “Commissions and expenses” above.

Save as disclosed above, none of the Sole Global Coordinator, Joint Bookrunners, Joint Lead Managers or the Underwriters is interested legally or beneficially in shares of our Company or any of our subsidiaries or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any of our members nor any interest in the Global Offering.

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THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering consists of (subject to adjustment and the Over-allotment Option):

- the Hong Kong Public Offering of 3,200,000 H Shares (subject to adjustment as mentioned below) in Hong Kong as described below under “The Hong Kong Public Offering”; and
- the International Placing of an aggregate of 28,800,000 H Shares (subject to adjustment as mentioned below and the Over-allotment Option) outside the United States (including professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S or another exemption under the U.S. Securities Act as described below under “The Hong Kong Public Offering”.

The 32,000,000 Offer Shares initially being offered in the Global Offering will represent 25% of our enlarged total number of issued Shares immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. The underwriting arrangements, and the respective Underwriting Agreements, are summarised in the section headed “Underwriting” of this prospectus.

Investors may apply for the H Shares under the Hong Kong Public Offering or apply for or indicate an interest for the H Shares under the International Placing, but may not apply under both of these methods for the Offer Shares. In other words, you may only receive Offer Shares under either the Hong Kong Public Offering or the International Placing, but not under both of these methods.

Our Company has obtained the requisite PRC governmental approvals, including the approval of the CSRC, in respect of the Global Offering.

The number of H Shares to be offered under the Hong Kong Public Offering and the International Placing, respectively, may be subject to reallocation as described in the paragraph headed “The Hong Kong Public Offering – Reallocation” in this section below.

THE HONG KONG PUBLIC OFFERING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a several basis under the terms of the Hong Kong Underwriting Agreement. The Hong Kong Public Offering and the International Placing are subject to the conditions set forth in the paragraph headed “Conditions of the Global Offering” in this section below. The Hong Kong Underwriting Agreement and the International Underwriting Agreement are conditional upon each other.

Number of H Shares initially offered

The Hong Kong Public Offering is a fully underwritten public offer (subject to satisfaction or waiver of the other conditions set forth in the Hong Kong Underwriting Agreement and described in the paragraph headed “Conditions of the Global Offering” in this section below) for the subscription in Hong Kong of, initially 3,200,000 H Shares at the Offer Price (representing 10% of the H Shares initially available under the Global Offering). Subject

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to the reallocation of Offer Shares between the International Placing and the Hong Kong Public Offering, the number of H Shares initially offered under the Hong Kong Public Offering will represent 2.5% of our Company's total issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. 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.

Allocation

Allocation of H Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The Sole Global Coordinator (on behalf of the Underwriters), where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with our consent, reduce the number of Hong Kong Offer Shares that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. The Sole Global Coordinator, on behalf of the Underwriters, may also based on the level of interest expressed by prospective investors during the book-building process (where considered appropriate), and with our consent reduce the Offer Price below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In case of such reduction, we will, as soon as practicable following the decision to make the reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), the website of the Stock Exchange (www.hkexnews.hk) and our website (www.wxsunlit.com) notices of the reduction in the number of Hong Kong Offer Shares and/or the Offer Price. Applicants should have regard to the possibility that any announcement of a reduction in the number of Hong Kong Offer Shares and/or the Offer Price may not be made until the last day for lodging applications under the Hong Kong Public Offering. The notices will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set forth in this prospectus, and any other financial information which may change as a result of such reduction.

The total number of Hong Kong Offer Shares available under the Hong Kong Public Offering will initially be divided equally into two pools for allocation purposes (subject to any adjustment in the number of Offer Shares allocated between the International Placing and the Hong Kong Public Offering): pool A and pool B. The H Shares in pool A will be allocated on an equitable basis to successful applicants who have applied for Hong Kong Offer Shares with an aggregate subscription price of HK\$5 million or less (excluding the amounts of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%). The H Shares in pool B will be allocated on an equitable basis to successful applicants who have applied for our Hong Kong Offer Shares with an aggregate subscription price of more than

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HK\$5 million (excluding the brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) and up to the total value of pool B. Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Hong Kong Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in this other pool and be allocated accordingly. For the purpose of this paragraph only, the “subscription price” for the Offer Shares means the price payable on application therefor. Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications within pool A or pool B, and between the two pools, and any application for more than 1,600,000 Offer Shares will be rejected.

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Placing is subject to adjustment. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place, which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if specific pre-designated levels of total demand in the Hong Kong Public Offering are reached:

- If the number of the H Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 9,600,000 H Shares, representing 30% of the Offer Shares initially available under the Global Offering (before the exercise of the Over-allotment Option).
- If the number of the H Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Placing will be increased so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 12,800,000 H Shares, representing 40% of the Offer Shares initially available under the Global Offering (before the exercise of the Over-allotment Option).
- If the number of the H Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Placing will be increased, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 16,000,000 H Shares, representing 50% of the Offer Shares initially available under the Global Offering (before the exercise of the Over-allotment Option).

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated equally between pool A and pool B and the number of Offer Shares allocated to the International Placing will be correspondingly reduced in such manner as the Sole Global Coordinator (after consultation with our Company) deems appropriate. In addition, the Sole Global Coordinator may, in its sole discretion (after consultation with our Company), allocate

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Offer Shares from the International Placing to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

The Offer Shares to be offered in the Hong Kong Public Offering and the International Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator.

Applications

Each applicant under the Hong Kong Public Offering 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 Offer Shares under the International Placing, and such applicant's application may be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or he or she has been or will be placed or allocated Offer Shares under the International Placing.

References in this prospectus to applications, Application Forms, application or subscription monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL PLACING

The International Placing is fully underwritten by the International Underwriters on a several basis.

Number of H Shares offered

Subject to reallocation as described above, the number of H Shares to be initially offered under the International Placing will be 28,800,000 H Shares, representing 90% of the Offer Shares under the Global Offering. Subject to the reallocation of the Offer Shares between the International Placing and the Hong Kong Public Offering, the number of H Shares initially offered under the International Placing will represent 22.5% of our total issued share capital immediately after completion of the Global Offering, assuming the Over-allotment Option is not exercised.

Allocation

Pursuant to the International Placing, 28,800,000 Offer Shares will be initially offered under the International Placing, representing 90% of the Offer Shares under the Global Offering. The International Placing will involve selective marketing of the International Placing Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such International Placing Shares. 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.

Allocation of International Placing Shares will be determined by the Sole Global Coordinator (after consultation with our Company), and will be effected in accordance with the "book-building" process described in the paragraph headed "Pricing of the Global Offering" below and based on a number of factors, including the level and timing of demand, the total

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size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell H Shares, after the listing of the H Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the H Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to our benefit and that of the Shareholders as a whole.

Our Directors, the Sole Global Coordinator (on behalf of the Underwriters) and our Company will take reasonable steps to identify and reject applicants under the Hong Kong Public Offering from investors who have received Offer Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have received Offer Shares in the Hong Kong Public Offering.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, we have granted an Over-allotment Option to the International Underwriters exercisable by the Sole Global Coordinator on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the Sole Global Coordinator has the right, exercisable at any time from the Listing Date up to the 30th day after the last day for lodging of applications under the Hong Kong Public Offering and from time to time, to require our Company to allot and issue up to an aggregate of 4,800,000 additional Offer Shares, representing 15% of the initial Offer Shares, at the same price per Offer Share at which Offer Shares were initially offered under the International Placing, to cover over-allocations in the International Placing, if any, on the same terms and conditions as the Offer Shares that are subject to the Global Offering. The Sole Global Coordinator may, at its option, also cover such over-allocations by purchasing the Offer Shares in the secondary market or exercise of Over-allotment Option, or by a combination of these means or otherwise as may be permitted under applicable laws, rules and regulations. If the Sole Global Coordinator exercises the Over-allotment Option in full, the additional Offer Shares will represent 3.61% of our enlarged total issued share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a press announcement will be made.

PRICING OF THE GLOBAL OFFERING

Applicants under the Global Offering must pay, on application, the price of HK\$7.72 per Offer Share plus 1% brokerage fee, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee amounting to a total of HK\$3,898.89 for one board lot of 500 H Shares.

The Sole Global Coordinator, on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with our consent, reduce the Offer Price below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In case of such reduction, we will, as soon as practicable following the decision to make the reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), the website of the Stock Exchange (www.hkexnews.hk) and our website (www.wxsunlit.com) notices of the reduction in the Offer Price. Upon issue of these notices, the revised Offer Price will be final and conclusive.

STRUCTURE OF THE GLOBAL OFFERING

Applicants should have regard to the possibility that any announcement of a reduction in the Offer Price may not be made until the last day for lodging applications under the Hong Kong Public Offering. The notices will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set forth in this prospectus, and any other financial information which may change as a result of such reduction. If the number of Offer Shares and/or the Offer Price is reduced, applicants under the Hong Kong Public Offering will be entitled to withdraw their applications, unless positive confirmations from the applicants to proceed are received.

The net proceeds of the Global Offering accruing to our Company (after deduction of underwriting fees and estimated expenses payable by our Company in relation to the Global Offering, assuming the Over-allotment Option is not exercised) are estimated to be HK\$210.0 million, based on an Offer Price of HK\$7.72 per H Share.

The indications of interest in the Global Offering, the results of applications and the basis of allotment of H Shares available under the Hong Kong Public Offering, are expected to be announced on Monday, 10 November 2014 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to minimise and, if possible, prevent a decline in the initial public offer prices of the securities below the Offer Price. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited, and the price at which stabilisation is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilising Manager, its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilising or maintaining the market price of the H Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. Ping An, one of the Joint Bookrunners and one of the Joint Lead Managers, has been appointed as the stabilising manager for the purposes of the Global Offering in accordance with the Securities and Futures (Price Stabilising) Rules made under the SFO.

Any such stabilising activity will be made in compliance with all applicable laws, rules and regulations in place in Hong Kong on stabilisation including the Securities and Futures (Price Stabilising) Rules made under the SFO. However, there is no obligation on the Stabilising Manager, its affiliates or any person acting for it to do this. Such stabilisation, if commenced, will be conducted at the absolute discretion of the Stabilising Manager, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period. Any such stabilisation activity is required to be brought to an end within 30 days from the last date for lodging application under the Hong Kong Public Offering. The number of H Shares that may be over-allocated will not be greater than the number of H Shares which may be sold upon exercise of the Over-allotment Option, being 4,800,000 H Shares, which is 15% of the Offer Shares initially available under the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

Following any over-allotment of H Shares in connection with the Global Offering, the Stabilising Manager, its affiliates or any person acting for it may take all or any of the following stabilising actions in Hong Kong during the stabilisation period to cover such over-allotment.

The possible stabilising action which may be taken by the Stabilising Manager, its affiliates or any person acting for it in connection with the Global Offering may involve (among other things) (i) purchases of H Shares, (ii) establishing, hedging and liquidating positions in H Shares, (iii) exercising the Over-allotment Option in whole or in part, and/or (iv) offering or attempting to do any of (i), (ii) or (iii) above.

Specifically, prospective applicants for and investors in 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 the H Shares;
- there is no certainty regarding the extent to which and the time period for which the Sole Global Coordinator, its affiliates or any person acting for it will maintain such a position;
- liquidation of any such long position by the Sole Global Coordinator, its affiliates or any person acting for it may have an adverse impact on the market price of the H Shares;
- no stabilising action can be taken to support the price of the H Shares for longer than the stabilising period which will begin on the Listing Date, and is expected to expire on Thursday, 4 December 2014, being the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further action may be taken to support the price of the H Shares, demand for the H Shares, and therefore the price of the H Shares, could fall;
- the price of any security (including the H Shares) cannot be assured to stay at or above its Offer Price by the taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the H Shares.

DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Tuesday, 11 November 2014, it is expected that dealings in the H Shares on the Stock Exchange will commence at 9:00 a.m. on Tuesday, 11 November 2014.

The H Shares will be traded in board lots of 500 H Shares each.

STRUCTURE OF THE GLOBAL OFFERING

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares will be conditional on, among other things:

- (i) the Listing Committee granting the listing of, and permission to deal in, the H Shares being offered pursuant to the Global Offering (including the additional H Shares which may be made available pursuant to the exercise of the Over-allotment Option) (subject only to allotment), and such listing and permission not having been revoked prior to the commencement of dealings in H Shares on the Stock Exchange;
- (ii) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Sole Global Coordinator, on behalf of the Underwriters) and not having been terminated in accordance with the terms of the respective agreements;

in each case on or before the dates and times specified in the respective 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 the 30th day after the date of this prospectus.

The consummation of each of the Hong Kong Public Offering and the International Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with their respective 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. We will publish a notice of the lapse of the Hong Kong Public Offering in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange (www.hkexnews.hk) and our Company (www.wxsunlit.com) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set forth in the section headed “How to apply for Hong Kong Offer Shares” on pages 279 to 297 of this prospectus. In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving banker or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

We expect to issue H Share certificates for the Offer Shares on Monday, 10 November 2014. H Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. on Tuesday, 11 November 2014 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed “Underwriting – Underwriting arrangements and expenses – Hong Kong Public Offering – Grounds for termination” on pages 262 to 266 of this prospectus has not been exercised.

HOW TO APPLY FOR HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO Service** at www.eipo.com.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Global Coordinator, the **White Form eIPO Service Provider** and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO Service**, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

HOW TO APPLY FOR HONG KONG OFFER SHARES

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO Service** for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any of our subsidiaries;
- a Director or chief executive officer of our Company and/or any of our subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Placing.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.eipo.com.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, 30 October 2014 until 12:00 noon, Tuesday, 4 November 2014 from:

- (a) any of the following offices of the Joint Bookrunners:

<u>Name</u>	<u>Address</u>
China Merchants Securities (HK) Co., Limited	48/F, One Exchange Square, Central, Hong Kong
Ping An Securities Limited	15/F, 122 QRC, 122 Queen's Road Central, Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

(b) or at any of the following branches of:

(i) Standard Chartered Bank (Hong Kong) Limited

<u>District</u>	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island	Quarry Bay Branch	G/F, Westlands Gardens, 1027 King's Road, Quarry Bay
Kowloon	Mongkok Branch	Shop B, G/F, 1/F & 2/F, 617-623 Nathan Road, Mongkok
	Tsimshatsui Branch	G/F, 8A-10 Granville Road, Tsimshatsui
New Territories	Tsuen Wan Branch	Shop C, G/F & 1/F, Jade Plaza, 298 Sha Tsui Road, Tsuen Wan
	Shatin Plaza Branch	Shop No. 8, Shatin Plaza, 21-27 Shatin Centre Street, Shatin

(ii) Wing Lung Bank Limited

	<u>Branch</u>	<u>Address</u>
Hong Kong Island	Johnston Road Branch	118 Johnston Road
	Kennedy Town Branch	28 Catchick Street
	North Point Branch	361 King's Road
	Aberdeen Branch	201 Aberdeen Main Road
Kowloon	Lam Tin Sceneway Plaza Branch	Shop 59, 3/F Sceneway Plaza, 8 Sceneway Road, Lam Tin
New Territories	Yuen Long Branch	37 On Ning Road
	Sheung Shui Branch	128 San Fung Avenue

HOW TO APPLY FOR HONG KONG OFFER SHARES

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m., Thursday, 30 October 2014 until 12:00 noon, Tuesday, 4 November 2014 from the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Horsford Nominees Limited – Wuxi Sunlit Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

Thursday, 30 October 2014 – 9:00 a.m. to 5:00 p.m.
Friday, 31 October 2014 – 9:00 a.m. to 5:00 p.m.
Saturday, 1 November 2014 – 9:00 a.m. to 1:00 p.m.
Monday, 3 November 2014 – 9:00 a.m. to 5:00 p.m.
Tuesday, 4 November 2014 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Tuesday, 4 November 2014, the last application day or such later time as described in "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.

By submitting an Application Form or applying through the **White Form eIPO Service**, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Global Coordinator (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies (WUMP) Ordinance, the Companies Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing nor participated in the International Placing;
- (viii) agree to disclose to our Company, our H Share Registrar, receiving banks, the Sole Global Coordinator, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Sole Global Coordinator and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or our agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

HOW TO APPLY FOR HONG KONG OFFER SHARES

(xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **White Form eIPO Service** by you or by anyone as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for Yellow Application Form

You may refer to the Yellow Application Form for details.

5. APPLYING THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in “Who can apply” section, may apply through the **White Form eIPO Service** for the Offer Shares to be allotted and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through the **White Form eIPO Service** are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **White Form eIPO Service Provider** to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO Service**.

Time for Submitting Applications under the White Form eIPO

You may submit your application through the **White Form eIPO Service** at www.eipo.com.hk (24 hours daily, except on the last application day) from 9:00 a.m., Thursday, 30 October 2014 until 11:30 a.m., Tuesday, 4 November 2014 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon, Tuesday, 4 November 2014 or such later time under the “Effects of Bad Weather on the Opening of the Applications Lists” in this section.

No Multiple Applications

If you apply by means of White Form eIPO, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO Service** to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under White Form eIPO more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you are suspected of submitting more than one application through the **White Form eIPO Service** or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (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).

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2.0 for each “Wuxi Sunlit Science and Technology Company Limited” **White Form eIPO** application submitted via www.eipo.com.hk to support the funding of “Source of DongJiang – Hong Kong Forest” project initiated by Friends of the Earth (HK).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System <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
2/F., Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

HOW TO APPLY FOR HONG KONG OFFER SHARES

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Global Coordinator and our H Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing;
 - declare that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
 - confirm that you understand that our Company, our Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
 - authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
 - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
 - confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- agree that none of our Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our H Share Registrar, receiving banks, the Sole Global Coordinator, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (WUMP) Ordinance, the Companies Ordinance and the Articles of Association;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong;
- agree with the Company, for itself and for the benefit of each shareholder of the Company (and so that the 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 shareholder of the Company, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Company Law, the Special Regulations on Listing Overseas and the Articles of Association of the Company;
- agree with the Company, for itself and for the benefit of each shareholder of the Company and each director, supervisor, manager and other senior officer of the Company (and so that the Company will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each shareholder of the Company and each director, supervisor, manager and other senior officer of the Company, with each CCASS Participant giving **electronic application instructions**):
 - (a) to refer all differences and claims arising from the Articles of Association of the Company or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association of the Company;
 - (b) that any award made in such arbitration shall be final and conclusive; and
 - (c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;
- agree with the Company (for the Company itself and for the benefit of each shareholder of the Company) that H shares in the Company are freely transferable by their holders; and
- authorise the Company to enter into a contract on its behalf with each director and officer of the Company whereby each such director and officer undertakes to observe and comply with his obligations to shareholders stipulated in the Articles of Association of the Company.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- instructed and authorised HKSCC to arrange payment of the Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 500 Hong Kong Offer Shares. Instructions for more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Thursday, 30 October 2014	– 9:00 a.m. to 8:30 p.m.	<i>(Note)</i>
Friday, 31 October 2014	– 8:00 a.m. to 8:30 p.m.	<i>(Note)</i>
Saturday, 1 November 2014	– 8:00 a.m. to 1:00 p.m.	<i>(Note)</i>
Monday, 3 November 2014	– 8:00 a.m. to 8:30 p.m.	<i>(Note)</i>
Tuesday, 4 November 2014	– 8:00 a.m. (Note) to 12:00 noon	

Note: These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m., Thursday, 30 October 2014 until 12:00 noon, Tuesday, 4 November 2014 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon, Tuesday, 4 November 2014, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 H Share Registrar, the receiving bankers, the Sole Global Coordinator, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO Service** is also only a facility provided by the **White Form eIPO Service Provider** to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Joint Bookrunners, the Sole Sponsor, the Sole Global Coordinator and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO Service** will be allotted any Hong Kong 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 Tuesday, 4 November 2014.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

HOW TO APPLY FOR HONG KONG OFFER SHARES

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO Service**, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO Service** in respect of a minimum of 500 Hong Kong Public Offer Shares. Each application or **electronic application instruction** in respect of more than 500 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.eipo.com.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 4 November 2014. 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.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If the application lists do not open and close on Tuesday, 4 November 2014, 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”, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

The Company expects to announce the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Monday, 10 November 2014 in South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the Company’s website at www.wxsunlit.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 Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company’s website at www.wxsunlit.com and the Stock Exchange’s website at www.hkexnews.hk by no later than 8:00 a.m., Monday, 10 November 2014;
- from the designated results of allocations website at www.iporesults.com.hk with a “search by ID” function on a 24-hour basis from 8:00 a.m., Monday, 10 November 2014 to 12:00 midnight, Sunday, 16 November 2014;
- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Monday, 10 November 2014 to Thursday, 13 November 2014;
- in the special allocation results booklets which will be available for inspection during opening hours from Monday, 10 November 2014 to Wednesday, 12 November 2014 at all the receiving bank branches and sub-branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering”.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or through **White Form eIPO Service**, you agree that your

HOW TO APPLY FOR HONG KONG OFFER SHARES

application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or our agents exercise their discretion to reject your application:

Our Company, the Sole Global Coordinator, the **White Form eIPO Service Provider** and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- your **electronic application instructions** through the **White Form eIPO Service** are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole Global Coordinator believes that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the conditions of the Global Offering are not fulfilled in accordance with "Structure 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 the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Monday, 10 November 2014.

14. DESPATCH/COLLECTION OF H SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for. 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).

HOW TO APPLY FOR HONG KONG OFFER SHARES

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Monday, 10 November 2014. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m., Tuesday, 11 November 2014 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 10 November 2014 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the H Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Monday, 10 November 2014, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Monday, 10 November 2014, 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, 10 November 2014, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Hong Kong Public Offering shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offering shares allotted to you with that CCASS participant.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- *If you are applying as a CCASS investor participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m., Monday, 10 November 2014 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the White Form eIPO Service

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 10 November 2014, or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates/ e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Monday, 10 November 2014 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Monday, 10 November 2014, or, on any other date determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in “Publication of Results” above on Monday, 10 November 2014. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m., Monday, 10 November 2014 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on Monday, 10 November 2014. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

15. ADMISSION OF THE H SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the H Shares and we comply with the stock admission requirements of HKSCC, the H 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 H 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 H Shares to be admitted into CCASS.

The following is the text of a report received from the reporting accountant of our Company, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

30 October 2014

The Directors
Wuxi Sunlit Science and Technology Company Limited

China Merchants Securities (HK) Co., Limited

Dear Sirs,

We report on the financial information of Wuxi Sunlit Science and Technology Company Limited (the "Company") and its subsidiaries (together, the "Group"), which comprises the consolidated income statements, consolidated statements of comprehensive income for each of the years ended 31 December 2011, 2012, 2013 and the six months ended 30 June 2014, the consolidated balance sheets as of 31 December 2011, 2012, 2013 and 30 June 2014, the balance sheets of the Company as of 31 December 2011, 2012, 2013 and 30 June 2014, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2011, 2012, 2013 and the six months ended 30 June 2014 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company (the "Directors") and is set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Company dated 30 October 2014 (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 "Hong Kong Stock Exchange").

The Company was established with limited liability under the name of Wuxi Sunlit Mechanical Engineering Co., Limited (無錫盛力達機械工程有限公司) in the People's Republic of China (the "PRC") on 21 March 2006 under the Company Law of the PRC. Pursuant to a group reorganisation as described in note 1.2 of Section II headed "Reorganisation" below, which was completed on 16 December 2011, the Company became the holding company of the subsidiaries now comprising the Group (the "Reorganisation"). On 24 July 2012, the Company was transformed into a joint stock company with limited liability and changed to its current name.

*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

As at the date of this report, the Company has direct interests in the subsidiaries as set out in note 37 of Section II below. All of these companies are private companies.

All the companies now comprising the Group have adopted 31 December as their financial year end dates. The audited stand-alone statutory financial statements of the companies now comprising the Group as of the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in the PRC. The details of the statutory auditors of these companies are set out in note 37 of Section II of this report.

The Directors have prepared the consolidated financial statements of the Group for the Relevant Periods, in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”). The Directors are responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with HKFRS. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the “HKSA”) issued by the HKICPA pursuant to separate terms of engagement with the Company.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

Directors’ responsibility for the financial information

The Directors are responsible for the preparation of the financial information that gives a true and fair view in accordance with HKFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Reporting accountant’s responsibility

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” (the “AG 3.340”) issued by the HKICPA.

Opinion

In our opinion, the financial information gives, for the purpose of this report and presented on the basis set out in note 1.3 of Section II below, a true and fair view of the state of affairs of the Company and of the Group as of 31 December 2011, 2012, 2013 and 30 June 2014 and of the Group’s results and cash flows for the Relevant Periods then ended.

Review of Stub Period Comparative Financial Information

We have reviewed the stub period comparative financial information set out in Sections I to II below included in Appendix I to the Prospectus which comprises the consolidated income statement, consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2013 and a summary of significant accounting policies 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 in accordance with the basis of presentation set out in note 1.3 of Section II below and the accounting policies set out in note 2 of Section II below.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review of the Stub Period Comparative Financial Information 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 HKSA and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report and presented on the basis set out in note 1.3 of Section II below, is not prepared, in all material respects, in accordance with the accounting policies set out in note 2 of Section II below.

I. FINANCIAL INFORMATION

The following is the financial information of the Group prepared by the Directors as of 31 December 2011, 2012, 2013 and 30 June 2014, and for each of the years ended 31 December 2011, 2012, 2013 and the six months ended 30 June 2013 and 2014 (the "Financial Information") presented on the basis set out in note 1.3 below:

(a) Consolidated income statements

(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December			Six months ended 30 June	
		2011	2012	2013	2013 (Unaudited)	2014
Revenue	5	465,667,295	323,596,692	318,948,014	183,834,055	140,294,591
Cost of sales	8	(253,976,804)	(130,253,706)	(133,125,571)	(77,376,398)	(58,852,673)
Gross profit		211,690,491	193,342,986	185,822,443	106,457,657	81,441,918
Selling expenses	8	(7,866,194)	(5,266,985)	(5,166,110)	(2,141,669)	(3,274,223)
Administrative expenses	8	(71,969,962)	(59,200,706)	(47,565,529)	(27,966,072)	(11,612,133)
Other income	6	12,302,243	20,729,619	20,270,410	5,667,539	3,062,443
Other (losses)/gains-net	7	(1,242,157)	80,146	(13,912)	19,705	51,644
Operating profit		142,914,421	149,685,060	153,347,302	82,037,160	69,669,649
Finance income	10	1,088,310	2,395,325	1,938,541	1,107,821	1,050,994
Finance expenses	10	(714,161)	(1,555,296)	(1,825,000)	(910,000)	(910,000)
Finance income-net		374,149	840,029	113,541	197,821	140,994
Profit before income tax		143,288,570	150,525,089	153,460,843	82,234,981	69,810,643
Income tax expense	11	(33,192,048)	(25,256,584)	(22,468,595)	(16,532,035)	(14,360,271)
Profit for the year/period		110,096,522	125,268,505	130,992,248	65,702,946	55,450,372
Attributable to:						
– Owners of the Company		107,331,955	125,268,505	130,992,248	65,702,946	55,450,372
– Non-controlling interests		2,764,567	–	–	–	–
		110,096,522	125,268,505	130,992,248	65,702,946	55,450,372
Earnings per share (expressed in RMB per share)	12	1.12	1.30	1.36	0.68	0.58
Dividends	30(a)	189,324,996	–	–	–	120,000,000

(b) Consolidated statements of comprehensive income

(All amounts in RMB unless otherwise stated)

	<i>Note</i>	Year ended 31 December			Six months ended 30 June	
		2011	2012	2013	2013	2014
					(Unaudited)	
Profit for the year/period		110,096,522	125,268,505	130,992,248	65,702,946	55,450,372
Other comprehensive income		—	—	—	—	—
Total comprehensive income for the year/period		<u>110,096,522</u>	<u>125,268,505</u>	<u>130,992,248</u>	<u>65,702,946</u>	<u>55,450,372</u>
Attributable to:						
– Owners of the Company		107,331,955	125,268,505	130,992,248	65,702,946	55,450,372
– Non-controlling interests		<u>2,764,567</u>	—	—	—	—
		<u>110,096,522</u>	<u>125,268,505</u>	<u>130,992,248</u>	<u>65,702,946</u>	<u>55,450,372</u>

(c) Consolidated balance sheets

(All amounts in RMB unless otherwise stated)

	<i>Note</i>	As of 31 December			As of
		2011	2012	2013	30 June
					2014
ASSETS					
Non-current assets					
Land use rights	13	36,702,174	35,895,096	35,100,517	34,663,755
Property, plant and equipment	14	42,519,959	46,517,873	79,709,442	95,145,857
Intangible assets	15	487,464	537,621	407,878	419,787
Deferred income tax assets	29	8,648,655	21,687,541	23,334,664	16,210,164
		<u>88,358,252</u>	<u>104,638,131</u>	<u>138,552,501</u>	<u>146,439,563</u>
Current assets					
Inventories	20	241,308,080	205,327,567	170,903,597	159,410,632
Prepaid income tax		263,526	3,128,307	–	1,830,155
Prepayments	19	19,393,034	22,529,081	36,765,175	40,569,690
Trade and other receivables	18	295,908,246	239,983,396	315,333,281	305,302,822
Restricted cash	21	–	9,444,076	25,573,690	13,648,790
Cash and cash equivalents	21	24,639,218	96,876,199	82,678,416	108,947,640
		<u>581,512,104</u>	<u>577,288,626</u>	<u>631,254,159</u>	<u>629,709,729</u>
Total assets		<u>669,870,356</u>	<u>681,926,757</u>	<u>769,806,660</u>	<u>776,149,292</u>

	Note	As of 31 December			As of
		2011	2012	2013	30 June 2014
EQUITY					
Paid-in capital/share capital	22	15,000,000	96,000,000	96,000,000	96,000,000
Share premium	22	–	191,085,330	191,085,330	191,085,330
Reserves	25	34,537,148	28,584,807	40,902,090	52,581,609
Retained earnings					
– Proposed dividends	30(a)	–	–	–	120,000,000
– Unappropriated retained earnings		25,244,190	51,322,251	169,997,216	94,274,998
Total equity		<u>74,781,338</u>	<u>366,992,388</u>	<u>497,984,636</u>	<u>553,941,937</u>
LIABILITIES					
Current liabilities					
Trade and other payables	26	97,403,713	62,730,391	93,784,429	69,057,927
Advances from customers	27	377,485,950	217,906,740	123,269,614	91,683,924
Current income tax liabilities		5,435,316	4,297,238	8,224,381	6,921,904
Borrowings	28	13,000,000	30,000,000	46,543,600	54,543,600
Dividends payable	30(b)	101,764,039	–	–	–
		<u>595,089,018</u>	<u>314,934,369</u>	<u>271,822,024</u>	<u>222,207,355</u>
Non-current liabilities		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total liabilities		<u>595,089,018</u>	<u>314,934,369</u>	<u>271,822,024</u>	<u>222,207,355</u>
Total equity and liabilities		<u>669,870,356</u>	<u>681,926,757</u>	<u>769,806,660</u>	<u>776,149,292</u>
Net current (liabilities)/assets		<u>(13,576,914)</u>	<u>262,354,257</u>	<u>359,432,135</u>	<u>407,502,374</u>
Total assets less current liabilities		<u>74,781,338</u>	<u>366,992,388</u>	<u>497,984,636</u>	<u>553,941,937</u>

(d) Balance sheets

(All amounts in RMB unless otherwise stated)

	<i>Note</i>	As of 31 December			As of
		2011	2012	2013	30 June
		<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
ASSETS					
Non-current assets					
Land use rights	13	5,143,649	5,031,424	4,919,198	4,863,085
Property, plant and equipment	14	28,922,464	27,985,928	26,164,193	29,252,667
Intangible assets	15	487,464	537,621	407,878	419,787
Investments in subsidiaries	16	83,515,050	83,515,050	101,515,050	101,515,050
Deferred income tax assets	29	1,370,167	2,581,540	1,808,851	4,862,193
		<u>119,438,794</u>	<u>119,651,563</u>	<u>134,815,170</u>	<u>140,912,782</u>
Current assets					
Inventories	20	191,516,841	149,488,541	129,021,961	134,259,406
Prepaid income tax		–	3,128,307	–	–
Prepayments	19	41,280,602	44,887,012	45,696,646	32,125,142
Trade and other receivables	18	165,653,042	85,884,592	283,066,974	241,194,328
Dividend receivable		–	–	–	60,000,000
Restricted cash	21	–	9,444,076	25,573,690	13,166,753
Cash and cash equivalents	21	2,145,652	47,057,712	24,535,338	84,126,616
		<u>400,596,137</u>	<u>339,890,240</u>	<u>507,894,609</u>	<u>564,872,245</u>
Total assets		<u>520,034,931</u>	<u>459,541,803</u>	<u>642,709,779</u>	<u>705,785,027</u>

	Note	As of 31 December			As of
		2011	2012	2013	30 June
					2014
EQUITY					
Paid-in capital/share capital	22	15,000,000	96,000,000	96,000,000	96,000,000
Share premium	22	–	191,085,330	191,085,330	191,085,330
Reserves	25	51,996,015	44,664,434	56,246,998	67,473,656
Retained earnings	24				
– Proposed dividends		–	–	–	120,000,000
– Unappropriated retained earnings		13,088,535	1,134,924	91,603,613	62,326,782
Total equity		<u>80,084,550</u>	<u>332,884,688</u>	<u>434,935,941</u>	<u>536,885,768</u>
LIABILITIES					
Current liabilities					
Trade and other payables	26	74,981,099	55,186,407	85,620,350	63,989,310
Advances from customers	27	257,183,513	41,090,599	87,706,015	70,105,324
Current income tax liabilities		2,836,290	380,109	4,447,473	4,804,625
Borrowings	28	13,000,000	30,000,000	30,000,000	30,000,000
Dividends payable	30(b)	91,949,479	–	–	–
		<u>439,950,381</u>	<u>126,657,115</u>	<u>207,773,838</u>	<u>168,899,259</u>
Non-current liabilities		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total liabilities		<u>439,950,381</u>	<u>126,657,115</u>	<u>207,773,838</u>	<u>168,899,259</u>
Total equity and liabilities		<u>520,034,931</u>	<u>459,541,803</u>	<u>642,709,779</u>	<u>705,785,027</u>
Net current (liabilities)/assets		<u>(39,354,244)</u>	<u>213,233,125</u>	<u>300,120,771</u>	<u>395,972,986</u>
Total assets less current liabilities		<u>80,084,550</u>	<u>332,884,688</u>	<u>434,935,941</u>	<u>536,885,768</u>

(e) Consolidated statements of changes in equity

(All amounts in RMB unless otherwise stated)

	Note	Attributable to owners of the Company						
		Paid-in capital/ Share capital	Share premium	Other reserves	Retained earnings	Total	Non- controlling interests	Total equity
As of 1 January 2011		1,000,000	–	23,394,284	127,792,583	152,186,867	6,798,788	158,985,655
Comprehensive income								
Profit for the year		–	–	–	107,331,955	107,331,955	2,764,567	110,096,522
Total comprehensive income		–	–	–	107,331,955	107,331,955	2,764,567	110,096,522
Transaction with owners								
Transfer to statutory reserves	25(a)	–	–	6,555,352	(6,555,352)	–	–	–
Dividends	30(a)	–	–	–	(189,324,996)	(189,324,996)	(4,709,336)	(194,034,332)
Capitalisation of retained earnings to paid-in capital	22(a)	14,000,000	–	–	(14,000,000)	–	–	–
Capital contribution from shareholders to a subsidiary prior to the Reorganisation	25(c)	–	–	1,080,000	–	1,080,000	–	1,080,000
Acquisition of additional interest from shareholders in a subsidiary prior to the Reorganisation	36(a)	–	–	3,399,394	–	3,399,394	(3,399,394)	–
Acquisition of subsidiaries under common control	34	–	–	(30,538,261)	–	(30,538,261)	–	(30,538,261)
Acquisition of additional interest in a subsidiary	36(b)	–	–	–	–	–	(1,454,625)	(1,454,625)
Share-based payments	23	–	–	30,646,379	–	30,646,379	–	30,646,379
Total transactions with owners		14,000,000	–	11,142,864	(209,880,348)	(184,737,484)	(9,563,355)	(194,300,839)
As of 31 December 2011		15,000,000	–	34,537,148	25,244,190	74,781,338	–	74,781,338

		Attributable to owners of the Company						
		Paid-in capital/ Share capital	Share premium	Other reserves	Retained earnings	Total	Non- controlling interests	Total equity
Note								
	As of 1 January 2012	15,000,000	–	34,537,148	25,244,190	74,781,338	–	74,781,338
	Comprehensive income							
	Profit for the year	–	–	–	125,268,505	125,268,505	–	125,268,505
	Total comprehensive income	–	–	–	125,268,505	125,268,505	–	125,268,505
	Transaction with owners							
	Transfer to statutory reserves	25(a)	–	–	8,957,250	(8,957,250)	–	–
	Share-based payments	23	–	–	6,942,545	–	6,942,545	–
	Capital injection	22(b)	1,304,347	158,695,653	–	–	160,000,000	–
	Transfer into joint stock company with limited liability	22(c)	79,695,653	32,389,677	(24,376,467)	(87,708,863)	–	–
	Transfer to safety fund	25(b)	–	–	2,524,331	(2,524,331)	–	–
	Total transactions with owners		81,000,000	191,085,330	(5,952,341)	(99,190,444)	166,942,545	–
	As of 31 December 2012	<u>96,000,000</u>	<u>191,085,330</u>	<u>28,584,807</u>	<u>51,322,251</u>	<u>366,992,388</u>	<u>–</u>	<u>366,992,388</u>
	As of 1 January 2013	96,000,000	191,085,330	28,584,807	51,322,251	366,992,388	–	366,992,388
	Comprehensive income							
	Profit for the year	–	–	–	130,992,248	130,992,248	–	130,992,248
	Total comprehensive income	–	–	–	130,992,248	130,992,248	–	130,992,248
	Transaction with owners							
	Transfer to statutory reserves	25(a)	–	–	10,052,076	(10,052,076)	–	–
	Transfer to safety fund	25(b)	–	–	2,265,207	(2,265,207)	–	–
	Total transactions with owners		–	–	12,317,283	(12,317,283)	–	–
	As of 31 December 2013	<u>96,000,000</u>	<u>191,085,330</u>	<u>40,902,090</u>	<u>169,997,216</u>	<u>497,984,636</u>	<u>–</u>	<u>497,984,636</u>

		Attributable to owners of the Company						
	Note	Paid-in capital/ Share capital	Share premium	Other reserves	Retained earnings	Total	Non- controlling interests	Total equity
As of 1 January 2014		96,000,000	191,085,330	40,902,090	169,997,216	497,984,636	–	497,984,636
Comprehensive income								
Profit for the period		–	–	–	55,450,372	55,450,372	–	55,450,372
Total comprehensive income		–	–	–	55,450,372	55,450,372	–	55,450,372
Transaction with owners								
Transfer to statutory reserves	25(a)	–	–	10,080,352	(10,080,352)	–	–	–
Transfer to safety fund	25(b)	–	–	1,092,238	(1,092,238)	–	–	–
Contribution from shareholders	25(d)	–	–	506,929	–	506,929	–	506,929
Total transactions with owners		–	–	11,679,519	(11,172,590)	506,929	–	506,929
As of 30 June 2014		<u>96,000,000</u>	<u>191,085,330</u>	<u>52,581,609</u>	<u>214,274,998</u>	<u>553,941,937</u>	<u>–</u>	<u>553,941,937</u>
(Unaudited)								
As of 1 January 2013		96,000,000	191,085,330	28,584,807	51,322,251	366,992,388	–	366,992,388
Comprehensive income								
Profit for the period		–	–	–	65,702,946	65,702,946	–	65,702,946
Total comprehensive income		–	–	–	65,702,946	65,702,946	–	65,702,946
Transaction with owners								
Transfer to statutory reserves	25(a)	–	–	5,509,601	(5,509,601)	–	–	–
Transfer to safety fund	25(b)	–	–	1,132,603	(1,132,603)	–	–	–
Total transactions with owners		–	–	6,642,204	(6,642,204)	–	–	–
As of 30 June 2013		<u>96,000,000</u>	<u>191,085,330</u>	<u>35,227,011</u>	<u>110,382,993</u>	<u>432,695,334</u>	<u>–</u>	<u>432,695,334</u>

(f) Consolidated statements of cash flows

(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December			Six months ended 30 June	
		2011	2012	2013	2013	2014
Cash flows from operating activities						
Cash generated from operations	31(a)	178,005,496	46,557,172	46,867,578	52,984,718	32,538,516
Interest paid		(689,288)	(1,530,169)	(1,825,000)	(910,000)	(910,000)
Income tax paid		(45,993,827)	(42,298,329)	(17,060,268)	(4,657,826)	(10,368,403)
Net cash generated from operating activities		<u>131,322,381</u>	<u>2,728,674</u>	<u>27,982,310</u>	<u>47,416,892</u>	<u>21,260,113</u>
Cash flows from investing activities						
Purchase of property, plant and equipment and intangible assets		(6,256,576)	(7,407,643)	(32,353,286)	(15,489,032)	(11,939,884)
Proceeds from disposal of property, plant and equipment	31(b)	64,957	110,745	275,873	143,395	85,483
Proceeds from disposal of investments		15,282,409	11,413,320	-	-	-
Repayment of cash advance made by related parties		3,609,921	-	-	-	-
Acquisition of a subsidiary, net of cash acquired	35	(36,440,145)	-	-	-	-
Change of restricted cash		-	(9,444,076)	(16,129,614)	1,652,518	11,924,900
Net cash (used in)/generated in investing activities		<u>(23,739,434)</u>	<u>(5,327,654)</u>	<u>(48,207,027)</u>	<u>(13,693,119)</u>	<u>70,499</u>
Cash flows from financing activities						
Proceeds from borrowings		13,000,000	50,000,000	46,543,600	-	8,000,000
Repayments of borrowings		-	(33,000,000)	(30,000,000)	-	-
Repayment of cash advance to a related party		-	(400,000)	-	-	-
Dividends paid		(104,365,973)	(101,764,039)	-	-	-
Consideration paid for common control combination	34	(30,538,261)	-	-	-	-
Acquisition of non-controlling interests	36(b)	(1,454,625)	-	-	-	-
Capital contribution made to a subsidiary by shareholders prior to the Reorganisation	25(c)	1,080,000	-	-	-	-
Capital contribution from shareholders	22(b)	-	160,000,000	-	-	-
Contribution from shareholders		-	-	-	-	506,929
Payments for listing-related expenses		-	-	(10,516,666)	-	(3,568,317)
Net cash (used in)/generated from financing activities		<u>(122,278,859)</u>	<u>74,835,961</u>	<u>6,026,934</u>	<u>-</u>	<u>4,938,612</u>
Net (decrease)/increase in cash and cash equivalents		<u>(14,695,912)</u>	<u>72,236,981</u>	<u>(14,197,783)</u>	<u>33,723,773</u>	<u>26,269,224</u>
Cash and cash equivalents at beginning of the year/period		<u>39,335,130</u>	<u>24,639,218</u>	<u>96,876,199</u>	<u>96,876,199</u>	<u>82,678,416</u>
Cash and cash equivalents at end of the year/period		<u>24,639,218</u>	<u>96,876,199</u>	<u>82,678,416</u>	<u>130,599,972</u>	<u>108,947,640</u>

II. NOTES TO THE FINANCIAL INFORMATION

(All amounts in RMB unless otherwise stated)

1 General information of the Group and reorganisation

1.1 General information of the Group

Wuxi Sunlit Science and Technology Company Limited (formerly known as Sunlit Mechanical Engineering Co., Ltd) (the "Company") and its subsidiaries (together, the "Group") are principally engaged in the manufacturing and sale of a range of equipment for steel wire production lines (the "Listing Business").

The address of the Company's registered office is A-B15, 18, East Yanxin Road Huishan Economic Development Zone, Wuxi, PRC.

1.2 Reorganisation

The Company was established on 21 March 2006 by Mr. Zhang Degang (through Ms. Zhu Yingxuan, the spouse of Mr. Zhang Degang) and Mr. Zhang Deqiang in the PRC as a limited liability company. On 25 August 2010, Ms. Zhu Yingxuan transferred her entire equity interest in the Company to Mr. Zhang Degang. After the transfer, Mr. Zhang Degang and Mr. Zhang Deqiang (collectively, known as the "Zhang Brothers") held 60% and 40%, respectively, of the Company's equity interest.

During the period from December 2011 to March 2012, Zhang Brothers transferred certain equity interests in the Company to Ms. Zhang Jinghua, sister of Zhang Brothers and several independent third parties. As Ms. Zhang Jinghua has been acting in concert with Zhang Brothers during the Relevant Periods, she is also considered as one of the controlling shareholders of the Group. Zhang Brothers and Ms. Zhang Jinghua collectively were known as "Zhang Family". Upon the completion of above equity transfers and capital injection as set out in note 22, Zhang Family held 80.45% direct equity interests in the Company as of 30 June 2014.

Pursuant to a reorganisation of the Listing Business (the "Reorganisation"), the Company became the holding company of the subsidiaries now comprising the Group. The principal reorganisation transactions include:

- (i) On 1 December 2011, the Company acquired 100% of the equity interest in Wuxi Haisheng Software Technology Co., Ltd. ("Haisheng Software") from Zhang Brothers for a cash consideration of RMB1,080,000. Haisheng Software became a wholly-owned subsidiary of the Company.
- (ii) On 16 December 2011, the Company acquired 100% of the equity interest in Jiangsu Sunlit Equipment Technology Company Limited ("Jiangsu Sunlit") from Zhang Brothers for a cash consideration of RMB23,639,762. Jiangsu Sunlit became a wholly-owned subsidiary of the Company.
- (iii) On 16 December 2011, the Company acquired 80% of the equity interest in Jiangyin Sanzhi Gongkong Machinery Co. Ltd. ("Sanzhi Gongkong") from Zhang Family for a cash consideration of RMB5,818,499. Prior to this acquisition, Zhang Family collectively held 80% equity interest in Sanzhi Gongkong from a 60% equity interest held since its establishment and an additional 20% equity interest acquired from an independent third party on 20 April 2011. On 16 December 2011, the Company also acquired the remaining 20% of the equity interest in Sanzhi Gongkong from Ms Cai Jianfen for a cash consideration of RMB1,454,625. As a result, Sanzhi Gongkong became a wholly-owned subsidiary of the Company.

The total cash considerations paid to Zhang Brothers and Zhang Family for the acquisition of the above subsidiaries under common control was RMB30,538,261.

Upon completion of the Reorganisation on 16 December 2011, the Company became the holding company of the Group. The Company was converted into a joint stock company with limited liability under relevant PRC laws and regulations on 24 July 2012.

1.3 Basis of presentation

As the Company and its subsidiaries involved in the Reorganisation in note 1.2 are under common control of Zhang Family both before and after the Reorganisation and the control is not transitory, the Reorganisation has been accounted for as a reorganisation of business under common control and the consolidated financial information of the Group has been prepared using the principle of merger accounting.

Under merger accounting, the consolidated financial information presents the consolidated results, cash flows and financial position of the Group, by combining the historical financial information of the companies comprising the Group, as if the post-Reorganisation group structure had been in existence since 1 January 2011 or since their respective dates of acquisition or establishment for Group entities acquired or established after 1 January 2011. The opening balance as of 1 January 2011 in the consolidated statement of changes in equity reflects paid-in capital of RMB1,000,000 of the Company and the resulting reserves of the Group under merger accounting and the total cash considerations paid for the acquisitions of the subsidiaries under common control of RMB30,538,261 is shown as a reduction of reserves.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial information are set out below. These policies have been consistently applied during the Relevant Periods, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial information has been prepared under the historical cost convention.

The preparation of financial information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial information are disclosed in note 4.

The following new standards, amendments and interpretations have been issued but are not effective for the annual accounting period beginning on 1 January 2014 and have not been early adopted.

Standards/Amendments/ Interpretation	Subject of amendment	Effective for accounting periods beginning on or after
Annual improvements 2012	2010-2012 cycle of the annual improvements	1 July 2014
Annual improvements 2013	2011-2013 cycle of the annual improvements	1 July 2014
Amendment to HKAS 19	Defined Benefit Plans: Employee Contributions	1 July 2014
HKFRS 14	Regulatory deferral accounts	1 January 2016
Amendment to HKFRS 11	Accounting for acquisitions of interest in joint operation	1 January 2016
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable method of depreciation and amortisation	1 January 2016
HKFRS 15	Revenue from contracts with customers	1 January 2017
HKFRS 9	Financial instruments	Effective date to be determined

Management is in the process of making an assessment of their impact and is not yet in a position to state whether any substantial changes to the Group's significant accounting policies and presentation of the financial information will arise.

2.2 Subsidiaries

2.2.1 Consolidation

(a) Subsidiary

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The transfer/acquisition of equity interests in subsidiaries which are regarded as being under common control combinations are accounted for in a manner similar to a uniting of interests. Assets and liabilities are transferred at carrying amount, adjusted only to harmonise accounting policies, and no goodwill arises. Any difference between the consideration given and the aggregate carrying amount of the assets and liabilities acquired (as of the date of the transaction) is included in equity. The financial statements incorporate the acquired entity's results as if both entities (acquirer and acquiree) had always been combined. Consequently, the financial statements reflect both entities' full year's results, even though the business combination may have occurred part of the way through the year. In addition, the corresponding amounts for the previous year also reflect the combined results of both entities, even though the transaction did not occur until the current year.

Other than the above, the Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. The accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions and non-controlling interests

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the entities within the Group are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The financial statements are presented in Renminbi (“RMB”), which is the Company’s functional currency and the Group’s presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within ‘finance income or cost’. All other foreign exchange gains and losses are presented in the consolidated income statement within ‘other (losses)/gains – net’.

2.5 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	20 years
Machinery	10 years
Vehicles	4 years
Computer and electronic equipment	3-5 years
Office equipment	5 years
Interior decoration	5 years

Except for the residual values rate of decoration which is zero, the residual values rate of other property, plant and equipment are 5%.

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount (note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within ‘other (losses)/gains – net’ in the consolidated income statement.

Construction in progress represents buildings, plant and machinery under construction and pending installation and is stated at cost less impairment losses. Historical expenditure that is directly attributable to the construction comprises construction costs, the cost of plant and machinery and applicable borrowing costs incurred during the construction period. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to other property, plant and equipment categories and depreciated in accordance with the policy mentioned above.

2.6 Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for periods varying from 45 to 50 years. Amortisation of land use rights is calculated on a straight-line basis over the period of the land use rights.

2.7 Intangible assets

(a) Computer software

Computer software development costs recognised as assets are amortised over their estimated useful lives, which do not exceed five years.

2.8 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

2.9.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' (note 2.13), 'restricted cash', and 'cash and cash equivalents' in the balance sheet (note 2.14).

2.9.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated income statement within 'other (losses)/gains – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.11 Impairment of financial assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held- to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

When the terms of trade and other receivables that would otherwise be past due or impaired have been renegotiated, trade and other receivables are remeasured using the revised effective interest method determined according to the renegotiated terms and conditions. Any difference between the carrying amounts of trade and other receivables before and after the renegotiation is recognised directly in the consolidated income statement.

2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.15 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.18 Borrowing costs

General and specific 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.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in consolidated income statement in the period in which they are incurred.

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.20 Employee benefits

(a) *Pension obligations*

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by the relevant governmental authorities. The Group's liability in respect of these plans is limited to the contributions payable in each period. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Group.

(b) *Equity-settled share-based payment transactions*

The Group operates a equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the shares is recognised as an expense with a corresponding credit to equity. The total amount to be expensed is determined by reference to the fair value of the shares.

(c) *Share-based payment transactions among group entities*

The grant by the Company of its equity instruments to the employees of subsidiaries in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised as an increase to investment in subsidiaries, with a corresponding credit to equity in the parent entity accounts.

2.21 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Warranty provision mainly represents the estimation cost of providing maintenance services as well as the replacement of accessories in connection with the quality warranty based on past experience.

2.22 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value-added taxes.

The Group's revenue recognition policy is in line with the industry norm. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical experience, taking into consideration of the type of customer, the type of transaction and the specification of each arrangement.

The revenue recognition policy adopted by the Group is as follow:

(a) Sales of goods

The Group is principally engaged in manufacturing and sale of a range of equipment for steel wire production lines and standalone machinery. Revenue from sales of equipment is recognised when the risk and reward of the goods has been transferred to the customer, which is usually upon (1) delivery of products to the customer; (2) completion of the installation and on-site testing (if required in the sale contract); and (3) the acceptance by the customer of the equipment without any further unfulfilled obligation.

(b) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables are recognised using the original effective interest rate.

2.23 Government grant

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

2.24 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lesser) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The overall risk management program of the Group focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance of the Group.

(a) Market risk

(i) Foreign exchange risk

The Group operates only within the PRC and virtually all its revenues and expenses are denominated and settled in RMB with the exception of export sales (approximately 0.7% of total sales for the year ended 31 December 2013, nil for other financial periods during the Relevant Periods) that are denominated in USD. The Group has negligible foreign exchange risk exposure and does not use any financial instrument for hedging.

(ii) Cash flow and fair value interests rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets and liabilities other than its bank deposits and borrowings. Borrowings at variable rates expose the Group to cash flow interest-rate risk. Bank deposits and borrowings at fixed rates expose the Group to fair value interest-rate risk. The Group has not hedged its cash flow and fair value interest rate risk. Details of the Group's bank deposits and borrowings have been disclosed in notes 21 and 28.

The Group monitor interest rate fluctuation to ensure that exposure to interest rate risk is within an acceptable level.

(b) Credit risk

Credit risk arises from bank deposits and trade and other receivables. The carrying amounts or the undiscounted nominal amounts, where applicable, of each class of these financial assets represent the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage the credit risk, bank deposits are placed with highly reputable financial institutions.

The Group has policies in place to ensure that products are sold to customers with appropriate credit history. The Group assesses the creditworthiness of a customer by closely examine a number of indicators which include its financial and operational conditions (including whether the customer's production facilities are in full operation, the site of the facilities, scale of operation, and the customer's amount of investments in property, plant and equipment), its credit rating and competitive landscape of the market. Based on such assessment and the value of the relevant contract, the Group set a maximum balance of amount due allowable for a customer. The finance department of the Group monitors the past due trade receivables and directs the sales personnel to follow up the collection of the trade receivables. The sales department of the Group also set up a credit profile for each customer. Record relating to the transactions with the customer is updated monthly to monitor the amount of sales, payment, accumulated amount outstanding, amount past due and unpaid, and accumulated bad debts made as of the end of the month. The finance department of the Group monitors and updates the customer's trade receivables position from time to time, keeps track of the movement of the trade receivables, and ensures that the outstanding amounts due do not exceed the maximum balance allowable for a customer. Specific review on the recoverability of past due is performed on a regular basis and detailed disclosure of allowance for impairment of trade receivables is set out in note 18. Normally the Group does not require collateral from trade debtors.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the Group aims at maintaining flexibility in funding by maintaining adequate amount of cash and cash equivalents.

The table below analyses the Group and the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the consolidated balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group

	Less than 1 year
As of 31 December 2011	
Bank borrowings	13,000,000
Interest payments on borrowings <i>(note (i))</i>	821,058
Dividends payable	101,764,039
Trade and other payables <i>(note (ii))</i>	76,692,396
Total	<u>192,277,493</u>
As of 31 December 2012	
Bank borrowings	30,000,000
Interest payments on borrowings <i>(note (i))</i>	1,650,000
Trade and other payables <i>(note (ii))</i>	57,791,372
Total	<u>89,441,372</u>
As of 31 December 2013	
Bank borrowings	46,543,600
Interest payments on borrowings <i>(note (i))</i>	2,289,760
Trade and other payables <i>(note (ii))</i>	88,931,295
Total	<u>137,764,655</u>
As of 30 June 2014	
Bank borrowings	54,543,600
Interest payments on borrowings <i>(note (i))</i>	4,473,222
Trade and other payables <i>(note (ii))</i>	64,316,815
Total	<u>123,333,637</u>

Company

	Less than 1 year
As of 31 December 2011	
Bank borrowings	13,000,000
Interest payments on borrowings (<i>note (i)</i>)	821,058
Dividends payable	91,949,479
Trade and other payables (<i>note (ii)</i>)	<u>60,249,214</u>
Total	<u><u>166,019,751</u></u>
As of 31 December 2012	
Bank borrowings	30,000,000
Interest payments on borrowings (<i>note (i)</i>)	1,650,000
Trade and other payables (<i>note(ii)</i>)	<u>51,928,663</u>
Total	<u><u>83,578,663</u></u>
As of 31 December 2013	
Bank borrowings	30,000,000
Interest payments on borrowings (<i>note (i)</i>)	1,272,329
Trade and other payables (<i>note (ii)</i>)	<u>82,513,776</u>
Total	<u><u>113,786,105</u></u>
As of 30 June 2014	
Bank borrowings	30,000,000
Interest payments on borrowings (<i>note (i)</i>)	734,795
Trade and other payables (<i>note (ii)</i>)	<u>61,288,252</u>
Total	<u><u>92,023,047</u></u>

(i) The interest on bank borrowings is calculated based on bank borrowings held as of 31 December 2011, 2012, 2013 and 30 June 2014 and up to their respective maturity dates and the applicable interest rates.

(ii) Excluding other taxes payable, employee benefits payable and provision for quality warranty expenses.

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total equity.

During the Relevant Periods, the Group's strategy was to maintain the gearing ratio below 50%. The gearing ratios as of 31 December 2011, 2012, 2013 and 30 June 2014 were as follows:

	As of 31 December			As of
	2011	2012	2013	30 June
				2014
Total borrowings (<i>note 28</i>)	13,000,000	30,000,000	46,543,600	54,543,600
Total equity	74,781,338	366,992,388	497,984,636	553,941,937
Gearing ratio	17.4%	8.2%	9.3%	9.8%

3.3 Fair value estimation

There are no financial assets or financial liabilities of the Group recorded at fair value.

The fair values of the Group's financial assets (including trade and other receivables, restricted bank deposits and cash and cash equivalents) and short-term liabilities (including trade and other payables and current borrowings) approximate their carrying amounts due to their short-term maturities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) *Current and deferred income taxes*

Significant judgment is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of income tax assets and taxation in the periods in which such estimate is changed.

(b) *Impairment of trade receivables*

The management estimates the allowance for impairment of trade receivables by assessing their recoverability individually with reference to the past repayment history as well as subsequent settlement status. Allowances are applied to these receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade receivable and the impairment charge in the period in which such estimate has been changed.

The carrying amounts of trade receivables of the Group as of 31 December 2011, 2012, 2013 and 30 June 2014 were disclosed in note 18.

5 REVENUE

The Group is principally engaged in manufacturing and sale of a range of equipment for manufacturing steel wire products. Revenues during the Relevant Periods are as follows:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
				(Unaudited)	
Production lines					
– Brass electroplating wire production lines	161,820,512	222,458,343	230,114,221	133,195,025	96,876,068
– Other production lines	29,053,572	53,353,351	9,452,838	7,820,513	3,589,744
Standalone machines	229,655,419	18,947,008	41,564,103	32,588,034	28,512,820
Other mould repairing equipment, components parts and accessories	45,137,792	28,837,990	37,816,852	10,230,483	11,315,959
	<u>465,667,295</u>	<u>323,596,692</u>	<u>318,948,014</u>	<u>183,834,055</u>	<u>140,294,591</u>

The chief operating decision-maker (“CODM”) has been identified as the executive directors of the Company. The CODM regards the Group’s business as a single operating segment and reviews the financial information accordingly. Also, the Group operates its business only within mainland China. Therefore, no business/geographical segment information is presented.

The Group’s revenues were derived from the following external customers that individually contributed more than 10% of the Group’s revenues in the Relevant Periods:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
				(Unaudited)	
Company A	122,289,348	N/A	76,453,716	49,420,079	N/A
Company B	N/A	36,053,699	N/A	23,215,342	N/A
Company C	70,962,163	N/A	48,877,744	N/A	N/A
Company D	N/A	46,415,385	N/A	N/A	N/A
Company E	N/A	N/A	N/A	N/A	68,622,516
Company F	N/A	N/A	N/A	N/A	21,756,534
Company G	N/A	N/A	N/A	N/A	30,181,981
	<u>193,251,511</u>	<u>82,469,084</u>	<u>125,331,460</u>	<u>72,635,421</u>	<u>120,561,031</u>

6 OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
				(Unaudited)	
Value-added tax ("VAT") refunds <i>(note(a))</i>	10,441,881	8,856,819	5,158,331	620,439	1,793,443
Government subsidies <i>(note (b))</i>	2,132,400	11,872,800	15,112,079	5,047,100	1,269,000
Investment loss	(272,038)	–	–	–	–
	<u>12,302,243</u>	<u>20,729,619</u>	<u>20,270,410</u>	<u>5,667,539</u>	<u>3,062,443</u>

(a) According to the relevant tax regulations, the sales of self-developed software products of the Company and a wholly-owned subsidiary, Haisheng Software are entitled to VAT refunds from July 2010 until June 2015 and from December 2011 until October 2016, respectively.

(b) Government subsidies mainly represent subsidies for the Group's scientific research projects and corporate development subsidies.

7 OTHER (LOSSES)/GAINS – NET

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
				(Unaudited)	
Surcharge for overdue tax payment	(1,332,450)	(1,582)	–	–	–
Fair value change on financial assets at fair value through profit or loss	90,439	–	–	–	–
(Losses)/gains on disposal of plant and equipment, net	(146)	26,512	(2,510)	31,166	51,644
Others	–	55,216	(11,402)	(11,461)	–
	<u>(1,242,157)</u>	<u>80,146</u>	<u>(13,912)</u>	<u>19,705</u>	<u>51,644</u>

8 EXPENSES BY NATURE

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	(Unaudited)				
Changes in inventories of finished goods and work in progress	(6,844,314)	31,707,103	32,066,415	33,527,995	7,755,821
Raw materials used	208,478,230	76,018,034	90,097,301	38,246,890	49,551,318
Outsourced research and development expenses (note (a))	12,260,000	4,850,000	–	–	–
Employee benefit expenses (note 9)	54,523,811	29,200,452	23,400,473	11,057,992	13,150,630
Manufacturing labour expenses	11,137,476	12,473,683	–	–	–
Outsourced installation fee (note (b))	6,317,761	1,186,519	1,018,030	111,101	87,032
Other tax charges	7,435,103	6,903,600	7,366,574	4,276,636	2,600,818
Entertainment expenses	3,627,015	4,308,150	3,875,736	2,304,907	1,843,706
Allowance/(reversal of allowance) for impairment of receivables	17,443,902	8,436,202	11,459,553	5,800,221	(11,494,622)
Depreciation and amortisation (notes 13, 14 and 15)	3,213,200	4,232,217	4,075,842	2,090,080	2,222,644
Office expenses	3,099,970	3,939,092	2,227,330	1,069,526	798,085
Transportation expenses	5,727,980	3,123,116	2,550,246	1,392,468	1,364,334
Travelling expenses	2,069,140	3,021,200	3,764,427	1,350,812	1,957,054
Rental expenses	1,340,204	1,590,382	783,485	656,818	116,667
Professional fees	1,289,143	2,095,586	563,806	293,557	2,838,072
Listing expenses	–	–	–	3,121,843	–
Auditors' remuneration	150,000	141,509	180,000	–	–
Other expenses	2,544,339	1,494,552	2,427,992	2,183,293	947,470
Total cost of sales, selling expenses and administrative expenses	333,812,960	194,721,397	185,857,210	107,484,139	73,739,029

- (a) During the Relevant Periods, research and development expenses of the Group were comprised of the following items:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	(Unaudited)				
Raw materials and consumables used	1,741,193	6,557,976	6,697,713	3,698,264	5,609,535
Outsourced research and development expenses	12,260,000	4,850,000	–	–	–
Employee benefit expenses	4,417,322	3,673,949	5,159,519	2,316,614	3,460,015
Depreciation and amortisation	393,583	417,153	578,822	340,422	282,343
Other expenses	1,152,523	924,048	1,574,218	635,659	911,630
	19,964,621	16,423,126	14,010,272	6,990,959	10,263,523

- (b) The outsourced installation fees were commission paid to companies which provided professional installation services on an as-needed basis.

9 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' AND SUPERVISOR'S EMOLUMENTS)

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
				(Unaudited)	
Wages, salaries and bonuses	19,849,580	16,085,185	17,108,840	7,929,502	9,038,459
Share-based compensation expenses (note 23)	30,646,379	6,942,545	–	–	–
Welfare and pension	4,027,852	6,172,722	6,291,633	3,128,490	4,112,171
	<u>54,523,811</u>	<u>29,200,452</u>	<u>23,400,473</u>	<u>11,057,992</u>	<u>13,150,630</u>

(a) Directors' and supervisors' emoluments

The remuneration of each director and supervisor for the year ended 31 December 2011 is set out below:

Name	Fees	Salaries and bonus	Share-based compensation expenses	Pension scheme and other benefits	Total
Executive Directors					
Zhang Degang (note (i))	–	523,104	–	14,778	537,882
Zhang Deqiang	–	523,414	–	41,402	564,816
Zhang Jinghua	–	459,330	–	10,656	469,986
Supervisors					
Sun Gaojian (note (ii))	–	53,866	1,154,730	3,618	1,212,214
Yang Jinghua	–	89,618	722,591	19,737	831,946

The remuneration of each director and supervisor for the year ended 31 December 2012 is set out below:

Name	Fees	Salaries and bonus	Pension scheme and other benefits	Total
Executive Directors				
Zhang Degang (note (i))	–	488,952	47,937	536,889
Zhang Deqiang	–	441,176	76,489	517,665
Zhang Jinghua	–	352,142	12,144	364,286
Non-executive Directors				
Gao Feng (note (iii))	–	–	–	–
Independent Non-executive Directors				
Liu Chaojian (note (iii))	40,000	–	–	40,000
Zhou Qi (note (iii))	40,000	–	–	40,000
Supervisors				
Sun Gaojian (note (ii))	–	139,579	26,708	166,287
Yang Jinghua	–	92,607	25,438	118,045
Hu Nong (note (iii))	–	–	–	–

The remuneration of each director and supervisor for the year ended 31 December 2013 is set out below:

Name	Fees	Salaries and bonus	Pension scheme and other benefits	Total
Executive Directors				
Zhang Degang (<i>note (i)</i>)	–	498,550	59,582	558,132
Zhang Deqiang	–	487,500	62,330	549,830
Zhang Jinghua	–	303,745	13,082	316,827
Non-executive Directors				
Gao Feng (<i>note (iii)</i>)	–	–	–	–
Independent Non-executive Directors				
Liu Chaojian (<i>note (iii)</i>)	96,000	–	–	96,000
Zhou Qi (<i>note (iii)</i>)	48,000	–	–	48,000
Ho Yuk Ming, Hugo (<i>note (iv)</i>)	40,000	–	–	40,000
Gao Fu Ping (<i>note (iv)</i>)	32,000	–	–	32,000
Supervisors				
Sun Gaojian (<i>note (ii)</i>)	–	128,980	38,352	167,332
Yang Jinghua	–	94,807	34,842	129,649
Hu Nong (<i>note (iii)</i>)	–	–	–	–
Lv Bo (<i>note (iii)</i>)	–	–	–	–

The remuneration of each director and supervisor for the period ended 30 June 2014 is set out below:

Name	Fees	Salaries and bonus	Pension scheme and other benefits	Total
Executive Directors				
Zhang Degang (<i>note (i)</i>)	–	230,100	31,714	261,814
Zhang Deqiang	–	225,000	51,904	276,904
Zhang Jinghua	–	140,190	250	140,440
Non-executive Directors				
Gao Feng (<i>note (iii)</i>)	–	–	–	–
Independent Non-executive Directors				
Liu Chaojian (<i>note (iii)</i>)	52,000	–	–	52,000
Ho Yuk Ming Hugo (<i>note (iv)</i>)	48,000	–	–	48,000
Gao Fu Ping (<i>note (iv)</i>)	48,000	–	–	48,000
Supervisors				
Sun Gaojian (<i>note (ii)</i>)	–	57,870	30,346	88,216
Yang Jinghua	–	42,540	23,028	65,568
Lv Bo (<i>note (iii)</i>)	–	–	–	–

The remuneration of each director and supervisor for the period ended 30 June 2013 (Unaudited) is set out below:

Name	Fees (Unaudited)	Salaries and bonus (Unaudited)	Pension scheme and other benefits (Unaudited)	Total (Unaudited)
Executive Directors				
Zhang Degang (note (i))	–	230,100	26,531	256,631
Zhang Deqiang	–	225,000	30,360	255,360
Zhang Jinghua	–	140,190	6,192	146,382
Non-executive Directors				
Gao Feng (note (iii))	–	–	–	–
Independent Non-executive Directors				
Liu Chaojian (note (iii))	48,000	–	–	48,000
Zhou Qi (note (iii))	48,000	–	–	48,000
Supervisors				
Sun Gaojian (note (ii))	–	57,870	22,536	80,406
Yang Jinghua	–	42,540	16,808	59,348
Hu Nong (note (iii))	–	–	–	–

- (i) The Chairman of the Company is Mr. Zhang Degang, who is one of the directors.
- (ii) Mr. Sun Gaojian joined the Group on 21 August 2011.
- (iii) Mr. Gao Feng, Mr. Liu Chaojian and Mr. Zhou Qi were appointed as non-executive directors on 24 July 2012 and Mr. Zhou Qi resigned on 11 August 2013. Mr. Hu Nong was appointed as supervisor on 24 July 2012 and resigned on 9 October 2013. Ms. Lv Bo was appointed as supervisor on 9 October 2013.
- (iv) Mr. Ho Yuk Ming, Hugo and Mr. Gao Fuping were appointed as non-executive directors on 11 August 2013.

During the Relevant Periods, no directors received emoluments from the Group as inducement to join or upon joining the Group or as compensation for loss of office. No directors waived or had agreed to waive any emoluments.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include nil, 3, 3, 3, 2 directors whose emoluments are reflected in the analysis presented above for each of the years ended 31 December 2011, 2012, 2013 and the six months ended 30 June 2013 and 2014 respectively.

The emoluments paid and payable to the remaining 5, 2, 2, 2, 3 paid individuals for each of the years ended 31 December 2011, 2012, 2013 and the six months ended 30 June 2013 and 2014 respectively are as follows:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
				(Unaudited)	
Wages, salaries and bonuses	1,286,628	525,000	600,000	240,000	346,944
Share-based compensation expenses	14,593,514	6,942,545	–	–	–
Other employee benefits	57,167	92,683	124,660	60,720	117,750
	15,937,309	7,560,228	724,660	300,720	464,694

The emoluments (including share-based compensation expenses) fell within the following bands:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
				(Unaudited)	
Emolument bands (in HK\$)					
Nil – HK\$1,000,000 (equivalent to nil – RMB789,200)	–	–	2	2	3
HK\$2,000,001 – HK\$2,500,000 (equivalent to RMB1,578,401 – RMB1,973,000)	1	–	–	–	–
HK\$2,500,001 – HK\$3,000,000 (equivalent to RMB1,973,001 – RMB2,367,600)	1	–	–	–	–
HK\$3,000,001 – HK\$3,500,000 (equivalent to RMB2,367,601 – RMB2,762,200)	1	–	–	–	–
HK\$4,500,001 – HK\$5,000,000 (equivalent to RMB3,551,401 – RMB3,946,000)	–	1	–	–	–
HK\$5,000,001 – HK\$5,500,000 (equivalent to RMB3,946,001 – RMB4,340,600)	–	1	–	–	–
HK\$5,500,001 – HK\$6,000,000 (equivalent to RMB4,340,601 – RMB4,735,200)	1	–	–	–	–
HK\$6,000,001 – HK\$6,500,000 (equivalent to RMB4,735,201 – RMB5,129,800)	1	–	–	–	–
	<u>5</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>3</u>

10 FINANCE INCOME AND EXPENSES

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
				(Unaudited)	
Interest expenses:					
– Interest expenses on bank borrowings	(76,151)	(1,555,296)	(1,847,300)	(910,000)	(1,557,590)
– Discount charges of notes receivable	(638,010)	–	–	–	–
Finance expenses	(714,161)	(1,555,296)	(1,847,300)	(910,000)	(1,557,590)
Less: amounts capitalised on qualifying assets	–	–	22,300	–	647,590
Total finance expenses	<u>(714,161)</u>	<u>(1,555,296)</u>	<u>(1,825,000)</u>	<u>(910,000)</u>	<u>(910,000)</u>
Finance income:					
– Bank interest income	449,412	992,005	1,938,541	1,107,821	1,050,994
– Interest income on wealth management products	638,898	1,403,320	–	–	–
	<u>1,088,310</u>	<u>2,395,325</u>	<u>1,938,541</u>	<u>1,107,821</u>	<u>1,050,994</u>
Net finance income	<u>374,149</u>	<u>840,029</u>	<u>113,541</u>	<u>197,821</u>	<u>140,994</u>

11 INCOME TAX EXPENSE

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
				(Unaudited)	
Current income tax – PRC corporate income tax	36,378,312	38,295,470	24,115,718	18,544,235	7,235,771
Deferred income tax (credits)/expense (note 29)	(3,186,264)	(13,038,886)	(1,647,123)	(2,012,200)	7,124,500
Income tax expense	<u>33,192,048</u>	<u>25,256,584</u>	<u>22,468,595</u>	<u>16,532,035</u>	<u>14,360,271</u>

Except for the PRC corporate income tax described below, the Group is not subject to income tax of other jurisdictions.

PRC corporate income tax (“CIT”)

CIT is provided on the assessable income of entities within the Group established in the PRC.

Pursuant to the PRC Corporate Income Tax Law (the “New CIT Law”), the CIT is unified at 25% for all types of entities, effective from 1 January 2008.

- (a) The Company’s applicable CIT rate is 25% according to the New CIT Law. Under the relevant regulations of the New CIT Law, the Company qualified as High/New Tech Enterprise for three years from 2010 to 2012. Accordingly the Company was entitled to a concessionary CIT rate of 15% for years ended 31 December 2011 and 2012. During the six months ended 30 June 2013, the Company started the process of renewing the qualification of High/New Tech Enterprise, prior to the renewal approval obtained in December 2013, the Company applied the normal rate of 25% as the income tax rate for the six months ended 30 June 2013. On 11 December 2013, the Company was approved to qualify as High/New Tech Enterprise for additional three years from 2013 to 2015, therefore, the Company applied concessionary CIT rate of 15% for the year ended 31 December 2013 and six months ended 30 June 2014.
- (b) Haisheng Software, a subsidiary of the Company qualified as a newly established software enterprise under the New CIT Law in 2012. According to relevant tax regulations, Haisheng Software is exempt from CIT for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing either from the first year of commercial operations or from the first year of profitable operation after offsetting tax losses incurred in prior years. The applicable CIT rate is 25%, 0%, 0%, 0%, 12.5% for each of the years ended 31 December 2011, 2012, 2013 and the six months ended 30 June 2013 and 2014 respectively.

The difference between the actual income tax charge in the consolidated income statements and the amount which would result from applying the enacted tax rate to profit before tax can be reconciled as follows:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
				(Unaudited)	
Profit before income tax	<u>143,288,570</u>	<u>150,525,089</u>	<u>153,460,843</u>	<u>82,234,981</u>	<u>69,810,643</u>
Taxation calculated at the statutory tax rate	35,822,143	37,631,272	38,365,211	20,558,745	17,452,661
Effects of:					
Preferential income tax enjoyed by certain group entities	(6,719,657)	(10,081,595)	(17,236,177)	(4,326,845)	(3,413,482)
Extra deduction allowance for research and development expenses	(1,294,147)	(994,458)	(762,283)	–	–
Adjustment to deferred income tax assets due to change of applicable CIT rate (note (a))	–	(3,082,943)	1,679,213	–	–
Tax losses for which no deferred income tax asset was recognised	–	96,496	147,396	68,377	77,721
Expenses not deducted for income tax purposes:	5,383,709	1,687,812	275,235	231,758	243,371
– Share-based compensation expense	4,596,957	1,041,382	–	–	–
– Others	786,752	646,430	275,235	231,758	243,371
Income tax expense	<u>33,192,048</u>	<u>25,256,584</u>	<u>22,468,595</u>	<u>16,532,035</u>	<u>14,360,271</u>

12 EARNINGS PER SHARE

The basic earnings per share for the Relevant Periods is calculated based on the profit attributable to the owners of the Company and on the assumption that 96,000,000 shares issued upon the conversion of the Company from a limited liability company to a joint stock company with limited liability (note 22) had been in issue since 1 January 2011.

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
				(Unaudited)	
Profit attributable to owners of the Company (RMB)	107,331,955	125,268,505	130,992,248	65,702,946	55,450,372
Weighted average number of ordinary shares in issue	96,000,000	96,000,000	96,000,000	96,000,000	96,000,000
Basic earnings per share (RMB/share)	<u>1.12</u>	<u>1.30</u>	<u>1.36</u>	<u>0.68</u>	<u>0.58</u>

As the Company did not have any potential ordinary shares outstanding during the Relevant Periods, information relating to diluted earnings per share is not applicable.

13 LAND USE RIGHTS

Group

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
				(Unaudited)	
As of the beginning of year/period	8,865,358	36,702,174	35,895,096	35,895,096	35,100,517
Acquisition of Wuxi Shangda Automation Technology Co., Ltd. ("Wuxi Shangda") (note 35)	28,021,472	–	–	–	–
Amortisation	(184,656)	(807,078)	(794,579)	(403,540)	(436,762)
As of the end of year/period	<u>36,702,174</u>	<u>35,895,096</u>	<u>35,100,517</u>	<u>35,491,556</u>	<u>34,663,755</u>

The Group's interests in land use rights represent prepaid operating lease payments. All the land use rights of the Group are located in mainland China and are held on leases for 45 to 50 years.

Amortisation of the Group's land use rights has been charged to administrative expenses in the consolidated income statement.

As of 31 December 2011, land use right of RMB5,143,649 of the Company was pledged for the Company's bank borrowing of RMB13,000,000 (note 28). The pledge was released upon the repayment of the related borrowing in 2012.

As of 31 December 2013 and 30 June 2014, land use right of RMB26,776,628 and RMB26,444,692 of the Group was respectively pledged for the Group's bank borrowing of RMB16,543,600 and RMB24,543,600 (note 28).

Company

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
				(Unaudited)	
As of the beginning of year/period	5,255,874	5,143,649	5,031,424	5,031,424	4,919,198
Amortisation	(112,225)	(112,225)	(112,226)	(56,113)	(56,113)
As of the end of year/period	<u>5,143,649</u>	<u>5,031,424</u>	<u>4,919,198</u>	<u>4,975,311</u>	<u>4,863,085</u>

14 PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Machinery	Vehicles	Computer and electronic equipment	Office equipment	Interior decoration	Construction in progress	Total
As of 1 January 2011								
Cost	28,659,547	3,252,560	2,499,750	1,967,373	691,626	109,000	9,680	37,189,536
Accumulated depreciation	(1,611,808)	(594,220)	(1,180,752)	(799,318)	(94,293)	(21,800)	–	(4,302,191)
Net book amount	<u>27,047,739</u>	<u>2,658,340</u>	<u>1,318,998</u>	<u>1,168,055</u>	<u>597,333</u>	<u>87,200</u>	<u>9,680</u>	<u>32,887,345</u>
Year ended 31 December 2011								
Opening net book amount	27,047,739	2,658,340	1,318,998	1,168,055	597,333	87,200	9,680	32,887,345
Acquisition of Wuxi Shangda (note 35)	–	–	–	–	–	–	8,564,816	8,564,816
Additions	197,938	414,574	805,550	371,562	204,932	–	2,158,627	4,153,183
Disposals	–	(65,103)	–	–	–	–	–	(65,103)
Depreciation charge	(1,366,779)	(328,940)	(564,288)	(586,622)	(151,853)	(21,800)	–	(3,020,282)
Closing net book amount	<u>25,878,898</u>	<u>2,678,871</u>	<u>1,560,260</u>	<u>952,995</u>	<u>650,412</u>	<u>65,400</u>	<u>10,733,123</u>	<u>42,519,959</u>
As of 31 December 2011								
Cost	28,857,485	3,589,784	3,305,300	2,338,935	896,558	109,000	10,733,123	49,830,185
Accumulated depreciation	(2,978,587)	(910,913)	(1,745,040)	(1,385,940)	(246,146)	(43,600)	–	(7,310,226)
Net book amount	<u>25,878,898</u>	<u>2,678,871</u>	<u>1,560,260</u>	<u>952,995</u>	<u>650,412</u>	<u>65,400</u>	<u>10,733,123</u>	<u>42,519,959</u>
Year ended 31 December 2012								
Opening net book amount	25,878,898	2,678,871	1,560,260	952,995	650,412	65,400	10,733,123	42,519,959
Additions	4,852,011	–	100,000	626,198	43,181	–	1,783,061	7,404,451
Transfers	2,254,710	–	–	–	–	–	(2,254,710)	–
Disposals	–	(12,000)	(72,233)	–	–	–	–	(84,233)
Depreciation charge	(1,577,395)	(340,283)	(598,101)	(611,685)	(173,040)	(21,800)	–	(3,322,304)
Closing net book amount	<u>31,408,224</u>	<u>2,326,588</u>	<u>989,926</u>	<u>967,508</u>	<u>520,553</u>	<u>43,600</u>	<u>10,261,474</u>	<u>46,517,873</u>
As of 31 December 2012								
Cost	35,964,206	3,577,784	3,113,936	2,965,133	939,739	109,000	10,261,474	56,931,272
Accumulated depreciation	(4,555,982)	(1,251,196)	(2,124,010)	(1,997,625)	(419,186)	(65,400)	–	(10,413,399)
Net book amount	<u>31,408,224</u>	<u>2,326,588</u>	<u>989,926</u>	<u>967,508</u>	<u>520,553</u>	<u>43,600</u>	<u>10,261,474</u>	<u>46,517,873</u>

	Buildings	Machinery	Vehicles	Computer and electronic equipment	Office equipment	Interior decoration	Construction in progress	Total
Year ended 31 December 2013								
Opening net book amount	31,408,224	2,326,588	989,926	967,508	520,553	43,600	10,261,474	46,517,873
Additions	-	-	427,440	113,716	5,640	-	36,074,676	36,621,472
Transfers	413,380	169,231	-	-	-	-	(582,611)	-
Disposals	-	(166,154)	(105,169)	(7,060)	-	-	-	(278,383)
Depreciation charge	(1,717,708)	(345,402)	(435,400)	(454,474)	(176,736)	(21,800)	-	(3,151,520)
Closing net book amount	<u>30,103,896</u>	<u>1,984,263</u>	<u>876,797</u>	<u>619,690</u>	<u>349,457</u>	<u>21,800</u>	<u>45,753,539</u>	<u>79,709,442</u>
As of 31 December 2013								
Cost	36,377,586	3,541,884	3,269,238	2,988,579	945,379	109,000	45,753,539	92,985,205
Accumulated depreciation	(6,273,690)	(1,557,621)	(2,392,441)	(2,368,889)	(595,922)	(87,200)	-	(13,275,763)
Net book amount	<u>30,103,896</u>	<u>1,984,263</u>	<u>876,797</u>	<u>619,690</u>	<u>349,457</u>	<u>21,800</u>	<u>45,753,539</u>	<u>79,709,442</u>
Six months ended 30 June 2014								
Opening net book amount	30,103,896	1,984,263	876,797	619,690	349,457	21,800	45,753,539	79,709,442
Additions	-	-	3,315,419	112,071	-	1,150,000	12,606,794	17,184,284
Disposals	-	(7,924)	(25,915)	-	-	-	-	(33,839)
Depreciation charge	(863,895)	(165,480)	(371,395)	(171,681)	(92,346)	(49,233)	-	(1,714,030)
Closing net book amount	<u>29,240,001</u>	<u>1,810,859</u>	<u>3,794,906</u>	<u>560,080</u>	<u>257,111</u>	<u>1,122,567</u>	<u>58,360,333</u>	<u>95,145,857</u>
As of 30 June 2014								
Cost	36,377,586	3,522,534	6,066,351	3,100,650	945,379	1,259,000	58,360,333	109,631,833
Accumulated depreciation	(7,137,585)	(1,711,675)	(2,271,445)	(2,540,570)	(688,268)	(136,433)	-	(14,485,976)
Net book amount	<u>29,240,001</u>	<u>1,810,859</u>	<u>3,794,906</u>	<u>560,080</u>	<u>257,111</u>	<u>1,122,567</u>	<u>58,360,333</u>	<u>95,145,857</u>

	Buildings	Machinery	Vehicles	Computer and electronic equipment	Office equipment	Interior decoration	Construction in progress	Total
(Unaudited)								
Six months ended 30 June 2013								
Opening net book amount	31,408,224	2,326,588	989,926	967,508	520,553	43,600	10,261,474	46,517,873
Additions	-	169,231	427,440	55,150	5,640	-	14,791,462	15,448,923
Transfers	346,580	-	-	-	-	-	(346,580)	-
Disposals	-	-	(105,168)	(7,061)	-	-	-	(112,229)
Depreciation charge	(854,078)	(171,292)	(246,849)	(249,008)	(89,541)	(10,900)	-	(1,621,668)
Closing net book amount	<u>30,900,726</u>	<u>2,324,527</u>	<u>1,065,349</u>	<u>766,589</u>	<u>436,652</u>	<u>32,700</u>	<u>24,706,356</u>	<u>60,232,899</u>
As of 30 June 2013								
Cost	36,310,786	3,747,015	3,269,238	2,930,013	945,379	109,000	24,706,356	72,017,787
Accumulated depreciation	(5,410,060)	(1,422,488)	(2,203,889)	(2,163,424)	(508,727)	(76,300)	-	(11,784,888)
Net book amount	<u>30,900,726</u>	<u>2,324,527</u>	<u>1,065,349</u>	<u>766,589</u>	<u>436,652</u>	<u>32,700</u>	<u>24,706,356</u>	<u>60,232,899</u>

Depreciation charges were included in the following categories in the consolidated income statement:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
				(Unaudited)	
Cost of sales	1,539,589	1,383,247	1,322,632	666,674	631,696
Administrative expenses	1,480,693	1,939,057	1,793,683	954,994	867,045
Selling expenses	-	-	35,205	-	215,289
	<u>3,020,282</u>	<u>3,322,304</u>	<u>3,151,520</u>	<u>1,621,668</u>	<u>1,714,030</u>

Company

	Buildings	Machinery	Vehicles	Computer and electronic equipment	Office equipment	Interior decoration	Construction in progress	Total
As of 1 January 2011								
Cost	25,168,736	3,252,560	2,093,513	1,889,392	358,977	109,000	9,680	32,881,858
Accumulated depreciation	(1,556,535)	(594,220)	(1,124,706)	(782,550)	(35,957)	(21,800)	-	(4,115,768)
Net book amount	<u>23,612,201</u>	<u>2,658,340</u>	<u>968,807</u>	<u>1,106,842</u>	<u>323,020</u>	<u>87,200</u>	<u>9,680</u>	<u>28,766,090</u>
Year ended 31 December 2011								
Opening net book amount	23,612,201	2,658,340	968,807	1,106,842	323,020	87,200	9,680	28,766,090
Additions	83,442	414,574	805,550	270,865	203,822	-	1,097,622	2,875,875
Disposals	-	(65,103)	-	-	-	-	-	(65,103)
Depreciation charge	(1,197,792)	(328,940)	(467,807)	(549,585)	(88,474)	(21,800)	-	(2,654,398)
Closing net book amount	<u>22,497,851</u>	<u>2,678,871</u>	<u>1,306,550</u>	<u>828,122</u>	<u>438,368</u>	<u>65,400</u>	<u>1,107,302</u>	<u>28,922,464</u>
As of 31 December 2011								
Cost	25,252,178	3,589,784	2,899,063	2,160,257	562,799	109,000	1,107,302	35,680,383
Accumulated depreciation	(2,754,327)	(910,913)	(1,592,513)	(1,332,135)	(124,431)	(43,600)	-	(6,757,919)
Net book amount	<u>22,497,851</u>	<u>2,678,871</u>	<u>1,306,550</u>	<u>828,122</u>	<u>438,368</u>	<u>65,400</u>	<u>1,107,302</u>	<u>28,922,464</u>
Year ended 31 December 2012								
Opening net book amount	22,497,851	2,678,871	1,306,550	828,122	438,368	65,400	1,107,302	28,922,464
Additions	-	-	-	577,336	43,181	-	1,334,094	1,954,611
Transfer	2,254,710	-	-	-	-	-	(2,254,710)	-
Disposals	-	(12,000)	(72,233)	-	-	-	-	(84,233)
Depreciation charge	(1,290,931)	(340,283)	(491,722)	(552,551)	(109,627)	(21,800)	-	(2,806,914)
Closing net book amount	<u>23,461,630</u>	<u>2,326,588</u>	<u>742,595</u>	<u>852,907</u>	<u>371,922</u>	<u>43,600</u>	<u>186,686</u>	<u>27,985,928</u>

	Buildings	Machinery	Vehicles	Computer and electronic equipment	Office equipment	Interior decoration	Construction in progress	Total
As of 31 December 2012								
Cost	27,506,888	3,577,784	2,607,699	2,737,593	605,980	109,000	186,686	37,331,630
Accumulated depreciation	(4,045,258)	(1,251,196)	(1,865,104)	(1,884,686)	(234,058)	(65,400)	-	(9,345,702)
Net book amount	<u>23,461,630</u>	<u>2,326,588</u>	<u>742,595</u>	<u>852,907</u>	<u>371,922</u>	<u>43,600</u>	<u>186,686</u>	<u>27,985,928</u>
Year ended 31 December 2013								
Opening net book amount	23,461,630	2,326,588	742,595	852,907	371,922	43,600	186,686	27,985,928
Additions	-	-	427,440	78,424	5,640	-	395,925	907,429
Transfer	413,380	169,231	-	-	-	-	(582,611)	-
Disposals	-	(166,155)	-	(7,060)	-	-	-	(173,215)
Depreciation charge	(1,316,020)	(342,786)	(366,297)	(393,109)	(115,937)	(21,800)	-	(2,555,949)
Closing net book amount	<u>22,558,990</u>	<u>1,986,878</u>	<u>803,738</u>	<u>531,162</u>	<u>261,625</u>	<u>21,800</u>	<u>-</u>	<u>26,164,193</u>
As of 31 December 2013								
Cost	27,920,268	3,541,884	3,035,139	2,725,747	611,620	109,000	-	37,943,658
Accumulated depreciation	(5,361,278)	(1,555,006)	(2,231,401)	(2,194,585)	(349,995)	(87,200)	-	(11,779,465)
Net book amount	<u>22,558,990</u>	<u>1,986,878</u>	<u>803,738</u>	<u>531,162</u>	<u>261,625</u>	<u>21,800</u>	<u>-</u>	<u>26,164,193</u>
Six months ended 30 June 2014								
Opening net book amount	22,558,990	1,986,878	803,738	531,162	261,625	21,800	-	26,164,193
Additions	-	-	3,165,000	96,418	-	1,150,000	-	4,411,418
Disposals	-	(7,924)	(25,915)	-	-	-	-	(33,839)
Depreciation charge	(663,051)	(168,094)	(209,101)	(141,601)	(58,025)	(49,233)	-	(1,289,105)
Closing net book amount	<u>21,895,939</u>	<u>1,810,860</u>	<u>3,733,722</u>	<u>485,979</u>	<u>203,600</u>	<u>1,122,567</u>	<u>-</u>	<u>29,252,667</u>

	<u>Buildings</u>	<u>Machinery</u>	<u>Vehicles</u>	<u>Computer and electronic equipment</u>	<u>Office equipment</u>	<u>Interior decoration</u>	<u>Construction in progress</u>	<u>Total</u>
As of 30 June 2014								
Cost	27,920,268	3,522,534	5,681,833	2,822,165	611,620	1,259,000	–	41,817,420
Accumulated depreciation	(6,024,329)	(1,711,674)	(1,948,111)	(2,336,186)	(408,020)	(136,433)	–	(12,564,753)
Net book amount	<u>21,895,939</u>	<u>1,810,860</u>	<u>3,733,722</u>	<u>485,979</u>	<u>203,600</u>	<u>1,122,567</u>	<u>–</u>	<u>29,252,667</u>
(Unaudited)								
Six months ended 30 June 2013								
Opening net book amount	23,461,630	2,326,588	742,595	852,907	371,922	43,600	186,686	27,985,928
Additions	–	169,231	427,440	35,158	5,640	–	159,894	797,363
Transfers	346,580	–	–	–	–	–	(346,580)	–
Disposals	–	–	–	(7,061)	–	–	–	(7,061)
Depreciation charge	(653,234)	(171,292)	(202,890)	(216,417)	(57,834)	(10,900)	–	(1,312,567)
Closing net book amount	<u>23,154,976</u>	<u>2,324,527</u>	<u>967,145</u>	<u>664,587</u>	<u>319,728</u>	<u>32,700</u>	<u>–</u>	<u>27,463,663</u>
As of 30 June 2013								
Cost	27,853,468	3,747,015	3,035,139	2,682,481	611,620	109,000	–	38,038,723
Accumulated depreciation	(4,698,492)	(1,422,488)	(2,067,994)	(2,017,894)	(291,892)	(76,300)	–	(10,575,060)
Net book amount	<u>23,154,976</u>	<u>2,324,527</u>	<u>967,145</u>	<u>664,587</u>	<u>319,728</u>	<u>32,700</u>	<u>–</u>	<u>27,463,663</u>

As of 31 December 2011, buildings with net book amount of RMB18,555,847 of the Company were pledged for the Company's bank borrowing of RMB13,000,000 (note 28). The pledge was released upon the repayment of the related borrowing in 2012.

15 INTANGIBLE ASSETS

Group and Company

	Computer software
Year ended 31 December 2011	
Opening net book amount	–
Additions	495,726
Amortisation charge	(8,262)
	<u>487,464</u>
Closing net book amount	<u>487,464</u>
As of 31 December 2011	
Cost	495,726
Accumulated amortisation	(8,262)
	<u>487,464</u>
Net book amount	<u>487,464</u>
Year ended 31 December 2012	
Opening net book amount	487,464
Additions	152,992
Amortisation charge	(102,835)
	<u>537,621</u>
Closing net book amount	<u>537,621</u>
As of 31 December 2012	
Cost	648,718
Accumulated amortisation	(111,097)
	<u>537,621</u>
Net book amount	<u>537,621</u>
Year ended 31 December 2013	
Opening net book amount	537,621
Amortisation charge	(129,743)
	<u>407,878</u>
Closing net book amount	<u>407,878</u>
As of 31 December 2013	
Cost	648,718
Accumulated amortisation	(240,840)
	<u>407,878</u>
Net book amount	<u>407,878</u>
Six months ended 30 June 2014	
Opening net book amount	407,878
Additions	83,761
Amortisation charge	(71,852)
	<u>419,787</u>
Closing net book amount	<u>419,787</u>
As of 30 June 2014	
Cost	732,479
Accumulated amortisation	(312,692)
	<u>419,787</u>
Net book amount	<u>419,787</u>

	Computer software
(Unaudited)	
Six months ended 30 June 2013	
Opening net book amount	537,621
Amortisation charge	(64,872)
Closing net book amount	<u>472,749</u>
As of 30 June 2013	
Cost	648,718
Accumulated amortisation	(175,969)
Net book amount	<u>472,749</u>

Amortisation of the intangible assets has been charged to administrative expenses in the consolidated income statement.

16 INVESTMENTS IN SUBSIDIARIES – THE COMPANY

	As of 31 December			As of 30 June
	2011	2012	2013	2014
Investments at cost				
– unlisted shares <i>(note (a))</i>	<u>83,515,050</u>	<u>83,515,050</u>	<u>101,515,050</u>	<u>101,515,050</u>

(a) During the year ended 31 December 2013, the increase in investments in subsidiaries represented capital injection to Wuxi Shangda.

The details of the subsidiaries are set out in note 37.

17 FINANCIAL INSTRUMENTS BY CATEGORY

Group

	Loans and receivables
As of 31 December 2011	
Assets as per consolidated balance sheet	
Trade and other receivables	295,908,246
Cash and cash equivalents	<u>24,639,218</u>
Total	<u>320,547,464</u>
Financial liabilities at amortised cost	
Liabilities as per consolidated balance sheet	
Borrowings	13,000,000
Dividends payable	101,764,039
Trade and other payables <i>(note (a))</i>	<u>76,692,396</u>
Total	<u>191,456,435</u>

	Loans and receivables
	<hr/>
As of 31 December 2012	
Assets as per consolidated balance sheet	
Trade and other receivables	239,983,396
Cash and cash equivalents	96,876,199
Restricted cash	9,444,076
	<hr/>
Total	346,303,671
	<hr/> <hr/>
	Financial liabilities at amortised cost
	<hr/>
Liabilities as per consolidated balance sheet	
Borrowings	30,000,000
Trade and other payables (<i>note (a)</i>)	57,791,372
	<hr/>
Total	87,791,372
	<hr/> <hr/>
	Loans and receivables
	<hr/>
As of 31 December 2013	
Assets as per consolidated balance sheet	
Trade and other receivables	315,333,281
Cash and cash equivalents	82,678,416
Restricted cash	25,573,690
	<hr/>
Total	423,585,387
	<hr/> <hr/>
	Financial liabilities at amortised cost
	<hr/>
Liabilities as per consolidated balance sheet	
Borrowings	46,543,600
Trade and other payables (<i>note (a)</i>)	88,931,295
	<hr/>
Total	135,474,895
	<hr/> <hr/>

	Loans and receivables
As of 30 June 2014	
Assets as per consolidated balance sheet	
Trade and other receivables	305,302,822
Cash and cash equivalents	108,947,640
Restricted cash	13,648,790
Total	427,899,252

	Financial liabilities at amortised cost
Liabilities as per consolidated balance sheet	
Borrowings	54,543,600
Trade and other payables (<i>note (a)</i>)	64,316,815
Total	118,860,415

Company

	Loans and receivables
As of 31 December 2011	
Assets as per balance sheet	
Trade and other receivables	165,653,042
Cash and cash equivalents	2,145,652
Total	167,798,694

	Financial liabilities at amortised cost
Liabilities as per balance sheet	
Borrowings	13,000,000
Dividends payable	91,949,479
Trade and other payables (<i>note (a)</i>)	60,249,214
Total	165,198,693

	<u>Loans and receivables</u>
As of 31 December 2012	
Assets as per balance sheet	
Trade and other receivables	85,884,592
Cash and cash equivalents	47,057,712
Restricted cash	9,444,076
	<u>142,386,380</u>
Total	<u><u>142,386,380</u></u>
	Financial liabilities at amortised cost
Liabilities as per balance sheet	
Borrowings	30,000,000
Trade and other payables (<i>note (a)</i>)	51,928,663
	<u>81,928,663</u>
Total	<u><u>81,928,663</u></u>
	Loans and receivables
As of 31 December 2013	
Assets as per balance sheet	
Trade and other receivables	283,066,974
Cash and cash equivalents	24,535,338
Restricted cash	25,573,690
	<u>333,176,002</u>
Total	<u><u>333,176,002</u></u>
	Financial liabilities at amortised cost
Liabilities as per balance sheet	
Borrowings	30,000,000
Trade and other payables (<i>note (a)</i>)	82,513,776
	<u>112,513,776</u>
Total	<u><u>112,513,776</u></u>
	Loans and receivables
As of 30 June 2014	
Assets as per balance sheet	
Trade and other receivables	241,194,328
Dividend receivable	60,000,000
Cash and cash equivalents	84,126,616
Restricted cash	13,166,753
	<u>398,487,697</u>
Total	<u><u>398,487,697</u></u>

	Financial liabilities at amortised cost
Liabilities as per balance sheet	
Borrowings	30,000,000
Trade and other payables (<i>note (a)</i>)	61,288,252
Total	91,288,252

Note (a): Excluding other taxes payable, employee benefits payable and provision for quality warranty expenses.

18 TRADE AND OTHER RECEIVABLES

Group

	As of 31 December			As of 30 June
	2011	2012	2013	2014
Trade receivables (<i>note (c)</i>)				
– Related parties (<i>note 33(c)</i>)	11,903,003	1,540,693	1,543,053	12,053
– Third parties	227,442,815	191,396,716	239,351,743	204,969,371
	239,345,818	192,937,409	240,894,796	204,981,424
Less: allowance for impairment of trade receivables	(25,583,447)	(34,019,649)	(45,201,202)	(33,586,580)
Trade receivables – net	213,762,371	158,917,760	195,693,594	171,394,844
Notes receivable (<i>note (a)</i>)	71,580,000	80,797,340	119,399,822	133,487,050
Investment in wealth management products (<i>note (b)</i>)	10,010,000	–	–	–
Other receivables – third parties	555,875	268,296	239,865	420,928
	<u>295,908,246</u>	<u>239,983,396</u>	<u>315,333,281</u>	<u>305,302,822</u>

Company

	As of 31 December			As of 30 June
	2011	2012	2013	2014
Trade receivables (<i>note (c)</i>)				
– Related parties (<i>note 33(c)</i>)	14,793	9,693	12,053	12,053
– A subsidiary	508,282	–	109,443,917	72,718,739
– Third parties	129,200,228	39,434,810	70,757,185	94,798,350
	129,723,303	39,444,503	180,213,155	167,529,142
Less: allowance for impairment of trade receivables	(4,186,881)	(5,594,652)	(2,933,225)	(20,501,580)
Trade receivables – net	125,536,422	33,849,851	177,279,930	147,027,562
Notes receivable (<i>note (a)</i>)	39,876,000	51,792,330	105,574,633	93,926,276
Other receivables – third parties	240,620	242,411	212,411	240,490
	165,653,042	85,884,592	283,066,974	241,194,328

- (a) Notes receivable of the Group and the Company include bank acceptance notes and commercial acceptance notes, and are usually settled within six months from the date of issue.
- (b) The wealth management products bearing fixed return rates of 7.01% per annum were issued by commercial banks and matured in July 2012.
- (c) Apart from a portion of the contract sum retained by customers to cover the Group's quality warranty, the Group does not grant credit terms to customers in the sales contract. Included in trade receivables are such retained sums of RMB73,255,942, RMB60,657,512, RMB81,562,091 and RMB72,822,140 representing 30.6%, 31.4%, 33.9% and 35.5% of trade receivables as of 31 December 2011, 2012, 2013 and 30 June 2014 respectively. These are due for collection upon the expiry of quality warranty period (which is usually 12 months from the acceptance by the customer of the equipment).

Aging analysis based on recognition date of the gross trade receivables at the respective balance sheet dates are as follows:

Group

	As of 31 December			As of 30 June
	2011	2012	2013	2014
Up to 1 year	163,219,288	99,016,645	120,262,422	92,802,884
1-2 years	72,800,088	75,106,677	52,100,201	56,594,563
2-3 years	3,326,442	17,598,095	58,917,666	46,060,092
Over 3 years	–	1,215,992	9,614,507	9,523,885
	239,345,818	192,937,409	240,894,796	204,981,424

Company

	As of 31 December			As of 30 June
	2011	2012	2013	2014
Up to 1 year	74,936,533	14,941,691	155,734,986	121,270,247
1-2 years	52,355,358	18,047,455	3,696,602	25,523,807
2-3 years	2,431,412	5,239,365	17,705,337	14,758,794
Over 3 years	–	1,215,992	3,076,230	5,976,294
	<u>129,723,303</u>	<u>39,444,503</u>	<u>180,213,155</u>	<u>167,529,142</u>

The trade receivables that were past due but not impaired related to a number of independent customers with no recent history of default. The aging analysis of these trade receivables is as follows:

Group

	As of 31 December			As of 30 June
	2011	2012	2013	2014
Past due within 1 year	115,927,212	74,409,711	48,415,568	72,118,699
Past due for 1 to 2 years	35,173,945	18,165,269	34,284,712	12,137,893
Past due for 2 to 3 years	47,530	818,230	13,905,818	2,915,706
Past due over 3 years	–	–	–	26,294
	<u>151,148,687</u>	<u>93,393,210</u>	<u>96,606,098</u>	<u>87,198,592</u>

Company

	As of 31 December			As of 30 June
	2011	2012	2013	2014
Past due within 1 year	74,883,663	27,823,642	25,482,841	28,954,604
Past due for 1 to 2 years	34,395,445	3,423,669	16,810,664	11,008,715
Past due for 2 to 3 years	–	702,238	3,967,930	1,038,000
Past due over 3 years	–	–	–	10,350
	<u>109,279,108</u>	<u>31,949,549</u>	<u>46,261,435</u>	<u>41,011,669</u>

Trade receivables wholly or partially impaired are as follow:

Group

	As of 31 December			As of
	2011	2012	2013	30 June
				2014
Trade receivables	60,974,319	90,755,911	125,845,424	39,207,130
Allowance for impairment	(25,583,447)	(34,019,649)	(45,201,202)	(33,586,580)
Trade receivables-net	<u>35,390,872</u>	<u>56,736,262</u>	<u>80,644,222</u>	<u>5,620,550</u>

Company

	As of 31 December			As of
	2011	2012	2013	30 June
				2014
Trade receivables	6,080,501	6,612,612	20,122,453	26,095,450
Allowance for impairment	(4,186,881)	(5,594,652)	(2,933,225)	(20,501,580)
Trade receivables-net	<u>1,893,620</u>	<u>1,017,960</u>	<u>17,189,228</u>	<u>5,593,870</u>

The aging analysis of these impaired trade receivables are as follows:

Group

	As of 31 December			As of
	2011	2012	2013	30 June
				2014
Up to 1 year	41,476,462	39,069,558	58,207,594	5,669,200
1-2 years	18,397,857	35,190,496	35,413,378	20,446,680
2-3 years	1,100,000	15,395,857	24,554,722	13,091,250
Over 3 years	–	1,100,000	7,669,730	–
	<u>60,974,319</u>	<u>90,755,911</u>	<u>125,845,424</u>	<u>39,207,130</u>

Company

	As of 31 December			As of
	2011	2012	2013	30 June
				2014
Up to 1 year	443,374	532,111	17,189,228	5,669,200
1-2 years	4,537,127	443,374	–	20,420,000
2-3 years	1,100,000	4,537,127	175,225	6,250
Over 3 years	–	1,100,000	2,758,000	–
	<u>6,080,501</u>	<u>6,612,612</u>	<u>20,122,453</u>	<u>26,095,450</u>

Movements of allowance for impairment of trade receivables are as follows:

Group

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
				(Unaudited)	
As of the beginning of year/period	8,139,545	25,583,447	34,019,649	34,019,649	45,201,202
Allowance/(reversal of allowance) for impairment-net	17,443,902	8,436,202	11,459,553	5,800,221	(11,494,622)
Receivables written off as uncollectible	–	–	(278,000)	–	(120,000)
As of the end of year/period	<u>25,583,447</u>	<u>34,019,649</u>	<u>45,201,202</u>	<u>39,819,870</u>	<u>33,586,580</u>

Company

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
				(Unaudited)	
As of the beginning of year/period	3,066,670	4,186,881	5,594,652	5,594,652	2,933,225
Allowance/(reversal of allowance) for impairment-net	1,120,211	1,407,771	(2,383,427)	(2,582,977)	17,688,355
Receivables written off as uncollectible	–	–	(278,000)	–	(120,000)
As of the end of year/period	<u>4,186,881</u>	<u>5,594,652</u>	<u>2,933,225</u>	<u>3,011,675</u>	<u>20,501,580</u>

For the six months ended 30 June 2014, the Group's allowance for impairment is presented net of the Company's net additional allowance of RMB17,688,355 shown above.

The fair values of trade and other receivables approximate their carrying amounts.

All of the trade and other receivables were denominated in RMB.

The maximum exposure to credit risk at the reporting date is the carrying amounts of each class of receivable mentioned above. The Group and the Company do not hold any collateral as security.

19 PREPAYMENTS

Group

	As of 31 December			As of
	2011	2012	2013	30 June
				2014
Prepayments for purchase of raw materials	4,913,926	1,803,582	2,240,377	3,901,423
Prepayments for value added tax and other taxes	14,154,090	19,996,255	23,498,213	22,128,942
Prepayments for listing – related expenses	–	–	10,516,666	14,084,983
Others	325,018	729,244	509,919	454,342
	<u>19,393,034</u>	<u>22,529,081</u>	<u>36,765,175</u>	<u>40,569,690</u>

Company

	As of 31 December			As of
	2011	2012	2013	30 June
				2014
Prepayments for purchase of raw materials	36,840,414	43,533,298	23,191,994	3,619,176
– Third parties	3,433,689	1,595,826	1,426,881	2,719,994
– A subsidiary	33,406,725	41,937,472	21,765,113	899,182
Prepayments for value added tax and other taxes	4,118,150	624,471	11,650,541	14,123,485
Prepayments for listing-related expenses	–	–	10,516,666	14,084,983
Others	322,038	729,243	337,445	297,498
	<u>41,280,602</u>	<u>44,887,012</u>	<u>45,696,646</u>	<u>32,125,142</u>

20 INVENTORIES

Group

	As of 31 December			As of
	2011	2012	2013	30 June
				2014
Raw materials	28,765,219	24,491,809	22,134,254	18,397,110
Work in progress	193,725,684	129,658,184	78,270,041	84,079,309
Finished goods	18,817,177	51,177,574	70,499,302	56,934,213
	<u>241,308,080</u>	<u>205,327,567</u>	<u>170,903,597</u>	<u>159,410,632</u>

For the years ended 31 December 2011 and 2012, 2013 and the six months ended 30 June 2013 and 2014, the cost of inventories recognised as expense and included in 'cost of sales' amounted to RMB201,633,916, RMB107,725,137, RMB122,163,716, RMB71,774,885 and RMB57,307,139, respectively.

Company

	As of 31 December			As of 30 June
	2011	2012	2013	2014
Raw materials	23,293,129	19,891,145	16,797,862	14,095,271
Work in progress	150,090,132	86,337,588	44,562,922	61,211,271
Finished goods	18,133,580	43,259,808	67,661,177	58,952,864
	<u>191,516,841</u>	<u>149,488,541</u>	<u>129,021,961</u>	<u>134,259,406</u>

21 CASH AND CASH EQUIVALENTS*Group*

	As of 31 December			As of 30 June
	2011	2012	2013	2014
Cash at bank and on hand	24,639,218	70,320,475	61,026,856	68,183,784
Short-term bank deposits (<i>note (a)</i>)	–	35,999,800	47,225,250	54,412,646
	<u>24,639,218</u>	<u>106,320,275</u>	<u>108,252,106</u>	<u>122,596,430</u>
Less: Restricted cash (<i>note (b)</i>)	–	(9,444,076)	(25,573,690)	(13,648,790)
Cash and cash equivalents	<u>24,639,218</u>	<u>96,876,199</u>	<u>82,678,416</u>	<u>108,947,640</u>

Company

	As of 31 December			As of 30 June
	2011	2012	2013	2014
Cash at bank and on hand	2,145,652	56,501,788	44,678,228	48,597,336
Short-term bank deposits (<i>note (a)</i>)	–	–	5,430,800	48,696,033
	<u>2,145,652</u>	<u>56,501,788</u>	<u>50,109,028</u>	<u>97,293,369</u>
Less: Restricted cash (<i>note (b)</i>)	–	(9,444,076)	(25,573,690)	(13,166,753)
Cash and cash equivalents	<u>2,145,652</u>	<u>47,057,712</u>	<u>24,535,338</u>	<u>84,126,616</u>

The Group and Company's cash and cash balance are denominated in RMB.

- (a) The weighted average effective interest rates (per annum) for the short-term bank deposits were as follows:

Group

	As of 31 December			As of
	2011	2012	2013	30 June
				2014
Short-term bank deposits	N/A	3.06%	2.90%	3.00%

Company

	As of 31 December			As of
	2011	2012	2013	30 June
				2014
Short-term bank deposits	N/A	N/A	3.05%	2.99%

- (b) The restricted cash represented cash deposits pledged to banks as security for issuance of notes payable (note 26).

22 PAID-IN CAPITAL/SHARE CAPITAL AND SHARE PREMIUM

	Note	Number of issued shares (shares)	Paid-in capital/ share capital	Share premium	Total
As of 1 January 2011		–	1,000,000	–	1,000,000
– Capitalisation of retained earnings	(a)	–	14,000,000	–	14,000,000
As of 31 December 2011		–	15,000,000	–	15,000,000
– Capital injection	(b)	–	1,304,347	158,695,653	160,000,000
– Transfer into joint stock company with limited liability	(c)	96,000,000	79,695,653	32,389,677	112,085,330
As of 31 December 2012, 31 December 2013 and 30 June 2014		96,000,000	96,000,000	191,085,330	287,085,330

- (a) Pursuant to a resolution dated on 10 March 2011, the Company capitalised retained earnings of RMB14,000,000 to paid-in capital.
- (b) On 2 March 2012, the Company received capital injection of RMB160,000,000 from three shareholders. The increase in paid-in capital was RMB1,304,347 and the surplus of RMB158,695,653 was recorded as share premium.
- (c) On 24 July 2012, the Company was transformed from a limited liability company into a joint stock company with limited liability by converting the total equity as of 31 May 2012 into 96,000,000 ordinary shares of RMB1.00 each, the surplus between the total equity and the share capital was recognised as share premium.

23 SHARE-BASED PAYMENTS

On 27 December 2011, Mr. Zhang Degang and Mr. Zhang Deqiang transferred 3% and 2% equity interests in the Company to Shunxin, a limited partnership established in the PRC on 16 December 2011, for considerations of RMB9,000,000 and RMB6,000,000, respectively. Upon the establishment of Shunxin, Mr. Zhang Degang, Mr. Zhang Deqiang and an individual member of the senior management were general partners, while another 22 senior management personnel of the Company were limited partners. On 27 April 2012, Mr. Zhang Degang and Mr. Zhang Deqiang transferred 5.876% and 3.824% equity interests in Shunxin to two senior management personnel who newly joined the Group for considerations of RMB881,400 and RMB588,600, respectively. The above share transfer arrangements with the Group's employees through Shunxin are regarded as share-based payments to the employees as considerations for the services received by the Group. The fair values of the employee services received in exchange of the grant of shares recognised in 2011 and 2012 were RMB30,646,379 and RMB6,942,545, respectively. There was no share-based payment in 2013 and the six months ended 30 June 2014.

24 RETAINED EARNINGS – COMPANY

	<u>Company</u>
As of 1 January 2011	111,344,087
Profit for the year	58,415,298
Transfer to statutory reserves (<i>note 25(a)</i>)	(5,841,530)
Dividends	(136,829,320)
Capitalisation to paid-in capital (<i>note 22(a)</i>)	<u>(14,000,000)</u>
As of 31 December 2011	<u>13,088,535</u>
Profit for the year	85,857,593
Transfer to statutory reserves (<i>note 25(a)</i>)	(8,417,250)
Transfer into joint stock company with limited liability (<i>note 22(c)</i>)	(87,708,863)
Transfer to safety fund (<i>note 25(b)</i>)	<u>(1,685,091)</u>
As of 31 December 2012	<u>1,134,924</u>
Profit for the year	102,051,253
Transfer to statutory reserves (<i>note 25(a)</i>)	(10,052,076)
Transfer to safety fund (<i>note 25(b)</i>)	<u>(1,530,488)</u>
As of 31 December 2013	<u>91,603,613</u>
Profit for the period	101,582,460
Transfer to statutory reserves (<i>note 25(a)</i>)	(10,080,352)
Transfer to safety fund (<i>note 25(b)</i>)	<u>(778,939)</u>
As of 30 June 2014	<u>182,326,782</u>
(Unaudited)	
As of 1 January 2013	1,134,924
Profit for the period	55,861,251
Transfer to statutory reserves (<i>note 25(a)</i>)	(5,509,601)
Transfer to safety fund (<i>note 25(b)</i>)	<u>(765,244)</u>
As of 30 June 2013	<u>50,721,330</u>

Profit attributable to owners of the Company

For the years ended 31 December 2011, 2012, 2013 and the six months ended 30 June 2013 and 2014, the profits attributable to owners of the Company were dealt with in the financial statements of the Company to the extent of RMB58,415,298, RMB85,857,593, RMB102,051,253, RMB55,861,251 and RMB101,582,460, respectively.

25 RESERVES – GROUP AND COMPANY*Group*

	Capital reserves	Statutory reserves	Special reserve	Total
As of 1 January 2011	5,600,000	17,794,284	–	23,394,284
Transfer from retained earnings (<i>note (a)</i>)	–	6,555,352	–	6,555,352
Capital contribution from shareholders to a subsidiary prior to the Reorganisation (<i>note (c)</i>)	1,080,000	–	–	1,080,000
Acquisition of additional interest in a subsidiary by shareholders prior to the Reorganisation (<i>note 36(a)</i>)	3,399,394	–	–	3,399,394
Acquisition of subsidiaries under common control (<i>note 34</i>)	(30,538,261)	–	–	(30,538,261)
Share-based payments (<i>note 23</i>)	30,646,379	–	–	30,646,379
As of 31 December 2011	<u>10,187,512</u>	<u>24,349,636</u>	<u>–</u>	<u>34,537,148</u>
Transfer from retained earnings (<i>note (a)</i>)	–	8,957,250	–	8,957,250
Share-based payments (<i>note 23</i>)	6,942,545	–	–	6,942,545
Transfer into joint stock company with limited liability (<i>note 22(c)</i>)	–	(24,376,467)	–	(24,376,467)
Transfer to safety fund (<i>note (b)</i>)	–	–	2,524,331	2,524,331
As of 31 December 2012	<u>17,130,057</u>	<u>8,930,419</u>	<u>2,524,331</u>	<u>28,584,807</u>
Transfer from retained earnings (<i>note (a)</i>)	–	10,052,076	–	10,052,076
Transfer to safety fund (<i>note (b)</i>)	–	–	2,265,207	2,265,207
As of 31 December 2013	<u>17,130,057</u>	<u>18,982,495</u>	<u>4,789,538</u>	<u>40,902,090</u>
Transfer from retained earnings (<i>note (a)</i>)	–	10,080,352	–	10,080,352
Transfer to safety fund (<i>note (b)</i>)	–	–	1,092,238	1,092,238
Contribution from shareholders (<i>note(d)</i>)	506,929	–	–	506,929
As of 30 June 2014	<u>17,636,986</u>	<u>29,062,847</u>	<u>5,881,776</u>	<u>52,581,609</u>
(Unaudited)				
As of 1 January 2013	17,130,057	8,930,419	2,524,331	28,584,807
Transfer from retained earnings (<i>note (a)</i>)	–	5,509,601	–	5,509,601
Transfer to safety fund (<i>note (b)</i>)	–	–	1,132,603	1,132,603
As of 30 June 2013	<u>17,130,057</u>	<u>14,440,020</u>	<u>3,656,934</u>	<u>35,227,011</u>

Company

	<u>Capital reserves</u>	<u>Statutory reserves</u>	<u>Special reserve</u>	<u>Total</u>
As of 1 January 2011	–	15,508,106	–	15,508,106
Transfer from retained earnings (notes (a) and 24)	–	5,841,530	–	5,841,530
Share-based payments (note 23)	<u>30,646,379</u>	<u>–</u>	<u>–</u>	<u>30,646,379</u>
As of 31 December 2011	<u>30,646,379</u>	<u>21,349,636</u>	<u>–</u>	<u>51,996,015</u>
Transfer from retained earnings (notes (a) and 24)	–	8,417,250	–	8,417,250
Share-based payments (note 23)	6,942,545	–	–	6,942,545
Transfer into joint stock company with limited liability (note 22(c))	–	(24,376,467)	–	(24,376,467)
Transfer to safety fund (note (b) and 24)	<u>–</u>	<u>–</u>	<u>1,685,091</u>	<u>1,685,091</u>
As of 31 December 2012	<u>37,588,924</u>	<u>5,390,419</u>	<u>1,685,091</u>	<u>44,664,434</u>
Transfer from retained earnings (notes (a) and 24)	–	10,052,076	–	10,052,076
Transfer to safety fund (notes (b) and 24)	<u>–</u>	<u>–</u>	<u>1,530,488</u>	<u>1,530,488</u>
As of 31 December 2013	<u>37,588,924</u>	<u>15,442,495</u>	<u>3,215,579</u>	<u>56,246,998</u>
Transfer from retained earnings (notes (a) and 24)	–	10,080,352	–	10,080,352
Transfer to safety fund (notes (b) and 24)	–	–	778,939	778,939
Contribution from shareholders	<u>367,367</u>	<u>–</u>	<u>–</u>	<u>367,367</u>
As of 30 June 2014	<u>37,956,291</u>	<u>25,522,847</u>	<u>3,994,518</u>	<u>67,473,656</u>
(Unaudited)				
As of 1 January 2013	37,588,924	5,390,419	1,685,091	44,664,434
Transfer from retained earnings (notes (a) and 24)	–	5,509,601	–	5,509,601
Transfer to safety fund (notes (b) and 24)	<u>–</u>	<u>–</u>	<u>765,244</u>	<u>765,244</u>
As of 30 June 2013	<u>37,588,924</u>	<u>10,900,020</u>	<u>2,450,335</u>	<u>50,939,279</u>

- (a) In accordance with the relevant laws and regulations in the PRC and the Articles of Association of the subsidiaries established in the PRC (the “PRC Operational Entities”), the PRC Operational Entities are required to appropriate 10% of their annual net profit, after offsetting any prior years’ losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing any net profit. When the balance of the statutory surplus reserve fund reaches 50% of the registered capital of the PRC Operational Entities, any further transfer is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years’ losses, if any, and may be capitalised as registered capital, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of registered capital.

- (b) Pursuant to certain regulations issued by the State of Administration of Work Safety in 2012, certain Group entities are required to set aside an amount to a safety fund at certain percentage of revenue. The fund can be used for improvement of safety for machinery manufacturing, and are not available for distribution to shareholders. Upon incurring safety expenditure, an equivalent amount is transferred from safety fund to retained earnings.
- (c) Haisheng Software was established by Zhang Brothers before the Reorganisation. The paid-in capital of RMB1,080,000 made by Zhang Brothers to Haisheng Software was regarded as capital contribution to the Group from the controlling shareholders.
- (d) In February 2014, the Group filed and settled pension funds of RMB506,929 for certain employees who have left the Group in prior years. According to the agreement between the Group and Zhang Brothers, who are the major shareholder and founder of the Group, Zhang Brothers agreed to reimburse the settlement of pension fund to the Group. Such reimbursement by the shareholders was regarded as shareholders' contribution to the Group and was reflected for as a reserve movement.

26 TRADE AND OTHER PAYABLES

Group

	As of 31 December			As of
	2011	2012	2013	30 June 2014
Trade payables (<i>note (b)</i>)	59,755,776	33,842,286	30,072,975	21,241,166
– Related parties (<i>note 33 (c)</i>)	10,332,695	–	–	–
– Third parties	49,423,081	33,842,286	30,072,975	21,241,166
Notes payable (<i>note (a)</i>)	15,360,000	19,032,905	49,006,472	31,252,815
Payables for property, plant and equipment	50,200	200,000	4,445,886	6,672,992
Other taxes payable	16,807,480	1,352,031	1,703,267	2,192,534
Employee benefits payable	3,205,336	3,101,593	2,671,445	2,115,059
Quality warranty deposits from suppliers	–	4,170,000	4,170,000	4,170,000
Interest payable	24,873	50,000	72,300	50,000
Provision for quality warranty expenses	698,501	485,395	478,422	433,519
Others	1,501,547	496,181	1,163,662	929,842
– Related parties (<i>note 33 (c)</i>)	400,000	–	–	–
– Third parties	1,101,547	496,181	1,163,662	929,842
	<u>97,403,713</u>	<u>62,730,391</u>	<u>93,784,429</u>	<u>69,057,927</u>

Company

	As of 31 December			As of 30 June
	2011	2012	2013	2014
Trade payables (<i>note (b)</i>)	43,332,677	27,897,825	24,817,712	25,822,971
– Related parties (<i>note 33 (c)</i>)	947,436	–	–	–
– A subsidiary	–	–	1,297,600	9,972,016
– Third parties	42,385,241	27,897,825	23,520,112	15,850,955
Notes payable (<i>note (a)</i>)	15,360,000	19,152,905	52,433,472	30,858,688
Payables for property, plant and equipment	50,200	200,000	74,986	14,380
Other taxes payable	11,628,410	570,834	507,419	455,030
Employee benefits payable	2,404,974	2,201,515	2,120,733	1,812,509
Quality warranty deposits from suppliers	–	4,170,000	4,170,000	4,170,000
Interest payable	24,873	50,000	50,000	50,000
Provision for quality warranty expenses	698,501	485,395	478,422	433,519
Others	1,481,464	457,933	967,606	372,213
– Related parties (<i>note 33(c)</i>)	400,000	–	–	–
– Third parties	1,081,464	457,933	967,606	372,213
	<u>74,981,099</u>	<u>55,186,407</u>	<u>85,620,350</u>	<u>63,989,310</u>

(a) The notes payable are secured over restricted cash deposits (note 21).

(b) The ageing analysis of the trade payables (including amounts due to related parties of trading in nature) was as follows:

Group

	As of 31 December			As of 30 June
	2011	2012	2013	2014
Up to 1 year	51,305,158	31,281,601	26,520,078	18,545,599
1-2 years	8,433,748	2,545,759	1,714,653	374,551
2-3 years	16,870	14,926	1,838,244	2,321,016
	<u>59,755,776</u>	<u>33,842,286</u>	<u>30,072,975</u>	<u>21,241,166</u>

Company

	As of 31 December			As of 30 June
	2011	2012	2013	2014
Up to 1 year	42,903,647	26,846,923	23,490,817	24,573,284
1-2 years	412,160	1,035,976	954,651	365,376
2-3 years	16,870	14,926	372,244	884,311
	<u>43,332,677</u>	<u>27,897,825</u>	<u>24,817,712</u>	<u>25,822,971</u>

(c) All the trade and other payables are dominated in RMB.

27 ADVANCES FROM CUSTOMERS

Group

	As of 31 December			As of
	2011	2012	2013	30 June
				2014
Advances from customers				
– Related parties (<i>note 33 (c)</i>)	21,559,754	11,773	58,825	4,800,000
– Third parties	355,926,196	217,894,967	123,210,789	86,883,924
	<u>377,485,950</u>	<u>217,906,740</u>	<u>123,269,614</u>	<u>91,683,924</u>

Company

	As of 31 December			As of
	2011	2012	2013	30 June
				2014
Advances from customers				
– Related parties (<i>note 33(c)</i>)	–	–	58,825	4,800,000
– A subsidiary	256,837,079	8,833,114	–	–
– Third parties	346,434	32,257,485	87,647,190	65,305,324
	<u>257,183,513</u>	<u>41,090,599</u>	<u>87,706,015</u>	<u>70,105,324</u>

28 BORROWINGS

Group

	As of 31 December			As of
	2011	2012	2013	30 June
				2014
Current:				
– Secured bank borrowing (<i>note (a)</i>)	13,000,000	–	16,543,600	24,543,600
– Unsecured bank borrowing	–	30,000,000	30,000,000	30,000,000
	<u>13,000,000</u>	<u>30,000,000</u>	<u>46,543,600</u>	<u>54,543,600</u>

Company

	As of 31 December			As of
	2011	2012	2013	30 June
				2014
Current:				
– Secured bank borrowing (<i>note (a)</i>)	13,000,000	–	–	–
– Unsecured bank borrowing	–	30,000,000	30,000,000	30,000,000
	<u>13,000,000</u>	<u>30,000,000</u>	<u>30,000,000</u>	<u>30,000,000</u>

- (a) As of 31 December 2011, the bank borrowing of RMB13,000,000 was secured over the land use rights and buildings of the Company (*notes 13 and 14*).

As of 31 December 2013 and 30 June 2014, the bank borrowing of RMB16,543,000 and RMB24,543,600 was respectively secured over the land use rights of the Group (*note 13*).

The weighted average effective interest rates (per annum) were as follows:

	As of 31 December			As of
	2011	2012	2013	30 June
				2014
Bank borrowings	6.89%	6.00%	6.05%	6.07%

Cash flow interest rate risk is the risk that the future cash flows of the Group will fluctuate because of changes in market interest rates. The Group is exposed to cash flow interest rate risk as all its bank borrowings are repayable within one year from the date of the financial position and their renewal is subject to volatility in market interest rates.

The Group's bank borrowings were denominated in RMB.

The fair value of current bank borrowing approximated its carrying amount, as the impact of discounting is not significant.

29 DEFERRED INCOME TAX

Group

The analysis of deferred income tax assets is as follows:

	As of 31 December			As of
	2011	2012	2013	30 June
				2014
Deferred income tax assets:				
– to be recovered after more than 12 months	6,257,343	19,975,669	11,006,978	6,346,487
– to be recovered within 12 months	2,391,312	1,711,872	12,327,686	9,863,677
	8,648,655	21,687,541	23,334,664	16,210,164

The movement in deferred income tax assets is as follows:

	<u>Allowance for impairment</u>	<u>Unrealised profit</u>	<u>Temporary difference on recognition of sales and related costs</u>	<u>Others</u>	<u>Total</u>
As of 1 January 2011	1,734,216	3,346,165	–	382,010	5,462,391
Credited/(charged) to the income statement	<u>4,244,014</u>	<u>(795,737)</u>	<u>–</u>	<u>(262,013)</u>	<u>3,186,264</u>
As of 31 December 2011	5,978,230	2,550,428	–	119,997	8,648,655
Credited to the income statement	<u>2,526,681</u>	<u>21,580</u>	<u>10,489,273</u>	<u>1,352</u>	<u>13,038,886</u>
As of 31 December 2012	8,504,911	2,572,008	10,489,273	121,349	21,687,541
Credited/(charged) to the income statement	<u>2,502,067</u>	<u>(794,952)</u>	<u>(42,406)</u>	<u>(17,586)</u>	<u>1,647,123</u>
As of 31 December 2013	11,006,978	1,777,056	10,446,867	103,763	23,334,664
(Charged)/credited to the income statement	<u>(4,660,491)</u>	<u>638,201</u>	<u>(3,202,311)</u>	<u>100,101</u>	<u>(7,124,500)</u>
As of 30 June 2014	<u>6,346,487</u>	<u>2,415,257</u>	<u>7,244,556</u>	<u>203,864</u>	<u>16,210,164</u>
(Unaudited)					
As of 1 January 2013	8,504,911	2,572,008	10,489,273	121,349	21,687,541
Credited to the income statement	<u>1,450,057</u>	<u>553,278</u>	<u>–</u>	<u>8,865</u>	<u>2,012,200</u>
As of 30 June 2013	<u>9,954,968</u>	<u>3,125,286</u>	<u>10,489,273</u>	<u>130,214</u>	<u>23,699,741</u>

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. During the years ended 31 December 2011, 2012, 2013 and six months ended 30 June 2014, the Group did not recognise deferred income tax assets of nil, RMB96,496, RMB147,396 and RMB77,721 for the tax losses of RMB385,983, RMB589,584 and RMB310,884 which will expire in 2017, 2018 and 2019, respectively.

Company

The analysis of deferred income tax assets is as follows:

	<u>As of 31 December</u>			<u>As of June 30</u>
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Deferred income tax assets:				
– to be recovered after more than 12 months	657,313	1,816,869	439,984	3,075,237
– to be recovered within 12 months	<u>712,854</u>	<u>764,671</u>	<u>1,368,867</u>	<u>1,786,956</u>
	<u>1,370,167</u>	<u>2,581,540</u>	<u>1,808,851</u>	<u>4,862,193</u>

The movement in deferred income tax assets is as follows:

	Allowance for impairment	Unrealised profit	Temporary difference on recognition of sales and related costs	Others	Total
As of 1 January 2011	465,996	589,913	–	359,400	1,415,309
Credited/(charged) to the income statement	163,090	41,893	–	(250,125)	(45,142)
As of 31 December 2011	629,086	631,806	–	109,275	1,370,167
Credited to the income statement	769,576	323,707	106,016	12,074	1,211,373
As of 31 December 2012	1,398,662	955,513	106,016	121,349	2,581,540
(Charged)/credited to the income statement	(958,678)	265,981	(42,406)	(37,586)	(772,689)
As of 31 December 2013	439,984	1,221,494	63,610	83,763	1,808,851
Credited/(charged) to the income statement	2,635,253	(344,275)	642,263	120,101	3,053,342
As of 30 June 2014	3,075,237	877,219	705,873	203,864	4,862,193
(Unaudited)					
As of 1 January 2013	1,398,662	955,513	106,016	121,349	2,581,540
(Charged)/credited to the income statement	(645,743)	1,104,982	–	8,865	468,104
As of 30 June 2013	752,919	2,060,495	106,016	130,214	3,049,644

30 DIVIDENDS AND DIVIDEND PAYABLE

(a) Dividends

Group

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
Final dividend declared (note(i))	189,324,996	–	–	–	120,000,000
Proposed dividends (note(ii))	189,324,996	–	–	–	120,000,000

- (i) During the year ended 31 December 2011, entities within the Group declared a dividend of RMB189,324,996 to their then shareholders.

The rates of dividend and the number of shares eligible for dividends are not presented for the year ended 31 December 2011 as such information is not considered meaningful for the purpose of this report.

- (ii) Pursuant to a resolution of the Shareholders' meeting dated 15 August 2014, a dividend of RMB1.25 per share was declared by the Company. This dividend payable, amounting to RMB120,000,000, has not been recognised as a liability in the consolidated financial information as of 30 June 2014.

(b) Dividends payable

The dividends payable are analysed as follows:

Group

	As of 31 December			As of
	2011	2012	2013	30 June
				2014
Dividends payable				
– Zhang Degang	54,123,712	–	–	–
– Zhang Deqiang	41,685,232	–	–	–
– Zhu Yingxuan	5,955,095	–	–	–
	<u>101,764,039</u>	<u>–</u>	<u>–</u>	<u>–</u>

Company

	As of 31 December			As of
	2011	2012	2013	30 June
				2014
Dividends payable				
– Zhang Degang	49,214,592	–	–	–
– Zhang Deqiang	36,779,792	–	–	–
– Zhu Yingxuan	5,955,095	–	–	–
	<u>91,949,479</u>	<u>–</u>	<u>–</u>	<u>–</u>

31 CASH GENERATED FROM OPERATIONS

(a) Reconciliations of profit before income tax to cash generated from operations were as follow:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
				(Unaudited)	
Profit before income tax	143,288,570	150,525,089	153,460,843	82,234,981	69,810,643
Adjustments for:					
– Investment loss (<i>note 6</i>)	272,038	–	–	–	–
– Fair value change on financial assets at fair value through profit or loss (<i>note 7</i>)	(90,439)	–	–	–	–
– Share-based compensation expenses (<i>note 9</i>)	30,646,379	6,942,545	–	–	–
– Depreciation of property, plant and equipment (<i>note 14</i>)	3,020,282	3,322,304	3,151,520	1,621,668	1,714,030
– Amortisation of land used rights and intangible assets (<i>notes 13 and 15</i>)	192,918	909,913	924,322	468,412	508,614
– Impairment/(reversal of impairment) of trade receivables (<i>note 18</i>)	17,443,902	8,436,202	11,459,553	5,800,221	(11,494,622)
– Losses/(gains) on disposal of property and equipment (<i>note 7</i>)	146	(26,512)	2,510	(31,166)	(51,644)
– Finance income (<i>note 10</i>)	(638,898)	(1,403,320)	–	–	–
– Finance expenses (<i>note 10</i>)	714,161	1,555,296	1,825,000	910,000	910,000
Operating profit before changes in working capital:	194,849,059	170,261,517	170,823,748	91,004,116	61,397,021
Changes in working capital					
– Inventories	(3,140,313)	35,980,513	34,423,970	39,681,594	11,492,965
– Prepayments	(2,606,895)	(3,136,047)	(3,719,428)	3,655,734	(79,553)
– Trade and other receivables	(69,354,405)	37,478,648	(86,809,438)	(38,563,802)	18,245,081
– Trade and other payables	20,787,575	(34,448,249)	26,785,852	12,851,440	(26,931,308)
– Advances from customers	37,470,475	(159,579,210)	(94,637,126)	(55,644,364)	(31,585,690)
Cash generated from operations	178,005,496	46,557,172	46,867,578	52,984,718	32,538,516

(b) In the consolidated statements of cash flows, proceeds from sale of property, plant and equipment comprise:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
				(Unaudited)	
Net book amount (<i>note 14</i>)	65,103	84,233	278,383	112,229	33,839
(Losses)/gains on disposal of property, plant and equipment (<i>note 7</i>)	(146)	26,512	(2,510)	31,166	51,644
Proceeds from disposal of property, plant and equipment	64,957	110,745	275,873	143,395	85,483

32 COMMITMENTS**(a) Capital commitments**

Capital expenditures contracted at each period end not provided for in the financial statements were as follows:

	As of 31 December			As of
	2011	2012	2013	30 June
				2014
Property, plant and equipment	–	463,371	33,290,377	22,337,037

(b) Operating leasing commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As of 31 December			As of
	2011	2012	2013	30 June
				2014
No later than 1 year	1,875,888	801,517	233,333	–
Later than 1 year and no later than 5 years	795,717	20,700	–	–
Later than 5 years	20,700	–	–	–
	<u>2,692,305</u>	<u>822,217</u>	<u>233,333</u>	<u>–</u>

33 RELATED PARTY TRANSACTIONS

(a) Names and relationships with related parties

The Group is ultimately controlled by Zhang Family, who held 80.45% direct equity interest in the Company as of 30 June 2014.

The following companies are related parties of the Group which had balances and/or transactions with the Group during the Relevant Periods.

Name of related parties	Relationship with the Group
Mr. Zhang Deqiang	Director and shareholder of the Company
Mr. Zhang Degang	Director and shareholder of the Company
Ms. Zhu Yingxuan	Spouse of Mr. Zhang Degang
Ms. Zhang Zhenhua	Sister of Zhang Brothers
Jiangyin Beite Machinery and Engineering Company Limited (江陰貝特機械工程有限公司) ("Jiangyin Beite") (note (i))	Controlled by Zhang Brothers
Jiangyin Sanjia Gongkong Machinery Company Limited (江陰三佳工控機械有限公司) ("Jiangyin Sanjia") (note (i))	Controlled by Ms. Zhang Zhenhua
Hefei De Yi New Materials Investment Company Limited (合肥得一新材料投資有限公司) ("Hefei Investment") (note(i)) (formerly known as (Changzhou De Yi New Materials Technology Company Limited (常州得一新材料科技有限公司))	Zhang Degang is one of the directors
Jiangsu Li Ao New Material Technology Company Limited (江蘇利奧新材料科技有限公司) ("Jiangsu Li Ao") (note (i))	A subsidiary of Hefei Investment
Hefei De Yi New Materials Technology Company Limited (合肥得一新材料科技有限公司) ("Hefei Technology") (note (i))	A subsidiary of Hefei Investment

(i) The entities shown above do not have official English names and their Chinese names have been translated into English, for reference only, by the Directors on a best effort basis.

(b) Significant transactions with related parties

During the Relevant Periods, the following transactions were carried out between the Group and related parties. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

Continuing transactions

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
				(Unaudited)	
(i) Sales of goods					
– Hefei Investment	24,634,763	4,188	–	–	–
– Jiangsu Li Ao	6,710,265	–	26,744	26,744	–
– Hefei Technology	8,943,590	26,313,792	139,498	33,208	50,278
	<u>40,288,618</u>	<u>26,317,980</u>	<u>166,242</u>	<u>59,952</u>	<u>50,278</u>
(ii) Key management compensation					
– Wages, salaries and bonuses	2,287,654	2,274,781	2,481,084	1,118,586	1,290,592
– Share-based compensation expenses	8,090,190	3,683,800	–	–	–
– Welfare and pension	124,069	321,992	370,929	169,257	302,216
	<u>10,501,913</u>	<u>6,280,573</u>	<u>2,852,013</u>	<u>1,287,843</u>	<u>1,592,808</u>

Discontinued transactions

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
				(Unaudited)	
(i) Purchase of goods					
– Jiangyin Beite	2,651,111	–	–	–	–
– Jiangyin Sanjia	683,761	–	–	–	–
	<u>3,334,872</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
(ii) Rental paid to					
– Ms. Zhang Zhenhua	21,000	–	–	–	–
	<u>21,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

(c) Balances with related parties

	As of 31 December			As of
	2011	2012	2013	30 June 2014
(i) Trade and other receivables				
Group				
Trade receivables:				
– Hefei Technology	3,139,200	1,531,000	1,533,360	2,360
– Jiangsu Li Ao	2,265,010	–	–	–
– Hefei Investment	6,498,793	9,693	9,693	9,693
	<u>11,903,003</u>	<u>1,540,693</u>	<u>1,543,053</u>	<u>12,053</u>
Company				
Trade receivables:				
– Hefei Investment	14,793	9,693	9,693	9,693
– Hefei Technology	–	–	2,360	2,360
	<u>14,793</u>	<u>9,693</u>	<u>12,053</u>	<u>12,053</u>
(ii) Trade and other payables				
Group				
Trade payables:				
– Jiangyin Beite	4,595,021	–	–	–
– Jiangyin Sanjia	5,737,674	–	–	–
	<u>10,332,695</u>	<u>–</u>	<u>–</u>	<u>–</u>
Other payables:				
– Mr. Zhang Degang	400,000	–	–	–
	<u>10,732,695</u>	<u>–</u>	<u>–</u>	<u>–</u>
Company				
Trade payables:				
– Jiangyin Beite	947,436	–	–	–
Other payables:				
– Mr. Zhang Degang	400,000	–	–	–
	<u>1,347,436</u>	<u>–</u>	<u>–</u>	<u>–</u>
(iii) Advances from customers				
– Hefei Technology	21,559,754	11,773	58,825	4,800,000
(iv) Dividends payable				
Group				
– Mr. Zhang Degang	54,123,712	–	–	–
– Mr. Zhang Deqiang	41,685,232	–	–	–
– Ms. Zhu Yingxuan	5,955,095	–	–	–
	<u>101,764,039</u>	<u>–</u>	<u>–</u>	<u>–</u>
Company				
– Mr. Zhang Degang	49,214,592	–	–	–
– Mr. Zhang Deqiang	36,779,792	–	–	–
– Ms. Zhu Yingxuan	5,955,095	–	–	–
	<u>91,949,479</u>	<u>–</u>	<u>–</u>	<u>–</u>

The above balances with related parties were interest free, unsecured and had no fixed payment terms. These balances are all denominated in RMB. Other than trade receivables and advances from customers, all the remaining balances were settled subsequent to 31 December 2012.

(d) Guarantee provided by a related party

From 27 December 2011 to 24 February 2013, Mr. Zhang Deqiang provided a guarantee in relation to a bank credit facility of RMB200,000,000 to the Company. The guarantee was released on 24 February 2013. During the year ended 31 December 2012, a bank borrowing of RMB20,000,000 was drawn under the facility and such borrowing was repaid in the same year.

34 COMMON CONTROL COMBINATIONS

The Company's acquisition of Haisheng Software, Jiangsu Sunlit and Sangzhi Gongkong during the Reorganisation constituted combination under common controls. Details of the common control combination in the year ended 31 December 2011 are set out in note 1.2, total cash considerations paid for the acquisitions of the Haisheng Software, Jiangsu Sunlit and Sangzhi Gongkong under common control of RMB30,538,261 are shown as a reduction of Group's reserves under the principle of merger accounting.

35 ACQUISITION OF WUXI SHANGDA

On 1 December 2011, the Group acquired 100% of the equity interest in Wuxi Shangda from a third party for a cash consideration of RMB51,522,164. The consideration of acquisition was mainly based on the fair value of the land use rights held by Wuxi Shangda.

There was no income contributed to the Group by Wuxi Shangda during the period from 1 December 2011 to 31 December 2011. The subsidiary did not operate any business prior to the acquisition. The Group did not take over any management of the subsidiary as its plan is to acquire the land use rights for expansion of the plant in Wuxi. Therefore, the management considered that this transaction was in substance an acquisition of assets and as a result the difference between the cash consideration and the existing carrying amount of net assets acquired was recognised as a fair value adjustment to the carrying amount of the land use rights. (The fair value of other assets and liabilities approximated their carrying amounts).

The assets and liabilities arising from the acquisition are as follows:

	Fair Value	Acquiree's carrying amount
Cash and cash equivalents	15,082,019	15,082,019
Plant	8,564,816	8,564,816
Land use right	28,021,472	18,017,718
Trade and other payables	(146,143)	(146,143)
Net assets acquired	<u>51,522,164</u>	<u>41,518,410</u>
Total amounts settled in cash	51,522,164	
Cash and cash equivalents acquired	<u>(15,082,019)</u>	
Cash outflow on acquisition	<u>36,440,145</u>	

36 TRANSACTION WITH NON-CONTROLLING INTERESTS

- (a) Zhang Family collectively held 60% equity interest in Sanzhi Gongkong since its establishment. On 20 April 2011, Zhang Family acquired additional 20% equity interest in Sanzhi Gongkong from an independent third party. The carrying amount of the 20% equity interest in Sanzhi Gongkong on the transaction date was RMB3,399,394. This transaction was accounted for as a transaction with non-controlling interest and a deemed contribution from the shareholders of the Company. After the transaction, Zhang Family held 80% equity interest in Sanzhi Gongkong.
- (b) On 16 December 2011, the Company acquired additional equity interest of 20% in Sanzhi Gongkong for a consideration of RMB1,454,625 from Ms. Cai Jiangfen. The carrying amount of the non-controlling interest in Sanzhi Gongkong on the acquisition date was RMB1,454,625. This transaction was accounted for as a transaction with non-controlling interest.

37 PARTICULARS OF PRINCIPAL SUBSIDIARIES

As of the date of this report and during the Relevant Periods, the Company has direct interests in the following subsidiaries:

<u>Name of company</u>	<u>Country and date of establishment</u>	<u>Issued and paid up/ registered capital</u>	<u>Effective interest held as of 31 December 2011, 2012, 2013 and 30 June 2014</u>	<u>Effective interest held as of the date of this report</u>	<u>Principal activities and place of operations</u>
Sanzhi Gongkong	PRC, 17 April 2009	RMB1,000,000	100%	100%	Machinery products manufacture and trading in the PRC
Jiangsu Sunlit	PRC, 27 August 2009	RMB5,000,000	100%	100%	Machinery products trading in the PRC
Haisheng Software	PRC, 12 July 2011	RMB1,080,000	100%	100%	Software development and software patent rights trading in the PRC
Wuxi Shangda	PRC, 9 November 2006	RMB63,000,000	100%	100%	Machinery products manufacture and trading in the PRC

The statutory financial statements of the Company and Company's subsidiaries, Sanzhi Gongkong, Jiangsu Sunlit, Haisheng Software and Wuxi Shangda for the years ended 31 December 2011 and 2012 were audited by Jiangsu Gongzheng Tianye Certified Public Accountants Co., Ltd. (江蘇公證天業會計師事務所有限公司).

PricewaterhouseCoopers ZhongTian LLP is the statutory auditor of the Company and Company's subsidiaries, Sanzhi Gongkong, Jiangsu Sunlit, Haisheng Software and Wuxi Shangda for the year ended 31 December 2013.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2014.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
 Hong Kong

The information set forth in this appendix does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set forth in Appendix I to this prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the "Accountant's Report" set forth in Appendix I to this prospectus

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted net tangible assets of our Company, which has been prepared based on the audited consolidated net tangible assets of our Company attributable to the owners of our Company as of 30 June 2014 as extracted from the accountant's report, the text of which is set out in Appendix I to this prospectus, adjusted as described below.

The unaudited pro forma statement of adjusted net tangible assets has been prepared to show the effect of the Global Offering as if it had taken place on 30 June 2014 assuming the Over-allotment Option is not exercised. The statement has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our financial position as of 30 June 2014 or at any future dates following the Global Offering.

	Audited consolidated net tangible assets attributable to owners of our Company as of 30 June 2014 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾	Unaudited pro forma adjusted net tangible assets attributable to the owners of our Company	Unaudited pro forma adjusted net tangible assets per Share ⁽³⁾	
	(RMB in thousands)			RMB	HK\$
Based on the Offer Price of HK\$7.72 per Offer Share	553,522	151,308	705,250	5.51	6.98

Notes:

- (1) The audited consolidated net tangible assets attributable to owners of the Company as of 30 June 2014 is extracted from the section headed "Appendix I – Accountant's Report" in this prospectus, which is based on the audited consolidated net assets of the Group attributable to owners of the Company as of 30 June 2014 of approximately RMB553,941,937 with an adjustment for the intangible assets as of 30 June 2014 of approximately RMB419,787.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$7.72 per Offer Share, after deducting the underwriting fees and other related expenses, and does not take into account any H Shares that may be allotted and issued upon exercise of the Over-allotment Option.
- (3) The unaudited pro forma net tangible assets per Share is calculated based on 128,000,000 Shares, being the number of shares in issue immediately following the completion of the Global Offering without taking into account any H Shares that may be issued upon exercise of the Over-allotment Option.
- (4) No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2014. In particular, the unaudited pro forma adjusted net tangible assets of our Group do not take into account the dividend of RMB120 million declared by our Company in August 2014, which has been paid in full in September 2014 to the shareholders. The unaudited pro forma net tangible assets per share would have been HK\$5.79 per share based on the Offer Price of HK\$7.72 after taking into account the declaration of such dividend.
- (5) For the purpose of the estimated net proceeds from the Global Offering, the translation of RMB into HK\$ was made at the rate of RMB0.7891 to HK\$1.0000.

B. REPORT FROM THE REPORTING ACCOUNTANT

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



羅兵咸永道

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION
INCLUDED IN A PROSPECTUS**

TO THE DIRECTORS OF WUXI SUNLIT SCIENCE AND TECHNOLOGY COMPANY
LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Wuxi Sunlit Science and Technology Company Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as of 30 June 2014, and related notes (the "Unaudited Pro Forma Financial Information") as set out on page II-1 of the Company's prospectus dated 30 October 2014, in connection with the proposed initial public offering of the shares of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described in the notes set out on page II-1 of the prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed initial public offering on the Group's financial position as of 30 June 2014 as if the proposed initial public offering had taken place at 30 June 2014. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial information as of 30 June 2014, on which an accountant's report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant complies with ethical requirements and plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering as at 30 June 2014 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 30 October 2014

The list of material properties, prepared for the purpose of incorporation into this prospectus, which was received from DTZ Debenham Tie Leung Limited, an independent valuer and consultant is set out below.

Material Properties

No.	Owner/Tenant	Property Name and Address	Area (square meters)		Usage	Owned/ Leased	Nature of Land Use Rights/ Expiry Date (Lease Term)
			Land	Existing Building			
1.	Wuxi Sunlit Science and Technology Company Limited	An industrial complex situated at No.18 to 24 Yanxin East Road, Yanxin Community, Chang'an Sub District, Huishan District, Wuxi City, Jiangsu Province, the PRC	5,441	3,659.32	Industrial	Owned	Granted land: 6 January 2057
2.	Yixing Branch of Wuxi Sunlit Science and Technology Company Limited	An industrial complex situated at No. 1 Xingda Road, Zhuxi Industrial Park, Zhoutie Town, Yixing City, Jiangsu Province, the PRC	32,920.20	21,625.98	Industrial	Owned	Granted land: 25 October 2057
3.	Jiangsu Sunlit Equipment Technology Company Limited	Units Nos. 501 to 505, 507, 509 and 511 of a building situated at No. 139 Xiagang Pujiang Road, Jiangyin City, Jiangsu Province, the PRC	155.10	1,041.85	Commercial	Owned	Granted land: 30 September 2047
4.	Wuxi Haisheng Software Technology Company Limited	A building situated at No. 381-10 Zhenghe Avenue, Wuxi City, Jiangsu Province, the PRC	318.00	710.43	Science and education	Owned	Granted land: 29 January 2060
5.	Wuxi Shangda Automation Technology Company Limited	The under construction industrial development situated at No. 1 Yanxin East Road, Huishan Economic Development Area, Wuxi City, Jiangsu Province, the PRC	61,707.80	N/A	Industrial	Owned	Granted land: 17 July 2057
6.	Jiangyin Sanzhi Gongkong Machinery Company Limited	A parcel of land situated at Pilong Village, Chengjiang Sub District, Jiangyin City, Jiangsu Province, the PRC	8,504.00	N/A	Industrial	Owned	Granted land: 27 October 2060
7.	Jiangyin Sanzhi Gongkong Machinery Company Limited	A building situated at No.28 Xiqiao Road, Chengjiang Sub District, Jiangyin City, Jiangsu Province, the PRC	N/A	1,980.00	Industrial	Leased	Lease term: 6 December 2014
			109,046.10	29,017.58			

TAXATION

The following is a summary of certain PRC and Hong Kong tax consequences of the ownership of H Shares by an investor that purchases such H Shares in connection with the Global Offering and holds the H Shares as capital assets. This summary does not purport to address all material tax consequences of the ownership of H Shares, and does not take into account the specific circumstances of any particular investors, some of which may be subject to special rules. This summary is based on the tax laws of the PRC and Hong Kong as in effect as of the Latest Practicable Date, all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

This section of the prospectus does not address any aspects of Hong Kong or PRC taxation other than income tax, capital gains tax, stamp duty and estate duty. Prospective investors are urged to consult their tax advisers regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H Shares.

THE PRC**Taxation of Dividends***Individual Investors*

According to the IIT Law (中華人民共和國個人所得稅法), as last amended on 30 June 2011 and became effective on 1 September 2011, dividends paid by PRC companies are ordinarily subject to a PRC personal income tax levied at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, the receipt of dividends from a company in the PRC is normally subject to a personal income tax of 20% unless specifically exempted by the tax authority of the State Council or reduced by an applicable tax treaty.

Pursuant to the *Notice on Matters Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 45* (《關於國稅發[1993] 045號文件廢止後有關個人所得稅徵管問題的通知》) promulgated by SAT, overseas resident individual shareholders of a domestic non-foreign-invested enterprise whose shares are listed in Hong Kong may be entitled to preferential tax treatments in accordance with applicable tax treaties between the countries in which they are tax resident and China as well as the tax arrangements between Mainland China and Hong Kong (Macau). Domestic non-foreign-invested enterprises whose shares are listed in Hong Kong generally may withhold individual income tax at the rate of 10% when distributing dividends with respect to such listed shares without prior application to the PRC tax authorities. For the individual holders of H shares receiving dividends who are

citizens from countries that have entered into income tax treaties with the PRC with the tax rates lower than 10%, non-foreign invested enterprises which have had their public offerings in Hong Kong will apply on behalf of such holders to seek entitlement of the lower preferential tax treatments, and upon approval by the tax authorities, the amounts which are over the withheld tax will be refunded. For the individual holders of H shares receiving dividends who are citizens from countries that entered into income tax treaties with the PRC with the tax rates higher than 10% but lower than 20%, non-foreign invested enterprises which have had their public offerings in Hong Kong are required to withhold the tax at the agreed rates under the treaties, and no application procedures will be necessary. For the individual holders of H shares receiving dividends who are citizens from countries without taxation agreements with the PRC or are under other situations, non-foreign invested enterprises which have had their public offerings in Hong Kong are required to withhold the tax at the rate of 20%.

Enterprises

According to the *New CIT Law and the Provision for Implementation of Corporate Income Tax Law of the PRC* (中華人民共和國企業所得稅法實施條例) which both became effective on 1 January 2008, the non-resident enterprises shall be subject to 10% enterprise tax for the income originated from the PRC provided that the non-resident enterprises do not establish offices or premises in the PRC, or where there are offices and premises established, there is no connection between the dividends and bonuses received and the offices or premises established by the non-resident enterprises. Such withholding tax may be reduced pursuant to an applicable double taxation treaty.

According to the *Notice Regarding Questions on Withholding Corporate Income Tax When PRC Resident Enterprises Distribute Dividends to Non-resident Enterprise Shareholders of H Shares* (關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知) issued by SAT, which became effective on 6 November 2008, PRC resident enterprises should withhold corporate income tax at a rate of 10% when they distribute dividends to non-resident enterprise shareholders of H shares from the year of 2008. The *Response to Questions on Levying Corporate Income Tax on Dividends Derived by Non-resident Enterprise from Holding B-shares* (國家稅務總局關於非居民企業取得B股等股票股息徵收企業所得稅問題的批覆) issued by SAT on 24 July 2009 further provides that any PRC-resident enterprise that is listed on overseas stock exchanges shall withhold corporate income tax at a rate of 10% on dividends that it distributes to non-resident enterprises. Such tax rate may be reduced pursuant to the tax treaty or agreement that the PRC has concluded with a relevant jurisdiction, where applicable. In accordance with the above two regulations, such withholding tax may be reduced pursuant to an applicable double taxation treaty.

Tax Treaties

According to the *Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion* (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) with respect to taxes on income signed on 21 August 2006, the PRC government may impose tax on dividends payable by a PRC company to a Hong Kong resident, but such tax shall not exceed 10% of the gross amount of dividends payable, and in the case where a Hong Kong resident holds at least 25% equity interest in a PRC company, such tax shall not exceed 5% of the gross amount of dividends payable by the PRC company. Investors who do not reside in the PRC and reside in countries that have entered into double taxation treaties with the PRC may be entitled to a reduction of the withholding tax imposed on the dividends paid to such investors of our Company.

The PRC currently has double-taxation treaties with many nations in the world, which include but not limited to:

- Australia;
- Canada;
- France;
- Germany;
- Japan;
- Malaysia;
- the Netherlands;
- Singapore;
- the United Kingdom; and
- the United States.

Taxation of Capital Gains

In accordance with IIT Law and the *Implementation Rules of IIT Law* (中華人民共和國個人所得稅法實施條例) (“Implementation Rules”), individuals are subject to individual income tax at the rate of 20% on gains realized on the sale of equity interests in PRC resident enterprises. The Implementation Rules also provide that MOF shall draft measures for collection of individual income tax from income on the transfer of shares, and such measures are subject to the approval of the State Council. However, as of the Latest Practicable Date, no

such measures have been drafted and enacted. Under the *Circular Declaring That Individual Income Tax Continues to Be Exempted over Income of Individuals from Transfer of Shares* (關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知) issued by MOF and SAT on 30 March 1998, from 1 January 1997, income of individuals from the transfer of shares in listed enterprises continues to be exempted from individual income tax. Furthermore, on 31 December 2009, MOF, SAT and CSRC jointly issued the *Circular on Related Issues on Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation* (關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知), which states that individuals' income from transferring listed shares on certain domestic exchanges shall continue to be exempted from the individual income tax, except for the shares of certain specified companies under certain situations which are subject to sales limitations (as defined in such Circular and its supplementary notice issued on 10 November 2010). As of the Latest Practicable Date, no legislation has expressly provided individual income tax shall be collected from non-Chinese resident individuals on the sale of shares in PRC resident enterprises listed on overseas stock exchanges, and in practice such tax has not been collected by the PRC tax authorities.

According to the New CIT Law and the Provision for Implementation of Corporate Income Tax Law of the PRC, the non-resident enterprises shall be subject to 10% corporate tax for the income originated from the PRC provided that the non-resident enterprises do not establish offices or premises in the PRC, or where there are offices and premises established, there is no connection between the gains received and the offices or premises established by the non-resident enterprises. As of the Latest Practicable Date, no legislation has expressly provided that corporate income tax shall be collected from non-Chinese resident enterprises on their income derived by them from the sale of the shares in PRC companies listed on overseas stock exchanges. However, the possibility that taxation administrations will seek to collect corporate income tax on such income in the future cannot be entirely excluded. In addition, such tax may be exempted in the PRC if the tax treaty or agreement that the PRC concluded with the relevant jurisdictions, where applicable, states that the PRC may not tax capital gains.

Taxation of the Company in the PRC

Income Tax

From 1 January 1994, income tax payable by all domestic PRC enterprises, other than foreign investment enterprises and foreign enterprises, within the PRC, including state-owned, was governed by the *Provisional Regulations of the PRC on Corporate Income Tax* (中華人民共和國企業所得稅暫行條例) (the "CIT Regulations") which took effect from 1 January 1994, and which provided for an income tax rate of 33% unless a lower rate is provided by law, administrative regulations or State Council regulations.

On 16 March 2007, the 10th NPC adopted the New CIT Law. The New CIT Law came into effect on 1 January 2008, according to which the corporate income tax rate in the PRC was reduced from 33% to 25% and is in line with the rate applicable to foreign investment enterprises and foreign enterprises. At the same time, the Income Tax Law of the PRC Concerning Foreign Investment Enterprises and Foreign Enterprises and the CIT Regulations has ceased to be effective.

According to *Notice of MOF and SAT on Corporate Income Tax Policies for Further Encouraging the Development of the Software Industry and the Integrated Circuit Industry* (財政部、國家稅務總局關於進一步鼓勵軟件產業和集成電路產業發展企業所得稅政策的通知) promulgated by MOF and SAT on 20 April 2012 and effective from 1 January 2011, for newly established domestic enterprises manufacturing integrated circuit and qualified software enterprises, upon certification, VAT payments refunded upon collection that are obtained in accordance with the *Notice of MOF and SAT on VAT Policies for Software Products* (財政部、國家稅務總局關於軟件產品增值稅政策的通知), if specifically used by the enterprises for the research and development and production expansion of software and separately accounted, may be deducted as tax-free income from the total income when taxable income is calculated.

Tax Preference

According to *Notice of the State Council on Printing and Distributing the Policies on Further Encouraging the Development of Software and Integrated Circuit Industries* (國務院關於印發進一步鼓勵軟件產業和集成電路產業發展若干政策的通知) promulgated by State Council and became effective on 28 January 2011, eligible software enterprises are entitled to “two-year exempt and three-year halved”. According to *Policies on Encouraging the Development of the Software and Integrated Circuit Industries* (鼓勵軟件產業和集成電路產業發展若干政策) promulgated by the State Council, eligible software enterprises and integrated circuit enterprises are entitled to “two-year exempt and three-year halved” and the “five-year exempt and five-year halved” preferential policies on corporate income tax, with the preferential term commencing from the profit-making year before 31 December 2017 and until the expiration date. Where the income tax preferential policies for eligible software enterprises and integrated circuit enterprises overlap with other corporate income tax preferential policies for these enterprises, these enterprises shall choose to enjoy the most preferential investment policy rather than superposition of all policies. According to *Notice on Encouraging the Development of the Software and the Integrated Circuit Industries* (關於鼓勵軟件產業和集成電路產業發展有關稅收政策問題的通知), the qualifications of software enterprises and integrated circuit enterprises shall be reviewed every year and if the enterprises are determined to be not qualified, they cannot enjoy the preferential tax policies any more.

According to 《高新技術企業認定管理辦法》 (*Administrative Measures for the Determination of High and New Technology Enterprises*), an enterprise recognised as a hi-tech enterprises may apply for the preferential tax treatment at the rate of 15% pursuant to the New CIT Law and its implementing rules and other relevant laws and regulations.

VAT

Pursuant to 《中華人民共和國增值稅暫行條例》 (*the Provisional Regulations of the PRC Concerning VAT*) effective from 1 January 1994 which was amended on 5 November 2008 and 《中華人民共和國增值稅暫行條例實施細則》 (*Detailed Rules for the Implementation of the Interim Regulations of the PRC on VAT*) promulgated and became effective on 1 January 2009 and amended on 1 November 2011, the sale of products within the PRC, the import of products and the provision of processing and/or repair services within the PRC are subject to VAT.

The VAT rates are specified as: (1) For taxpayers selling or importing goods, except as otherwise stipulated in items (2) and (3) below, the tax rate shall be 17%. (2) For taxpayers selling or importing (a) grains and edible vegetable oil; (b) tap water, heating, air conditioning, hot water, coal gas, liquidized petroleum gas, natural gas, methane gas and coal and charcoal products for household use; (c) books, newspapers and magazines; (d) feeds, chemical fertilizers, agricultural chemicals, agricultural machinery and plastic film for farming; (e) other goods as prescribed by the State Council, the tax rate shall be 13%. (3) for taxpayers exporting goods, the tax rate shall be 0%, except as otherwise stipulated by the State Council. (4) For taxpayers providing processing, repairs and replacement services (hereinafter referred to as “taxable services”), the tax rate shall be 17%. Any adjustments to the tax rates shall be determined by the State Council.

VAT Preference

According to 《財政部、國家稅務總局關於軟件產品增值稅政策的通知》 (*Notice of MOF and SAT on Value-added Tax Policies Applicable to Software Products*) promulgated by MOF and SAT on 13 October 2011 and effective from 1 January 2011, the following VAT policies are applicable to qualified software products: (1) After VAT general taxpayers have paid VAT at the rate of 17% for sale of the software products they develop and produce independently, the actual amount of VAT paid above 3% shall be refunded immediately after collection. (2) Where VAT general taxpayers sell imported software products after localisation thereof, the VAT refund policy as prescribed in item (1) may apply to the software products sold. Localisation shall refer to the re-design, improvement, conversion, etc. of imported software products, excluding the pure translation of imported software products into Chinese. (3) A taxpayer entrusted with the development of software products shall be subject to VAT if the copyright of the products belongs to the entrusted party, but shall not be subject to VAT if the copyright belongs to the entrusting party or is jointly owned by both the entrusting and entrusted parties. Where the software products so developed have been registered with the National Copyright Administration, no VAT shall be levied when the taxpayer sells the products or transfers the copyright and/or ownership of the products.

HONG KONG**Tax on Dividends**

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us.

Taxation on Gains from Sale

No tax is imposed in Hong Kong in respect of capital gains from the sale of property such as the H Shares. However, trading gains generated from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be subject to Hong Kong profits tax, which is currently imposed on corporations at the rate of 16.5% and on individuals at a maximum rate of 15%.

Certain categories of taxpayers (for examples, financial institutions, insurance companies and securities dealers) are likely to be regarded as deriving trading gains rather than capital gains unless these taxpayers can prove that the investment securities are held for long-term investment. Trading gains from sales of H shares effected on the Stock Exchange will be considered to be derived from or arising in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H shares effected on the Stock Exchange realised by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty, currently charged at the ad valorem rate of 0.1% on the higher of the consideration for, or the market value of, the H shares, shall be payable by the purchaser on every purchase and by the seller on every sale of H shares (in other words, a total of 0.2% is currently payable on a typical transaction for the sale and purchase of H shares). In addition, a fixed duty of HK\$5.00 is currently chargeable on any instrument of transfer of H shares. Where a sale or purchase of H shares is effected by a person who is not a resident of Hong Kong and any stamp duty payable on the instrument of transfer is not paid, the relevant instrument of transfer (if any) shall be chargeable with such duty, together with the duty otherwise chargeable thereon, and the transferee shall be liable to pay such duty. If stamp duty is not paid on or before the due date, a penalty of up to ten times the duty payable may be imposed.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on 11 February 2006 in Hong Kong, pursuant to which estate duty ceased to be chargeable in Hong Kong in respect of the estates of persons whose deaths occur on or after that date. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of H shares whose deaths occur on or after 11 February 2006.

FOREIGN EXCHANGE CONTROL

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange controls and is not freely convertible at this time. SAFE, under the authority of PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

On 29 January 1996, the State Council promulgated new *Regulation of Foreign Exchange* (中華人民共和國外匯管理條例) (the “Foreign Exchange Regulations”), which took effect on 1 April 1996. The Foreign Exchange Regulations classifies all cross-border foreign exchange payments and transfers into current account items and capital account items. Most of the current account items are no longer subject to approval of SAFE while capital account items still are. The Foreign Exchange Regulations was subsequently amended on 14 January 1997 and on 5 August 2008. This latest amendment affirmatively states that the state will not restrict cross-border current account payments and transfers.

On 20 June 1996, PBOC promulgated the *Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange* (結匯、售匯及付匯管理規定) (the “Settlement Regulations”), which took effect on 1 July 1996. The Settlement Regulations superseded the *Provisional Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange* (結匯、售匯及付匯暫行規定) and abolished the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items.

On 25 October 1998, PBOC and SAFE promulgated the *Notice Concerning Closure of the Foreign Exchange Swap Business Activities* (關於停辦外匯調劑業務的通知) pursuant to which and with effect from 1 December 1998, all foreign exchange swapping business in the PRC for foreign-invested enterprises shall be discontinued, while the trading of foreign exchange by foreign-invested enterprise shall come under the banking system for the settlement and sale of foreign exchange.

On 21 July 2005, PBOC announced that from the same date, the PRC would implement a managed floating exchange rate system based on market supply and demand and with reference to a basket of currencies. Therefore, the Renminbi was no longer only pegged to the U.S. dollar from then on. PBOC would announce the closing price of a foreign currency such as the U.S. dollar against the Renminbi in the inter- bank foreign exchange market after the closing of the market on each working day. This closing price will be used as the middle price for quoting the Renminbi exchange rate on the following working day.

On 5 August 2008, the State Council promulgated the revised Regulations of the PRC for the Control of Foreign Exchange (the “Revised Foreign Exchange Control Regulations”), which have made substantial changes to the foreign exchange supervision system of the PRC. First, the Revised Foreign Exchange Control Regulations have adopted an approach of balancing the inflow and outflow of foreign exchange and foreign exchange settlement funds under repatriated or deposited overseas, and foreign exchange and foreign exchange settlement

funds under the capital account are requirement to be used only for purposes as approved by the competent authorities and foreign exchange administrative authorities. Second, the Revised Foreign Exchange Control Regulations have improved the mechanism for determining the RMB rate based on market supply and demand. Third, the Revised Foreign Exchange Control Regulations have enhanced the monitoring of cross-border foreign currency fund flows. In the event that revenues and costs in connection with international transactions suffer or may suffer a material imbalance, or the national economy encounters or may encounter a severe crisis, the State may adopt necessary or control measures. Fourth, the Revised Foreign Exchange Control Regulations have enhanced the supervision and administration of foreign exchange transactions and grant extensive authorities to the SAFE to enforce its supervisory and administrative powers.

Since 4 January 2006, PBOC improved the method of generating the middle price for quoting the Renminbi exchange rate, by introducing an enquiry system while keeping the match-making system in the inter-bank spot foreign exchange market. In addition, PBOC provided liquidity in the foreign exchange market by introducing the market-making system in the inter-bank foreign exchange market. After the introduction of the enquiry system, the generation of the middle price for quoting the Renminbi was replaced by a new mechanism under which PBOC authorized the China Foreign Exchange Trading System to determine and announce the middle price for quoting the Renminbi against the U.S. dollar, based on the enquiry system, at 9:15 am on each business day.

The foreign exchange income under the current items may be reserved by the company or sold to financial institutions operating foreign exchange sale of settlement business. Before reserving the foreign exchange income under the capital items or selling it to any financial institution operating foreign exchange sale of settlement business, approvals of the competent foreign exchange administrative authorities shall be obtained, unless it is otherwise provided by the State.

PRC enterprises (including foreign-invested enterprises) which are in need of foreign exchange funds for their transactions relating to current account items, may, without the prior approval of SAFE, effect payment from their foreign exchange account or convert and pay through the designated foreign exchange banks, on the strength of valid receipts and proof of transactions. Foreign-invested enterprises, which need foreign exchange for the distribution of profits to their shareholders and PRC enterprises, which in accordance with regulations are required to pay dividends to shareholders in foreign currency, may, on the strength of general meeting resolutions of such PRC enterprises or board resolutions on the distribution of profits, effect payment from their foreign exchange account or convert and pay through the designated foreign exchange banks.

Convertibility of foreign exchange in respect of capital account items, such as direct investment and capital contribution, is still subject to restriction and prior approval from SAFE and the relevant branch must be sought.

Dividends to holders of H Shares are fixed in Renminbi but must be paid in Hong Kong dollars.

We prepare our consolidated financial statements in Renminbi.

PBOC sets and publishes on a daily basis a benchmark exchange rate with reference primarily to the supply and demand of Renminbi against the U.S. dollar in the market during the prior day. PBOC also takes into account other factors such as the general conditions existing in the international foreign exchange markets. Although the PRC government introduced policies in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currency for current account items, conversion of Renminbi into foreign currency for capital items, such as foreign direct investment, loans or security, still requires the approval of SAFE and other relevant authorities.

According to 《國家外匯管理局關於境外上市外匯管理有關問題的通知》 (*Notice of the State Administration of Foreign Exchange on Issues concerning the Foreign Exchange Administration of Overseas Listing*) promulgated by State Administration of Foreign Exchange and effective from 28 January 2013 (“Overseas Listing Notice”), which stipulates that:

According to the Overseas Listing Notice, SAFE and its branches (hereinafter referred to as the “Foreign Exchange Bureaus”) shall conduct supervision, administration and inspection over the business registration, account opening and use, cross-border receipts and payments, funds exchange, etc., involved in the overseas listing of Domestic Companies.

According to the Overseas Listing Notice, a Domestic Company shall, within 15 working days after the completion of the initial offering of shares for its overseas listing, go through the registration of overseas listing with the Foreign Exchange Bureau at its place of registration. After a Domestic Company is listed overseas, a domestic shareholder who intends to increase or reduce its holdings of overseas shares according to relevant provisions shall go through the registration of overseas shareholding.

A Domestic Company shall open a special domestic account with a local bank respectively for its initial public offering (or follow-on offering) of shares and repurchase transactions by producing its overseas listing registration certificate. The account so opened shall be used for handling the exchange and transfer of funds corresponding to the relevant business. Where foreign exchange settlement is necessary for the foregoing funds repatriated, the domestic shareholder may directly go through relevant formalities with the bank concerned by producing its overseas shareholding registration certificate.

A domestic shareholder of a Domestic Company shall open a special domestic account with a local bank separately for the increase or reduction of its holdings of overseas shares by producing its overseas shareholding registration certificate. The account so opened shall be used to handle the exchange and transfer of funds corresponding to the relevant business.

The funds raised by a Domestic Company from overseas listing may be repatriated to the corresponding special domestic account or be deposited in its special overseas account. The purposes of such funds shall be consistent with those specified in the prospectus documentation for shares or the prospectus documentation for corporate bonds, circulars to shareholders,

resolutions of the general meeting and other public disclosure documents (hereinafter referred to as the “Public Disclosure Documents”). Where the funds raised from issuing convertible corporate bonds are to be repatriated, they shall be repatriated to the special account for external debts of the Domestic Company and be used pursuant to the provisions on external debt management. Where the funds raised by issuing other forms of securities are to be repatriated, they shall be repatriated to the corresponding special domestic account of the Domestic Company for overseas listing.

A Domestic Company that applies for foreign exchange settlement of the funds in its special domestic account for overseas listing shall submit the following materials to the Local Foreign Exchange Bureau:

- (1) A written application (detailing information on fund-raising overseas, the repatriation or the overseas deposit thereof, the amount to be subject to foreign exchange settlement and the purposes thereof, whether the foreign information is consistent with the information listed in Public Disclosure Documents, etc.);
- (2) Its overseas listing registration certificate;
- (3) Where the repatriation of funds and the purposes of foreign exchange settlement are inconsistent with the purposes of the funds listed in Public Disclosure Documents, or are not specified therein, the resolution of the board of directors or the general meeting on changing or specifying the purposes of the corresponding funds shall be submitted; and
- (4) Supplementary materials required where the contents of the foregoing materials are inconsistent with each other or where the Domestic Company is unable to explain the authenticity of the transaction.

If no error is found after the review of the aforesaid materials, the said Foreign Exchange Bureau shall issue to the Domestic Company an approval document on foreign exchange settlement which shall be used by the Domestic Company for foreign exchange settlement with the relevant bank.

A Domestic Company may repurchase its overseas stocks by using its overseas funds that meet relevant requirements or by remitting domestic funds abroad. Where domestic funds need to be remitted abroad, the Domestic Company may, by producing the overseas listing registration certificate that sets out relevant repurchase information, go through the procedures with the relevant bank for transferring funds to its special domestic account for repurchase and then remitting such funds abroad. After completion of the repurchase, the surplus, if any, of the domestic funds remitted abroad for repurchase shall be remitted back to the special domestic account for repurchase. Specifically, the portion previously within the amount of the proprietary foreign exchanges of the Domestic Company and the interest accrued thereon shall be transferred back to its domestic foreign exchange account from which the funds are previously transferred, while the portion previously within the amount of purchased foreign

exchanges and the interest accrued thereon may be settled. The Domestic Company may directly go through relevant transfer and exchange formalities with the bank concerned by producing its overseas listing registration certificate.

According to the Overseas Listing Notice, a domestic shareholder of a Domestic Company shall, within 15 working days after any material changes have happened to relevant arrangements of its holdings of the overseas stocks of the Domestic Company (such as changes in the percentage, price, period, schedule, etc. of shareholding increase or reduction), register such changes with the Local Foreign Exchange Bureau by submitting a written application, the original overseas shareholding registration certificate, the latest Overseas Shareholding Registration Form and documents proving the authenticity of relevant transactions.

The receipts obtained under capital accounts by a domestic shareholder of a Domestic Company due to the reduction or transfer of its holdings of the overseas stocks of the Domestic Company, the delisting of the Domestic Company from the relevant overseas securities market, etc. shall be repatriated to its special domestic account for shareholding reduction within 2 years from the date on which the receipts are obtained. Where foreign exchange settlement is necessary for the foregoing funds repatriated, the domestic shareholder may directly go through relevant formalities with the bank concerned by producing its overseas shareholding registration certificate.

A Domestic Company that falls under any of the following circumstances shall register the changes of its overseas listing with the Local Foreign Exchange Bureau within 15 working days by submitting a written application, the original overseas listing registration certificate, the latest Overseas Listing Registration Form and documents proving the authenticity of relevant transactions:

- (1) Where the name, registered address, information on substantial shareholders or other basic information of the company listed overseas is changed;
- (2) Where the Domestic Company conducts a follow-on issuance of stocks, converts capital reserves, surplus reserves or retained earnings into share capital, or otherwise changes its capital;
- (3) Where the Domestic Company repurchases its overseas stocks or converts its convertible bonds into stocks (the certificate of the change or cancellation of external debt registration is required);
- (4) Where the scheme under which a domestic shareholder reduces or increases its overseas shareholding, or acts as the transferor or transferee to overseas shares has been fully implemented, thereby changing the equity structure of the company listed overseas;
- (5) Where the originally-registered plans for use, and purposes of, the funds raised overseas are changed;

- (6) Where changes are subject to the examination and approval or record-filing of competent departments, the approvals or record-filing documents issued by the competent departments on such changes shall be submitted; or
- (7) Where there is any other change of the information specified in the original registration certificate.

A domestic shareholder of a Domestic Company shall, within 15 working days after material changes have happened to relevant arrangements of its holdings of the overseas stocks of the Domestic Company (such as changes in the percentage, price, period, schedule, etc. of shareholding increase or reduction), register such changes with the Local Foreign Exchange Bureau by submitting a written application, the original overseas shareholding registration certificate, the latest Overseas shareholding Registration Form and documents proving the authenticity of relevant transactions.

Where a Domestic Company is delisted from an overseas securities market, it shall, within 15 working days after the delisting, go through the deregistration of its overseas listing with the Local Foreign Exchange Bureau by producing the photocopies of relevant approvals issued by competent departments, the delisting announcement, other materials proving the authenticity of the delisting transaction, and the descriptions on the handling of relevant accounts and funds.

A Domestic Company and its domestic shareholders shall promptly report relevant information to the relevant Foreign Exchange Bureaus for record-filing within 10 working days after the corresponding special overseas accounts are opened, changed or closed. The banks of the Domestic Company and its domestic shareholders shall, within the first three working days of each month, submit to the relevant Foreign Exchange Bureaus the Form on the Opening and Closure of Special Domestic Accounts for Overseas Listing and the Form on the Receipts and Payments of Special Domestic Accounts for Overseas Listing. The branch or the foreign exchange administrative management department of the SAFE at the domicile of the Domestic Company shall, within the first five working days of each month, submit to the SAFE the Summary Form of Overseas Listing Business.

Furthermore, according to the Overseas Listing Notice, a Domestic Company, its domestic shareholders and relevant domestic banks shall promptly compile statistics of, and report, balance of international payments in accordance with relevant provisions.

Additional Chinese Tax Considerations

PRC Stamp Duty. PRC stamp duty imposed on the transfer of shares of PRC publicly traded companies under the Provisional Regulations should not apply to the acquisition and disposal by non-PRC investors of H Shares outside of the PRC by virtue of the *Provisional Regulations of China Concerning Stamp Duty* (中華人民共和國印花稅暫行條例), which became effective on 1 October 1988 and which provides that PRC stamp duty is imposed only on documents executed or received within the PRC that are legally binding in the PRC and are protected under PRC law.

Estate Tax. No liability for estate tax under PRC law will arise from a non-PRC national's holding of H Shares.

This Appendix sets out summaries of certain aspects of PRC law and regulations which are relevant to the Group's operations and business. Laws and regulations relating to taxation in the PRC are discussed separately in "Appendix IV – Taxation and Foreign Exchange" to this prospectus. This Appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain of the material differences between PRC and Hong Kong company law, certain requirements of the Listing Rules and additional provisions required by the Stock Exchange for inclusion in the articles of association of the PRC issuers.

PRC JUDICIAL SYSTEM

Under 《中華人民共和國憲法》 (*the PRC Constitutional Law**) and 《中華人民共和國人民法院組織法》 (*the Law of the PRC of Organization of the People's Courts**), the judicial system in PRC is made up of the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are comprised of the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are organized into civil, criminal, and administrative divisions. The intermediate people's courts are organized into divisions similar to those of the basic people's courts, and are further organized into other special divisions, such as the intellectual property division. The higher level people's courts supervise the basic and intermediate people's courts. The people's procuratorates are state organs for legal supervision. The Supreme People's Court is the highest judicial body in the PRC. It supervises the administration of justice by all of the people's courts.

The people's courts generally employ a "second instance as final" system. A party may appeal against a judgment or order of the people's court of first instance to the people's court at the next higher level. Second judgments or awards given at the next higher level are final. First judgments or awards of the Supreme People's Court are also final. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a judgment or order which has been given in any people's court at a lower level, or the president of the people's court finds an error in a judgment or order, the case may then be retried according to the judicial supervision procedures.

《中華人民共和國民事訴訟法》 (*the Civil Procedure Law of the PRC**) (the "PRC Civil Procedure Law"), which was adopted on 9 April 1991 and amended on 31 August 2012, sets forth the criteria for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the PRC Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by an express agreement, select a jurisdiction where civil actions may be brought, provided that the jurisdiction is either the plaintiff's or the defendant's place of residence, the place of execution or implementation of the contract or the object of the action or other jurisdictions which have substantial connections with the dispute. However, such selection cannot violate the stipulations of grade jurisdiction and exclusive jurisdiction in any case.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may impose the same limitations on the citizens and enterprises of that foreign country located within the PRC. If any party to a civil action refuses to comply with a judgment or order made by a people's court or an award granted by an arbitration panel in the PRC, the other party may apply to the people's

court to request for the enforcement of the judgment, order or award. There are time limits imposed on the right to apply for such enforcement and the time limit is two years. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by either party, mandatorily enforce the judgment.

A party seeking to enforce a judgment or an order of a people's court against a party who is not located within the PRC and does not own any property in the PRC, may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or order. In the case of an application or request for recognition and enforcement of a legally effective judgment or an order of a foreign court, the people's court shall, after having examined it in accordance with the international treaties entered into or acceded to by the PRC or with the principle of reciprocity and having arrived at the conclusion that it does not contravene the primary principles of the laws of the PRC nor violates its sovereignty, security or social and public interests, recognise the validity of the judgment or order, and, if required, issue a writ of enforcement and enforce it in accordance with the relevant regulations. If the application or request contravenes the primary principles of the laws of the PRC or violates its sovereignty, security or social and public interests, the people's court shall not recognise and enforce it.

THE PRC COMPANY LAW, SPECIAL REGULATIONS AND MANDATORY PROVISIONS

On 29 December 1993, the Standing Committee of the Eighth NPC adopted 《中華人民共和國公司法》 (*the PRC Company Law**) which came into effect on 1 July 1994 and was amended for the first time at the 13th Session of the Standing Committee of the Ninth National People's Congress on 25 December 1999 and amended for the second time at the 11th Session of the Standing Committee of the Tenth National People's Congress on 28 August 2004 and revised for the third time at the 18th Session of the Standing Committee of the Tenth National People's Congress on 27 October 2005; and revised for the fourth time at the 6th Session of the Standing Committee of the Twelfth National People's Congress on 28 December 2013. The newly amended PRC Company Law has been promulgated and became effective from 1 March 2014.

On 4 July 1994, 《國務院關於股份有限公司境外募集股份及上市的特別規定》 (*the Special Regulations**) were passed at the Twenty-Second Standing Committee Meeting of the State Council, and they were promulgated and implemented on 4 August 1994. The Special Regulations are formulated according to the provisions of Sections 85 and 155 of the PRC Company Law (1993) in respect of the overseas share subscription and listing of joint stock limited companies. 《到境外上市公司章程必備條款》 (*the Mandatory Provisions**) were issued jointly by the former Securities Commission of the State Council and the former State Economic Restructuring Commission on 27 August 1994, prescribing provisions which must be incorporated into the articles of association of joint stock limited companies to be listed overseas. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association (which are summarized in the appendix headed "Appendix VI – Summary of Articles of Association" to this prospectus). References to a "company" are to a joint stock limited liability company established under the PRC Company Law with overseas listed foreign invested shares.

Copies of the Chinese text of the PRC Company Law, the Special Regulations and the Mandatory Provisions together with copies of their unofficial English translations thereof are available for inspection as mentioned in the appendix headed "Appendix VIII – Documents Delivered to the Registrar of Companies and Available for Inspection" to this prospectus.

General

A “joint stock limited liability company” (hereinafter referred to as “company”) is a business entity enterprise incorporated under the PRC Company Law, whose registered capital is divided into shares of equal nominal value. The liability of its shareholders is limited to the extent of the shares held by them, and the liability of the company is limited to the full amount of all the assets owned by it.

A company shall, when engaging in business activities, abide by laws and administrative regulations, observe social moralities and business ethics, act in good faith, accept the supervision of the government and the general public, and undertake social responsibilities.

Incorporation

A company may be incorporated by promotion or subscription.

A company shall be incorporated by 2 to 200 promoters, but at least a majority of the promoters must reside in the PRC.

The PRC Company Law stipulates that for a joint stock limited liability company, the total share capital subscribed by all promoters or total amount of paid-up share capital raised shall comply with the requirements of the company’s articles of association. The provisions otherwise prescribed by laws, administrative regulations and the decisions of the State Council on the actual payment of registered capital and the minimum registered capital of a joint stock limited liability company shall prevail.

Companies incorporated by promotion are companies with the registered capital entirely subscribed for by the promoters. Where companies are incorporated by public subscription, the promoters are required to subscribe for not less than 35% of the total number of shares of a company unless otherwise stipulated by laws and regulations, and the remaining shares can be offered to the public or specific persons, unless otherwise required by law.

For companies incorporated by promotion, the registered capital has to be the total share capital subscribed for by all promoters as registered with the relevant administration bureau for industry and commerce; the said company is not allowed to offer shares to others for subscription before the shares subscribed by its promoters are fully paid up for companies established by public subscription, the registered capital is the amount of total paid-up share capital as registered with the relevant administration bureau for industry and commerce.

Pursuant to 《中華人民共和國證券法》 (*the PRC Securities Law**), the total capital of a company which proposes to apply for its shares to be listed on a stock exchange must not be less than RMB30 million.

The payments for the issued shares shall, after being fully made, be subject to capital verification and issuance of a certification by a lawfully-established capital verification agency. The promoters shall convene an inaugural meeting within 30 days after the issued shares have been fully paid up, and shall 15 days before the meeting give notice to all subscribers or make a public announcement of the date of the inaugural meeting.

The inaugural meeting may be convened only with the presence of promoters and subscribers holding shares representing more than 50% of the total issued shares of the company. At the inaugural meeting, matters including the adoption of the draft articles of association and the election of the members of board of directors and board of supervisors of the company will be dealt with. All resolutions of the meeting require the approval of subscribers with more than half of the voting rights present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors shall apply to the registration authority for registration of the establishment of the company.

A company is formally established and has the status of a legal person after the approval for registration has been given by the relevant administration bureau for industry and commerce and a business license has been issued.

A company's promoters shall jointly and severally be liable for: (i) the payment of all expenses and liabilities incurred in the incorporation process if the company cannot be incorporated; (ii) the repayment of subscription money to the subscribers together with interest at bank rates for a deposit of the same term if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company.

Share Capital

The promoters of a company can make capital contributions in currency or in kind, that can be valued in currency and transferable according to law such as intellectual property rights or land use rights based on their appraised value.

A shareholder may make capital contributions in currency or alternatively may make capital contributions with appraised non-monetary property such as physical assets, intellectual property rights, and land-use rights that may be appraised in currency and may be transferred in accordance with the law, excluding the property that shall not be used for capital contributions as specified in laws and administrative regulations. The non-monetary property that is used for capital contributions shall be valued and verified, and shall not be over-valued or under-valued. The provisions on the valuation of such property as prescribed by laws or administrative regulations shall prevail.

A company may issue registered or bearer share. However, shares issued to promoter(s) or legal person(s) shall be in the form of registered share and shall be registered under the name(s) of such promoter(s) or legal person(s) and shall not be registered under a different name or the name of a representative.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas shall be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency.

Under the Special Regulations and the Mandatory Provisions, shares issued to foreign investors and investors from the territories of Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan and listed overseas are known as overseas listed foreign invested shares, and those shares issued to investors within the PRC other than the territories specified above are known as Domestic Shares.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Specific provisions shall be specifically formulated by the State Council. Under the Special Regulations, upon approval of CSRC, a company may agree, in the underwriting agreement in respect of an issue of overseas listed foreign invested shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares.

The share offering price may be equal to or greater than nominal value, but shall not be less than nominal value.

Increase in Capital

Under the PRC Company Law, an increase in the capital of a company by means of an issue of new shares must be approved by shareholders in general meeting.

Save for the above-mentioned shareholder approval requirement, for a public offering of new shares, the PRC Securities Law provides that the company shall: (i) have a sound organizational structure with satisfactory operating record; (ii) have the capability of continuing profitability and a healthy financial position; (iii) have no false statements and other material breaches in the financial and accounting documents of the last three years; (iv) fulfill other conditions required by the securities administration department of the State Council as approved by the State Council.

Public offer requires the approval of the securities administration department of the State Council.

After payment in full for the new shares issued, a company must change its registration with the relevant administration bureau for industry and commerce and issue a public notice accordingly.

Reduction of Share Capital

A company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law:

- (i) the company shall prepare a balance sheet and an inventory of the assets;
- (ii) the reduction of registered capital must be approved by shareholders in general meeting;
- (iii) the company shall inform its creditors of the reduction in capital within ten days and publish an announcement of the reduction in the newspaper within 30 days after the resolution approving the reduction has been passed;
- (iv) the creditors of the company may within the statutory prescribed time limit require the company to pay its debts or provide guarantees covering the debts; and
- (v) the company must apply to the relevant administration bureau for industry and commerce for registration of the reduction in registered capital.

Repurchase of Shares

A company may not purchase its own shares other than for the purpose of:

- (i) reducing its capital by canceling its shares or merging with another company holding its shares;
- (ii) granting shares as a reward to the staff of the company; or
- (iii) purchasing the company's own shares upon request of its shareholders who vote against the resolution regarding the merger or division of the company in a general meeting.

The shares of the company to be repurchased by itself as a reward to its staff shall not exceed 5% of the total number of its issued shares. Any funds for such purpose shall be paid out of after-tax profits of the company, and the shares so purchased shall be transferred to the company's staff within a year. The Mandatory Provisions provide that upon obtaining approvals in accordance with the articles of association of the company and from the relevant supervisory authorities, a company may repurchase its issued shares for the foregoing purposes by way of a general offer to its shareholders or purchase on a stock exchange or an off-market contract.

Transfer of Shares

Shares may be transferred in accordance with the relevant laws and regulations.

The transfer of shares by shareholders should be conducted via the legally established stock exchange or in accordance with other methods as stipulated by the State Council. Transfer of registered shares by a shareholder must be made by means of an endorsement or by other means stipulated by law or administrative regulation. Bearer shares are transferred by delivery of the share certificates to the transferee.

Shares held by a promoter of a company shall not be transferred within one year after the date of the company's incorporation. Shares issued by a company prior to the public offer of its shares shall not be transferred within one year from the date of listing of the shares of the company on a stock exchange. Directors, supervisors and senior management of a company shall not transfer over 25% of the shares held by each of them in the company each year during their term of office and shall not transfer any share of the company held by each of them within one year after the listing date. There is no restriction under the PRC Company Law as to the percentage of shareholding a single shareholder may hold in a company.

Transfers of shares may not be entered in the register of shareholders within 20 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

Shareholders

Shareholders have such rights and obligations as set forth in the articles of association of the company. The articles of association of a company are binding on each shareholder.

Under the PRC Company Law and the Mandatory Provisions, the rights of a shareholder include:

- (i) to attend in person or appoint a proxy to attend shareholders' general meetings, and to vote in respect of the number of shares held;
- (ii) to transfer his shares in accordance with applicable laws and regulations and the articles of association of the company;
- (iii) to inspect the company's articles of association, shareholders' registers, records of debentures, minutes of shareholders' general meetings, board resolutions, supervisors resolutions, financial and accounting reports and put forward proposals or raise questions about the business operations of the company;
- (iv) if any directors or senior officers damages the shareholder's interests by violating law or administrative regulations or article of association, the shareholders may lodge an action in the people's court;
- (v) to receive dividends and other distributions in respect of the number of shares held;
- (vi) to obtain surplus assets of the company upon its termination in proportion to his or her shareholding; to claim against other shareholders who abuse their shareholders' rights for the damages; and
- (vii) any other shareholders' rights specified in the company's articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription monies in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up by him/her, not to abuse shareholders' right to damage the interests of the company or other shareholders of the company; not to abuse the independent status of the company as a legal person and the limited liability to damage the interests of the creditors of the company and any other shareholders' obligation specified in the company's articles of association.

Shareholders' General Meetings

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the PRC Company Law.

The shareholders' general meeting exercises the following principal powers:

- (i) to decide on the company's operational policies and investment plans;
- (ii) to elect or remove the directors and supervisors who are not representatives of the employees and decide on matters relating to the remuneration of directors and supervisors;
- (iii) to consider and approve reports of the board of directors;
- (iv) to consider and approve reports of the board of supervisors;

- (v) to consider and approve the company's proposed annual financial budget and financial accounts;
- (vi) to consider and approve the company's proposals for profit distribution and for making up losses;
- (vii) to decide on any increase or reduction in the company's registered capital;
- (viii) to decide on the issue of bonds by the company;
- (ix) to decide on issues such as merger, division, dissolution and liquidation of the company and other matters;
- (x) to decide on the appointment, resignation or dismissal of the accounting firm;
- (xi) to amend the articles of association of the company; and
- (xii) other powers specified in the articles of association of the company.

Shareholders' general meeting is required to be held once every year. An extraordinary shareholders' general meeting is required to be held within two months after the occurrence of any of the following circumstances:

- (i) the number of directors is less than the number provided for in the PRC Company Law or less than two-thirds of the number specified in the company's articles of association;
- (ii) the losses of the company which are not made up reach one-third of the company's total paid up share capital;
- (iii) a request by a shareholder that holds, or by shareholders that hold in aggregate, 10% or more of the company's shares;
- (iv) when deemed necessary by the board of directors;
- (v) when the board of supervisors proposes convening it; or
- (vi) other matters required by the company's articles of association.

Shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors.

Notice of the shareholders' general meeting shall be given to all shareholders 20 days before the meeting under the PRC Company Law and 45 days under the Special Regulations and the Mandatory Provisions, stating the matters to be considered at the meeting. Notice of an extraordinary general meeting, each shareholder shall be notified 15 days before the meeting is held under the PRC Company Law. Under the Special Regulations and the Mandatory Provisions, shareholders wishing to attend are required to give to the company written confirmation of their attendance 20 days prior to the meeting.

Shareholders present at a shareholders' general meeting have one vote for each share they hold, but the company shall have no vote for any of its own shares the company holds.

Resolutions proposed at the shareholders' general meeting shall be adopted by more than half of the voting rights cast by shareholders present in person (including those represented by proxies) at the meeting, with the exception of matters relating to merger, division, dissolution, increase or reduction in registered capital, change in the form of the company or amendments to the articles of association which shall be adopted by shareholders with two-thirds or more of the voting rights cast by shareholders present (including those represented by proxies) at the meeting.

Shareholders may entrust a proxy to attend shareholders' general meetings on his or her behalf by a power of attorney which sets out the scope of exercising the voting rights.

There is no specific provision in the PRC Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting. However, the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting may be convened when replies to the notice of that meeting from shareholders holding shares representing 50% or more of the voting rights in the company have been received 20 days before the proposed date, or if that 50% level is not achieved, the company shall within five days of the last day for receipt of the replies notify shareholders by public announcement of the matters to be considered at the meeting and the date and place of the meeting and the annual general meeting may be held thereafter. The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class. Holders of domestic shares and holders of overseas listed foreign invested shares are deemed to be different classes of shareholders for this purpose.

Directors

A company shall have a board of directors, which shall consist of 5 to 19 members and there can be staff representatives of our Company. Under the PRC Company Law, each term of office of a director shall not exceed three years. A director may serve consecutive terms if re-elected.

Meetings of the board of directors shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors at least ten days before the meeting. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors.

Under the PRC Company Law, the board of directors exercises the following powers:

- (i) to convene the shareholders' general meeting and report on its work to the shareholders;
- (ii) to implement the resolution of the shareholders' general meeting;
- (iii) to decide on the company's business plans and investment plans;
- (iv) to formulate the company's proposed annual financial budget and final accounts;
- (v) to formulate the company's proposals for profit distribution and for recovery of losses;
- (vi) to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;

- (vii) to prepare plans for the merger, division or dissolution of the company;
- (viii) to decide on the company's internal management structure;
- (ix) to appoint or dismiss the company's president, and based on the president's recommendation, to appoint or dismiss vice presidents and financial officers of the company and to decide on their remuneration;
- (x) to formulate the company's basic management system; and
- (xi) any other power given under the articles of association of the company.

In addition, the Mandatory Provisions provide that the board of directors is also responsible for formulating the proposals for amendment of the articles of association of a company.

Meetings of the board of directors shall be held only if more than half of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors.

If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his behalf.

If a resolution of the board of directors violates the laws, administrative regulations or the company's articles of association as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proven that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved of that liability.

Under the PRC Company Law, the following persons may not serve as a director of a company:

- (i) persons without civil capacity or with restricted civil capacity;
- (ii) persons who have committed the offense of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offense, where less than five years have elapsed since the date of the completion of implementation of this deprivation;
- (iii) persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated due to mismanagement and who are personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;

- (iv) persons who were legal representatives of a company or enterprise which had its business license revoked or business operation shut down due to violation of the law and who are personally liable, where less than three years have elapsed since the date of the revocation of the business license;
- (v) persons who have a relatively large amount of debt due and outstanding; or
- (vi) Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions (which have been incorporated in the Articles of Association, a summary of which is set out in the appendix headed “Appendix VI – Summary of Articles of Association” to this prospectus).

The board of directors shall appoint a chairman, who is elected with approval of more than half of all the directors. The chairman of the board of directors exercises, among others, the following powers:

- (i) to preside over shareholders’ general meetings and convene and preside over meetings of the board of directors; and
- (ii) to check on the implementation of the resolutions of the board of directors.

The legal representative of a company in accordance with the company’s articles of association, is the chairman.

The Special Regulations provide that a company’s directors, supervisors, managers and other officers bear fiduciary duties and the duty to act diligently. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. The Mandatory Provisions (which have been incorporated into the Articles of Association, a summary of which is set out in the appendix headed “Appendix VI – Summary of Articles of Association” to this prospectus) contain further elaborations of such duties.

Supervisors

A company shall have a board of supervisors composed of not less than three members. Each term of office of a supervisor is three years and he may serve consecutive terms if re-elected.

The board of supervisors is made up of shareholders representatives and an appropriate proportion of the company’s staff representatives; and the percentage of the number of the company’s staff representatives shall not be less than one-third. Directors and senior management shall not act as supervisors.

Requirements in relation to the power of the board of supervisors under the PRC Company Law are as follows:

- (i) to examine the company’s financial affairs;
- (ii) to supervise the directors and senior management in their performance of their duties and to propose the removal of any director or senior management who violates the laws, regulations, articles of association or shareholders’ resolution;

- (iii) to require any director or senior management whose act is detrimental to the company's interests to rectify such act;
- (iv) to propose the convening of extraordinary shareholders' general meetings and, in the event that the board of directors fails to perform the duties of convening and presiding shareholders' meetings to convene and preside over shareholders' meetings;
- (v) to propose any bills to shareholders' general meetings;
- (vi) to commence any action against any directors or senior management; and
- (vii) other powers specified in the company's articles of association.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to supervisors of a company.

The Special Regulations provide that a company's directors and supervisors shall have fiduciary duties. They are required to faithfully perform their duties, protect the interest of the company and not to use their positions for their own benefit.

Managers and Senior Officers

A company shall have a manager who shall be appointed or removed by the board of directors. The manager is accountable to the board of directors and may exercise the following powers:

- (i) in charge of the production, operation and management of the company and arrange for the implementation of resolutions of the board of directors;
- (ii) arrange for the implementation of the company's annual business and investment plans;
- (iii) formulate plans for the establishment of the company's internal management structure;
- (iv) formulate the basic administration system of the company;
- (v) formulate the company's internal rules;
- (vi) recommend the appointment and dismissal of deputy managers and any financial officer and appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors);
- (vii) attend board meetings as a non-voting attendant; and
- (viii) other powers conferred by the board of directors or the company's articles of association.

The Special Regulations and the Mandatory Provisions provide that the other senior management of a company includes the financial officer, secretary of the board of directors and other executives as specified in the article of association of the company.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to managers and officers of the company.

The articles of association of a company shall have binding effect on the shareholders, directors, supervisors, managers and other senior management of the company. Such persons shall be entitled to exercise their rights, apply for arbitration and issue legal proceedings according to the articles of association of the company. The provisions of the Mandatory Provisions regarding the senior management of a company have been incorporated in the Articles of Association, a summary of which is set out in the appendix headed “Appendix VI – Summary of Articles of Association” to this prospectus.

Eligibility and Obligations of Directors, Supervisors, Managers and Senior Officers

The following persons may not serve as a director, supervisor, manager and other senior officer of a company:

- (i) persons without civil capacity or with restricted civil capacity;
- (ii) persons who have committed the offense of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offense, where less than five years have elapsed since the date of completion of implementation of this deprivation;
- (iii) persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated and are personally liable for the bankrupt of such company or enterprise, where less than five years have elapsed since the date of completion of the bankrupt and liquidation of the company or enterprise;
- (iv) persons who were legal representatives of a company or enterprise which had its business license revoked due to violation of laws and who are personally liable, where less than three years have elapsed since the date of the revocation of the business license; and
- (v) persons who have a relatively large amount of debts due and outstanding.

A director, supervisor, manager and other senior officer of a company are required under the PRC Company Law to comply with the relevant laws, regulations and the company’s articles of association, carry out their duties honestly and protect the interests of the company. A director, supervisor, manager and other senior officer of a company is also under a duty of confidentiality to the company and is prohibited from divulging secret information of the company save as permitted by the relevant laws and regulations or by the shareholders.

A director, supervisor, manager and other senior officer who contravenes any law, regulation or the company’s articles of association in the performance of his duties which results in any loss to the company shall be personally liable to the company.

The Special Regulations and the Mandatory Provisions provide that a director, supervisor, manager and other senior officer of a company owe fiduciary duties to the company and are required to perform their duties faithfully and to protect the interests of the company and not to make use of their positions in the company for their own benefit.

Finance and Accounting

A company shall establish its financial and accounting systems according to laws, administrative regulations and the provisions of the responsible financial department of the State Council and at the end of each financial year, prepare a financial report which shall be audited and verified as provided by law.

A company shall deposit its financial statements at the company for inspection by the shareholders at least 20 days before the convening of the annual general meeting of shareholders. A company incorporated by public subscription must publish its financial statements.

The common reserve of a company comprises the statutory surplus reserve, the discretionary common reserve and the capital common reserve.

When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory surplus reserve (except where the reserve has reached 50% of the company's registered capital). After a company has made an allocation to its statutory common reserve from its after-tax profits, subject to a resolution of the shareholders' general meeting, the company may make an allocation to a discretionary common reserve.

When the company's statutory surplus reserve is not sufficient to make up for the company's losses of the previous years, current year profits shall be used to make up for the losses before allocations are set aside for the statutory surplus reserve.

After the company has made up for its losses and make allocations to its statutory surplus reserve the remaining profits could be available for distribution to shareholder in proportion to the number of shares held by the shareholders except as otherwise provided in the articles of association of such company limited by shares.

The capital common reserve of a company is made up of the premium over the nominal value of the shares of the company on issue and other amounts required by the relevant governmental authority to be treated as the capital common reserve.

The common reserve of a company shall be applied for the following purposes:

- (i) to make up the company's losses other than the capital common reserve;
- (ii) to expand the business operations of the company; and
- (iii) to increase the registered capital of the company by the issue of new shares to shareholders in proportion to their existing shareholdings in the company or by increasing the nominal value of the shares currently held by the shareholders provided that if the statutory surplus reserve is converted into registered capital, the balance of the statutory surplus reserve after such conversion shall not be less than 25% of the registered capital of the company before such conversion.

Appointment and Retirement of Auditors

The Special Regulations require a company to employ an independent PRC qualified accounting firm to audit the company's annual report and to review and check other financial reports.

The auditors are to be appointed for a term commencing from the close of an annual general meeting and ending at the close of the next following annual general meeting.

If a company removes or ceases to continue to appoint the auditors, it is required by the Special Regulations to give prior notice to the auditors and the auditors are entitled to make representations before the shareholders in general meeting. The appointment, removal or non re-appointment of auditors shall be decided by the shareholders at shareholders' general meetings and shall be filed with the CSRC for record.

Distribution of Profits

The PRC Company Law provides that a company is restricted from distributing profits before accumulated losses have been made up and statutory common reserve have been drawn. The Special Regulations provide that the dividends and other distributions to be paid to holders of overseas listed foreign invested shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

Amendments to Articles of Association

Any amendments to the company's articles of association must be made in accordance with the procedures set forth in the company's articles of association. Any amendment of provisions incorporated in the articles of association in connection with the Mandatory Provisions will only be effective after approval by the companies approval department authorized by the State Council and the CSRC. In relation to matters involving the company's registration, its registration with the authority must also be changed.

Dissolution and Liquidation

A company may apply for the declaration of insolvency by reason of its inability to pay debts as they fall due. After the people's court has made a declaration of the company's insolvency, the shareholders, the relevant authorities and the relevant professionals shall form a liquidation committee to conduct the liquidation of the company.

Under the PRC Company Law, a company shall be dissolved in any of the following events:

- (i) the term of its operations set down in its articles of association has expired or events of dissolution specified in its articles of association have occurred;
- (ii) the shareholders in general meeting have resolved to dissolve the company;
- (iii) the company is dissolved by reason of its merger or demerger;
- (iv) the company is subject to the revocation of business license, a closure order or elimination in accordance with laws; or

- (v) in the event that the company encounters substantial difficulties in its operation and management and its continuance shall cause a significant loss, in the interest of shareholders, and where this cannot be resolved through other means, shareholders who hold more than 10% of the total shareholders' voting rights of the company may present a petition to the people's court for the dissolution of the company.

Where the company is dissolved in the circumstances described in (i), (ii), (iv) and (v) above, a liquidation committee must be formed within 15 days after the occurrence of the cause of dissolution so as to carry out liquidation. Members of the liquidation committee shall be composed of the directors or any other people as determined by the shareholders' meeting.

If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the people's court for its establishment.

The liquidation committee shall notify the company's creditors within ten days after its establishment, and issue a public notice in the newspapers within 60 days. A creditor shall lodge his claim with the liquidation committee within 30 days after receiving notification, or within 45 days of the public notice if he did not receive any notification. The liquidation committee shall exercise the following powers during the liquidation period:

- (i) to handle the company's assets and to prepare a balance sheet and an inventory of the assets;
- (ii) to notify creditors or issue public notices;
- (iii) to deal with and settle any outstanding business of the company;
- (iv) to pay any tax overdue;
- (v) to settle the company's financial claims and liabilities;
- (vi) to handle the surplus assets of the company after its debts have been paid off; and
- (vii) to represent the company in civil lawsuits.

If the company's assets are sufficient to meet its liabilities, they shall be applied towards the payment of the liquidation expenses, wages owed to the employees and labour insurance expenses, tax overdue and debts of the company. Any surplus assets shall be distributed to the shareholders of the company in proportion to the number of shares held by them.

During the liquidation period, a company shall not engage in operating activities unrelated to the liquidation.

If the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must immediately apply to the people's court for a declaration of bankruptcy. Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the people's court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or the people's court for confirmation. Thereafter, the report shall be submitted to the companies registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued.

Members of the liquidation committee are required to discharge their duties honestly and in compliance with relevant laws. A member of liquidation committee is liable to indemnify the company and its creditors in respect of any loss arising from his wilful or material default.

Overseas Listing

The shares of a company shall only be listed overseas after obtaining approval from the securities regulatory authority of the State Council and the listing must be arranged in accordance with procedures specified by the State Council.

According to the Special Regulations, a company's plan to issue overseas listed foreign invested shares and domestic shares which has been approved by the securities regulatory authority of the State Council may be implemented by the board of directors of a company by way of separate issues, within 15 months after approval is obtained from the CSRC.

Loss of Share Certificates

A shareholder may apply, in accordance with the relevant provisions set out in the PRC Civil Procedure Law, to a people's court in the event that share certificates in registered form are either stolen or lost, for a declaration that such certificates will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issue of replacement certificates.

The Mandatory Provisions provide for a separate procedure regarding loss of H share certificates which has been incorporated in the Articles of Association, a summary of which is set out in "Appendix VI – Summary of Articles of Association."

Suspension and Termination of Listing

The PRC Company Law has deleted provisions governing suspension and termination of listing. The new PRC Securities Law has been amended as follows:

The trading of shares of a company on a stock exchange may be suspended if so decided by the stock exchange under one of the following circumstances:

- (i) the registered capital or shareholding distribution no longer meets the necessary requirements for a listed company;
- (ii) the company failed to make public its financial position in accordance with the requirements or there is false information in the company's financial report with the possibility of misleading investors;
- (iii) the company has committed a major breach of the law;
- (iv) the company has incurred losses for three consecutive years; or
- (v) other circumstances as required by the listing rules of the relevant stock exchange(s).

Under the PRC Securities Law, in the event that the conditions for listing are not satisfied within the period stipulated by the relevant stock exchange in the case described in (i) above, or the company has refused to rectify the situation in the case described in (ii) above, or the company fails to become profitable in the next subsequent year in the case described in (iv) above, and other two situations such as the company has been dissolved or declared bankrupt; and such other circumstances as may be so prescribed in the listing rules of the stock exchange, the relevant stock exchange shall have the right to terminate the listing of the shares of the company.

Merger and Demerger

Companies may merge through merger by absorption or through the establishment of a newly merged entity. If it merges by absorption, the company which is absorbed shall be dissolved. If it merges by forming a new corporation, both companies will be dissolved.

SECURITIES LAW AND REGULATIONS

The PRC has promulgated a number of regulations that relate to the issue and trading of the Shares and disclosure of information by us. In October 1992, the State Council established the Securities Committee and the CSRC. The Securities Committee was responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC. The CSRC was the regulatory body of the Securities Committee and responsible for the drafting of regulatory provisions of securities markets, supervising securities companies, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities-related statistics and undertaking research and analysis. In 1998, the State Council dissolved the Securities Committee and assigned its function to the CSRC. The CSRC is also responsible for the regulation and supervision of the national stocks and futures market according to laws, regulations and authorizations.

The PRC Securities Law took effect on 1 July 1999 and was revised for the first time on 28 August 2004, amended for the second time on 27 October 2005, revised for the third time on 29 June 2013, and revised for the fourth time on 31 August 2014. This is the first national securities law in the PRC, and it is divided into 12 chapters and 240 articles regulating, among other things, the issue and trading of securities, takeovers by listed companies, securities exchanges, securities companies and the duties and responsibilities of the State Council's securities regulatory authorities. The PRC Securities Law comprehensively regulates activities in the PRC securities market. Article 238 of the PRC Securities Law provides that a PRC company must obtain prior approval from the State Council's regulatory authorities to list its shares outside the PRC. Article 239 of the PRC Securities Law provides that specific provisions in respect of shares of companies in the PRC which are to be subscribed and traded in foreign currencies shall be separately formulated by the State Council. Currently, the issue and trading of foreign invested shares (including H Shares) are still mainly governed by the rules and regulations promulgated by the State Council and the CSRC.

ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS

《中華人民共和國的仲裁法》 (*the Arbitration Law of the PRC**) (the "Arbitration Law") was passed by the Standing Committee of the NPC as 31 August 1994, and became effective on 1 September 1995 and amended on 27 August 2009. It is applicable to contract disputes and

other property disputes between natural person, legal person and other organizations where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the people's court will refuse to handle the case.

The Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the Articles of Association and, in the case of the Listing Rules, also in contracts with each of the Directors and Supervisors, to the effect that whenever any disputes or claims arise between holders of the H Shares and us; holders of the H Shares and the Directors, Supervisors, manager or other officers; or holders of the Shares, in respect of any disputes or claims in relation to our affairs or as a result of any rights or obligations arising under the Articles of Association, the PRC Company Law or other relevant laws and administrative regulations, such disputes or claims shall be referred to arbitration.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, if they are shareholders, directors, supervisors, managers or officers of us, shall be subject to the arbitration. Disputes in respect of who is the shareholder and disputes in relation to our register of shareholders need not be resolved by arbitration.

A claimant may elect for arbitration to be carried out at either the CIETAC in accordance with its rules or the HKIAC in accordance with its securities arbitration rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. If the claimant elects for arbitration to be carried out at the HKIAC, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the securities arbitration rules of the HKIAC.

Under the Arbitration Law and the PRC Civil Procedure Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the people's court for Enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration tribunal if there is any procedural or membership irregularity specified by law or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration tribunal.

According to the new 《中國國際經濟貿易仲裁委員會仲裁規則》 (*Arbitration Rules of China International Economic and Trade Arbitration Commission**) implemented on 1 May 2012, the CIETAC shall deal with disputes over contractual or noncontractual transactions, including disputes in Hong Kong, in accordance with the agreement of the parties. The arbitration commission was established in Beijing and branches and centres were set up in Shenzhen, Shanghai, Tianjin and Chongqing.

A party seeking to enforce an arbitral award of PRC arbitration panel against a party who, or whose property, is not within the PRC, may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity

or any international treaty concluded or acceded to by the PRC. The PRC acceded to 《承認及執行外國仲裁裁決公約》 (*the Convention on the Recognition and Enforcement of Foreign Arbitral Awards**) (the “New York Convention”) adopted on 10 June 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2 December 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognised and enforced by other parties to the New York Convention, subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the State to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (i) the PRC will only recognise and enforce foreign arbitral awards on the principle of reciprocity and (ii) the PRC will only apply the New York Convention in disputes considered under PRC laws to arise from contractual and non-contractual mercantile legal relations.

In June 1999, an arrangement was made between Hong Kong and the Supreme People’s Court of the PRC for the mutual enforcement of arbitral awards. This new arrangement was approved by the Supreme People’s Court of the PRC and the Hong Kong Legislative Council, and became effective on 1 February 2000. The arrangement is made in accordance with the spirit of the New York Convention. Under the arrangement, awards made by PRC arbitration bodies pursuant to the Arbitration Law can be enforced in Hong Kong. Hong Kong arbitral awards pursuant to the Arbitration Ordinance of Hong Kong are also enforceable in the PRC.

HONG KONG LAWS AND REGULATIONS

(a) Summary of Material Differences Between Hong Kong and PRC Company Law

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the Companies (WUMP) Ordinance and the Companies Ordinance, and is supplemented by common law and rules of equity that apply to Hong Kong. Our Company, which is a joint stock limited company established in the PRC, is governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law.

Set out below is a summary of the material differences between the Hong Kong company law applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited company incorporated and existing under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

(i) *Corporate existence*

Under Hong Kong company law, a company having share capital, is incorporated and will acquire an independent corporate existence after the Registrar of Companies in Hong Kong issues a certificate of incorporation. A company may be incorporated as a public company or a private company. Pursuant to the Companies Ordinance the articles of association of a private company incorporated in Hong Kong shall contain certain provisions which restrict a member’s right to transfer shares. A public company’s articles of association does not contain such preemptive provisions.

Under the PRC Company Law, a joint stock limited liability company may be incorporated by promotion or public subscription. The PRC Company Law stipulates that for a joint stock limited liability company, the total share capital subscribed to by all promoters or total amount of paid-up share capital raised shall comply with the requirements of the company’s articles of association.

The provisions otherwise prescribed by laws, administrative regulations and the decisions of the State Council on the actual payment of registered capital and the minimum registered capital of a joint stock limited liability company shall prevail.

Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company. There is no minimum monetary contribution restriction on a Hong Kong company under Hong Kong law.

(ii) Share capital

Under Hong Kong law, the authorized share capital of a Hong Kong company is the amount of share capital which the company is authorized to issue and a company is not bound to issue the entire amount of its authorized share capital. The authorized share capital may be larger than its issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders, if required, cause the company to issue new shares. The PRC Company Law does not provide for authorized share capital other than registered capital. The registered capital of a joint stock limited company is the amount of the issued share capital. Any increase in registered capital must be approved by the shareholders in a general meeting and by the relevant PRC governmental and regulatory authorities when applicable.

Under the PRC Company Law, a company which is authorized by the relevant securities administration authority to list its shares on a stock exchange must have a registered capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the PRC Company Law, the shares may be subscribed for in the form of money or nonmonetary assets that may be valued in currency and lawfully transferable. For nonmonetary assets to be used as capital contributions, appraisals must be carried out to ensure no overvaluation or under-valuation of the assets.

(iii) Restrictions on shareholding and transfer of shares

Under PRC law, the domestic shares (“domestic shares”) in the share capital of a joint stock limited liability company which are denominated and subscribed for in Renminbi may only be subscribed or traded by the domestic investors of the PRC. The overseas listed foreign shares (“foreign shares”) issued by a joint stock limited company which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau Special Administrative Region of the PRC and Taiwan or any country and territory outside the PRC, as well as other qualified institutions.

Under the PRC Company Law, shares in a joint stock limited company held by its promoters cannot be transferred within one year after the date of establishment of the company. Shares in issue prior to the company’s public offering cannot be transferred within one year from the listing date of the shares on the Stock Exchange. Shares in a joint stock limited company held by its directors, supervisors and managers and transferred each year during their term of office shall not exceed 25% of the total shares they held in the company, and the shares they held in the company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after the said personnel has left office. The articles of association may set other

restrictive requirements on the transfer of the company's shares held by its directors, supervisors and officers. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law apart from the six-month lock up on our Company's issue of Shares and the 12-month lock up on Controlling Shareholders' disposal of Shares, as illustrated by the undertakings given by our Company to the Stock Exchange as described in the section headed "Underwriting" section in this prospectus.

(iv) Financial assistance for acquisition of shares

Although the PRC Company Law does not contain any provision prohibiting or restricting a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries providing such financial assistance similar to those under Hong Kong company law.

(v) Variation of class rights

The PRC Company Law makes no specific provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed regarding variations of class rights. These provisions have been incorporated in the Articles of Association, which are summarised in Appendix VI to this prospectus.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except in accordance with the articles of association or, if the articles do not contain such provisions, by written consent of 75% of the total voting rights of shareholders of the relevant class or by special resolution passed at a general meeting of shareholders of that class. The Company (as required by the Listing Rules and the Mandatory Provisions) has adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed foreign invested shares and domestic shares are defined in the Articles of Association as different classes of shareholders, provided however that the special procedures for approval by separate class shareholders shall not apply to the following circumstances: (i) the Company issues domestic shares and listed foreign invested shares, separately or simultaneously, once every 12-month period, pursuant to a Shareholders' special resolution, not more than 20% of each of the issued domestic shares and issued overseas listed foreign invested shares existing as of the date of the Shareholders' special resolution; (ii) the plan for the issue of domestic shares and listed foreign invested shares upon its establishment is implemented within 15 months following the date of approval by the CSRC; and (iii) upon approval by CSRC, the shareholders of domestic shares of the Company transfer their shares to overseas investors and such shares are listed and traded in foreign markets.

(vi) Directors

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration made by directors of the interests in material contracts; restrictions on directors' authority in making major dispositions; restrictions on companies providing certain benefits, prohibitions against compensation for loss of office

without shareholders' approval. The PRC Company Law provides restrictions on interested directors voting on the resolution at a meeting of the board of directors when such resolution relates to an enterprise which the director is interested or connected. The Mandatory Provisions, however, contain requirements and restrictions on major dispositions and specify the circumstances under which a director may receive compensation for loss of office, all of which provisions have been incorporated in the Articles of Association, a summary of which is set out in Appendix VI.

(vii) Board of Supervisors

Under the PRC Company Law, the board of directors and managers of a joint stock limited company is subject to the supervision and inspection of a board of Supervisors but there is no mandatory requirement for the establishment of a board of Supervisors for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise under comparable circumstances.

(viii) Derivative action by minority shareholders

Hong Kong law permits minority shareholders to start a derivative action on behalf of a company against directors for their misfeasance committed against the Company, if such directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors for their misfeasance committed against the Company in its own name. The PRC Company Law gives shareholders of a joint stock limited company the right to initiate proceedings in the people's court to restrain the implementation of any resolution passed by the shareholders in a general meeting, or by the board of directors, that violates any law or infringes the lawful rights and interests of the shareholders. The PRC Company Law also provides that the shareholder can initiate proceedings if the director or senior management of the Company violates the law, administrative regulation or articles of association of the Company and thus infringe the shareholder's interest. The Mandatory Provisions further provide remedies to the company against directors, supervisors and senior management in breach of their duties to the company. In addition, every director and supervisor of a joint stock limited company applying for a listing of its foreign shares on the Stock Exchange is required to give an undertaking in favor of the company to comply with the company's articles of association. This allows minority shareholders to act against the directors and supervisors in default.

(ix) Protection of minorities

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary of the Hong Kong Government may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC Company Law provides that where any company encounters any serious difficulty in its operations or management so as that the interests of the shareholders will face serious loss if the company continues to exist and

such difficulty cannot be resolved by any other means, the shareholders holding ten percent or more of the voting rights of all the issues shares of the company may plead the people's court to dissolve the company. The Mandatory Provisions, however, contain provisions to the effect that a controlling shareholder may not exercise its voting rights to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders which is prejudicial to the interests of the shareholders generally or of some part of the shareholders of a company.

(x) Notice of shareholders' meetings

Under the PRC Company Law, notice of a shareholders' general meeting must be given not less than 20 days before the meeting, while notice at an extraordinary meeting must be given 15 days before the meeting or, in the case of a company having bearer shares, a public announcement of a shareholders' general meeting must be made at least 30 days prior to it being held. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to all shareholders and shareholders who wish to attend the meeting must reply in writing 20 days before the date of the meeting. For a company incorporated in Hong Kong, the minimum notice periods of a general meeting convened for passing an ordinary resolution and a special resolution are 14 days and 21 days, respectively. The notice period for an annual general meeting is 21 days.

(xi) Quorum for shareholders' meetings

Under Hong Kong law, the quorum for a general meeting is two members unless the articles of association of the company otherwise provide. For one member companies, one member will be a quorum.

The PRC Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that a company's general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in the company at least 20 days before the proposed date of the meeting. If that 50% level is not achieved, the company shall within five days notify its shareholders by public announcement and the shareholders' general meeting may be held thereafter.

(xii) Voting

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three-fourths of votes cast by members present in person or by proxy at a general meeting. Under the PRC Company Law, the passing of any resolution requires more than one half of the votes cast by shareholders present in person or by proxy at a shareholders' general meeting except in cases of proposed amendment to the articles of association, increase or reduction of share capital, and merger, demerger or dissolution of a joint stock limited company or changes to the company status, which require two-thirds or more of votes cast by shareholders present at a shareholders' general meeting.

(xiii) Financial disclosure

A company is required under the PRC Company Law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, statements of changes in financial position and other relevant annexes 20 days before the annual general meeting of shareholders. In addition, a company established by way of public subscription under the PRC Company Law must publish its financial position. The annual balance sheet has to be verified by registered accountants. The Companies Ordinance requires a company to send to every shareholder a copy of its financial statements, auditors' report and directors' report, which are to be laid before the company in its annual general meeting, not less than 21 days before such meeting. A company is required under the PRC law to prepare its financial statements in accordance with the PRC accounting standards. The Mandatory Provisions require that the company must, in addition to preparing accounts according to the PRC standards, have its accounts prepared and audited in accordance with International Accounting Standards or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC accounting standards.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

(xiv) Information on directors and shareholders

The PRC Company Law gives the shareholders of a company the right to inspect the Articles of Association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders of a company have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

(xv) Receiving agent

Under both the PRC Company Law and Hong Kong law, dividends once declared become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while that under the PRC law is two years. The Mandatory Provisions require that the company should appoint a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of foreign shares dividends declared and all other monies owed by a joint stock limited company in respect of such foreign shares.

(xvi) Corporate reorganisation

Corporate reorganisation involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company to another company in the course of being wound up voluntarily pursuant to section 237 of the Companies (WUMP) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to Division 2 of Part 13 of the Companies Ordinance which requires the sanction of the court. Under PRC Company Law, the merger, demerger, dissolution, liquidation or change to the forms of a company has to be approved by shareholders at general meeting.

(xvii) Arbitration of disputes

In Hong Kong, disputes between shareholders and a company incorporated in Hong Kong or its directors may be resolved through the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC at the claimant's choice.

(xviii) Mandatory deductions

Under the PRC Company Law, a company shall draw 10% of the profits as its statutory reserve fund before it declare any dividends after taxation. The company may not required to deposit the statutory reserve fund if the aggregate amount of the statutory reserve fund has accounted for 50% of the company's registered capital. After the company has drawn statutory reserve fund from the after-tax profits, it may, upon a resolution made by the shareholders, draw a discretionary reserve fund from the after-tax profits. There are no such requirements under Hong Kong law.

(xix) Remedies of a company

Under the PRC Company Law, if a director, supervisor or manager in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or manager should be responsible to the company for such damages. In addition, remedies of the company similar to those available under the Hong Kong law (including rescission of the relevant contract and recovery of profits made by a director, supervisor or officer) have been in compliance with the Listing Rules.

(xx) Dividends

Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. A company shall not exercise its powers to forfeit any unclaimed dividend in respect of its listed foreign shares until after the expiry of the applicable limitation period.

(xxi) Fiduciary duties

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the PRC Company Law and the Special Regulations, directors, supervisors, senior management owe a fiduciary duty towards a company and are not permitted to engage in any activities which compete with or damage the interests of the company.

(xxii) Closure of register of shareholders

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas the articles of association of a company provide, as required by the PRC Company Law, that share transfers may not be registered within 30 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

(b) Listing Rules

The Listing Rules provide additional requirements which apply to an issuer which is incorporated in the PRC as a joint stock limited company and seeks a primary listing or whose primary listing is on the Stock Exchange. Set out below is a summary of such principal additional requirements which apply to the Company.

(i) Compliance adviser

A company seeking listing on the Stock Exchange is required to appoint a compliance adviser acceptable to the Stock Exchange for the period from its listing date up to the date of the publication of its first full year's financial results, to provide the company with professional advice on continuous compliance with the Listing Rules and all other applicable laws, regulations, rules, codes and guidelines, and to act at all times, in addition to the company's two authorised representatives, as the principal channel of communication with the Stock Exchange. The appointment of the compliance adviser may not be terminated until a replacement acceptable to the Stock Exchange has been appointed.

If the Stock Exchange is not satisfied that the compliance adviser is fulfilling its responsibilities adequately, it may require the company to terminate the compliance adviser's appointment and appoint a replacement.

The compliance adviser must keep the company informed on a timely basis of changes in the Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the company.

It must act as the company's principal channel of communication with the Stock Exchange if the authorised representatives of the company are expected to be frequently outside Hong Kong.

(ii) Accountant's report

An accountant's report for a PRC issuer will not normally be regarded as acceptable by the Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong or under International Standards on Auditing or China Auditing Standards. Such report will normally be required to conform to Hong Kong or international accounting standards or China Accounting Standards for Business Enterprises.

(iii) Process agent

The Company is required to appoint and maintain a person authorized to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Stock Exchange and must notify the Stock Exchange of his appointment, the termination of his appointment and his contact particulars.

(iv) Public shareholdings

If at any time there are existing issued securities of a PRC issuer other than foreign shares ("**foreign shares**") which are listed on the Stock Exchange, the Listing Rules require that the aggregate amount of such foreign shares held by the public must

constitute not less than 25% of the issued share capital and that such foreign shares for which listing is sought must not be less than 15% of the total issued share capital if the company has an expected market capitalization at the time of listing of not less than HK\$50,000,000. The Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% if the Company has an expected market capitalization at the time of listing of over HK\$10,000,000,000.

(v) Independent non-executive directors and supervisors

The independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the general body of shareholders will be adequately represented. The supervisors of a PRC issuer must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.

(vi) Restrictions on purchase and subscription of its own securities

Subject to governmental approvals and the provisions of the Articles of Association, the Company may repurchase its own H Shares on the Stock Exchange in accordance with the provisions of the Listing Rules. Approval by way of special resolution of the holders of domestic shares and the holders of H Shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, the Company is required to provide information on any proposed or actual purchases of all or any of its equity securities, whether or not listed or traded on the Stock Exchange. The Directors must also state the consequences of any purchases which will arise under either or both of the Takeovers Code and any similar PRC law of which the directors are aware, if any.

Any general mandate given to the directors to repurchase the foreign shares must not exceed 10% of the total amount of existing issued foreign shares of the Company.

(vii) Mandatory provisions

With a view to increasing the level of protection afforded to investors, the Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on the Stock Exchange, of the Mandatory Provisions and provisions relating to the change, removal and resignation of auditors, class meetings and the conduct of the board of supervisors of the company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in Appendix VI.

(viii) Redeemable shares

The Company must not issue any redeemable shares unless the Stock Exchange is satisfied that the relative rights of the holders of the foreign shares are adequately protected.

(ix) Pre-emptive rights

Except in the circumstances mentioned below, the directors of a company are required to obtain the approval by a special resolution of shareholders in general meeting, and the approvals by special resolutions of the holders of domestic shares and foreign shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Company's articles of association, prior to (1) authorizing, allotting, issuing or granting shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares or such convertible securities; or (2) any major subsidiary of the Company making any such authorization, allotment, issue or grant so as materially to dilute the percentage equity interest of the company and its shareholders in such subsidiary.

No such approval will be required, but only to the extent that, the existing shareholders of the company have by special resolution in general meeting given a mandate to the directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorize, allot or issue, either separately or concurrently once every 12 months, not more than 20% of the existing domestic shares and foreign shares as of the date of the passing of the relevant special resolution or of such shares that are part of the company's plan at the time of its establishment to issue domestic shares and foreign shares and which plan is implemented within 15 months from the date of approval by the CSRC; or where upon approval by securities supervision or administration authorities of State Counsel, the shareholders of domestic invested shares of the Company transfer its shares to overseas investors and such shares are listed and traded in foreign markets.

(x) Supervisors

The Company is required to adopt rules governing dealings by its Supervisors in securities of the Company in terms no less exacting than those of the Model Code for Securities Transactions by Directors of Listed Issuers (set out in Appendix 10 to the Listing Rules) issued by the Stock Exchange. The Company is required to obtain the approval of its shareholders at a general meeting (at which the relevant Supervisor and his close associates shall not vote on the matter) prior to the Company or any of its subsidiaries entering into a service agreement of the following nature with a Supervisor or proposed Supervisor of the Company or its subsidiary: (1) the term of the agreement may exceed three years; or (2) the agreement expressly requires the Company to give more than one year's notice or to pay compensation or make other payments equivalent to the remuneration more than one year.

The remuneration and assessment committee of the Company or an independent board committee must form a view in respect of service agreements that require shareholders' approval and advise shareholders (other than shareholders with a material interest in the service agreements and their close associates) as to whether the terms are fair and reasonable, advise whether such agreements are in the interests of the Company and its Shareholders as a whole and advise Shareholders on how to vote.

(xi) Amendment to the Articles of Association

The Company is required not to permit or cause any amendment to be made to its Articles of Association which would cause the same to cease to comply with the mandatory provisions of the Listing Rules and the Mandatory Provisions or the PRC Company Law.

(xii) Documents for inspection

The Company is required to make available at a place in Hong Kong for inspection by the public and its Shareholders free of charge, and for copying by Shareholders at reasonable charges the following:

- a complete duplicate register of shareholders;
- a report showing the state of the issued share capital of the Company;
- the Company's latest audited financial statements and the reports of the Directors, auditors and Supervisors (if any) thereon;
- special resolutions of the Company;
- reports showing the number and nominal value of securities repurchased by the Company since the end of the last certificates year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);
- a copy of the latest annual return filed with the relevant administration of industry and commerce of the PRC or other competent PRC authority; and
- for Shareholders only, copies of minutes of meetings of shareholders.

(xiii) Receiving agents

The Company is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owing in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

(xiv) Statements in H share certificates

The Company is required to ensure that all of its listing documents and H share certificates include the statements stipulated below and to instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of its shares in the name of any particular holder unless and until such holder delivers to such share registrar a signed form in respect of such shares bearing statements to the following effect that the acquirer of shares:

- agrees with the Company and each Shareholder of the Company, and the Company agrees with each shareholder of the Company, to observe and comply with the PRC Company Law, the Special Regulations, the Articles of Association and other relevant laws and administrative regulations;

- agrees with the Company, each Shareholder, Director, Supervisor, manager and officer of the Company, and the Company acting for itself and for each Director, Supervisor, manager and officer of the Company agrees with each shareholder, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;
- agrees with the Company and each shareholder of the Company that the H Shares are freely transferable by the holder thereof; and
- authorizes the Company to enter into a contract on his behalf with each Director, Supervisors, Managers and officer of the Company whereby each such Director and officer undertakes to observe and comply with his obligation to shareholders as stipulated in the Articles of Association.

(xv) Compliance with the PRC Company Law, the Special Regulations and the Articles of Association

The Company is required to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association.

(xvi) Contract between the Company and its Directors, officers and Supervisors

The Company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- an undertaking by the Director or officer to the Company to observe and comply with the PRC Company law, the Special Regulations, the Articles of Association, the Takeovers Code and an agreement that the Company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;
- an undertaking by the Director or officer to the Company acting as agent for each shareholder to observe and comply with his obligations to shareholders as stipulated in the Articles of Association;
- an arbitration clause which provides that whenever any differences or claims arise from that contract, the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant law and administrative regulations concerning the affairs of the Company between the Company and its Directors or officers and between a holder of H Shares and a Director or officer of the Company, such differences or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive;

- if the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the Securities Arbitration Rules of HKIAC;
- PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations;
- the award of the arbitral body is final and shall be binding on the parties thereto;
- the agreement to arbitrate is made by the Director or offer with the Company on its own behalf and on behalf of each shareholder; and
- any reference to arbitration shall be deemed to authorize the arbitral tribunal to conduct hearings in open session and to publish its award. The Company is also required to enter into a contract in writing with every supervisor containing statements in substantially the same terms.

(xvii) Subsequent listing

The Company must not apply for the listing of any of its foreign shares on a PRC stock exchange unless the Stock Exchange is satisfied that the relative rights of the holders of foreign shares are adequately protected.

(xviii) English translation

All notices or other documents required under the Listing Rules to be sent by the Company to the Stock Exchange or to holders of H Shares are required to be in the English language, or accompanied by a certified English translation.

(xix) General

If any change in the PRC law or market practices materially alters the validity or accuracy of any of the basis upon which the additional requirements have been prepared, then the Stock Exchange may impose additional requirements or make listing of the equity securities of a PRC issuer, including the Company, subject to special conditions as the Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Stock Exchange retains its general power under the Listing Rules to impose additional requirements and make special conditions in respect of the Company's listing.

(c) Other Legal and Regulatory Provisions

Upon the Company's listing, the provisions of the Securities and Futures Ordinance, the Takeovers Code and such other relevant ordinances and regulations as may be applicable to companies listed on the Stock Exchange will apply to the Company.

ESTABLISHMENT OF OVERSEAS OPERATIONS RULES AND REGULATIONS

According to 《境外投資管理辦法》 (*the Provisions for Overseas Investment Management**) as promulgated by MOFCOM and the Provisions on 《境內機構境外直接投資外匯管理規定》 (*the Foreign Exchange Administration of Overseas Investment of Domestic Institutions**) issued by the SAFE, upon obtaining approval from the MOFCOM to establish enterprises overseas, PRC enterprises shall apply for foreign exchange registration for overseas investments.

According to 《境外投資項目核准暫行管理辦法》 (*the Tentative Administrative Provisions on the Approval of Overseas Investment Projects**), promulgated by the NDRC, investment projects involving the use of a large amount of foreign exchange would require the verification and approval by the NDRC or the State Council. If there is any change with respect to the investor or equity holding of a project that has been verified and approved, an application for amendment shall be made to the NDRC.

This Appendix sets out a summary of the main clauses of our Articles of Association adopted on 11 August 2013 and its subsequent amendments on 21 December 2013 and 10 April 2014 which shall become effective as of the date on which the H Shares are listed on the Stock Exchange. As the main purpose of this Appendix is to provide potential investors with an overview of the Articles of Association, it may not necessarily contain all information that is important for investors. As discussed in the appendix headed “Appendix VIII – Documents Delivered to the Registrar of Companies and Available for Inspection” to this prospectus, the full document of the Articles of Association in Chinese is available for examination.

1 DIRECTORS AND BOARD OF DIRECTORS

(a) Power to allot and issue shares

The Articles of Association does not contain clauses that authorize the Board of Directors to allot or issue Shares. The Board of Directors shall prepare suggestions for Share allotment or issue, which are subject to approval by the Shareholders at the Shareholders’ general meeting in the form of special resolution. Any such allotment or issue shall be in accordance with the procedures stipulated in appropriate laws and administrative regulations.

(b) Power to dispose of assets of our Company or our subsidiaries

If the sum of the expected value of the fixed assets to be disposed of, and the amount or value of the cost received from the fixed assets of our Company disposed of within the four months immediately preceding this suggestion for disposal exceeds 33% of the value of fixed assets of our Company indicated on the latest audited balance sheet submitted to the Shareholders at the Shareholders’ general meeting, the Board of Directors shall not dispose of or agree to dispose of such fixed assets without the prior approval of Shareholders at the Shareholders’ general meeting. The above disposal refers to the transfer of rights and interests in certain assets, but does not include the provision of guarantees with fixed assets. The validity of the transactions with respect to the disposal of fixed assets of our Company shall not be affected by the violation of the above restrictions contained in the Articles of Association.

(c) Indemnification or compensation for loss of office

As provided in the contract entered into between our Company and the Directors or Supervisors in connection with their emoluments, they are entitled to compensation or other payments for loss of office or retirement as a result of the acquisition of our Company, subject to the prior approval of the Shareholders at the Shareholders’ general meeting. Acquisition of our Company refers to any of the following circumstances:

- (i) An offer made to all the Shareholders; or
- (ii) An offer made by any person such that the offeror will become the Controlling Shareholder of our Company (as defined in the Articles of Association).

If the relevant Director or Supervisor fails to comply with the above requirements, any payment received shall belong to the person who sells the shares for accepting the aforesaid offer. The Director or Supervisor shall bear all expenses arising from the distribution of such payments to the person in a proportional manner and all related expenses shall not be deducted from these payments distributed.

(d) Loans to Directors, Supervisors or other management personnel

Our Company shall neither provide the Directors, Supervisors or senior management of our Company or our parent company with loans or loan guarantees either directly or indirectly nor provide persons related to the above personnel with loans or loan guarantees.

The following transactions are exempted from the above clauses:

- (i) Our Company provides our subsidiaries with loans or loan guarantees;
- (ii) Our Company provides any of the Directors, Supervisors or senior management with loans, loan guarantees or any other fund pursuant to the employment contracts approved at the Shareholders' general meeting to pay all expenses incurred for the purpose of our Company or from performing their duties; and
- (iii) In case that the normal scope of business of our Company covers the provision of loans or loan guarantees, our Company may provide any of the Directors, Supervisors or senior management or other related personnel with loans or guarantees for loans, provided that the conditions governing the above loans or loan guarantees shall be on normal commercial conditions.

In the event that our Company provides loans in violation of this restriction, the person who receives the loan(s) must pay back the loan(s) immediately, regardless of the conditions of loans. Any loan provided by our Company in violation of this restriction shall not be mandatorily enforced against us, unless under the following circumstances:

- (i) The loan provider unknowingly provides loans to personnel related to the Directors, Supervisors or senior management of our Company or its parent company; or
- (ii) The collateral provided by our Company is sold lawfully by the lender to the buyer in good faith.

For the purpose of the above provisions, "guarantee" includes the acts of the guarantor bearing the liabilities or providing properties to secure that the obligor performs the obligations.

(e) Provide financial assistance for acquiring the Shares or shares of any of our subsidiaries

Pursuant to the Articles of Association:

- (i) Our Company or our subsidiaries shall not provide any financial assistance at any time or in any manner to persons that acquires or plans to acquire our Shares. Such persons include any persons who undertake obligations, directly or indirectly, as a result of acquiring the Shares; and
- (ii) Our Company or any of our subsidiaries shall not provide persons mentioned in the preceding paragraph with financial assistance at any time or in any manner to mitigate or exempt the obligations of the above persons.

The following transactions are not prohibited:

- (i) Related financial assistance provided by our Company is in good faith and in our interest and the main purpose of the financial assistance is not to acquire our Shares or is an incidental part of a master plan of our Company;
- (ii) The lawful distribution of our properties by way of dividend;
- (iii) Distribution of dividends in the form of shares;
- (iv) Reducing the registered capital, redeeming the Shares or adjusting the equity structure pursuant to the Articles of Association;
- (v) Our Company grants loans within our scope of business and in the ordinary course of our business, provided that such loans shall not result in reduction in the net assets of our Company or in case that the net assets are reduced, this financial assistance is paid out of the profit available for distribution; and
- (vi) Our Company provides the employee stock ownership plan with fund, provided that such loans shall not result in reduction in the net assets of our Company or, even if the net assets are reduced, this financial assistance is paid out of the profit available for distribution.

For the purpose of the above provisions:

- (i) “Financial assistance” includes, but is not limited to:
 - (aa) Gifts;
 - (bb) Guarantees (including acts of the guarantor assuming liabilities or providing property to secure that the obligor performs the obligations), compensation (excluding compensation arising from mistakes of our Company), release or waiver of rights;
 - (cc) Provision of loans or signing of contracts whereby our Company performs some obligations before others, change of the parties to the loans/contracts as well as the assignment of the rights in the loans/contracts; or
 - (dd) Financial assistance provided by our Company in any other manner when it is insolvent, has no net assets, or will suffer significant decreases in net assets.
- (ii) “Assuming obligations” includes obligator undertaking obligations by signing agreements or making arrangements (no matter whether the agreements or arrangements are enforceable on demand or bearing the obligations by him personally or jointly with any other person) or changing its financial status in any other manner.

(f) Disclose matters relating to the contract rights of our Company and voting on the contracts

When any of the Directors, Supervisors and senior management has material interests in the contracts, transactions or arrangements that our Company has entered into or plans to enter into in any manner directly or indirectly (except for employment contracts that our Company has entered into with the Directors, Supervisors and senior management), the above personnel shall disclose the nature and degree of their interests to the Board of Directors as soon as possible no matter whether the above contracts, transactions, arrangements or suggestions are subject to the approval of the Board of Directors in normal circumstances.

With respect to any contract, transaction, arrangement or proposal in which a Director or his close associates have a material interest, subject to such certain exceptions available under the Listing Rules or such exceptions as the Stock Exchange may approve, the Director shall withdraw and not participate in voting; and the Director shall not be included when determining whether the number of directors attending the meeting reaches a quorum.

Unless the Directors, Supervisors and senior management who have interests have made disclosure to the Board of Directors in accordance with the above requirements and the Board of Directors approves the matters at the meeting in which they are not included in the quorum nor participate in voting, our Company shall have the right to cancel the contracts, transactions or arrangements, except where the opposite party is a party in good faith without knowledge of the acts of related Directors, Supervisors and senior management violating their obligations.

Where associates of the Directors, Supervisors and senior management have interests in certain contracts, transactions and arrangements, the related Directors, Supervisors and senior management shall be deemed to have interests.

(g) Remuneration

Our Company shall sign written agreements with the Directors and Supervisors regarding remuneration which shall be subject to prior approval of the Shareholders' general meeting, including:

- (i) Remuneration for providing services as the Directors, Supervisors or senior management of our Company;
- (ii) Remuneration for providing services as the Directors, Supervisors or senior management of our subsidiaries;
- (iii) Remuneration for providing other services for management of our Company and our subsidiaries; and
- (iv) Compensation received by the Directors or Supervisors as a result of loss of position or retirement.

No Director or Supervisor shall institute any litigation against our Company for any interests in relation to the above unless provided for in the above contracts.

(h) Resignation, Appointment and Dismissal

None of the following persons shall serve as the Director, Supervisor, general manager or other senior management:

- (i) Anyone who has no or limited civil capacity;
- (ii) Anyone who has been convicted of the offense of corruption, bribery, infringement of property, misappropriation of property, or disrupting the social economic order, and less than five years has elapsed since the sentence was fully served, or who has been deprived of political rights because of criminal offense and not less than five years has elapsed since the sentence was fully served;
- (iii) Anyone who has served as Director, factory manager or manager of a company or enterprise that is bankrupt and liquidated as a result of improper management and is personally liable for the bankruptcy of the company or enterprise, where less than three years has elapsed since the date of completion of bankruptcy and liquidation of the company or enterprise;
- (iv) Anyone who has served as the legal representative of a company or enterprise whose business license was revoked due to violation of the law and is personally liable, where less than three years has elapsed since the date of revocation of business license of the company or enterprise; or
- (v) Anyone who has a relatively large sum of overdue debts;
- (vi) Anyone who is investigated by the judicial authorities for violation of criminal law and whose case is pending;
- (vii) Anyone who may not serve as a head of the company pursuant to the provisions of the laws and administrative regulations, or regulations of the competent authorities;
- (viii) Anyone who is not a natural person;
- (ix) Anyone convicted by the competent authorities to have violated the provisions of relevant securities laws, which involved in fraudulent or dishonest conducts and, less than five years has elapsed since the date on which the judgment was made.

The validity of the acts of the Directors, general manager or senior management on behalf of our Company to bona fide third parties shall not be affected by any irregularities in their appointment, election or qualifications.

The Board of Directors consists of seven Directors and they are elected at the Shareholders general meeting. The Directors are not required to hold any of our Shares.

The chairman of the Board shall be elected and dismissed by a vote of more than one half of the Directors. Subject to compliance with related laws and administrative regulations, the Shareholders' general meeting may remove any Director whose term of office has not expired by an ordinary resolution without affecting any claim for damages that may be made pursuant to any contract.

The Directors serve three-year terms. Upon expiration of the term, the Director may be re-elected.

Written notice concerning proposed nomination of a candidate to be Directors and indication of the candidate's intention to accept the nomination shall be sent to our Company seven days before the Shareholders' general meeting is convened (the period shall commence on the day after the dispatch of the notice of the general meeting for such election by our Company).

(i) Power to Obtain Loans

The Articles of Association does not include any special provision regarding the manner in which the Directors may exercise the right to obtain loans or the manner in which such a right is given except (a) the provision regarding the power of the Directors to develop proposals for our Company to issue bonds, and (b) the provision that the bond issue must be approved by the Shareholders by a special resolution at the Shareholders' general meeting.

(j) Responsibilities

The Directors, Supervisors and senior management shall bear the obligations to act in good faith and with diligence for our Company. In the event of violation of obligations owed to our Company by the Directors, Supervisors and senior management, we shall have the right to take the following measures in addition to various rights and remedial measures stipulated in legal and administrative regulations:

- (i) Require related Directors, Supervisors or senior management to compensate our Company for losses incurred as a result of their breach of duty;
- (ii) Cancel any contract or transaction entered into between the Company and related Directors, Supervisors or senior management as well as any contract or transaction entered into between our Company and any third party when the third party knew or should have known that the Directors, Supervisors or senior management acting on behalf of our Company violated their obligations owed to our Company;
- (iii) Require the relevant Directors, Supervisors or senior management to return the proceeds obtained from the violation of their obligations;
- (iv) Recover funds received by the relevant Directors, Supervisors or senior management that should have been received for our Company, including but not limited to commissions;
- (v) Require the relevant Directors, Supervisors or senior management to return the interest earned or that may be earned from funds that should have been paid to our Company.

When performing their responsibilities, the Directors, Supervisors and senior management must comply with the principle of integrity and shall not put themselves in situations where their own interests may conflict with the obligations they have undertaken. This principle includes, but is not limited to, performing the following obligations:

- (i) Acting honestly in the best interests of our Company;
- (ii) Exercising one's rights within the scope of authority and not to act ultra vires;
- (iii) Exercising conferred discretionary powers personally without being manipulated by others; not transferring discretionary powers to other persons unless and to the extent permitted by laws and administrative regulations or with the informed consent of Shareholders given in a general meeting;
- (iv) Treating Shareholders of the same class equally and Shareholders of different classes fairly;
- (v) Entering into any contract, transaction or arrangement with our Company is not allowed, unless in line with the Articles of Association or otherwise by the approval of the Shareholders' general meeting with informed consent;
- (vi) Seeking personal benefit using the properties of our Company in any manner is not allowed, unless agreed by the Shareholders' general meeting with informed consent;
- (vii) Taking advantage of one's position to accept bribes or other illegal gains is not allowed, nor is any form of expropriation of our property, including, but not limited to, opportunities beneficial to our Company;
- (viii) Accepting commissions associated with transactions of our Company is not allowed unless agreed by the Shareholders' general meeting with informed consent;
- (ix) Compliance with the Articles of Association, discharging duties in a faithful manner, safeguarding the interests of our Company rather than seeking personal gain by taking advantage of one's position and authority in our Company;
- (x) Competing with our Company in any manner is not allowed, unless agreed by the Shareholders at the Shareholders' general meeting with informed consent;
- (xi) Misappropriation of our funds or lending these funds to others is not allowed, nor is depositing the assets of our Company in an account opened in one's own name or other names and using the assets of our Company to provide guarantees for the debts of the Shareholders or other individuals allowed;
- (xii) Disclosure of any confidential information relating to our Company obtained during employment without the informed consent of the Shareholders' general meeting is not allowed; unless in the interest of our Company, the using of such information is also not allowed; however, under the following circumstances the information may be disclosed to a court or other competent government authorities as required by (1) the provisions of the law; (2) for the public interest; (3) for the interest of the Directors, Supervisors or senior management.

The Directors, Supervisors and senior management may not direct the following persons or institutions (the “related person”) to do acts that the Directors, Supervisors and senior management is prohibited from doing:

- (i) Spouses or minor children of the Directors, Supervisors and senior management;
- (ii) Trustees of the Directors, Supervisors and senior management or the persons mentioned in (i);
- (iii) Partners of the Directors, Supervisors and senior management or persons mentioned in (i) and (ii);
- (iv) The company under de facto control by the Directors, Supervisors and senior management individually or jointly with the persons mentioned in (i), (ii) and (iii) or other Directors, Supervisors and senior management of our Company;
- (v) directors, supervisors or senior management of the controlled companies mentioned in (iv).

The fiduciary duties owed by the Directors, Supervisors and senior management may not necessarily terminate with the expiration of their terms of office; their obligation to keep the trade secrets of our Company in confidence shall survive the expiration of their terms of office. The duration of other obligations shall be determined in accordance with the principle of fairness, depending on the length of time from the occurrence of the events to the time of termination of term of office, as well as the circumstances and conditions under which the relationship with our Company is terminated.

Except as otherwise provided in the Articles of Association, liabilities of Directors, Supervisors and senior management arising from the violation of specific duties may be released by informed consent given by Shareholders in general meetings.

Apart from the obligations set forth in related laws, administrative regulations or the listing rules of the stock exchange where the Shares are listed, the Directors, Supervisors or senior management shall assume the following obligations for each of the Shareholders when exercising their rights granted by our Company:

- (i) They may not cause our Company to operate beyond the scope of business indicated on our business license;
- (ii) They shall act honestly in the best interests of our Company;
- (iii) They may not deprive our Company of our properties in any manner, including, but not limited to, opportunities beneficial to our Company; and
- (iv) They may not deprive the Shareholders of personal rights and interests, including, but not limited to, the right to receive dividends distributed and to vote, except for restructuring of our Company approved at the Shareholders’ general meeting pursuant to the provisions of the Articles of Association.

The Directors, Supervisors and senior management have the responsibility when exercising their rights or fulfilling out their obligations to act with the care, diligence and skill due from a reasonably prudent person under similar circumstances.

2 MODIFICATION OF THE ARTICLES OF ASSOCIATION

We may amend the Articles of Association based on the provisions of the relevant laws, administrative regulations and Articles of Association.

Any amendment to the Articles of Association that involves Mandatory Provisions shall be approved by company approval authorities authorized by the State Council and China Securities Regulatory Commission before taking effect. Where the amendment of the Articles of Association involves our registration, it shall be necessary to carry out the lawfully prescribed procedures for registration change.

3 SPECIAL VOTING PROCEDURES OF CLASS SHAREHOLDERS

Any Shareholder who holds different classes of Shares is a class Shareholder. Any plan of our Company to change or abolish the rights of a class Shareholder is subject to the approval of the Shareholders' general meeting in the form of a special resolution and the approval of the affected class Shareholders at a separately convened Shareholders' general meeting in accordance with the Articles of Association before it can be implemented. The rights of a class Shareholder shall be viewed as changed or abolished under any of the following circumstances:

- (a) Increase or reduce the number of the Shares of such class, or increase or reduce the number of Shares of a class with equal or superior voting rights, distribution rights and other privileges than such class of classified Shares;
- (b) Convert all or part of the Shares of such class into other classes or convert another class of Shares, partly or wholly, into such class of Shares or grant such conversion right;
- (c) Cancel or reduce the right of the Shares of such class to obtain accrued dividends or cumulative dividends;
- (d) Reduce or cancel the right of the Shares of such class to receive dividends on a priority basis or the priority right to receive property distribution in the liquidation of our Company;
- (e) Increase or cancel or reduce the right of the Shares of such class to convert Share rights, options rights, voting rights, transfer rights, and pre-emptive rights, or the right to obtain the securities of our Company;
- (f) Cancel or reduce the right of the Shares of such class to receive funds payable of our Company in specified currencies;
- (g) Create new class of Shares entitled to equal or superior voting rights, distribution rights, or other privileges than the Shares of such class;
- (h) Impose restrictions on the transfer or ownership of the Shares of such class or increase such restrictions;
- (i) Issue subscription or conversion rights for Shares of such class or other classes;
- (j) Increase the rights and privileges of other classes of Shares;

- (k) The restructuring plan of our Company may constitute different classes of Shareholders to assume responsibilities disproportionately;
- (l) Amend or abolish clauses stipulated in our Articles of Association.

Whether or not the affected class Shareholders have voting rights at the Shareholders' general meeting, in the event of matters described above from (b) to (h), (k) and (l), they have voting rights at the class meeting, but the Shareholders that have interests (as defined in our Articles of Association) shall have no voting rights at the class meeting.

The resolution of the class meeting shall be passed by votes representing no less than two thirds of Shareholders with voting rights attending the class meeting.

When convening a class meeting, 45 days (excluding the date of the meeting) before the meeting is convened, our Company shall send a written notice to inform all registered holders of the Shares of the class on matters to be deliberated at the meeting, as well as the date and venue of the meeting. Shareholders planning to attend the meeting shall send our Company a written reply concerning attendance at the meeting 20 days before the meeting.

In the event that the number of Shares with voting power represented by Shareholders planning to attend the meeting accounts for more than one half of the total number of the Shares of such class with voting power at the meeting, our Company may convene a class meeting. If this number is not reached, our Company shall again inform the Shareholders of the matters to be deliberated as well as the date and venue of the meeting within five days in the form of an announcement and our Company may convene a class meeting once the announcement is delivered.

The notice of the class meeting needs only to be sent to the Shareholders who have the right to vote at the meeting.

Insofar as possible, any class meeting shall be held in accordance with the same procedures as those of the Shareholders' general meeting, and any clause that relates to the procedures for convening the Shareholders' general meeting in the Articles of Association shall apply to any class meeting.

Apart from the holders of Shares of other classes, the holders of Domestic Shares and the holders of overseas listed foreign invested Shares are considered as different class Shareholders.

The special procedures for voting by the class Shareholders shall not apply under the following circumstances:

- (a) Upon the approval by a special resolution at the Shareholders' general meeting, our Company either separately or concurrently issues Domestic Shares and overseas-listed foreign invested Shares once every 12 months, and the number of those shares to be issued shall not exceed 20% of its existing issued Domestic Shares and overseas listed foreign invested Shares respectively;
- (b) The plan to issue Domestic Shares and overseas listed foreign invested Shares since the establishment of our Company is completed within 15 months of the date of approval by the securities regulatory authorities of the State Council;

- (c) Upon the approval by the securities regulatory authorities of the State Council, the Domestic Shares held by the domestic Shareholders can be converted into overseas listed foreign invested Shares and become listed or traded on an overseas stock exchange.

4 SPECIAL RESOLUTIONS NEEDED TO BE ADOPTED BY MAJORITY VOTE

The resolutions of the Shareholders' general meeting are categorized as ordinary resolutions and special resolutions.

An ordinary resolution can be adopted by a simple majority of the votes held by the Shareholders (including proxies) attending the Shareholders' general meeting.

A special resolution can be adopted by a two-thirds majority of the votes held by the Shareholders (including proxies) attending the Shareholders' general meeting.

5 VOTING RIGHTS (GENERALLY ON A POLL AND RIGHT TO DEMAND A POLL)

The ordinary Shareholders have the right to attend or appoint a proxy to attend and vote at the shareholders' general meeting. When voting at the shareholders' general meeting, the Shareholder (or proxy) may exercise his or her voting rights based on the number of Shares held provided that each Share represents one vote.

When voting at a general meeting, Shareholders (including their proxies) who are entitled to two or more votes are not required to cast all his or her votes against or in favor of the resolution.

When the number of dissenting votes equals the number of affirmative votes, the chairman of the meeting is entitled to one additional vote.

6 SHAREHOLDERS' GENERAL MEETINGS

The shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. Shareholders' general meetings are called by the Board of Directors. The annual general meeting shall be convened once a year and be held within six months after the end of the previous fiscal year.

7 ACCOUNTING AND AUDITS

(a) Financial and accounting policies

Our Company shall develop its financial and accounting policies pursuant to the PRC laws, administrative regulations, as well as accounting standards developed by the competent financial department under the State Council.

The Board of Directors shall submit the financial reports of our Company, as required by the laws, administrative regulations or directives promulgated by local governments and competent authorities to be prepared by our Company, at every Shareholders' annual meetings.

Apart from the Chinese accounting standards for business enterprises and regulations, the financial reports of our Company shall also conform to international accounting standards and the accounting standards of overseas place where the Shares are listed. In the event of any major discrepancy between the financial reports prepared in accordance with the two accounting standards, such difference must be provided in the notes to the financial reports. As to the distribution of after-tax profits of our Company in a fiscal year, the after-tax profits indicated on the two financial reports, whichever is lower, shall prevail.

Our Company shall make its financial reports available for inspection by the Shareholders 20 days before the annual general meeting is convened. Each Shareholder is entitled to obtain one copy of the financial report.

Our Company shall send the aforesaid reports to each of the holders of overseas-listed foreign invested Shares in the manner as stipulated in the Articles of Association of our Company or by postage-paid mail at least 21 days before the annual general meeting is convened and the recipient's address shall be the address as shown in the register of Shareholders.

Our Company's interim results or financial information published or disclosed by our Company shall at the same time be prepared in accordance with the PRC accounting standards, regulations, international accounting standards as well as the accounting standards of the overseas place in which the Shares are listed.

Our Company must publish the financial reports twice in each fiscal year. Interim financial reports shall be published within 60 days after the end of the first six months of a fiscal year, while the annual financial report shall be published within 120 days after the completion of each fiscal year.

The Company shall not keep any accounting books other than those specified by law. No assets of the Company shall be deposited in any account opened in the name of any individual.

(b) Appointment and Dismissal of Accountants

Our Company shall appoint an independent accounting firm with qualifications that meets appropriate requirements of the state to be responsible for auditing its annual report and reviewing its other financial reports.

The term of office the accounting firm appointed by our Company shall start from the conclusion of the annual general meeting and continue until the conclusion of the next annual general meeting.

Without prejudice to the right of the accounting firm to claim for compensation (if any) for being dismissed and replaced, the Shareholders may replace the accounting firm by an ordinary resolution at the Shareholders' general meeting prior to the expiration of the term of office of any accounting firm notwithstanding the terms and conditions of the contract howsoever entered into between our Company and the accounting firm.

Remuneration of the accounting firm and the manner in which the remuneration is determined shall be decided on by the Shareholders at the Shareholders' general meeting. The remuneration of the accounting firm appointed by the Board of Directors shall be confirmed by the Board of Directors.

Appointment, dismissal/replacement or termination of the contract of the accounting firm by our Company is subject to the resolution of the Shareholders at the Shareholders' general meeting and shall be filed with the securities regulatory authority of the State Council.

Before dismissing, reappointing, replacing or terminating the contract with the accounting firm, our Company shall send a notice to the accounting firm in advance notifying it of the matters relating to the dismissal, reappointment, replacement or contract termination, and the accounting firm shall be entitled to attend the Shareholders' general meeting and make a statement.

In the event that the accounting firm requests to resign, it shall declare to the Shareholders' general meeting whether our Company is affected by any improprieties.

The accounting firm shall resign by sending a written resignation notice to our Company's legal address. The notice shall take effect on the date of delivery to that address of our Company or on the date specified in the notice, whichever is later.

The notice shall include the following statements:

- (i) Its resignation does not include any statement that should be disclosed to the Shareholders or creditors of our Company; or
- (ii) Any statement that should be disclosed.

Within 14 days after receipt of the notice mentioned above, our Company shall send the copy of the notice to related competent authorities. If the notice includes statements mentioned in (ii) of the preceding paragraph, our Company shall retain a copy thereof for perusal by the Shareholders and deliver such copy in accordance with Articles of Association or send a copy of the above-mentioned statements to Shareholders of overseas listed foreign invested shares in accordance with the addresses registered on the register of Shareholders by prepaid mail.

In the event that the resignation notice of the accounting firm includes any statement that should be disclosed to the Shareholders or creditors, the accounting firm may request the Board of Directors to convene an extraordinary general meeting to hear its explanation regarding the resignation.

8 NOTIFICATION AND AGENDA OF SHAREHOLDERS' GENERAL MEETINGS

The Shareholders' general meeting is the organ of authority of our Company that performs duties and exercises powers in accordance with the law.

Apart from special circumstances such as where our Company is in crisis, without the approval of a special resolution of the Shareholders' general meeting, our Company shall not enter into a contract with any person other than the Directors, Supervisors and senior management that would make a person responsible for the management of all or part of the main business of our Company.

Under any of the following circumstances, the Board of Directors shall convene an extraordinary general meeting within two months:

- (a) The number of Directors is less than the number specified in the PRC Company Law or less than two thirds of the number required in the Articles of Association;

- (b) The uncovered losses of our Company reach one-third of its total paid-in share capital;
- (c) The Shareholders with 10% or more voting power separately or jointly request to convene an extraordinary general meeting in writing;
- (d) The Board of Directors considers it necessary or the Supervisory Committee proposes convening an extraordinary general meeting; or
- (e) Any other circumstances stipulated in laws, administrative regulations, regulations of the competent authorities or the Articles of Association.

When convening a Shareholders' general meeting, our Company shall send a written notice to inform all registered Shareholders of the matters to be considered at the meeting as well as the date and venue of the meeting 45 days before it is convened (excluding the date of meeting). Shareholders planning to attend shall send to our Company a written reply to that effect 20 days before the meeting is held.

At our Company's Shareholders' general meeting, the Shareholders jointly holding 3% or more Shares with voting power are entitled to submit written proposals to our Company.

Our Company shall calculate the number of Shares with voting power represented by the Shareholders planning to attend the Shareholders' general meeting in accordance with the written replies received 20 days before the meeting is convened. In the event that the number of Shares with voting power represented by the Shareholders planning to attend reaches more than one half of our total number of Shares with voting power, our Company may convene the Shareholders' general meeting. If this number is not reached, our Company shall again inform the Shareholders of the matters to be deliberated and the date and venue of the meeting within five days in the form of an announcement before the Shareholders' general meeting may be convened.

The notice of the Shareholders' general meeting shall be in writing and meet the following requirements:

- (a) Specified venue, date and time of the meeting;
- (b) Specified matters to be deliberated at the meeting;
- (c) Provision to the Shareholders of the detailed information and contract(s) and the materials and explanation about the cause and consequence necessary for the Shareholders to make sound decisions about the matters to be deliberated. This principle includes, but is not limited to, the provision of the detailed terms and contract(s), if any, of the proposed transaction(s) and proper explanation about related causes and effects of our Company proposed merger, redemption of shares, restructuring of stock capital or other restructuring;
- (d) In the event that any of the Directors, Supervisors, managers or other senior management has material interests in matters to be deliberated, the nature and extent of the interests at stake shall be disclosed. If the matters to be deliberated affect any Director, Supervisor, manager or other senior management as a Shareholder in a manner different from how they affect other Shareholders of the same class, the difference shall be explained;

- (e) Inclusion of the full text of any special resolution to be proposed for adoption at the meeting;
- (f) A clear statement that the Shareholder is entitled to attend and vote at the Shareholders' general meeting, or to appoint one or more proxies to attend and vote at the meeting on his or her behalf and that a proxy may not necessarily be a Shareholder;
- (g) Specified delivery time and place of the power of attorney for proxy voting of the meeting;
- (h) registration date of shareholding of any Shareholder entitled to attend the Shareholders' general meeting;
- (i) name and telephone number of the related contact person in charge of shareholders' general meeting matters.

The notice and circular of the Shareholders' general meeting of the Company shall be sent in person or by postage-paid mail to the holders of H Shares in accordance with the relevant provisions of the Listing Rules regardless of whether such Shareholders have the right to vote at the Shareholders' general meeting, and each recipient's address shall be according to the address indicated on the register of Shareholders. For holders of Domestic Shares, the notice of our Shareholders' general meeting may be given in the form of an announcement.

This announcement shall be published in one or more newspapers designated by the securities governing authority of the State Council within a period from 45 to 50 days before the meeting is convened. Once the announcement is made, all holders of Domestic Shares shall be deemed to have received the notice of our Shareholders' general meeting. In the event that the notice of the meeting is not sent to persons entitled to receive it due to accident or oversight, or such persons fail to receive notice of the meeting, the meeting and resolutions made at the meeting shall not be thereby affected.

The independent Directors shall have the right to require the Board to convene a Shareholders' extraordinary general meeting. Within ten days after receipt of the requisition, the Board shall, in accordance with laws, regulations and the Articles of Association, give a written response in respect of whether or not it agrees to convene a Shareholders' extraordinary general meeting. If the Board agrees to convene a Shareholders' extraordinary general meeting, a notice of Shareholders' general meeting shall be issued within five days after the Board has passed such a resolution. If the Board refuses to convene a Shareholders' extraordinary general meeting, an explanation and relevant announcement shall be made.

The Supervisory Committee shall have the right to require the Board to convene a Shareholders' extraordinary general meeting. Within ten days after receipt of the requisition, the Board shall, in accordance with laws, regulations and the Articles of Association, give a written response in respect of whether or not it agrees to convene a Shareholders' extraordinary general meeting. If the Board agrees to convene a Shareholders' extraordinary general meeting, a notice of Shareholders' general meeting shall be issued within five days after the Board has passed such a resolution. Where the notice alters the original proposal, the approval of the Supervisory Committee shall be required. If the Board refuses to convene a Shareholders' extraordinary general meeting, or failure to respond within ten days after receipt of the requisition, it shall be deemed as failure of the Board to convene and preside over a general meeting, and the Supervisory Committee shall be entitled to convene and preside over the meeting.

Shareholder(s) alone or jointly holding 10% or more of the shares have the right to require the Board to convene a Shareholders' extraordinary general meeting by a written request. Within ten days after receipt of the request, the Board shall, in accordance with laws, regulations and this Articles of Association, gives a written response in respect of whether or not it agrees to convene a Shareholders' extraordinary general meeting.

If the Board agrees to convene a Shareholders' extraordinary general meeting, a notice of Shareholders' general meeting shall be issued within five days after the Board reaches such a resolution. Where the notice alters the original proposal, the approval of the relevant Shareholders shall be required.

If the Board refuses to convene a Shareholders' extraordinary general meeting, or fails to respond within ten days after receipt of the request, the Shareholder(s) alone or in aggregate holding 10% or more of the Shares have the right to propose to the Supervisory Committee by a written requisition that the Supervisory Committee convene a Shareholders' extraordinary general meeting.

If the Supervisory Committee agrees to convene a Shareholders' extraordinary general meeting, a notice of Shareholders' general meeting shall be issued within five days after receipt of the request. Where the notice alters the original proposal, the approval of the relevant Shareholders shall be required.

Failure of the Supervisory Committee to issue a notice of general meeting within the stipulated period shall be deemed as failure of the Supervisory Committee to convene and preside over a general meeting, and Shareholder(s) alone or in aggregate holding 10% or more of the Company's Shares for ninety consecutive days or more shall be entitled to convene and preside over the meeting.

The Shareholders require to convene an extraordinary general meeting or class Shareholders' meeting in accordance with the following procedures:

- (a) Shareholders who separately or jointly hold 10% or more of the Shares carrying voting rights may request the Board to convene an extraordinary general meeting or class Shareholders' meeting by signing a written request or several copies in the same form and to illustrate the proposed resolutions of the meetings. The Board shall convene an extraordinary general meeting or classified Shareholders' meeting as soon as practicably upon receipt of the foresaid written request. The aforesaid number of shareholding is calculated as of the date of the submission of the written request by the Shareholders.
- (b) A Shareholder's general meeting shall be convened in accordance with the Articles of Association.

If the Shareholders call and convene a meeting by themselves since the Board has not convene a meeting in accordance with the foresaid procedure, the expenses reasonably resulted therefrom shall be borne by our Company and be deducted from the amounts paid to the Directors who have failed to perform their duties.

The Shareholders' general meeting shall be convened by the Board and chaired by the chairman; if the chairman cannot or fails to attend the meeting, the Shareholders' general meeting shall be convened and chaired by a Director elected by more than half of the Directors. If no chairman elected, the Shareholders presented at the meeting can elect the chairman. If the

Shareholders cannot elect the chairman due to any reason, the Shareholders (including proxies) presented at the meeting who hold the largest number of Shares carrying the voting rights shall act as the chairman of the meeting.

The following matters shall be approved by the Shareholders' general meeting through ordinary resolutions:

- (a) Work report of the Board of Directors and Supervisory Committee;
- (b) Plans for profit distribution and making up of losses by the Board of Directors;
- (c) Appointment or dismissal of the members of the Board of Directors and the members of Supervisory Committee who are not assumed by staff representatives, their remuneration and payment methods;
- (d) Annual budget, final account report, balance sheet, income and other financial statements of our Company;
- (e) Other matters in addition to those approved by special resolution stipulated in the laws, administrative regulations or the Articles of Association.

The following matters shall be approved by special resolutions at the Shareholders' general meeting:

- (a) Increase or decrease of our Company's share capital and issues of shares of any class of shares, warrants and other similar securities;
- (b) Our Company's bond issues;
- (c) Division, merger, dissolution and liquidation or change of form of our Company;
- (d) Amendments to the Articles of Association;
- (e) Other matters as required by the laws, administrative regulations or the Articles of Association, and matters approved by ordinary resolution of the Shareholders' general meeting which are believed to materially affect our Company and need to be approved by special resolutions.

9 SHARE TRANSFER

The Company shall not accept any pledge of its shares.

Upon obtaining the approval from the State Council's securities regulatory authority, our Shareholders may list and trade their unlisted Shares in an overseas stock exchange. The listing and trading of such Shares shall comply with the procedures, regulations and requirements prescribed by the relevant overseas stock market. No class Shareholder voting is required for such listing and trading of Shares on an overseas stock exchange.

The Shares held by the promoters may not be transferred within one year after our incorporation. Shares issued by our Company prior to the public offering may not be transferred within one year after the date on which the Shares are listed and traded on the stock exchange.

The Directors, Supervisors and senior management shall report to our Company the number of Shares held by them as well as the subsequent changes in their shareholdings. The number of Shares which a Director, Supervisor or senior management may transfer each year during his term of office may not exceed 25% of the total number of the Shares owned by them, and the Shares may not be transferred within one year after the date on which the Shares are listed and traded on the stock exchange. The above personnel may not transfer the Shares held by them within six months after resignation.

In the event that the Directors, Supervisors, senior management or Shareholders holding 5% or more of the Shares sell their Shares within six months after purchasing them, or buy them back within six months after selling them, all proceeds obtained therefrom shall be vested in by our Company and the Board of Directors shall forfeit such proceeds from the above-mentioned persons. However, the six-month restriction shall not apply for a securities company holding 5% or more of the Company's Shares as a result of its underwriting of the untaken Shares in an offer.

If the Board of the Company fails to comply with the provision set forth in the preceding paragraph, a Shareholder shall have the right to require the Board to effect the same within 30 days. If the Board fails to do so within the said time limit, a shareholder shall have the right to initiate proceedings in a court directly in his own name in the interests of the Company.

If the Board of the Company fails to comply with the provision set forth in this paragraph, the responsible Director(s) shall be legally liable therefor jointly and severally.

All fully paid up overseas listed foreign invested shares listed in Hong Kong shall be exempted from any restriction on the right of transfer (except when permitted by the Stock Exchange) and shall also be exempted from all lien pursuant to the Articles of Association.

However, unless the overseas listed foreign invested Shares listed in Hong Kong meet the following conditions, the Board of Director may refuse to recognise any transfer document without giving any reason:

- (a) The payment to our Company of HK\$2.50 per item of transfer document or a higher amount of fee decided by the Board of Director, but such fee shall not exceed the maximum fee provided by the Stock Exchange in the Listing Rules from time to time to register the share transfer documents and other documents that are related to or may affect the ownership of the Shares;
- (b) The transfer documents only involve overseas listed foreign invested Shares listed in Hong Kong;
- (c) The stamp duty chargeable on the transfer documents has been paid and this has been registered in accordance with the regulations of the Stock Exchange;
- (d) The relevant Share certificate, upon the reasonable request of the Board of Directors, and any evidence in relation to the right of the transferor to transfer the Shares has been submitted;
- (e) If the Shares are to be transferred to joint holders, the number of the joint holders shall not exceed four; and
- (f) Our Company does not have any lien on the relevant Shares.

No change may be made to the information in the register of Shareholders as a result of the share transfer within 30 days before the Shareholders' general meeting is convened or within five days prior to the record date on which our Company has decided to distribute dividends.

10 RIGHTS OF OUR COMPANY TO BUY BACK OUR OUTSTANDING ISSUED SHARES

Under any of the following circumstances, our Company may buy back our outstanding issued Shares pursuant to the requirements of the laws, administrative rules and regulations and the Articles of Association:

- (a) Cancellation of the Shares to reduce our Company's share capital;
- (b) Merger with other companies which hold these Shares;
- (c) Granting Shares to the staff of our Company as incentives;
- (d) Buying back the Shares from Shareholders who vote against any resolutions adopted at the Shareholders' general meeting concerning the merger and division of our Company; or
- (e) Other circumstances as required by the laws and administrative regulations and as approved by the competent authorities of the PRC.

If our Company buys back the Shares according to the provision of the preceding paragraph under the circumstances set forth in (a), the Shares bought back must be cancelled within ten days after the date on which they are bought back. In the event of the circumstances set forth in (b) and (d), the Shares bought back must be transferred or cancelled within six months.

In the event that our Company buys back the Shares pursuant to the provisions of (c) in the preceding paragraph, the Shares to be bought back may not exceed 5% of the total Shares issued. The fund used for such buyback must be paid out of the after-tax net profit of our Company and the Shares bought back must be transferred to the staff within one year.

Our Company may buy back Shares in any of the following ways:

- (a) Making an offer on a pro-rata basis to all Shareholders;
- (b) Buying back Shares through public trading on the stock exchange;
- (c) Buying back Shares by an off-market agreement;
- (d) In other ways approved by the competent authorities of the PRC.

Where our Company buys back the Shares by an off-market agreement, it shall obtain prior approval at the Shareholders' general meeting pursuant to the Articles of Association. Likewise, subject to the prior approval of the Shareholders' general meeting, our Company may rescind or change the contract signed in the aforesaid manner or waive any of its rights in the contract. As for the redeemable Shares that our Company is entitled to buy back, if they are not bought back in the market or by tender, the price may not exceed a certain maximum limit.

If the Shares are bought back by tender, a tender must be made to all Shareholders on equal terms. The contract that buys back the Shares includes, but is not limited to, an agreement that consents to undertake the obligation to buy back the Shares and acquire the rights of the Shares bought back.

Our Company shall not transfer any contract that buys back the Shares or any rights conferred under the contract.

Unless our Company has entered into the liquidation process, we must observe the following provisions for the buyback of issued Shares:

- (a) Where our Company buys back Shares at par value, the funds shall be deducted from the book surplus of our distributable profits and the proceeds obtained from the issue of new Shares to buy back the old Shares;
- (b) Where our Company buys back the Shares at a premium to the par value, the portion of funds equivalent to par value shall be deducted from the book surplus of our distributable profits and the proceeds obtained from the issue of new Shares made for the purpose of buying back of Shares, while the portion of funds in excess of par value shall be dealt with in the following manners:
 - (i) Where the Shares bought back were issued at par value, the funds shall be deducted from the book surplus of our distributable profits;
 - (ii) Where the Shares bought back were issued at a premium to the book value, the funds shall be deducted from the book surplus of our distributable profits and the proceeds obtained from the issue of new Shares made for the purpose of buying back of Shares. However, the amount deducted from the proceeds obtained from the issue of new Shares shall not exceed the total premium amount obtained when the Shares being bought back were issued or the amount (including the premium amount of the issue of new Shares) in our capital reserve account when the Shares are bought back.
- (c) The funds paid by our Company for the following purposes shall be allocated from our distributable profits:
 - (i) To obtain the right to buy back the Shares;
 - (ii) To modify any contract to buy back the Shares;
 - (iii) To release any obligation of our Company under the Share buyback contract.
- (d) After the total par value of the cancelled Shares is deducted from our registered capital pursuant to the relevant provisions, the amount deducted from the distributable profits for paying up the par value portion of the Shares bought back shall be credited to our capital reserve account.

11 DIVIDEND AND DISTRIBUTION METHODS

Our Company may distribute dividends by way of cash or shares.

Our Company shall appoint, on behalf of holders of overseas listed foreign invested Shares, receiving agents to receive dividends and other payable funds that are distributed with respect to our overseas listed foreign invested Shares and the receiving agent shall be a trust company registered under the Trustee Ordinance.

The receiving agents appointed by our Company shall comply with related provisions of the laws or the stock exchange where the Shares are listed.

12 SHAREHOLDER PROXIES

Any Shareholder who is entitled to attend and vote at our general Shareholders' meetings has the right to appoint one or more persons (who may not necessarily be Shareholders) as his or her Shareholder proxy to attend and vote at the meeting on his or her behalf. Pursuant to the authorization of the Shareholder, the proxy may exercise the following rights:

- (a) Speak on behalf of the Shareholder at the Shareholders' general meeting;
- (b) Demand a poll individually or with others;
- (c) Exercise the right to vote by a show of hands or a poll, but the Shareholder proxy may only exercise the right to vote by a poll when more than one proxy are appointed.

The Shareholder proxy appointment shall be in writing and shall be signed by the appointor or a person duly authorized in writing. Where the appointor is a legal entity, the seal of the legal entity shall be affixed, or signed by the Director or a duly authorized agent. The power of attorney must be kept at the address or other location designated in the notice convening the meeting no later than 24 hours before the meeting at which the power of attorney is appointed to vote is convened or 24 hours before the designated time at which the resolution is adopted. If the power of attorney is signed by another person authorized by the appointor by means of power of attorney or other instrument of authorization, the power of attorney or other instrument must be certified by a notary. The power of attorney or other instrument certified by the notary must be kept together with the power of attorney appointing the entrusted representative at our address or other location designated at the notice convening the meeting.

Where the appointor is a legal person, a power of attorney may be signed by its duly authorized person to authorize its legal representative or any person authorized by resolutions of its board of directors or other governing body to attend our Shareholders' general meeting as a representative.

Any form sent by the Directors to the Shareholder for appointing a shareholder proxy shall allow the Shareholder, according to his or her free will, to instruct the proxy to vote and provide instructions for each resolution dealing with matters to be put to vote on the meeting agenda. The power of attorney shall specify that the shareholder proxy may vote at his or her own discretion if the Shareholder does not provide instructions.

The votes of the shareholder proxy given pursuant to the terms of an instrument of proxy shall remain valid notwithstanding the previous death, loss of capacity of the appointor or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the Shares in respect of which the proxy is given, provided that our Company does not receive written notice concerning such matters before the related meeting is convened.

13 REGISTER OF SHAREHOLDERS AND OTHER RIGHTS OF SHAREHOLDERS

Pursuant to the understanding reached and agreement entered into between the competent authority in charge of securities under the state and the overseas securities regulatory organizations, our Company may keep in overseas a register of the holders of the overseas listed foreign Shares and entrust an overseas entity to manage it. The original register of the holders of the overseas listed foreign Shares listed in Hong Kong shall be kept in Hong Kong.

Our Company shall keep a duplicate of the register of the holders of the overseas listed foreign Shares at our address. The overseas entrusted entity shall at all times maintain consistency between the original and duplicate of the register of the holders of the overseas listed foreign Shares.

In case of inconsistency between the original and duplicate of the register of the holders of the overseas listed foreign Shares, the original shall prevail.

Our Company must keep a complete register of Shareholders.

The register of Shareholders shall include the following:

- (a) Register of Shareholders kept at our address other than those specified in (b) and (c);
- (b) Register of the holders of our overseas listed foreign Shares kept at the domicile of the stock exchange where such Shares are listed;
- (c) Register of Shareholders kept in other locations according to the decision of the Board of Directors as required for the listing of the Shares.

Different parts of the Shareholders' register shall not overlap. The transfer of Shares registered in a certain part of the register of Shareholders shall not be registered in other parts of in the register of Shareholders as long as such register remain in effect. Any alteration or rectification to any part of the register of Shareholders shall be made in accordance with the laws in the place where such part of the register of Shareholders is maintained.

No change of the register of Shareholders as a result of share transfer shall be made within 30 days before the Shareholders' general meeting is convened or within five days prior to the record date on which our Company decides to pay dividends.

When our Company convenes the Shareholders' general meeting, pays dividends, goes into liquidation or is involved in other actions that require the determination of shareholding, the Board of Directors shall fix a date as the shareholding registration date, upon expiration of which the Shareholders whose names appear on the register of Shareholders shall be the Shareholders.

Any person who objects to the register of Shareholders and requests to register his or her name (title) in the register of Shareholders or to remove his or her name (title) from the register of Shareholders may apply to the court with jurisdiction to amend the register of Shareholders.

The Shareholders are entitled to obtain the following information, including but not limited to:

- (a) The Articles of Association after paying the cost;
- (b) The right to inspect and copy the following after paying a reasonable fee:
 - (i) All parts of the register of Shareholders;
 - (ii) Personal data of the Directors, Supervisors and senior management;
 - (iii) Status of the share capital of our Company;
 - (iv) Latest audited financial report and report of Board of Directors, Audit Committee and Supervisory Committee;
 - (v) Special resolutions of the Shareholders' general meeting;
 - (vi) Report on the total par value, quantity, highest and lowest prices of each class of Shares repurchased by our Company since the end of the previous accounting year and all expenses paid by our Company for this purpose;
 - (vii) Latest annual inspection report filed with the administration bureau for industry and commerce of China or other relevant authorities;
 - (viii) Minutes of the Shareholders' general meeting, resolutions of meeting of the Board of Directors, resolutions of meeting of the Supervisory Committee; and
 - (ix) counterfoil of bonds of our Company.

14 QUORUM OF SHAREHOLDERS' GENERAL MEETINGS

If the number of Shares carrying voting rights represented by the Shareholders intending to attend the meeting exceeds one half of the total number of Shares carrying voting rights, our Company may convene the Shareholders' general meeting. If the number of a class of Shares carrying voting rights represented by the Shareholders intending to attend the meeting exceeds one half of the total number of such class of Shares, our Company may convene a class Shareholders' meeting.

15 RESTRICTIONS ON RIGHTS OF OUR CONTROLLING SHAREHOLDERS

Apart from the obligations required in laws, administrative regulations or the listing rules of the stock exchange on which the Shares are listed, our Controlling Shareholder shall not make any decision that is detrimental to the interest of all or part of the Shareholders on the following issues by exercising his or her voting rights:

- (a) Releasing the Directors and Supervisors from the responsibility of acting honestly in the best interest of our Company;
- (b) Permitting the Directors and Supervisors (for their own or others' interests) to deprive our Company of assets in any form, including, but not limited to, any opportunity that is beneficial to our Company;

- (c) Permitting the Directors and Supervisors (for their own or others' interests) to deprive the Shareholders of their personal rights and interests, including, but not limited to, any dividend distribution or voting right, but excluding the restructuring of our Company approved at the Shareholders' general meeting pursuant to the Articles of Association;
- (d) Controlling Shareholders and actual controllers of the company shall not use their associated relationships to harm the interests of the Company. Otherwise, they shall be liable to compensate the Company against losses the Company has thus suffered in violation of the regulations. Controlling Shareholders and actual controllers shall act in good faith and in the best interest of the Company and other public Shareholders. Controlling Shareholders shall strictly and legally exercise the rights of capital contributors and shall not impair the lawful rights of the Company and other public Shareholders by such means as profit distribution, assets reorganisation, external investment, appropriation of funds and loan guarantee, nor shall they with their controlling status damage the interests of the company and other public Shareholders.

16 COMPANY LIQUIDATION

Under any of the following circumstances, our Company shall be lawfully dissolved and liquidated:

- (a) The Shareholders' general meeting adopts a resolution to dissolve our Company;
- (b) Our Company needs to be dissolved for the purpose of merger or division;
- (c) The business license is revoked, or our Company is ordered to close down or be abolished according to applicable law;
- (d) the Company is legally declared insolvent due to its failure to repay debts due;
- (e) Where our Company encounters significant difficulties in business and management, its continuous survival may be significantly detrimental to the interests of the Shareholders, and the difficulties may not be overcome through other means, Shareholders who hold more than 10% of the Shares carrying voting rights may request the court to dissolve our Company.

Where our Company is dissolved due to the provisions set forth in (a), (c) and (e) above, the liquidation team shall be established within 15 days and the members of the liquidation team shall consist of the persons determined by the Board of Directors or the Shareholders' general meeting. In the event the liquidation team is not established during such period, the creditors can request the people's court to appoint relevant personnel to establish the liquidation team. In the event that our Company is dissolved in accordance with the provisions set forth in (d) above, the people's court shall organize the Shareholders, related departments and professionals to form the liquidation team pursuant to relevant provisions of the law.

If the Board of Directors decides to liquidate our Company (except where our Company is liquidated after declaring insolvency), the Board of Directors shall state in the notice of the Shareholders' general meeting convened for this purpose that the Board of Directors has performed a comprehensive investigation of the status of our Company and believes that our Company is able to payoff all of our debts within 12 months from the commencement of liquidation.

After the resolution to liquidate our Company is adopted by the Shareholders' general meeting, the powers and duties of the Board of Directors shall terminate immediately.

In accordance with the instructions of the Shareholders' general meeting, the liquidation team shall at least once a year report at the Shareholders' general meeting on the income and expenditure of the liquidation team, the business and progress of liquidation of our Company, and submit a final report at the Shareholders' general meeting upon completion of liquidation.

Within ten days of the establishment of the liquidation team, the creditors shall be notified and an announcement shall be published in newspaper within 60 days. The creditors shall declare their claims to the liquidation team within 30 days from the date on which the notice is received or 45 days after the date of announcement if the notice is not received. The liquidation team shall carry out registration of the creditors' claims.

The liquidation team shall exercise the following powers during the liquidation period:

- (a) Take stock of our Company's assets and prepare a balance sheet and a list of assets respectively;
- (b) Notify or publish an announcement to all creditors;
- (c) Deal with and liquidate any pending business associated with our Company;
- (d) Pay all outstanding taxes and taxes in connection with liquidation;
- (e) Settle claims and debts;
- (f) Dispose of the remaining assets of our Company after paying up all the debts; and
- (g) Represent our Company in any civil litigation proceedings.

After taking stock of the assets of our Company and having prepared the balance sheet and list of properties, the liquidation team shall draw up a liquidation proposal and submit it to the Shareholders' general meeting or the people's court for confirmation.

In the event of liquidation in connection with dissolution of the Company and the liquidation team finds that, after taking stock of our Company's assets and having prepared the balance sheet and list of assets, that the assets are insufficient to pay the debts, it shall immediately apply to the court to declare insolvency.

After our Company is declared insolvent by ruling of the court, the liquidation team shall turn over matters regarding the liquidation to the court. Upon completion of liquidation of our Company, the liquidation team shall prepare a liquidation report, income and expenditure report and financial books during the liquidation period, which, after being audited by a China-registered accountant, shall be submitted to our Shareholders general meeting or the people's court for confirmation.

Within 30 days after the date of approval by the Shareholders' general meeting or the people's court, the liquidation team shall submit the above-mentioned documents to the company registration authority and apply for cancellation of our registration and publish an announcement on our termination.

17 OTHER IMPORTANT PROVISIONS FOR OUR COMPANY OR THE SHAREHOLDERS**(a) General Provisions**

Our Company is a perpetually existing joint stock limited liability company.

Our Company may invest in other limited liability companies or joint stock limited liability companies, provided that the liabilities of our Company incurred in the investment are limited to the amount of its capital contribution.

The Articles of Association is binding on our Company, the Shareholders, Directors, Supervisors and senior management. These personnel may assert their rights in connection with the affairs of our Company based on the Articles of Association. Pursuant to the Articles of Association, Shareholders may sue Shareholders, Shareholders may sue the Directors, Supervisors and senior management, Shareholders may sue our Company, and our Company may sue Shareholders, Directors, Supervisors and senior management.

The shareholding of the company takes the form of Shares.

All Shares issued by the Company have a par value of RMB1 per Share.

The Company shall issue Shares under the principles of openness, fairness and equality that Shares of the same class shall rank *pari passu*. The issuing conditions and price of each Share of the same class in the same issue shall be same. Each of such Shares subscribed for by any unit or individual shall be paid at the same value.

(b) Our Company may increase share capital by the following means:

- (i) Issue new Shares to unspecified investors;
- (ii) Place new Shares with existing Shareholders;
- (iii) Allot bonus Shares to existing Shareholders;
- (iv) Issue new Shares to specified investors;
- (v) Convert the reserve funds into share capital;
- (vi) Other means approved by the laws, administrative regulations.

Upon approval to increase our Company's share capital according to the provisions of the Articles of Association, the matter shall be dealt with in accordance with the procedures of related laws and administrative regulations of the State.

Subject to compliance with related laws and administrative rules and regulations of the State, our Company may decrease our registered share capital in line with the provisions of the Articles of Association.

If our Company decreases our registered capital, we must prepare a balance sheet and a list of properties.

Our registered capital may not be less than the statutory minimum amount.

(c) Shareholders

The Shareholders are persons lawfully holding the Shares and whose names (titles) are already listed in the register of Shareholders. Each Share of the same class has the same rights.

Shares issued by our Company to overseas investors and subscribed to in foreign currencies are known as foreign invested Shares. Foreign invested Shares that are listed overseas are known as overseas listed foreign invested Shares. Overseas investors refer to investors in other countries, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan who subscribe to the Shares issued by our Company. Domestic Shareholders refer to investors within the territory of the PRC that subscribe to the Shares issued by our Company. Both domestic Shareholders and foreign Shareholders are ordinary Shareholders, entitled to the same rights and assuming the same obligations. The rights of our ordinary Shareholders are as follows:

- (i) To receive distribution of dividends and other forms of benefits according to the number of Shares held;
- (ii) To participate in or appoint a shareholder proxy to participate in and exercise voting rights at the Shareholders' general meeting;
- (iii) To supervise and manage our business and operational activities, provide proposals or submit queries;
- (iv) To transfer the Shares held according to the provisions of the laws, administrative regulations and the Articles of Association;
- (v) To obtain relevant information according to the provisions of the Articles of Association;
- (vi) To participate in the distribution of the remaining assets of our Company according to the number of shares held upon our termination or liquidation;
- (vii) Other rights conferred by laws, administrative regulations and the Articles of Association.

When any person is interested directly or indirectly in the Shares of our Company, our Company shall not freeze or otherwise impair any of the rights attaching to any Share by reason only that the person has failed to disclose his interests to our Company.

Our Company shall adopt the registered method for the Shares.

The Share certificates are signed by the chairman of the Board of Directors. Where the stock exchange on which the Shares are listed requires our other senior management to sign the Share certificates, they shall also be signed by such other personnel. The Share certificates shall become effective after being affixed with the seal of our Company (including our securities seal of our Company) or print-seal. Affixing our Company seal or our securities seal to the Share certificates is subject to the authorization of the Board of Directors. The signature of the chairman of the Board of Directors or other related senior management may also be printed on the Share certificates.

If any person whose name appears in the register of Shareholders or requests to register his or her name (title) in the register of Shareholders loses his or her Share certificates (that is “original Share certificates”), he or she may apply to our Company to reissue new Share certificates for those Shares.

In the event that a holder of Domestic Shares applies to our Company for a reissue after losing the Share certificates, the matter shall be dealt with pursuant to related provisions of the PRC Company Law.

In the event that a holder of overseas listed foreign invested Shares applies to our Company for reissue after losing the Share certificates, the matter shall be dealt with pursuant to the laws and rules of the stock exchange where the original register of holders of the overseas listed foreign invested Shares is kept, or other related provisions. If a holder of H Shares loses Share certificates and applies for a replacement issue, the Share certificates shall be issued in compliance with the following requirements:

- (i) The applicant shall submit the application in the standard form designated by our Company and attach a notarial certificate or statutory declaration. The contents of the notarial certificate or statutory declaration shall include the reason for the applicant’s request, circumstances and evidence of loss of Share certificates, as well as a statement declaring that no other person may request to be registered as a Shareholder with respect to the pertinent Shares.
- (ii) Before deciding to issue new Share certificates, our Company does not receive any statement made by any person other than the applicant for a request to be registered as the Shareholder with respect to the Shares.
- (iii) If our Company decides to issue new Share certificates to the applicant, we shall publish an announcement in a newspaper designated by the Board of Directors indicating that we plan to reissue new Share certificates. The announcement period shall be 90 days and the announcement shall be published at least once every 30 days.
- (iv) Before publishing the announcement indicating that we plan to reissue new Share certificates, our Company shall submit a copy of the announcement to be published to the stock exchange on which the Shares are listed and may publish the announcement after receiving a reply from the stock exchange confirming that the announcement has been displayed at the stock exchange. The period of displaying the announcement at the stock exchange is 90 days.

If the application for reissue of new Share certificates is not approved by the registered Shareholders of the related Shares, our Company shall mail the copy of the announcement to be published to the Shareholders.

- (v) In the event that nobody raises any objection to the reissue of new Share certificates to our Company, upon expiration of the 90-day display period of the announcement specified in (iii) and (iv) above, the new Share certificates may be reissued according to the application.

- (vi) When reissuing new Share certificates, our Company shall immediately cancel the original Share certificates and register the cancellation and replacement issue on the register of Shareholders.
- (vii) All expenses incurred by our Company from the cancellation of the original Share certificates and replacement issue of the new Share certificates shall be borne by the applicant. Before the applicant has provided reasonable security, our Company shall have the right to refuse to take any action.

(d) Untraceable Shareholders

Our Company is entitled to reclaim without payment the Shares of a Shareholder failing to be contacted under the circumstances indicated below and sell them to any other persons:

- (i) Our Company has paid dividends at least three times on these Shares within 12 years, but no one has claimed the dividends during that period;
- (ii) Upon expiration of the 12-year period, our Company publishes an announcement in a newspaper, indicating our intention to sell the Shares and notifies the Stock Exchange of such intention.

(e) Regulations on the Powers of the Board of Directors and Convening the Board of Directors' Meetings

The Board of Directors is responsible to the Shareholders' general meeting and exercises the following powers:

- (i) Convene the Shareholders' general meeting and report on work to the Shareholders' general meeting;
- (ii) Implement the resolutions of the Shareholders' general meeting;
- (iii) Determine our business and investment plans;
- (iv) Devise our annual financial budget and final accounts;
- (v) Devise our plans for profits distribution and making up losses;
- (vi) Formulate plans for increasing or decreasing our registered capital, the issuance of corporate bonds;
- (vii) Formulate plans for material acquisition, purchase of the Company's Shares, corporate merger, division and dissolution or change of the form of our Company;
- (viii) Decide on the setup of our Company's internal management organization;
- (ix) Appoint or dismiss the general manager of our Company; based on the nomination of the general manager, appoint or dismiss our deputy general managers, the chief financial officer; appoint or dismiss the secretary of the Board of Directors, and determine their remuneration;

- (x) Set our basic management systems;
- (xi) Make the modification plan to this Articles of Association;
- (xii) To deal with disclosures of information of the Company;
- (xiii) To propose to the Shareholders' general meetings the appointment or replacement of the auditor of the Company;
- (xiv) To hear work report submitted by the general manager of the Company and to review his performance;
- (xv) Within the scope of authorization granted by the shareholders' general meeting, to decide on such matters as external investment, acquisition and sale of assets, mortgage of assets, external guarantee, entrusted management of wealth and connected transactions;
- (xvi) Other powers and duties authorized by the Articles of Association as well as the Shareholders' general meeting.

All of the above resolutions adopted by the Board of Directors, except those in (vi), (vii) and (xi) and those that must be approved by no less than a two-thirds vote of the Directors otherwise specified in laws, administrative regulations and the Articles of Association, shall be approved by a simple majority of votes by the Directors.

Meetings of the Board of Directors shall be convened at least four times a year and be called by the chairman of the Board of Directors, and a notice of meeting shall be sent to all Directors at least 14 days before the meeting is convened.

A notice of the special meeting shall be sent to all Directors at least five days before the meeting is convened.

The Directors shall attend the Board of Directors' meeting in person. In the event that Directors are unable to attend the meeting for some reason, the Directors may appoint in writing other directors to attend the Board of Directors' meeting. The power of attorney shall specify the attorney's name, entrusted matters, and the scope and period of the authorization, and shall be signed by or affixed with seal of the consignor. The Director who attends the meeting on behalf of another Director shall exercise the right of the Director within the scope of authorization. If any Director fails to attend the meeting of the Board of Directors and has not appointed an attorney to be present on his/her behalf, such Director shall be deemed to have waived his/her voting rights at that meeting.

Meetings of the Board of Directors shall be attended by more than one-half of the Directors (including Directors that appoint in writing other Directors to attend the Board of Directors on their behalf pursuant to the provisions of the Articles of Association) before the Board of Directors meeting can be convened. Each Director has one vote. Resolutions made by the Board of Directors must be approved by more than one-half of the Directors' votes.

When the number of affirmative votes equals to the number of dissenting votes, the chairman of the Board of Directors is entitled to one additional vote.

Apart from certain exceptions specified in Note 1 of Appendix 3 to the Listing Rules or those permitted by Stock Exchange, a Director shall abstain from voting on passing of any contract or arrangement in which himself/herself or any of his/her close associates (as defined in the Listing Rules) is materially interested; such Director shall abstain from voting, shall not vote on behalf of other Directors and shall not be counted in the quorum of the relevant meeting. The relevant Board meeting may be conducted if more than half the number of non-connected Directors are present at the meeting and resolutions shall be adopted by a simple majority vote of all non-connected Directors present thereat. If there are less than three non-connected Directors present at the Board meeting, the matter concerned shall be submitted to the Shareholders' general meeting for consideration. If a substantial shareholder (holding 10% or more Shares) or a Director has a material conflict of interest in a matter to be considered by the Board of Directors, the matter would be dealt with by way of the meeting of the Board of Directors (rather than the written resolution). Also, the independent non-executive Directors who do not have material interest in such matter should attend the meeting.

(f) Independent Director

The Board of Directors includes three independent Directors. The independent Directors shall carry out responsibilities in accordance with appropriate requirements of the laws, administrative rules and regulations, as well as regulations of the departments.

(g) Secretary of the Board of Directors

The secretary of the Board of Directors must be a natural person with the requisite expertise and experience and be appointed by the Board of Directors.

(h) Supervisory Committee

Our Company shall set up a Supervisory Committee.

The Supervisory Committee consists of three Supervisors and one of whom shall be the chairman. The Supervisors serve three-year terms and may be re-elected. The chairman of the Supervisory Committee shall be elected and dismissed by more than a two-thirds vote of the members of the Supervisory Committee.

The Supervisory Committee shall consist of one staff representative and two Shareholder representatives of our Company. The Supervisors assumed by non-staff representatives shall be elected and dismissed by the Shareholders' general meeting. The Supervisors assumed by the staff representatives shall be elected and dismissed by the staff representatives' meetings, staff meetings or through other forms of democratic election.

The Directors and senior management shall not also serve as Supervisors.

The Supervisory Committee shall convene at least two regular meetings every year. Where it is deemed necessary by the chairman of the Supervisory Committee or where other supervisors propose, the chairman shall convene extraordinary meetings of the Supervisory Committee. The chairman shall convene meetings of the Supervisory Committee. Notices and other documents in relation to the meetings shall be delivered to all Supervisors 10 days before the meetings.

The Supervisory Committee lawfully exercises the following powers:

- (i) Examine the financial situation of our Company;
- (ii) Supervise the Directors and senior management to ensure that they do not, in performing their duties to our Company, act in contravention of any laws, administrative regulations or the Articles of Association;
- (iii) Require the Directors and senior management to take corrective measures when their actions are detrimental to our interests;
- (iv) Verify the financial information such as the financial reports, business reports and profit distribution plans to be submitted by the Board to the Shareholders' general meetings and, should any queries arise, to authorize, in the name of our Company, a re-examination by the certified public accountants and practicing auditors;
- (v) Propose to convene an extraordinary general meeting, and to convene and preside over shareholders' general meetings when the Board fails to perform the duty of convening and presiding over the general meeting in accordance with the Company Law;
- (vi) to raise proposals at a Shareholders' general meeting;
- (vii) Represent our Company in negotiating with or in bringing legal actions against the Directors and senior management in accordance with Article 152 of the Company Law;
- (viii) to investigate when noticing any irregularities in the operation of the Company; to engage accountants, legal advisers and other professionals to assist its work when necessary and the cost of which shall be borne by the Company;
- (ix) Other powers and duties stipulated in the Articles of Association.

The Supervisors shall attend the Board meeting as non-voting participants.

(i) General Manager

Our Company includes one general manager, nominated, appointed or dismissed by the Board of Directors. The general manager is responsible to the Board of Directors and exercises the following powers:

- (i) Be in charge of the production and operational management of our Company, to organize the implementation of resolutions of the Board of Directors and report to the Board of Directors on work;
- (ii) Organize the implementation of the annual operation plans and investment plans of our Company;
- (iii) Formulate the structure of the internal management system of our Company;

- (iv) Formulate the basic rules of our Company;
- (v) Formulate the basic regulations of our Company;
- (vi) Propose the appointment or dismissal of the vice general manager, financial officer in charge or other senior management of our Company;
- (vii) Appoint or dismiss other management except those who shall be appointed or dismissed by the Board of Directors;
- (viii) Other powers authorized by the Articles of Association and the Board of Directors.

(j) Reserves

When the annual after-tax profits of our Company are distributed, our Company must allocate 10% of the earnings to our statutory reserve. When the total amount of the statutory reserve reaches or exceeds 50% of our Company's registered capital, no more allocations need to be provided.

If our statutory reserve is insufficient to make up our losses incurred during the previous year, the earnings generated during the current year must be used to make up the losses before allocating the statutory reserve in accordance with the requirements set forth in the preceding paragraph.

After allocation to the statutory reserve from the after-tax profits of our Company, we may also allocate to the reserves at will from after-tax profits in line with the resolution(s) adopted at the Shareholders' general meeting.

After making up the losses and allocating to the reserve, all remaining earnings may be distributed to the Shareholders based on the proportion of respective shareholdings upon obtaining the approval from Shareholders' general meeting.

Our statutory reserves must be used only for making up our losses, expanding the scale of business and operations or for conversion into capital to increase our capital, but the capital reserve shall not be used to make up our losses.

(k) Settlement of Disputes

Our Company shall comply with the following rules governing the settlement of disputes:

- (i) Whenever there occur any disputes or claims between holders of the overseas listed foreign invested shares and our Company, holders of the overseas listed foreign invested shares and our Company's Directors, Supervisors or senior management, or holders of the overseas listed foreign invested shares and holders of H Shares regarding the rights or obligations relating to the affairs of our Company conferred or imposed by the Articles of Association, the PRC Company Law or any other relevant laws and administrative regulations, such disputes or claims shall be referred by the relevant parties to arbitration;

Where the aforesaid dispute or claim of rights is referred to arbitration, the entire claim or the dispute as a whole must be referred to arbitration, and any parties who have a cause of action based on the same facts giving rise to the dispute or the claim or whose participation is necessary for the settlement of such dispute or claim, are bound by the award of the arbitration provided that such person is our Company, a Shareholder of our Company, a Director, a Supervisor or senior management. Disputes in relation to the definition of Shareholders and disputes in relation to the Shareholders' register need not be resolved by arbitration;

- (ii) A claimant may elect for arbitration at either the China International Economic and Trade Arbitration Commission in accordance with its rules or the Hong Kong International Arbitration Centre in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body so elected by the claimant.

If a claimant elects for arbitration at Hong Kong International Arbitration Centre, any party to the dispute or claim may request the arbitration to be conducted in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Centre;

- (iii) The laws of the PRC are applicable to the arbitration for the disputes or claims of rights referred to in paragraph (i), unless otherwise provided in the laws and administrative regulations;
- (iv) The award of an arbitration body shall be final and binding on all parties.

A. FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES**1. Establishment of our Company**

On 21 March 2006, our Predecessor Company, 無錫市盛力達機械工程有限公司 (Wuxi Sunlit Machinery & Engineering Company Limited*), was established as a limited liability company in the PRC.

On 24 July 2012, our Predecessor Company was converted into our Company, 無錫盛力達科技股份有限公司 (Wuxi Sunlit Science and Technology Company Limited*), as a joint stock company with limited liability under the relevant PRC laws and regulations.

Our Company has established a place of business in Hong Kong at 33rd Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part XI of the Predecessor Companies Ordinance on 8 October 2013, with Ms. Ho Wing Yan appointed as the authorised representative of our Company for the acceptance of service of process in Hong Kong on behalf of our Company.

For the purpose of Rule 3.05 of the Listing Rules, our Company has appointed Mr. Zhang Degang and Ms. Ho Wing Yan as our authorised representatives and Mr. Zhang Deqiang and Ms. Zhang Jinghua, as alternative authorised representatives, to act as our Company's principal channel of communication with the Stock Exchange.

As our Company was established in the PRC, our corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of certain provisions is set out in Appendix VI to this prospectus. A summary of certain relevant aspects of the laws and regulations of the PRC is set out in Appendix V to this prospectus.

2. Changes in Registered Capital of our Company

At the date of establishment, the initial registered capital of our Predecessor Company was RMB1 million.

On 29 March 2011, the registered capital of our Predecessor Company was increased from RMB1 million to RMB15 million.

On 26 March 2012, the registered capital of our Predecessor Company was further increased from RMB15 million to RMB16,304,347.

On 24 July 2012, our Predecessor Company was converted into our Company, as a joint stock company with limited liability. Immediately after the conversion, our registered capital was RMB96 million divided into 96 million Domestic Shares with a nominal value of RMB1.00 per Share.

As of the Latest Practicable Date, our Company had 96 million Domestic Shares in issue and a registered capital of RMB96 million. Upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised, our Company will have a registered capital of RMB128 million, comprising 96,000,000 Domestic Shares and 32,000,000 H Shares.

3. Resolutions passed at our extraordinary shareholders' meeting on 11 August 2013 and 15 August 2014

At our extraordinary shareholders' meeting held on 11 August 2013, among other things, the following resolutions were passed by the Shareholders, approving:

- (a) the issue by our Company of the H Shares of nominal value of RMB1.00 each and such H Shares be listed on the Main Board;
- (b) the number of H Shares to be issued shall not be more than 25% of the total issued share capital of our Company as enlarged by the Global Offering, and the grant to the International Underwriters (or their representatives) the Over-allotment Option of not more than 15% of the number of H Shares issued pursuant to the Global Offering;
- (c) subject to the completion of the Global Offering, the conditional adoption of the Articles of Association, which shall become effective on the Listing Date and the authorisation to our Board of Directors to amend the Articles of Association in accordance with the requirements by the relevant regulatory authorities in accordance with the relevant laws and regulations; and
- (d) authorisation to our Board of Directors to handle all matters relating to, among other things, the Global Offering, the issue and listing of the H Shares.

At our extraordinary shareholders' meeting held on 15 August 2014, among other things, the following resolutions were passed by the Shareholders, approving:

- (a) the amendment of the profit distribution proposal and the distribution of dividend of RMB1.25 per Domestic Share before the Listing; and
- (b) the appointment of Mr. Peng Jiashan and Ms. Wei Yi as Supervisors of our Company.

4. Our Reorganisation

In 2011, we underwent the Reorganisation, details of which are set out in the section headed “History, Development and Reorganisation” of this prospectus. As confirmed by our PRC Legal Advisers, our Reorganisation complied with all applicable PRC laws and regulations, and all necessary approvals from the relevant PRC regulatory authorities required for the implementation of the Reorganisation and the Listing have been obtained. These approvals include:

- (a) On 24 July 2012, a new business license was issued by the Jiangsu Wuxi Administration for Industry and Commerce, whereupon our Company was formally converted into a joint stock company with limited liability; and
- (b) On 19 March 2014, the CSRC issued an approval with regard to the issue of H Shares and the listing of the H Shares on the Main Board.

5. Changes in the Registered Capital of our Subsidiaries

Our subsidiaries as of the date of this prospectus are referred to in the paragraph headed “History, Development and Reorganisation – Our Corporate History” in this prospectus. On 16 October 2013, the registered capital of Wuxi Shangda increased from RMB45 million to RMB63 million. Save as disclosed in the paragraph headed “History, Development and Reorganisation – Our Corporate History” in this prospectus and this paragraph, there has been no alternation in the share capital of any of our subsidiaries within the two years preceding the date of this prospectus.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR COMPANY

1. Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by our Company or any of our subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (a) the Hong Kong Underwriting Agreement;
- (b) the International Underwriting Agreement;
- (c) the Deed of Non-Competition;
- (d) the Deed of Indemnity;
- (e) the contract on undertaking construction projects entered into between Wuxi Shangda and 無錫市宏宇鋼結構工程有限公司 (Wuxi Hongyu Steel Structure Company Limited*) dated 10 April 2013; and
- (f) the contract for construction projects entered into between Wuxi Shangda and 江蘇聖通建築集團無錫公司 (Jiangsu Shengtong Construction Group Wuxi Company*) dated 8 May 2013.

2. Intellectual Property Rights of our Company

As of the Latest Practicable Date, our Group had registered the following intellectual property rights which are material to our business:

(a) Patents

As of the Latest Practicable Date, we had registered the following patents in the PRC which are material to our business:

	Patent Name	Type	Registered owner	Patent Number	Application Date	Period of Validity (number of years)
1	燃氣爐子防回火保護開關控制裝置 (Anti-tempering protection switch control device of gas furnace*)	Invention	Company	ZL 20101027 4424.9	5 September 2010	20
2	燃氣爐子防回火最低壓力旁路控制裝置 (Anti-tempering lowest pressure control device of gas furnace*)	Invention	Company	ZL 20101027 4373.X	5 September 2010	20
3	氣體保護水基淬火裝置 (Gas protection water-quenching device*)	Invention	Company	ZL 20101027 4404.1	5 September 2010	20
4	燃氣爐壓自動壓力控制裝置 (Automatic pressure control device of gas furnace pressure*)	Invention	Company	ZL 20101027 4421.5	5 September 2010	20
5	懸臂無動力放線裝置 (Cantilever unpowered line device*)	Utility Model	Company	ZL 20112029 2476.9	11 August 2011	10
6	超音頻感應加熱擴散裝置 (Ultra-audio sensing heating diffusion device*)	Utility Model	Company	ZL 20102051 9788.4	5 September 2010	10
7	輪胎用鋼簾線的矯直裝置 (Steel wire for tyres straightening device*)	Utility Model	Company	ZL 20092004 6902.3	30 June 2009	10
8	輪胎用鋼簾線斷絲檢測裝置 (Steel wire for tyres broken wire detection device*)	Utility Model	Company	ZL 20092004 6901.9	30 June 2009	10

	Patent Name	Type	Registered owner	Patent Number	Application Date	Period of Validity (number of years)
9	集控式橫出軸收線裝置 (Centralized horizontal output take-up device*)	Utility Model	Company	ZL 20112029 0584.2	11 August 2011	10
10	收線捲繞恒張力控制裝置 (Line winding constant tension control device*)	Utility Model	Company	ZL 20112029 0585.7	11 August 2011	10
11	收線氣動離合器 (Line winding pneumatic clutch*)	Utility Model	Company	ZL 20112029 0597.X	11 August 2011	10
12	懸臂放線自動轉換裝置 (Cantilever paying off automatic conversion device*)	Utility Model	Company	ZL 20112029 0598.4	11 August 2011	10
13	水浴液位調節裝置 (Bath liquid level control device*)	Utility Model	Company	ZL 20112029 2507.0	11 August 2011	10
14	爐子穿絲牽引機 (Threading tractor for stoves*)	Utility Model	Company	ZL 20112029 2510.2	11 August 2011	10
15	水冷卻槽餘熱回收裝置 (Water cooling tank residual heat recovery device*)	Utility Model	Company	ZL 20122013 1237.X	30 March 2012	10
16	多級酸霧處理塔 (Multistage acid mist treatment tower*)	Utility Model	Company	ZL 20122013 2250.7	30 March 2012	10
17	工字輪抓手 (“Gong Zi” wheel gripper*)	Utility Model	Company	ZL 20122013 9034.5	30 March 2012	10
18	風機出口防噴液裝置 (Fan exit liquid spray protection device*)	Utility Model	Company	ZL 20122013 2187.7	30 March 2012	10
19	風機入口氣液分離裝置 (Fan entry gas and liquid separation device*)	Utility Model	Company	ZL 20122013 2247.5	30 March 2012	10
20	定徑機的打擊電機機構 (Sizing mill blow motor mechanism*)	Invention	Sanzhi Gongkong	ZL 20101012 1453.1	10 March 2010	20
21	角度研磨機 (Angle grinder*)	Utility Model	Sanzhi Gongkong	ZL 20102012 7760.6	10 March 2010	10

	Patent Name	Type	Registered owner	Patent Number	Application Date	Period of Validity (number of years)
22	角度研磨機振動機構 (Angle grinder vibration mechanism*)	Utility Model	Sanzhi Gongkong	ZL 20102012 7768.2	10 March 2010	10
23	角度研磨機重錘機構 (Angle grinder hammer mechanism*)	Utility Model	Sanzhi Gongkong	ZL 20102012 7773.3	10 March 2010	10
24	角度研磨機自動給模機構 (Angle grinder automatic molding mechanism*)	Utility Model	Sanzhi Gongkong	ZL 20102012 7781.8	10 March 2010	10
25	定徑機的自動進模機構 (Sizing machine automatic molding mechanism*)	Utility Model	Sanzhi Gongkong	ZL 20102012 7748.5	10 March 2010	10
26	定徑機量絲用快換夾頭機構 (Prompt change of holders mechanism for wire sizing machine*)	Utility Model	Sanzhi Gongkong	ZL 20102012 7792.6	10 March 2010	10
27	磨針機的沙帶自運動裝置 (Needle grinding machine with self-motion device*)	Utility Model	Sanzhi Gongkong	ZL 20102012 7749.X	10 March 2010	10
28	自動磨針研磨機器 (Automatic grinding machine*)	Utility Model	Sanzhi Gongkong	ZL 20102012 7756.X	10 March 2010	10
29	耐腐蝕耐高溫液體輸送泵 (Heat and corrosion-resistant liquid pump*)	Utility Model	Sanzhi Gongkong	ZL 20102017 7925.0	26 April 2010	10
30	易拆裝耐腐蝕耐高溫液體輸送泵 (Disassemble heat and corrosion-resistant liquid pump*)	Utility Model	Sanzhi Gongkong	ZL 20102017 7943.9	26 April 2010	10
31	耐腐蝕耐高溫液體輸送泵連接裝置 (Heat and corrosion-resistant liquid pump connecting device*)	Utility Model	Sanzhi Gongkong	ZL 20102017 7956.6	26 April 2010	10
32	金屬製品拉絲放線裝置 (Metal product drawing and pay-off device*)	Utility Model	Sanzhi Gongkong	ZL 20102017 7941.X	26 April 2010	10

	Patent Name	Type	Registered owner	Patent Number	Application Date	Period of Validity (number of years)
33	金屬製品拉絲皂粉攪拌擊碎裝置 (Metal product drawing soap powder mixing and crushing device*)	Utility Model	Sanzhi Gongkong	ZL 201020177958.5	26 April 2010	10
34	水冷式法蘭 (Water-cooled flanges*)	Utility Model	Sanzhi Gongkong	ZL 201120207826.7	20 June 2011	10
35	莫來石澆注孔板 (Mullite pouring orifice*)	Utility Model	Sanzhi Gongkong	ZL 201120207798.9	20 June 2011	10
36	電鍍黃銅生產線 (Brass electroplating wire production line*)	Utility Model	Sanzhi Gongkong	ZL 201120207797.4	20 June 2011	10
37	定徑機打擊電機裝置 (Sizing mill blow motor device*)	Invention	Sanzhi Gongkong	ZL 201110287286.2	26 September 2011	20
38	一種磷酸槽濃度在線監測和自動添加裝置 (A phosphoric acid trough concentration online monitoring and automatic dosing device*)	Utility Model	Sanzhi Gongkong	ZL 201220000399.X	4 January 2012	10
39	一種水浴槽溶液自動添加裝置 (Automatic water tank solution adding device*)	Utility Model	Sanzhi Gongkong	ZL 201220000398.5	4 January 2012	10
40	一種鋼絲移動速度監測裝置 (A wire speed monitoring device*)	Utility Model	Sanzhi Gongkong	ZL 201220000397.0	4 January 2012	10
41	一種鋼絲斷絲監測裝置 (A broken wire monitoring device*)	Utility Model	Sanzhi Gongkong	ZL 201220000396.6	4 January 2012	10
42	一種皂浸槽濃度在線監測和自動添加裝置 (A soap immersion trough concentration on-line monitoring and automatic adding device*)	Utility Model	Sanzhi Gongkong	ZL 201220000378.8	4 January 2012	10
43	一種依鋼絲數量自動調整電流設定的裝置 (A current setting device automatically adjusted according to the number of steel wires*)	Utility Model	Sanzhi Gongkong	ZL 201220000376.9	4 January 2012	10




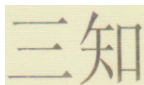








	Patent Name	Type	Registered owner	Patent Number	Application Date	Period of Validity (number of years)
44	一種懸臂無動力放線鋼絲斷絲報警裝置 (A cantilever unpowered steel wire pay-off broken wire alarm device*)	Utility Model	Sanzhi Gongkong	ZL 20122000 0365.0	4 January 2012	10
45	一種脫脂槽在線電導檢測報警裝置 (A degreasing tank on-line conductivity detection and alarm device*)	Utility Model	Sanzhi Gongkong	ZL 20122000 0363.1	4 January 2012	10
46	胎圈鋼絲金屬線回火加熱器 (Bead wire tempering heater*)	Utility Model	Jiangsu Sunlit	ZL 20102065 8141.X	14 December 2010	10
47	胎圈鋼絲超音頻感應加熱回火裝置 (Bead ultra-audio sensing heating and tempering device*)	Utility Model	Jiangsu Sunlit	ZL 20102065 8140.5	14 December 2010	10
48	胎圈鋼絲加熱回火裝置 (Bead heating and tempering device*)	Utility Model	Jiangsu Sunlit	ZL 20102065 8136.9	14 December 2010	10
49	熱鍍鋅生產線自動抹鋅裝置 (Zinc coating device for hot zinc plating production line*)	Utility Model	Company	ZL 20132023 8535.3	6 May 2013	10
50	一種工字輪多用途通用頂針機構 (A multi-functional "Gong Zi" wheel ejector mechanism*)	Utility Model	Company	ZL 20132023 8685.4	6 May 2013	10
51	一種明火加熱熱處理爐尾氣回收利用裝置 (A recycling device for the exhaust of an open-flame heating furnace*)	Utility Model	Company	ZL 20132023 8696.2	6 May 2013	10
52	一種鍍鋅鋼絲捻製過程防劃傷機構 (An anti-scratch mechanism for twisting zinc plated steel wire*)	Utility Model	Company	ZL 20132024 0102.1	6 May 2013	10
53	高克重電鍍鋅層裝置 (High weight zinc electroplating device*)	Utility Model	Company	ZL 20132024 0868.X	6 May 2013	10

	Patent Name	Type	Registered owner	Patent Number	Application Date	Period of Validity (number of years)
54	管絞機搖籃放線恒張力裝置 (A constant tension device for the wire dispenser cradle of a tubular stranding machine*)	Utility Model	Company	ZL201320240871.1	6 May 2013	10
55	一種大型雙捻機高速主軸溫度監控裝置 (A temperature monitoring device for high speed axle of large-size double-twist stranding machine*)	Utility Model	Company	ZL201320238531.5	6 May 2013	10
56	切割鋼絲萬能收線機排線補償裝置 (Universal sawing wire line winding machine cable compensation device*)	Utility Model	Company	ZL201320745634.0	21 November 2013	10
57	切割鋼絲萬能收線機恒張力裝置 (Universal sawing wire line winding machine constant tension device*)	Utility Model	Company	ZL201320743899.7	21 November 2013	10
58	胎圈鋼絲纏繞機放綫盤結構 (Bead winding-around and pay-off mechanism*)	Utility Model	Company	ZL201420106116.9	10 March 2014	10
59	胎圈鋼絲纏繞機繞綫支架 (Bead winding-around stand*)	Utility Model	Company	ZL201420106202.X	10 March 2014	10
60	鋼簾綫外繞機放綫張力控制裝置 (Steel wire paying off constant tension control device*)	Utility Model	Company	ZL201420144906.6	27 March 2014	10
61	具有積絲功能的單絲單控電鍍綫收綫機 (A single-wire and single-control electroplate wire with accumulating wire function machine*)	Utility Model	Company	ZL201420177291.7	11 April 2014	10

From time to time, to protect our intellectual property, we submit patent applications for products and technologies that we have developed. As of the Latest Practicable Date, we had 14 patent applications that are pending approvals from the relevant intellectual property authorities in the PRC.

(b) *Trademarks*

As of the Latest Practicable Date, we had registered the following trademarks which are material to our business:

No.	Trademark	Place of Registration	Class	Registrant	Registration Number	Period of Validity
1		PRC	7	Company	6011465	21 November 2009 to 20 November 2019
2		PRC	9	Company	8917736	14 December 2011 to 13 December 2021
3		PRC	42	Company	8917737	28 February 2012 to 27 February 2022
4		PRC	7	Sanzhi Gongkong	8618966	14 September 2011 to 13 September 2021
5		PRC	7	Sanzhi Gongkong	10028475	28 November 2012 to 27 November 2022
6		PRC	7	Sanzhi Gongkong	10279727	14 February 2013 to 13 February 2023
7		PRC	7	Sanzhi Gongkong	10279736	14 February 2013 to 13 February 2023
8	 	Hong Kong	7, 9, 42	Company	302633517	7 June 2013 to 6 June 2023
9		PRC	35	Company	11655406	28 March 2014 to 27 March 2024
10		PRC	37	Company	11659596	21 April 2014 to 20 April 2024
11		PRC	11	Company	11654921	21 April 2014 to 20 April 2024

As of the Latest Practicable Date, we had two pending trademark applications as follows:

No.	Trademark	Place of Application	Class	Applicant	Application Number	Application Date
1	盛力达	PRC	7	Company	8917738	6 December 2010
2	SunLiT	PRC	9	Company	11654643	25 October 2012

(c) *Computer software copyright*

As of the Latest Practicable Date, we had registered the following copyrights in the PRC which are material to our business:

No.	Name of Software	Registered owner	First Publication Date	Registration Number	Registration Date
1	SUNLIT-DTM 雙捻機系統控制軟件 V1.0 (SUNLIT – DTM double-twist stranding machine system control software V1.0*)	Company	18 November 2009	2010SR027603	7 June 2010
2	SUNLIT-DFM 雙捻機系統控制軟件 V1.0 (SUNLIT – DFM double-twist stranding machine system control software V1.0*)	Company	18 September 2009	2010SR027604	7 June 2010

<u>No.</u>	<u>Name of Software</u>	<u>Registered owner</u>	<u>First Publication Date</u>	<u>Registration Number</u>	<u>Registration Date</u>
3	SUNLIT-DOF 雙捻機系統控制軟件 V1.0 (SUNLIT – DOF double-twist stranding machine system control software V1.0*)	Company	8 July 2009	2010SR027648	8 June 2010
4	SUNLIT 大拉預處理生產線系統控制軟件 V2.0 (SUNLIT wire rod preparation line system control software V2.0*)	Company	28 July 2012	2012SR089712	20 September 2012
5	SUNLIT 水箱拉絲機系統控制軟件 V2.0 (SUNLIT water tank drawing machine system control software V2.0*)	Company	28 July 2012	2012SR089702	20 September 2012
6	SUNLIT 電鍍黃銅生產線系統控制軟件 V2.0 (SUNLIT brass electroplating wire production line system control software V2.0*)	Company	28 July 2012	2012SR089559	20 September 2012
7	SUNLIT 中絲熱處理生產線系統控制軟件 V2.0 (SUNLIT intermediate heat treatment production line system control software V2.0*)	Company	28 July 2012	2012SR089403	20 September 2012

<u>No.</u>	<u>Name of Software</u>	<u>Registered owner</u>	<u>First Publication Date</u>	<u>Registration Number</u>	<u>Registration Date</u>
8	SUNLIT 雙捻機 D 型系列系統控制軟件 V2.0 (SUNLIT D-type series double-twist stranding machine system control software V2.0*)	Company	28 July 2012	2012SR089547	20 September 2012
9	SUNLIT 潤滑站系統控制軟件 V2.0 (SUNLIT lubrication station system control software V2.0*)	Company	28 July 2012	2012SR089549	20 September 2012
10	HISUN-D 型雙捻機控制系統軟件 V1.0 (HISUN-D type double-twist stranding machine control software V1.0*)	Haisheng Software	15 August 2011	2011SR071283	30 September 2011
11	HISUN 鍍銅生產線控制系統軟件 V1.0 (HISUN copper plating production line control system software V1.0*)	Haisheng Software	15 August 2011	2011SR071218	30 September 2011
12	HISUN 鍍鋅生產線控制系統軟件 V1.0 (HISUN zinc plating production line control system software V1.0*)	Haisheng Software	15 August 2011	2011SR071382	30 September 2011
13	HISUN 盤條預處理控制系統軟件 V1.0 (HISUN wire rod preparation control system software V1.0*)	Haisheng Software	15 August 2011	2011SR071386	30 September 2011

<u>No.</u>	<u>Name of Software</u>	<u>Registered owner</u>	<u>First Publication Date</u>	<u>Registration Number</u>	<u>Registration Date</u>
14	HISUN 濕拉機控制系統軟件 V1.0 (HISUN wet drawing machine control system software V1.0*)	Haisheng Software	15 August 2011	2011SR071385	30 September 2011
15	HISUN 中間熱處理控制系統軟件 V1.0 (HISUN intermediate heat treatment control system software V1.0*)	Haisheng Software	15 August 2011	2011SR071207	30 September 2011

(d) Domain name

As of the Latest Practicable Date, we had registered the following domain names which are material to our business:

	<u>Domain Name</u>	<u>Registrant</u>	<u>Expiry Date</u>
1	wxsunlit.com	Company	17 August 2017
2	sunlit.tm	Company	28 July 2021
3	盛力達.com	Company	28 May 2024
4	盛力達.中國	Company	28 May 2024
5	盛力達.cn	Company	28 May 2024
6	盛力達.net	Company	28 May 2024

The contents of these websites, registered or licensed, do not form part of this prospectus.

Save as aforesaid, there are no other trademarks, patents or other intellectual or industrial property rights which are material in relation to our business.

C. DISCLOSURE OF INTERESTS

1. Disclosure of the interests of our Directors, Supervisors and chief executive

Immediately following completion of the Global Offering and assuming the Over-allotment Option is not exercised, the interests of our Directors, Supervisors and chief executive of our Company in the Shares, underlying Shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required 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 they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (set out in Appendix 10 to the Listing Rules), once the H Shares are listed, are as follows (for this purpose, the relevant provisions of the SFO will be interpreted as if they applied to our Supervisors):

Director	Number of Shares held after the Global Offering	Nature of interest	Approximate percentage of shareholding in the total share capital of our Company after the Global Offering ^(Note 1)
Mr. Zhang Degang	43,221,504 Domestic Shares	Beneficial owner	33.77%
	34,010,496 Domestic Shares	Interest held jointly with another person ^(Note 2)	26.57%
	4,416,000 Domestic Shares	Interest in controlled corporation ^(Note 3)	3.45%
Mr. Zhang Deqiang	29,983,104 Domestic Shares	Beneficial owner	23.42%
	47,248,896 Domestic Shares	Interest held jointly with another person ^(Note 2)	36.92%
	4,416,000 Domestic Shares	Interest in controlled corporation ^(Note 3)	3.45%
Ms. Zhang Jinghua	4,027,392 Domestic Shares	Beneficial owner	3.15%
	77,620,608 Domestic Shares	Interest held jointly with another person ^(Note 2)	60.64%

Notes:

- (1) The calculation is based on the assumption that the Over-allotment Option is not exercised and the total number of 128,000,000 Shares in issue after the Global Offering.
- (2) Mr. Zhang Degang, Mr. Zhang Deqiang and Ms. Zhang Jinghua are persons acting in concert and accordingly each of them is deemed to be interested in the Shares held by each other. By the Acting in Concert Agreement dated 26 July 2013, each of Mr. Zhang Degang, Mr. Zhang Deqiang and Ms. Zhang Jinghua confirmed that they have exercised their voting rights at the meetings of the shareholders and/or directors of the members of our Group in unanimity since the establishment of Sanzhi Gongkong on 17 April 2009, and will continue to do so.
- (3) Mr. Zhang Degang and Mr. Zhang Deqiang are two of the general partners of Shunxin and are therefore deemed to be interested in the Shares held by Shunxin.

2. Particulars of Directors' and Supervisors' Service Agreements

Pursuant to Rules 19A.54 and 19A.55 of the Listing Rules, we have entered into a service agreement with each of our Directors and Supervisors in respect of, among other things, compliance of relevant laws and regulations, observance of the Articles of Association and provisions on arbitration. Save as disclosed above, we have not entered, and do not propose to enter, into any service agreement with any of our Directors or Supervisors in their respective capacities as Directors/Supervisors (other than agreements expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

3. Directors' and Supervisors' Remuneration

For the three financial years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, the aggregate amount of remuneration and other benefits in kind (if applicable) incurred by us to our Directors and Supervisors were approximately RMB3,616,844, RMB1,783,172, RMB1,937,770 and RMB980,942, respectively.

Save as disclosed above, no Director or Supervisor has received any other remuneration or benefits in kind from our Group in respect of the three financial years ended 31 December 2011, 2012 and 2013 and six months ended 30 June 2014. Under the arrangement currently in force as of the date of this prospectus, the aggregate amount of remuneration payable by our Group to our Directors and Supervisors for the year ending 31 December 2014 is expected to be RMB2,000,000 in aggregate.

There was no arrangement under which a Director or Supervisor has waived or agreed to waive any emoluments during the Track Record Period.

4. Personal Guarantees

As of the Latest Practicable Date, our Directors and Supervisors had not provided personal guarantees in favour of lenders in connection with banking facilities granted to us.

5. Agency Fees or Commissions Received

None of our Directors, Supervisors or any of the persons whose names are listed in the paragraph headed "Qualifications of experts" in this Appendix had received any commissions, discounts, agency fees, brokerages or other special terms that were granted within the two years preceding the date of this prospectus in connection with the issue or sale of any capital of any member of our Group.

6. Related Party Transactions

During the Track Record Period, we have engaged in the related party transactions as described in Note 33 to the financial information in the Accountant's Report set out in Appendix I to this prospectus.

7. Disclaimers

Save as disclosed in the sections headed “History, Development and Reorganisation”, “Underwriting” and “Substantial Shareholders” of this prospectus:

- (a) none of our Directors, Supervisors and any of the parties listed in the paragraph headed “Qualifications of experts” in this Appendix is:
 - (i) interested in our promotion, or in any assets which, within the two years immediately preceding the date of this prospectus, have been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to our Company;
 - (ii) materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business;
- (b) save in connection with the Hong Kong Underwriting Agreement and the International Underwriting Agreement, none of the parties listed in the paragraph headed “Qualifications of experts” in this Appendix:
 - (i) is interested legally or beneficially in any of our Shares or any shares in any of our subsidiaries; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our Shares or any of our securities;
- (c) none of our Directors or Supervisors or their close associates or any Shareholders who to the knowledge of our Directors owns more than 5% of our issued share capital has any interest in our top five business customers; and
- (d) none of our Directors or Supervisors is a director or employee of a company which has an interest in the share capital of our Company which, once the H Shares are listed on the Stock Exchange, would have to be disclosed pursuant to Divisions 2 and 3 of Part XV of the SFO.

D. OTHER INFORMATION

1. Estate Duty

We have been advised that no material liability for estate duty under PRC law is likely to be imposed on us.

2. Indemnities

On 27 October 2014, our Controlling Shareholders entered into a deed of indemnity (the “Deed of Indemnity”) with and in favour of our Company (for ourselves and for each of our subsidiaries), pursuant to which our Controlling Shareholders agreed and undertook with our Company, subject to the terms of the Deed of Indemnity, to indemnify

and keep our Group indemnified on a joint and several basis against any and all tax liabilities falling on any member of our Group which might be payable by us in respect of, among others, any incomes, profits or gains earned, accrued or received prior to the completion of the Global Offering, save in the following circumstances:

- (a) to the extent that provision has been made for such taxation in any audited accounts of any member of our Group for any period up to 30 June 2014; or
- (b) to the extent that such taxation or liability falling on any member of our Group in respect of its accounting period commencing from 1 July 2014 unless liability for such taxation would not have arisen but for some act or omission of or transaction voluntarily effected by any of such members of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of our Controlling Shareholders, other than any such act, omission or transaction:
 - (i) carried out or effected in the ordinary course of business or as part of an acquisition and disposition of capital assets conducted in the ordinary course after 30 June 2014; or
 - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before 30 June 2014 or pursuant to any statement of intention made in this prospectus; or
- (c) to the extent that such taxation arises or is incurred as a result of a retrospective change in laws or interpretation and practice by the SAT or other relevant authority or a retrospective increase of tax rates coming into force after the date on which the Global Offering becomes unconditional; or
- (d) to the extent that any provisions or reserve made for taxation in the audited accounts of any member of our Group up to 30 June 2014 which is finally established to be an over-provision or an excessive reserve in which case our Controlling Shareholders' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied pursuant to this item (d) to reduce our Controlling Shareholders' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

Under the Deed of Indemnity, our Controlling Shareholders also agreed and undertook to indemnify and keep our Group indemnified against any costs, expenses, claims, liabilities, penalties, losses and damages that our Group may suffer due to the non-compliance with the relevant PRC laws in respect of social insurance and housing provident funds of the employees prior to the completion of the Global Offering as described in the paragraph headed "Business – Legal Compliance and Proceedings – Non-compliance incidents" in this prospectus.

3. Litigation

As of the Latest Practicable Date, neither our Company nor any of our subsidiaries was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance is known by our Directors to be pending or threatened by or against any member of our Group, that would have a material adverse effect on our Company's results of operations or financial condition of our Company.

4. Sole Sponsor and Fees

The Sole Sponsor has made an application on our behalf to the Listing Committee for the listing of, and permission to deal in, our Shares to be issued as mentioned in this prospectus.

Our Company agreed to pay the Sole Sponsor a fee of HK\$4.0 million as the sponsor of our Company to the Global Offering (the "Sponsor Fee"). The Sponsor Fee relates solely to services provided by the Sole Sponsor in the capacity as a sponsor, and not other services which it may provide, such as (without limitation) book-building, pricing and underwriting.

5. Preliminary Expenses

The preliminary expenses in relation to the conversion of our Company from a limited liability company into a joint stock company were approximately RMB1.4 million.

6. Promoters

The Promoters of our Company are Mr. Zhang Degang, Mr. Zhang Deqiang, Ms. Zhang Jinghua, Shunxin, Yudao Tiansui, Huaxuan, Zuoli Holdings, Anfuda, Fengyao, Jinling Huaruan, Xinjian Industrial, Zhongjing, and Northern Light.

Save as disclosed in the section headed "History, Development and Reorganisation" of this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given to the Promoters named above in connection with the Hong Kong Public Offering or the related transactions described in this prospectus.

7. Qualifications of experts

The following are the qualifications of the experts who have given opinions or advice which are contained, or referred to, in this prospectus:

Name	Qualification
Dacheng Law Offices	Company's legal advisers as to PRC law
PricewaterhouseCoopers	Certified Public Accountants
DTZ Debenham Tie Leung Limited	Independent professional property valuer
Frost & Sullivan	Industry Consultant

8. Consents of experts

Each of the experts has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or opinion (as the case may be) and the references to its name herein in the form and context in which they respectively appear.

As of the Latest Practicable Date, none of the experts named in the paragraph headed “Qualifications of experts” in this Appendix had any shareholding interests in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group save that the Sole Sponsor, which is also one of the Joint Lead Managers and one of the Underwriters may be required to perform its underwriting obligation in respect of the Offer Shares.

9. Compliance adviser

Our Company has appointed Cinda International Capital Limited as our compliance adviser in compliance with Rules 3A.19 and 19A.05 of the Listing Rules.

10. Taxation of Holders of H Shares

The sale, purchase and transfer of H Shares are subject to Hong Kong stamp duty. The current rate charged on each of the seller and purchaser is HK\$1.00 for every HK\$1,000 (or part thereof) of the consideration or, if higher, the fair value of the H Shares being sold or transferred.

11. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (WUMP) Ordinance so far as applicable.

12. No material adverse change

Our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in the financial or trading position or prospects of our Group since 30 June 2014 (being the date to which the latest audited consolidated financial information of our Group were made up).

13. Miscellaneous

Save as disclosed in the section headed “History, Development and Reorganisation” of this prospectus:

- (a) within the two years preceding the date of this prospectus, we have not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash;
- (b) no share or loan capital of our Company, if any, is under option or is agreed conditionally or unconditionally to be put under option;
- (c) we have not issued nor agreed to issue any founder shares, management shares or deferred shares;
- (d) our Company has no outstanding convertible debt securities or debentures;
- (e) within the two years immediately preceding the date of this prospectus, no commission, discount, brokerage or other special term has been granted in connection with the issue or sale of any capital of our Company;
- (f) there is no arrangement under which future dividends are waived or agreed to be waived;
- (g) there has been no interruption in our business which may have or have had a significant effect on the financial position in the last 12 months;
- (h) none of the equity and debt securities of our Company, if any, is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;
- (i) there is no subsidiary in our Group which is a Sino-foreign equity joint venture or which operates as or under a cooperative or contractual joint venture; and
- (j) we currently do not intend to apply for the status of a Sino-foreign investment joint stock limited company and do not expect to be subject to the PRC Sino-Foreign Joint Venture Law.

14. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided in section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**APPENDIX VIII DOCUMENTS DELIVERED TO THE REGISTRAR OF
COMPANIES AND AVAILABLE FOR INSPECTION**

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the Application Forms, the written consents referred to in “D. Other information – 8. Consents of experts” in Appendix VII to this prospectus and copies of the material contracts referred to in “B. Further information about the business of our Company – 1. Summary of Material Contracts” in Appendix VII to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of ONC Lawyers, at 14th and 15th Floor, The Bank of East Asia Building, 10 Des Voeux Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (1) the Articles of Associations;
- (2) the Accountant’s Report from PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus;
- (3) the report from PricewaterhouseCoopers relating to our unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (4) the audited financial statements of our Group for each of the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014;
- (5) the PRC legal opinions issued by Dacheng Law Offices in respect of our general matters and property interests of the Group;
- (6) the material contracts referred to in “B. Further information about the business of our Company – 1. Summary of Material Contracts” in Appendix VII to this prospectus;
- (7) the service agreements and the letters of appointment referred to in “C. Disclosure of interests – 2. Particulars of Directors’ and Supervisors’ Service Agreements” in Appendix VII to this prospectus;
- (8) the written consents referred to in “D. Other information – 8. Consents of experts” in Appendix VII to this prospectus;
- (9) the market research report prepared by Frost & Sullivan;
- (10) the list of material properties prepared by DTZ Debenham Tie Leung Limited, the text of which is set out in Appendix III to this prospectus; and
- (11) the PRC Company Law, the Special Regulations, the Mandatory Provisions together with their unofficial translation.

Sunlit 無錫盛力達科技股份有限公司
Wuxi Sunlit Science and Technology Company Limited*