

# SUN CHEONG CREATIVE DEVELOPMENT HOLDINGS LIMITED 新昌創展控股有限公司

(Incorporated in the Cayman Islands with limited liability)  
Stock Code : 1781



Sole Sponsor



Joint Bookrunners and Joint Lead Managers



## SHARE OFFER

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# IMPORTANT

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



**ClipFresh**  
Just what you need

## SUN CHEONG CREATIVE DEVELOPMENT HOLDINGS LIMITED

新昌創展控股有限公司

(incorporated in the Cayman Islands with limited liability)

### SHARE OFFER

|                               |  |
|-------------------------------|--|
| Number of Offer Shares        | : 135,000,000 Shares   |
| Number of Public Offer Shares | : 13,500,000 Shares (subject to reallocation)  |
| Number of Placing Shares      | : 121,500,000 Shares (subject to reallocation)   |
| Offer Price                   | : not more than HK\$1.2 per Offer Share and expected to be not less than HK\$1.0 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund) |
| Nominal value                 | : HK\$0.01 per Share   |
| Stock code                    | : 1781   |

#### Sole Sponsor



#### Joint Bookrunners and Joint Lead Managers



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

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

The Offer Price is expected to be fixed by agreement between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, 28 September 2018 and, in any event, not later than Saturday, 29 September 2018. The Offer Price will be not more than HK\$1.2 and is currently expected to be not less than HK\$1.0. Applicants for the Offer Shares are required to pay, on application, the maximum Offer Price of HK\$1.2 for each Public Offer Share together with brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is lower than HK\$1.2.

The Joint Bookrunners (for themselves and on behalf of the Underwriters, and with our consent) may reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Public Offer on Thursday, 27 September 2018, cause to be published in The Standard (in English) and Hong Kong Economic Times (in Chinese) notices of the reduction in the number of Offer Shares being offered under the Share Offer and/or the indicative Offer Price range. Such notices will also be available at our Company's website at [www.clip-fresh.com](http://www.clip-fresh.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk). Further details are set out in the sections headed "Structure and Conditions of the Share Offer" and "How to Apply for Public Offer Shares" of this prospectus. If, for any reason, the Offer Price is not agreed between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and us by Saturday, 29 September 2018, the Share Offer will not proceed and will lapse.

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

The Offer Shares have not been and will not be registered under the US Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred in the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in accordance with any applicable US securities laws.

The obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement to subscribe for, and to procure applicants for the subscription for, the Public Offer Shares, are subject to termination by the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) if certain grounds arise prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Such grounds are set out in the section headed "Underwriting - Public Offer Underwriting Arrangements and Expenses - Grounds for termination" of this prospectus. It is important that you refer to that section for further details.

21 September 2018

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## EXPECTED TIMETABLE

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*We will issue an announcement in Hong Kong to be published in The Standard (in English) and Hong Kong Economic Times (in Chinese) and our Company's website at [www.clip-fresh.com](http://www.clip-fresh.com) and the website of Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) if there is any change in the following expected timetable of the Public Offer.*

2018<sup>(Note 1)</sup>

Application lists of the Public Offer open<sup>(Note 2)</sup> ..... 11:45 a.m. on Thursday,  
27 September

Latest time to give **electronic application instructions**  
to HKSCC<sup>(Note 3)</sup> ..... 12:00 noon on Thursday,  
27 September

Latest time to lodge **WHITE** and **YELLOW**  
Application Forms ..... 12:00 noon on Thursday,  
27 September

Application lists of the Public Offer close<sup>(Note 2)</sup> ..... 12:00 noon on Thursday,  
27 September

Expected Price Determination Date<sup>(Note 4)</sup> ..... Friday, 28 September

Announcement of the final Offer Price, the level of indication  
of interest in the Placing, the level of applications in  
the Public Offer and the basis of allocation of  
the Public Offer Shares to be published in  
The Standard (in English) and  
Hong Kong Economic Times (in Chinese), our website at  
[www.clip-fresh.com](http://www.clip-fresh.com)<sup>(Note 5)</sup> and the website of  
the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) on or before ..... Wednesday, 3 October

Announcement of results of allocations in  
the Public Offer (with successful applicants' identification  
document numbers, where appropriate) to be available through  
a variety of channels including our website at  
[www.clip-fresh.com](http://www.clip-fresh.com)<sup>(Note 5)</sup> and the website of  
the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk)  
(for further details, please see "How to Apply for  
Public Offer Shares – 10. Publication of Results"  
of this prospectus) from ..... Wednesday, 3 October

Results of allocations in the Public Offer will be available  
at [www.unioniporesults.com.hk](http://www.unioniporesults.com.hk) with a "search by  
ID" function from..... Wednesday, 3 October

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## EXPECTED TIMETABLE

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2018<sup>(Note 1)</sup>

Despatch/Collection of refund cheques in respect of wholly or partially successful applications if the final Offer Price is less than the price payable on application (if applicable) and wholly or partially unsuccessful applications pursuant to the Public Offer on or before<sup>(Notes 7 & 8)</sup> . . . . . Wednesday, 3 October

Despatch/Collection of share certificates or deposit of share certificates into CCASS in respect of wholly or partially successful applications pursuant to the Public Offer on or before<sup>(Notes 6 & 7)</sup> . . . . . Wednesday, 3 October

Dealings in the Shares on the Stock Exchange expected to commence at . . . . . 9:00 a.m. on Thursday, 4 October

*Notes:*

1. All times and dates refer to Hong Kong local time and date, except as otherwise stated. Details of the structure of the Share Offer, including its conditions, are set out in the section headed “Structure and Conditions of the Share Offer” of this prospectus.
2. 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 Thursday, 27 September 2018, the application lists will not open on that day. For further details, please see “How to Apply for Public Offer Shares – 9. Effect of Bad Weather on the Opening of the Application Lists” of this prospectus.
3. Applicants who apply for Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to “How to Apply for Public Offer Shares – 5. Applying by Giving Electronic Application Instructions to HKSCC via CCASS” of this prospectus.
4. The Price Determination Date is expected to be on or around Friday, 28 September 2018. If, for any reason, the Offer Price is not agreed by Saturday, 29 September 2018 between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters), the Share Offer will not proceed and will lapse accordingly.
5. None of the website or any of the information contained on the website forms part of this prospectus.
6. Share certificates for the Public Offer Shares are expected to be issued on or before Wednesday, 3 October 2018 but will only become valid certificates of title at 8:00 a.m. on Thursday, 4 October 2018 provided that (a) the Share Offer has become unconditional in all respects; and (b) none of the Underwriting Agreements has been terminated in accordance with their terms.
7. Applicants for 1,000,000 Public Offer Shares or more on **WHITE** Application Forms may collect their refund cheques (where relevant) and/or share certificates (where relevant) personally from our Hong Kong Branch Share Registrar, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 3 October 2018 or any other date as notified by us as the date of despatch/collection of share certificates/refund cheques.

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## EXPECTED TIMETABLE

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Individuals who are eligible for personal collection must not authorise any other person(s) to make collection on their behalf. Corporate applicants which are eligible and opt for personal collection must attend by their authorised representative(s) bearing a letter of authorisation from such corporation(s) stamped with the corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Branch Share Registrar. Applicants for 1,000,000 Public Offer Shares or more on **YELLOW** Application Forms may collect their refund cheques, if any, in person but may not elect to collect their share certificates personally, which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participants' stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Uncollected share certificates and refund cheques (if any) will be despatched by ordinary post at the applicant's own risk to the address specified in the relevant Application Form. For further information, applicants should refer to "How to Apply for Public Offer Shares – 13. Despatch/Collection of Share Certificates and Refund Monies" of this prospectus.

8. Refund cheques will be issued in respect of wholly or partially unsuccessful applications and also in respect of successful applications in the event that the Offer Price is less than the maximum Offer Price of HK\$1.2 per Offer Share. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party to facilitate your refund. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of your refund cheque or may invalidate your refund cheque. Further information is set out in "How to Apply for Public Offer Shares" of this prospectus.

For details of the structure of the Share Offer, including conditions of the Share Offer, applicants should refer to the section headed "Structure and Conditions of the Share Offer" of this prospectus.

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### IMPORTANT NOTICE TO INVESTORS

*This prospectus is issued by our Company solely in connection with the Share Offer and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Offer Shares offered by this prospectus. This prospectus may not be used for the purpose of and does not constitute an offer to sell or a solicitation of an offer in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.*

*You should rely only on the information contained in this prospectus and the related Application Forms to make your investment decision. Our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters, any of their respective directors or affiliates or any other persons or parties involved in the Share Offer have not authorised anyone to provide you with information that is different from what is contained in this prospectus and the related Application Forms. Any information or representation not made or contained in this prospectus or the related Application Forms must not be relied on by you as having been authorised by our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters, any of their respective directors or affiliates or any other persons or parties involved in the Share Offer. The contents of our website at [www.clip-fresh.com](http://www.clip-fresh.com) do not form part of this prospectus.*

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## SUMMARY

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*This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in our 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 to invest in the Offer Shares. Various expressions used in this section are defined or explained in the sections headed “Definitions” and “Glossary” of this prospectus.*

### BUSINESS OVERVIEW

We primarily design, develop, manufacture and sell plastic household products with our headquarters in Hong Kong for more than 30 years.

We have launched a wide range of products including storage boxes, laundry and bathroom wares, food storage, rubbish bins, outdoor, gardenware and furniture, kitchenwares, and others including office solutions, tool boxes, pet accessories and seasonal goods. Our products are sold to overseas countries including Australia, the UK, the United States, New Zealand and Germany through (i) direct sales to renowned chain supermarkets, department stores and chain household products retailers; and (ii) importers/exporters. Our products are sold in retailers such as Volume Distributors and Japan Home Centre (日本城).

Certain of our products have to pass tests for food safety, high heat thermal resistance, melting index, performance and colour migration and meet certain requirements before we can sell such products to the relevant countries. For example, certain of our products sold to Europe shall meet the requirements pursuant to the LFGB regulations and/or standards and certain of our products sold to the United States shall meet the requirements pursuant to the FDA regulations and/or standards. In some cases, a customer will conduct an on-site factory audit of our production facilities before placing purchase orders with us. Our production facilities have gone through the auditing process in accordance with the BSCI monitoring system.

### OUR BUSINESS MODEL

We primarily design, develop, manufacture and sell plastic household products. Our products are sold either under our brand “clipfresh” or on an ODM basis.

In 2010, we first launched products under our brand “clipfresh” targeting the mid-to-high end segment in the market. Products under our brand “clipfresh” are designed and developed by us and generally carry the features of food contact safe, high heat thermal resistant, microwave/oven safe, freezer safe, moist proof and BPA-free. The food containers and drinkware under our brand “clipfresh” are sealed with a unique patented durable clip locking system which provides a feature of air and liquid proof, thus keeping food safe from the air, moisture and odours. During the Track Record Period, products under our brand “clipfresh” were sold under three series: (i) plastic series; (ii) glass series; and (iii) ceramic series.

For our ODM sales, we design, develop and manufacture the products in accordance with our customers’ specifications and these products are sold under the brands of our customers or under no specific brand. During the Track Record Period, products sold on an ODM basis were sold under five main categories: (i) storage boxes; (ii) laundry and bathroom wares; (iii) food storage; (iv) rubbish bins, outdoor, gardenware and furniture; and (v) kitchenwares.



# SUMMARY

The table below sets forth the breakdown of our revenue, gross profit and gross profit margin of products under our “clipfresh” brand and ODM products for the periods indicated:

|   | Year ended 31 December |                          |                     |                          | Six months ended 30 June |                          |                     |                          |         |       |         |      |         |       |         |      |         |       |        |      |         |       |        |      |  |  |
|---|------------------------|--------------------------|---------------------|--------------------------|--------------------------|--------------------------|---------------------|--------------------------|---------|-------|---------|------|---------|-------|---------|------|---------|-------|--------|------|---------|-------|--------|------|--|--|
|   | 2015                   |                          | 2016                |                          | 2017                     |                          | 2018                |                          |         |       |         |      |         |       |         |      |         |       |        |      |         |       |        |      |  |  |
|   | Revenue<br>HK\$'000    | Gross profit<br>margin % | Revenue<br>HK\$'000 | Gross profit<br>margin % | Revenue<br>HK\$'000      | Gross profit<br>margin % | Revenue<br>HK\$'000 | Gross profit<br>margin % |         |       |         |      |         |       |         |      |         |       |        |      |         |       |        |      |  |  |
|   | % of total revenue     | % of total revenue       | % of total revenue  | % of total revenue       | % of total revenue       | % of total revenue       | % of total revenue  | % of total revenue       |         |       |         |      |         |       |         |      |         |       |        |      |         |       |        |      |  |  |
| <b>Sub-total</b>                                | 61,886                 | 20.5                     | 27,542              | 21.2                     | 32,237                   | 48.3                     | 73,889              | 24.6                     | 37,914  | 51.3  | 41,537  | 26.0 | 22,463  | 54.1  |         |      |         |       |        |      |         |       |        |      |  |  |
| <b>ODM products (Note 1)</b>                    | 124,486                | 41.2                     | 12,981              | 10.4                     | 140,181                  | 44.4                     | 22,300              | 15.9                     | 125,151 | 41.6  | 31,045  | 24.8 | 140,567 | 43.1  | 31,769  | 22.6 | 62,958  | 39.9  | 14,959 | 23.8 | 66,221  | 41.5  | 15,410 | 23.3 |  |  |
| Storage boxes                                   | 40,617                 | 13.5                     | 7,202               | 17.7                     | 39,181                   | 12.4                     | 6,522               | 16.6                     | 31,489  | 10.5  | 6,321   | 20.1 | 33,258  | 10.2  | 5,814   | 17.5 | 17,892  | 11.3  | 3,084  | 17.2 | 15,319  | 9.6   | 3,473  | 22.7 |  |  |
| Laundry and bathroom wares                      | 25,462                 | 8.4                      | 9,164               | 36.0                     | 29,846                   | 9.4                      | 9,959               | 33.4                     | 30,521  | 10.2  | 14,434  | 47.3 | 28,544  | 8.8   | 15,429  | 54.1 | 15,138  | 9.6   | 8,463  | 55.9 | 11,825  | 7.4   | 6,086  | 51.5 |  |  |
| Food storage                                    | 16,377                 | 5.4                      | 4,402               | 26.9                     | 18,559                   | 5.9                      | 5,727               | 30.9                     | 17,535  | 5.8   | 7,094   | 40.5 | 17,564  | 5.4   | 6,619   | 37.7 | 8,272   | 5.3   | 3,488  | 42.2 | 9,318   | 5.8   | 3,392  | 36.4 |  |  |
| Rubbish bins, outdoor, gardenware and furniture | 28,035                 | 9.3                      | 11,026              | 39.3                     | 16,378                   | 5.2                      | 6,611               | 40.4                     | 15,343  | 5.1   | 7,325   | 47.7 | 14,560  | 4.5   | 7,096   | 48.7 | 7,751   | 4.9   | 3,813  | 49.2 | 12,328  | 7.7   | 5,246  | 42.6 |  |  |
| Kitchenwares                                    | 5,124                  | 1.7                      | 1,663               | 32.5                     | 4,621                    | 1.5                      | 1,515               | 32.8                     | 6,704   | 2.2   | 2,586   | 38.6 | 8,528   | 2.6   | 2,562   | 30.0 | 4,010   | 2.5   | 1,400  | 34.9 | 3,233   | 2.0   | 1,297  | 40.1 |  |  |
| Others (Note 2)                                 | 240,101                | 79.5                     | 46,438              | 19.3                     | 248,766                  | 78.8                     | 32,634              | 21.2                     | 226,743 | 75.4  | 68,805  | 30.3 | 243,021 | 74.6  | 69,289  | 28.5 | 116,021 | 73.5  | 35,207 | 30.3 | 118,244 | 74.0  | 34,904 | 29.5 |  |  |
| <b>Sub-total</b>                                | 301,987                | 100.0                    | 73,980              | 24.5                     | 315,527                  | 100.0                    | 84,871              | 26.9                     | 300,632 | 100.0 | 106,719 | 35.5 | 325,814 | 100.0 | 112,877 | 34.6 | 157,952 | 100.0 | 56,720 | 35.9 | 159,781 | 100.0 | 57,367 | 35.9 |  |  |
| <b>Total</b>                                    |                        |                          |                     |                          |                          |                          |                     |                          |         |       |         |      |         |       |         |      |         |       |        |      |         |       |        |      |  |  |

Notes:

- All ODM products are plastic products.
- Others include office solutions, tool boxes, pet accessories, aircraft meal trays and seasonal goods.

The table below sets forth the breakdown of our revenue, gross profit and gross profit margin by geographic region for the periods indicated:

|                   | Year ended 31 December |                          |                     |                          | Six months ended 30 June |                          |                     |                          |         |       |         |      |         |       |         |      |         |       |        |      |         |       |        |      |  |  |
|-------------------|------------------------|--------------------------|---------------------|--------------------------|--------------------------|--------------------------|---------------------|--------------------------|---------|-------|---------|------|---------|-------|---------|------|---------|-------|--------|------|---------|-------|--------|------|--|--|
|                   | 2015                   |                          | 2016                |                          | 2017                     |                          | 2018                |                          |         |       |         |      |         |       |         |      |         |       |        |      |         |       |        |      |  |  |
|                   | Revenue<br>HK\$'000    | Gross profit<br>margin % | Revenue<br>HK\$'000 | Gross profit<br>margin % | Revenue<br>HK\$'000      | Gross profit<br>margin % | Revenue<br>HK\$'000 | Gross profit<br>margin % |         |       |         |      |         |       |         |      |         |       |        |      |         |       |        |      |  |  |
|                   | % of total revenue     | % of total revenue       | % of total revenue  | % of total revenue       | % of total revenue       | % of total revenue       | % of total revenue  | % of total revenue       |         |       |         |      |         |       |         |      |         |       |        |      |         |       |        |      |  |  |
| <b>Sub-total</b>  | 188,478                | 62.4                     | 34,182              | 18.1                     | 204,401                  | 64.8                     | 43,542              | 21.3                     | 183,469 | 61.0  | 56,305  | 30.7 | 217,938 | 66.9  | 65,128  | 29.9 | 100,030 | 63.3  | 31,089 | 31.1 | 113,620 | 71.1  | 37,452 | 33.0 |  |  |
| Australia         | 28,669                 | 9.5                      | 8,521               | 29.7                     | 26,082                   | 8.3                      | 8,641               | 33.1                     | 26,703  | 8.9   | 10,419  | 39.0 | 21,389  | 6.6   | 7,086   | 33.1 | 10,566  | 6.7   | 3,876  | 36.7 | 10,173  | 6.4   | 3,228  | 31.7 |  |  |
| Hong Kong         | 28,500                 | 9.4                      | 10,569              | 37.0                     | 21,062                   | 6.7                      | 6,258               | 29.7                     | 14,791  | 4.9   | 6,520   | 44.1 | 12,908  | 4.0   | 5,627   | 43.6 | 8,013   | 5.1   | 2,988  | 37.3 | 5,062   | 3.2   | 2,179  | 43.0 |  |  |
| The UK            | 20,796                 | 6.9                      | 6,662               | 32.0                     | 15,985                   | 5.1                      | 6,616               | 41.4                     | 13,853  | 4.6   | 6,596   | 47.6 | 4,533   | 1.4   | 2,010   | 44.3 | 1,507   | 1.0   | 768    | 50.1 | 4,370   | 2.7   | 2,243  | 51.3 |  |  |
| The United States | 6,713                  | 2.2                      | 1,569               | 23.4                     | 9,467                    | 3.0                      | 2,660               | 28.1                     | 10,884  | 3.6   | 4,168   | 38.3 | 17,523  | 5.4   | 6,897   | 39.4 | 7,603   | 4.8   | 2,629  | 34.6 | 7,345   | 4.6   | 3,004  | 40.9 |  |  |
| New Zealand       | 356                    | 0.1                      | 194                 | 54.5                     | 6,877                    | 2.2                      | 2,301               | 33.5                     | 15,809  | 5.3   | 4,373   | 27.7 | 18,114  | 5.5   | 7,821   | 43.2 | 12,888  | 8.2   | 5,893  | 45.7 | 7,317   | 4.6   | 3,136  | 42.9 |  |  |
| Germany           | 28,475                 | 9.5                      | 12,283              | 43.1                     | 31,653                   | 9.9                      | 14,853              | 46.9                     | 35,123  | 11.7  | 18,338  | 52.2 | 33,409  | 10.2  | 18,308  | 54.8 | 17,345  | 10.9  | 9,477  | 54.1 | 11,894  | 7.4   | 6,125  | 51.5 |  |  |
| Others (Note)     | 301,987                | 100.0                    | 73,980              | 24.5                     | 315,527                  | 100.0                    | 84,871              | 26.9                     | 300,632 | 100.0 | 106,719 | 35.5 | 325,814 | 100.0 | 112,877 | 34.6 | 157,952 | 100.0 | 56,720 | 35.9 | 159,781 | 100.0 | 57,367 | 35.9 |  |  |
| <b>Total</b>      |                        |                          |                     |                          |                          |                          |                     |                          |         |       |         |      |         |       |         |      |         |       |        |      |         |       |        |      |  |  |

Note: Others mainly include Singapore, Belgium, Chile, France, Ireland, Italy, Japan, Thailand, the Republic of Panama, the Philippines, Saudi Arabia, South Africa, Switzerland, etc. and each of such regions accounted for a nominal percentage of our total revenue ranging from approximately 0.0% to 1.3%, 0.0% to 1.5%, 0.0% to 1.2%, 0.0% to 1.1%, and 0.0% to 1.0% for the four years ended 31 December 2017 and the six months ended 30 June 2018, respectively.

## SUMMARY

Our revenue derived from the sale of products under our brand “clipfresh” was on an increasing trend during the Track Record Period from approximately HK\$61.9 million for the year ended 31 December 2014, to approximately HK\$66.8 million for the year ended 31 December 2015, to approximately HK\$73.9 million for the year ended 31 December 2016, and further to approximately HK\$82.8 million for the year ended 31 December 2017 and approximately HK\$41.5 million for the six months ended 30 June 2018 due to our effort in promoting our “clipfresh” products.

During the Track Record Period, we derived a significant portion of our revenue from the Australian market. For the four years ended 31 December 2017 and the six months ended 30 June 2018, revenue arising from sales to Australia amounted to approximately HK\$188.5 million, HK\$204.4 million, HK\$183.5 million, HK\$217.9 million and HK\$113.6 million, respectively, representing approximately 62.4%, 64.8%, 61.0%, 66.9% and 71.1% of our total revenue during the corresponding period, respectively. For further information on the associated risk, please refer to the section headed “Risk factors – Our business and financial position may be adversely affected if we are not able to continue servicing the Australian market effectively or if there is any adverse change in the macro-economic situation or economic downturn in Australia” in this prospectus.

The table below sets forth the breakdown of the selling price and sales volume of our major products by types for the periods indicated:

|   | 2014                           |              | Year ended 31 December         |              |                                |              | 2017                           |              | Six months ended 30 June       |              |                                |              |
|---|--------------------------------|--------------|--------------------------------|--------------|--------------------------------|--------------|--------------------------------|--------------|--------------------------------|--------------|--------------------------------|--------------|
|   | 2014                           |              | 2015                           |              | 2016                           |              | 2017                           |              | 2017                           |              | 2018                           |              |
|   | Average selling price per unit | Sales volume | Average selling price per unit | Sales volume | Average selling price per unit | Sales volume | Average selling price per unit | Sales volume | Average selling price per unit | Sales volume | Average selling price per unit | Sales volume |
|   | HK\$                           | units        | HK\$                           | units        | HK\$                           | units        | HK\$                           | units        | HK\$                           | units        | HK\$                           | units        |
| <b>“clipfresh” brand products</b>               |                                |              |                                |              |                                |              |                                |              |                                |              |                                |              |
| Plastic series                                  | 13.8                           | 4,100        | 14.0                           | 4,388        | 12.6                           | 5,358        | 11.7                           | 6,468        | 13.3                           | 2,846        | 12.6                           | 3,205        |
| Glass series                                    | 20.3                           | 172          | 20.4                           | 219          | 18.9                           | 283          | 18.3                           | 387          | 18.4                           | 218          | 24.5                           | 50           |
| Ceramic series (Note 1)                         | 46.0                           | 39           | 40.0                           | 27           | 74.3                           | 12           | N/A                            | –            | N/A                            | –            | N/A                            | –            |
| <b>ODM products (Note 2)</b>                    |                                |              |                                |              |                                |              |                                |              |                                |              |                                |              |
| Storage boxes                                   | 27.7                           | 4,501        | 26.3                           | 5,327        | 24.8                           | 5,047        | 25.0                           | 5,623        | 24.8                           | 2,534        | 25.3                           | 2,614        |
| Laundry and bathroom wares                      | 6.1                            | 6,629        | 6.2                            | 6,361        | 6.0                            | 5,265        | 5.9                            | 5,619        | 5.9                            | 3,034        | 6.1                            | 2,514        |
| Food storage                                    | 7.1                            | 3,567        | 7.8                            | 3,826        | 8.5                            | 3,576        | 8.6                            | 3,314        | 9.0                            | 1,683        | 6.4                            | 1,857        |
| Rubbish bins, outdoor, gardenware and furniture | 15.3                           | 1,070        | 16.5                           | 1,125        | 15.7                           | 1,117        | 16.3                           | 1,081        | 16.3                           | 507          | 17.8                           | 523          |
| Kitchenwares                                    | 5.2                            | 5,388        | 4.6                            | 3,576        | 5.7                            | 2,702        | 5.8                            | 2,497        | 5.9                            | 1,306        | 6.4                            | 1,913        |
| Others (Note 3)                                 | 5.4                            | 947          | 5.4                            | 863          | 9.1                            | 736          | 10.4                           | 823          | 10.0                           | 399          | 8.3                            | 390          |

**Notes:**

1. The fluctuations in the average selling price per unit of the ceramic series during the Track Record Period was due to variations in the product styles and specifications in response to the market demand.
2. All ODM products are plastic products.
3. Others include office solutions, tool boxes, pet accessories, aircraft meal trays and seasonal goods.
4. We offer a diversified range of products and our selling prices are affected by various factors such as the size and the type of products. As the lowest and highest selling prices per unit of our products fall within a large range, the average selling price per unit of our products is included here for illustration purpose only and may not be an exact representation of the selling price.

### OUR SALES AND CUSTOMERS

Our customers are mainly (i) chain supermarkets, department stores and household product retailers; and (ii) importers/exporters. Our overseas sales and Hong Kong sales include sales of our “clipfresh” products and ODM products.

During the Track Record Period, we sold all of our products directly to our customers and we did not appoint any distributors or agents to conduct sales on our behalf. The price of our products was generally determined on a “cost-plus” basis, comprising mainly the price of the raw materials, labour costs and our profit margin.

For the four years ended 31 December 2017 and the six months ended 30 June 2018, our five largest customers accounted for approximately 72.7%, 75.5%, 74.8%, 81.0% and 85.3%, respectively, of our total revenue, and our largest customer accounted for approximately 37.8%, 40.7%, 41.5%, 48.4% and 49.6%, respectively, of our total revenue during the same periods.

### OUR SUPPLIERS

The primary raw material used in the production of our products is polypropylene resins. We purchase polypropylene resins mainly from suppliers located in Hong Kong, who, to our knowledge, source polypropylene resins which are manufactured in countries including South Korea, the United Arab Emirates and Brazil. We source packaging materials such as carton boxes, plastic bags and labels from suppliers located in the PRC. Our suppliers also include our sub-contractors.

## SUMMARY

The following table sets out the breakdown of our total material costs (including raw materials and packaging materials) during the Track Record Period:

|                      | 2014           |                           | Year ended 31 December 2015 |                           | 2016           |                           | 2017           |                           | Six months ended 30 June 2017 |                           | Six months ended 30 June 2018 |                           |
|----------------------|----------------|---------------------------|-----------------------------|---------------------------|----------------|---------------------------|----------------|---------------------------|-------------------------------|---------------------------|-------------------------------|---------------------------|
|                      | HK\$'000       | % of total material costs | HK\$'000                    | % of total material costs | HK\$'000       | % of total material costs | HK\$'000       | % of total material costs | HK\$'000 (unaudited)          | % of total material costs | HK\$'000                      | % of total material costs |
| Polypropylene resins | 129,995        | 79.4                      | 128,130                     | 79.5                      | 96,058         | 76.1                      | 111,172        | 76.1                      | 52,989                        | 76.1                      | 50,167                        | 72.5                      |
| Packaging materials  | 14,181         | 8.7                       | 14,215                      | 8.8                       | 14,708         | 11.7                      | 22,444         | 15.4                      | 10,004                        | 14.4                      | 11,978                        | 17.3                      |
| Others (Note)        | 19,479         | 11.9                      | 18,914                      | 11.7                      | 15,426         | 12.2                      | 12,391         | 8.5                       | 6,602                         | 9.5                       | 7,026                         | 10.2                      |
| <b>Total</b>         | <b>163,655</b> | <b>100.0</b>              | <b>161,259</b>              | <b>100.0</b>              | <b>126,192</b> | <b>100.0</b>              | <b>146,007</b> | <b>100.0</b>              | <b>69,595</b>                 | <b>100.0</b>              | <b>69,171</b>                 | <b>100.0</b>              |

Note: Others mainly represent ancillary materials such as silicon rings and other consumable materials.

Our suppliers generally grant us a credit term ranging from cash on delivery to 90 days. During the Track Record Period, we mainly settled payments with our suppliers in US dollars and RMB by telegraphic transfers or by cheque.

For the four years ended 31 December 2017 and the six months ended 30 June 2018, our five largest suppliers accounted for approximately 65.7%, 65.1%, 65.3%, 67.5% and 65.2%, respectively, of our total purchases and sub-contracting fees paid to our largest supplier accounted for 30.1%, 30.6%, 23.5%, 28.1% and 22.7%, respectively, of our total purchases and sub-contracting fees paid during the same periods.

### OUR PRODUCTION FACILITIES

As at the Latest Practicable Date, we had two production facilities: (i) the Henggang Production Facilities; and (ii) the New Production Facilities.

The Henggang Production Facilities are used for the production of all of our products for the four years ended 31 December 2017. As at 30 June 2018, our production was conducted on both the Henggang Production Facilities and the New Production Facilities, which were equipped with 75 plastic injection moulding machines in total. The following table sets forth the utilisation of our production facilities during the Track Record Period:

|   | 2014   | Year ended 31 December 2015 | 2016   | 2017   | Six months ended 30 June 2018 |
|---|--------|-----------------------------|--------|--------|-------------------------------|
| Effective designed capacity (tonnes) (Note 1) | 16,688 | 18,109                      | 19,155 | 19,008 | 8,590                         |
| Actual production volume (tonnes) (Note 2)    | 14,152 | 15,652                      | 16,616 | 15,408 | 7,717                         |
| Effective utilisation rate (Note 3)           | 84.8%  | 86.4%                       | 86.7%  | 81.1%  | 89.8%                         |

Notes:

- The effective designed capacity is estimated based on the designed capacity of the plastic injection moulding machines per hour multiplied by 24 hours per day multiplied by 365 or 366 days for the four years ended 31 December 2017 and 181 days for the six months ended 30 June 2018, minus the required maintenance days during the year/period. For the six months ended 30 June 2018, the calculation of the effective design capacity has taken into account of the impact on production as a result of the relocation to New Production Facilities.
- The actual production volume refers to the actual weight of the polypropylene resins processed by the plastic injection moulding machines in respect of the products we sold to customers of the relevant year/period.
- Effective utilisation rate is calculated by dividing the actual production volume by the effective designed capacity.

We lease the land and properties for our Henggang Production Facilities from an Independent Third Party. So far as we are aware, the Henggang Lessor does not possess the relevant property ownership certificates or construction works planning permits. Our PRC Legal Adviser has advised that there is a potential risk that the relevant authorities in the PRC may deem Henggang Leases invalid and we may not be able to continue to occupy and conduct operations on the rented properties. For further information, please refer to the section headed "Business – Defects of certain of our leased properties" of this prospectus.

As the Henggang Production Facilities are subject to certain title defects, as a remedial measure, we have entered into a lease agreement with an Independent Third Party as landlord on 30 October 2017, pursuant to which Shenzhen Sun Cheong agrees to lease the premise at the New Production Facilities. We commenced the relocation from the Henggang Production Facilities to the New Production Facilities in December 2017. For further information, please refer to the section headed "Business – Relocation to the New Production Facilities" of this prospectus.

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## SUMMARY

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### SUB-CONTRACTING

During the Track Record Period, we outsourced the production of our products to sub-contractors if sub-contracting such production will incur lower cost than our own production or if production of the products will exceed our production capacity. The sub-contractors are Independent Third Parties located near our production facilities. We provide our sub-contractors with the specifications of the products. Our quality control staff attend the production facilities of our sub-contractors to provide guidance and conduct sample testing, quality checks on the products and on-site inspection. For the four years ended 31 December 2017 and the six months ended 30 June 2018, the sub-contracting fees paid to our sub-contractors amounted to approximately HK\$12.5 million, HK\$11.5 million, HK\$9.9 million, HK\$10.5 million and HK\$0.8 million, respectively, representing approximately 5.5%, 5.0%, 5.1%, 4.9% and 0.8%, respectively, of our total cost of sales during the same periods.

### PRODUCT DESIGN AND DEVELOPMENT

The ability to offer a diverse product portfolio is one of our competitive strengths, and over the years, we have been placing great emphasis on our product design and development. As at the Latest Practicable Date, our product design and development and mould design team consisted of 23 staff, which was led by Mr. Tong Bak Nam Billy, our chief executive officer and executive Director. Our product design and development and mould design team is primarily responsible for enhancing the functions and designs of our existing products and developing new products. Generally, we are capable of delivering 20 to 30 types of newly designed products each year. To protect our product design and development effort, we have obtained patents in relation to a unique durable clip locking system used in our “clipfresh” brand products and other designs of our products.

### OUR COMPETITIVE STRENGTHS

Our Directors believe the following competitive strengths contribute to our success:

- we have product design and development capabilities;
- we offer a diverse product portfolio;
- we prioritise strict compliance with standards for food contact substances and other safety standards and quality control;
- we have in-house mould design, creation and production capabilities;
- we have established long-term business relationships with our major customers and suppliers; and
- we have a stable management team with extensive industry experience.

### OUR BUSINESS STRATEGIES

Our Directors have formulated the following business strategies: (i) enhance brand recognition and awareness and promote our corporate reputation; (ii) strengthen our product design and development capabilities and increase our product offerings; (iii) acquisition and replacement of production machinery and equipment; (iv) purchase or development of moulds and related parts of moulds; and (v) enhance and upgrade of our ERP system. For further information, please refer to the section headed “Business – Our business strategies” of this prospectus.

### SANCTIONS RISKS IN RELATION TO EXPORT OF OUR PRODUCTS TO IRAN, LEBANON AND RUSSIA

During the Track Record Period, we have generated certain amount of our revenue from the sales of our products to customers in Iran, Lebanon and Russia amounted to approximately HK\$0.7 million, HK\$2.6 million, HK\$1.5 million, HK\$1.5 million and nil for the four years ended 31 December 2017 and for the six months ended 30 June 2018, respectively, representing approximately 0.2%, 0.8%, 0.5%, 0.5% and nil, respectively of our total revenue during the corresponding period. For further information of our sales to Iran, Lebanon and Russia, applicability of the sanctions imposed by the US, United Nations, the EU and Australia and sanctions risks faced by our Group in relation to our export of products to Iran, Lebanon and Russia, please refer to the section headed “Business – Sanctions risks in relation to export of our products to Iran, Lebanon and Russia” of this prospectus.

### SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following table sets forth our summary of consolidated statements of profit or loss and other comprehensive income derived from the Accountants’ Report in Appendix I to this prospectus and should be read in conjunction with the Accountants’ Report in Appendix I and the notes thereto:

## SUMMARY

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

|  | 2014<br>HK\$'000 | Year ended 31 December |                  |                  | Six months ended<br>30 June            |                  |
|--|------------------|------------------------|------------------|------------------|--|------------------|
|  |                  | 2015<br>HK\$'000       | 2016<br>HK\$'000 | 2017<br>HK\$'000 | 2017<br>HK\$'000<br><i>(unaudited)</i> | 2018<br>HK\$'000 |
| Revenue  | 301,987          | 315,527                | 300,632          | 325,814          | 157,952                                | 159,781          |
| Gross profit   | 73,980           | 84,871                 | 106,719          | 112,877          | 56,720                                 | 57,367           |
| Profit before tax                                    | 23,077           | 37,664                 | 36,509           | 38,994           | 24,057                                 | 21,374           |
| Profit for the<br>year/period                        | 16,461           | 29,273                 | 26,335           | 27,411           | 18,419                                 | 16,546           |
| Total comprehensive<br>income for the<br>year/period | 16,084           | 28,602                 | 25,370           | 28,473           | 18,588                                 | 17,563           |
| Gross profit margin                                  | 24.5%            | 26.9%                  | 35.5%            | 34.6%            | 35.9%                                  | 35.9%            |
| Net profit margin                                    | 5.5%             | 9.3%                   | 8.8%             | 8.4%             | 11.7%                                  | 10.4%            |

Our revenue increased by approximately 4.5% from approximately HK\$302.0 million for the year ended 31 December 2014 to approximately HK\$315.5 million for the year ended 31 December 2015. The increase was primarily due to an increase in sales to major customers in Australia and new business with a major customer in Germany in 2015. Our revenue decreased by approximately 4.7% from approximately HK\$315.5 million for the year ended 31 December 2015 to approximately HK\$300.6 million for the year ended 31 December 2016. The decrease was primarily due to a reduction in the average selling prices of our products as a result of lower material prices for polypropylene resins. Our revenue increased by approximately 8.4% from approximately HK\$300.6 million for the year ended 31 December 2016 to approximately HK\$325.8 million for the year ended 31 December 2017. The increase in revenue was primarily due to the increase in sales to Australia, New Zealand and Germany, and partially offset by the decrease in sales to Hong Kong and the United States. The decrease in sales to the United States was mainly due to the cessation of business relationship with a customer in the United States in March 2017. The increase in sales to Australia and New Zealand was mainly due to the increase in sales with one of our top five customers which had presence in these regions. The increase in sales to Germany was mainly due to the establishment of business relationship with certain new customers in Germany. Our revenue increased by approximately HK\$1.8 million from approximately HK\$158.0 million for the six months ended 30 June 2017 to approximately HK\$159.8 million for the six months ended 30 June 2018, representing an increase of 1.1%.

For the four years ended 31 December 2017 and the six months ended 30 June 2017 and 2018, our gross profit was approximately HK\$74.0 million, HK\$84.9 million, HK\$106.7 million, HK\$112.9 million, HK\$56.7 million and HK\$57.4 million, respectively, and our gross profit margin was approximately 24.5%, 26.9%, 35.5%, 34.6%, 35.9% and 35.9%, respectively, for the corresponding period. The improvement of our gross profit margin was attributable to lower costs of raw materials. Since 2014, the cost of polypropylene resins dropped by more than 30%, which led to an increase of the gross profit margin.

Our profit increased from approximately HK\$16.5 million for the year ended 31 December 2014 to approximately HK\$29.3 million for the year ended 31 December 2015, decreased to approximately HK\$26.3 million for the year ended 31 December 2016 and increased to approximately HK\$27.4 million for the year ended 31 December 2017. Our profit for the period decreased from approximately HK\$18.4 million for the six months ended 30 June 2017 to approximately HK\$16.5 million for the six months ended 30 June 2018, representing a decrease of approximately HK\$1.9 million or 10.3%. Our net profit margin improved from approximately 5.5% for the year ended 31 December 2014 to approximately 9.3% for the year ended 31 December 2015, decreased to approximately 8.8% for the year ended 31 December 2016 and decreased to approximately 8.4% for the year ended 31 December 2017. Our net profit margin decreased from approximately 11.7% for the six months ended 30 June 2017 to approximately 10.4% for the six months ended 30 June 2018. For further information, please refer to the section headed "Financial information – Period to period comparison of result of operations" of this prospectus.

## SUMMARY

### Summary of consolidated statements of financial position information

|                         | As at 31 December |                 |                 |                 | As at           |
|-------------------------|-------------------|-----------------|-----------------|-----------------|-----------------|
|                         | 2014              | 2015            | 2016            | 2017            | 30 June 2018    |
|                         | <i>HK\$'000</i>   | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Non-current assets      | 42,919            | 51,637          | 58,771          | 55,237          | 74,705          |
| Current assets          | 315,445           | 354,075         | 300,901         | 311,374         | 295,206         |
| Current liabilities     | 312,121           | 338,215         | 284,035         | 272,993         | 291,252         |
| Net current assets      | 3,324             | 15,860          | 16,866          | 38,381          | 3,954           |
| Non-current liabilities | 7,212             | 5,382           | 2,547           | 2,055           | 2,156           |
| Total equity            | 39,031            | 62,115          | 73,090          | 91,563          | 76,503          |

We recorded net current assets of approximately HK\$3.3 million, HK\$15.9 million, HK\$16.9 million, HK\$38.4 million and HK\$4.0 million as at 31 December 2014, 2015, 2016 and 2017 and 30 June 2018, respectively. The increase in our net current assets as at 31 December 2015, compared to that as at 31 December 2014 was mainly due to an increase in amounts due from related companies, restricted bank deposits, bank balances and cash, and decrease in trade payables, partially offset by the change of amount due from a director to amount due to a director. The increase in our net current assets as at 31 December 2016, compared to that as at 31 December 2015, was mainly due to an increase in prepayments to suppliers for the supply of polypropylene resins, amount due from a director, restricted bank deposits, bank balances and cash, and decrease in amount due to a director and bank borrowings, and partially offset by an increase in trade and other payables, and decrease in amounts due from related companies. The increase in our net current assets as at 31 December 2017 as compared to that as at 31 December 2016 was mainly due to the increase in trade and other receivables, bank balances and cash; and partially offset by the decrease in restricted bank deposits. The decrease in our net current assets as at 30 June 2018 as compared to that as at 31 December 2017 was mainly due to the decrease in bank balances and cash, the increase in bank and other borrowings, and obligations under finance leases.

For further information, please refer to the section headed “Financial information – Net current assets and analysis of various items in the consolidated statements of financial position” of this prospectus.

### Summary of consolidated statements of cash flows information

|   | Year ended 31 December |                 |                 |                 | Six months ended   |                 |
|---|------------------------|-----------------|-----------------|-----------------|--------------------|-----------------|
|   | 2014                   | 2015            | 2016            | 2017            | 30 June 2017       | 2018            |
|   | <i>HK\$'000</i>        | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i>    | <i>HK\$'000</i> |
|   |                        |                 |                 |                 | <i>(unaudited)</i> |                 |
| Cash and cash equivalents at the beginning of the year/period | 548                    | 4,621           | 40,492          | 106,292         | 106,292            | 122,768         |
| Net cash from operating activities                            | 26,605                 | 45,745          | 42,526          | 59,857          | 36,498             | 30,944          |
| Net cash (used in) from investing activities                  | (174,082)              | (26,935)        | 1,134           | (4,131)         | (14,753)           | (62,560)        |
| Net cash from (used in) financing activities                  | 151,550                | 17,061          | 22,140          | (39,250)        | (6,252)            | (7,005)         |
| Net increase (decrease) in cash and cash equivalents          | 4,073                  | 35,871          | 65,800          | 16,476          | 15,493             | (38,621)        |
| Cash and cash equivalents at the end of the year/period       | 4,621                  | 40,492          | 106,292         | 122,768         | 121,785            | 82,632          |

We recorded a net cash generated from operating activities of approximately HK\$26.6 million, HK\$45.7 million, HK\$42.5 million, HK\$59.9 million and HK\$30.9 million for the four years ended 31 December 2017 and the six months ended 30 June 2018, respectively.

Our net cash used in investing activities during the Track Record Period was comprised of certain advances to related companies and a Director, and placement of restricted bank deposits.

We monitor and maintain an adequate level of cash and cash equivalents to finance our operations and mitigate the effects of fluctuations in cash flows. Our chief financial officer closely monitors our Group's cash flows based on our increase of trade and other receivables,

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## SUMMARY

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settlement of trade and other payables, repayments of and raising new bank and other borrowings, and payments for operating expenses and capital expenditures. Cash flows arising from such business activities, together with the cash and bank balances and short-term bank financing available for utilisation, are periodically reported by our chief financial officer to our Directors for review and assessments. Based on the relevant financial information including our Group's cash position, amounts shortly receivable or payable and banking facilities available, our chief financial officer and Directors determine the adequate types and utilisation of bank borrowings to ensure that our Group has sufficient cash to finance its operations, meeting relevant loan covenants while minimising our Group's financing costs.

Below sets out our key financial ratios as at the dates or for the periods indicated:

|                                  | For the year ended 31 December |      |                      |                      | For<br>the six<br>months<br>ended<br>30 June<br>2018 |
|----------------------------------|--------------------------------|------|----------------------|----------------------|--|
|                                  | 2014                           | 2015 | 2016                 | 2017                 |  |
| Return on equity (%)             | 49.6                           | 51.8 | 38.8                 | 31.9                 | 47.0   |
| Return on total assets (%)       | 4.6                            | 7.2  | 7.3                  | 7.5                  | 9.0  |
| Interest coverage ratio (times)  | 3.6                            | 4.5  | 5.4                  | 5.8                  | 5.7  |
|                                  | As at 31 December              |      |                      |                      | As at<br>30 June<br>2018                             |
|                                  | 2014                           | 2015 | 2016                 | 2017                 |  |
| Gearing ratio (times)            | 6.6                            | 4.6  | 2.9                  | 2.0                  | 2.5  |
| Net debt to equity ratio (times) | 5.0                            | 3.0  | Net cash<br>position | Net cash<br>position | 0.2  |
| Current ratio (times)            | 1.0                            | 1.0  | 1.1                  | 1.1                  | 1.0  |
| Quick ratio (times)              | 0.9                            | 1.0  | 1.0                  | 1.1                  | 1.0  |

For further information, please refer to the section headed "Financial Information – Key financial ratios" of this prospectus.

Our Directors confirm that, after due and careful enquiry and taking into consideration the financial resources presently available to us, including internally generated funds and the estimated net proceeds of the Share Offer, our Group has sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this prospectus.

### Non-HKFRS measures

We recognised non-recurring items during the Track Record Period. To supplement our consolidated financial statements which are presented in accordance with HKFRS, we also presented the adjusted net profits, and adjusted net profit margin as non-HKFRS measures.

We present these additional financial measures as these were used by our management to evaluate our financial performance by eliminating the impact of non-recurring listing and other expenses which are considered not indicative for evaluation of the actual performance of our business. We believe that these non-HKFRS measures provide additional information to investors and others in understanding and evaluating our results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies.

## SUMMARY

The table below sets forth the adjusted net profit and adjusted net profit margin in each respective periods during the Track Record Period:

|  | Year ended 31 December |                  |                  |                  | Six months ended<br>30 June            |                  |
|--|------------------------|------------------|------------------|------------------|--|------------------|
|  | 2014<br>HK\$'000       | 2015<br>HK\$'000 | 2016<br>HK\$'000 | 2017<br>HK\$'000 | 2017<br>HK\$'000<br><i>(unaudited)</i> | 2018<br>HK\$'000 |
| Profit for the year/period                                     | 16,461                 | 29,273           | 26,335           | 27,411           | 18,419                                 | 16,546           |
| Add (less):  |                        |                  |                  |                  |  |                  |
| Non-recurring item   |                        |                  |                  |                  |  |                  |
| – Listing expenses   | –                      | –                | 12,453           | 10,205           | 1,968                                  | 2,400            |
| – Other expenses (Reversal of other expenses) <i>(Note 1)</i>  | –                      | –                | 8,647            | (667)            | (2,097)                                | 2,330            |
| Adjusted net profit for the year/period <i>(Note 2)</i>        | <u>16,461</u>          | <u>29,273</u>    | <u>47,435</u>    | <u>36,949</u>    | <u>18,290</u>                          | <u>21,276</u>    |
| Adjusted net profit margin for the year/period <i>(Note 2)</i> | 5.5%                   | 9.3%             | 15.8%            | 11.3%            | 11.6%                                  | 13.3%            |

*Notes:*

- Other expenses (Reversal of other expenses) represent the (provision) reversal of provision of compound penalty for tax audit during the respective periods, which is not a recurring expenses.
- Adjusted net profit is calculated by adding back the Listing expenses and other expenses to profit for the year/period. Adjusted net profit margin is calculated by dividing adjusted net profit by revenue. The adjusted net profit and adjusted net profit margin are non-HKFRS measures.

### RECENT DEVELOPMENTS SUBSEQUENT TO THE TRACK RECORD PERIOD

We continue to develop and expand our customer base while diversifying and enhancing the products we offer. In July of 2018, our revenue is higher compared to the same period in 2017, primarily due to the increase in sales to certain customers in Australia, with a gross profit margin remaining stable.

Our profit for the year ending 31 December 2018 is likely to be lower than that of 2017 primarily due to, (i) the Listing expenses as disclosed in the section headed “Financial information – Impact of expenses relating to Listing to the profits and loss account of our Group after Listing” of this prospectus; and (ii) the one-off relocation costs to the New Production Facilities, which was completed in August 2018 as disclosed in the section headed “Business – Relocation to the New Production Facilities” of this prospectus, despite there has been no material adverse change in our financial or trading position or prospects of our Group since the end of the Track Record Period; and no event has occurred that would materially affect the information shown in our financial information included in the Accountants’ Report in Appendix I to this prospectus.

### SHAREHOLDERS’ INFORMATION

Immediately following completion of the Share Offer and the Capitalisation Issue, Mr. Tong Ying Chiu, Ms. Ng Siu Kuen Sylvia, Sun Cheong Creative and Uni-Pro will be interested in approximately 50.05% of our issued Shares (without taking into account the Shares to be allotted and issued upon the exercising of any options which may be granted under the Share Option Scheme), hence Mr. Tong Ying Chiu and Ms. Ng Siu Kuen Sylvia (collectively as a group of Controlling Shareholders), Sun Cheong Creative and Uni-Pro will be our Controlling Shareholders. Please refer to the section headed “Relationship with our Controlling Shareholders” of this prospectus.

On 4 June 2016 and 30 June 2016, a total of 1,734 Shares were transferred to Mr. Chan Kam Hon Ivan, our chief financial officer and executive Director, at a total consideration of HK\$20,820,000. On 13 October 2017, 86 Shares, 1,334 Shares and 173 Shares were transferred to Mr. Lau Yuk Wing, Eminent Sky and Harrison Assets at a consideration of HK\$2,438,100, HK\$37,900,000 and HK\$4,904,550, respectively. For details, please refer to the section headed “History and development – Transfers of Shares in our Company” of this prospectus.



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## SUMMARY

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Our Directors are of the view that as at the Latest Practicable Date, none of our Controlling Shareholders or any of their respective close associates had any interests in any businesses, apart from the business operated by our Group, that compete or is likely to compete, directly or indirectly, with our business.

### SHARE OFFER STATISTICS

We have prepared the following offer statistics on the basis of the indicative Offer Price without taking into account the 1% brokerage, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee.

|   | <b>Based on<br/>Offer Price<br/>per Share of<br/>HK\$1.0</b> | <b>Based on<br/>Offer Price<br/>per Share of<br/>HK\$1.2</b> |
|---|--|--|
| Market capitalisation of our Shares                             | HK\$540.0<br>million   | HK\$648.0<br>million   |
| Unaudited pro forma adjusted net tangible asset value per Share | HK\$0.34   | HK\$0.39   |

*Notes:*

- (1) The calculation of our market capitalisation upon completion of the Share Offer is based on the assumption that 540,000,000 Shares will be issued and outstanding immediately following the completion of the Share Offer.
- (2) The unaudited pro forma adjusted net tangible asset value per Share is calculated after the adjustments referred to in the section headed “Unaudited Pro Forma Financial Information – A. Unaudited Pro Forma Statement of Adjusted Consolidated Net Tangible Assets of the Group” set out in Appendix II from pages II-1 to II-2 of this prospectus and on the basis of a total of 540,000,000 issued Shares immediately following the Share Offer.

### DIVIDEND

During each of the years ended 31 December 2014 and 2015, interim dividends of HK\$5.0 million and HK\$5.0 million were recognised as distribution by Chase On to its then shareholders, respectively. During each of the years ended 31 December 2016 and 2017 and the six months ended 30 June 2018, interim dividends of HK\$5.0 million, HK\$10.0 million and HK\$30.0 million were recognised as distribution by our Company to our then shareholders, respectively. Save as disclosed above, no dividend is paid or proposed during the Track Record Period and up to the Latest Practicable Date.

There is no expected dividend payout ratio after the Listing. The payment and the amount of any future dividends will be at the discretion of our Directors and will depend upon our Group’s future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors which our Directors deem relevant. There can be no assurance that our Company will be able to declare or distribute in the amount set out in any plan of our Board or at all. The past dividend distribution record may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Company in the future.

### REASONS FOR THE SHARE OFFER AND THE LISTING

We target at continuing growth and enhancing our market presence. Our Directors believe that the Listing will allow us to gain access to different means of financing for our operations and expansions, strengthening our financial resources, enhancing brand awareness and market reputation and placing our Group in a better position to retain and attract experienced staff. For information and reasons for the Share Offer and the Listing, please refer to the section headed “Future plans and use of proceeds – Reasons for the Share Offer and the Listing” of this prospectus.

### FUTURE PLANS AND USE OF PROCEEDS

We estimate that the net proceeds from the Share Offer (after deduction of underwriting fees and estimated expenses payable by us in relation to the Share Offer, and assuming a Offer Price of HK\$1.1 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$1.0 to HK\$1.2) are approximately HK\$102.1 million (to be received upon the Listing). Our Directors intend to apply the net proceeds from the Share Offer for the following purposes:

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## SUMMARY

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| <b>Approximate amount of proceeds</b> | <b>Use of proceeds</b>   |
|---------------------------------------|--|
| HK\$29.1 million (28.5%)              | For purchasing or development of moulds and related parts of moulds                                    |
| HK\$24.3 million (23.8%)              | For acquisition and replacement of production machinery and equipment                                  |
| HK\$5.8 million (5.7%)                | For enhancement and upgrade of our ERP system  |
| HK\$15.1 million (14.8%)              | For repayment of interest-bearing bank loan  |
| HK\$9.7 million (9.5%)                | For general working capital of our Group   |
| HK\$8.4 million (8.2%)                | For enhancing brand recognition and awareness and promoting our corporate reputation                   |
| HK\$9.7 million (9.5%)                | For strengthening our product design and development capabilities and increasing our product offerings |

Please refer to the section headed “Future plans and use of proceeds” of this prospectus for detailed information.

### RISK FACTORS

There are risks associated with our business and investment in the Share Offer. Some of the particular risks are set out in the section headed “Risk factors” of this prospectus. You should read that entire section carefully before you decide to invest in the Offer Shares.

The following highlights some of the risks which our Directors consider to be material:

- increases in the prices or the unstable supply of the raw materials we use in our products may have a negative effect on our business
- our business and financial position may be adversely affected if we are not able to continue servicing the Australian market effectively or if there is any adverse change in the macro-economic situation or economic downturn in Australia
- our new products under development may not meet the market preference or achieve a wide market acceptance or receive a positive market response

### NON-COMPLIANCES

During the Track Record Period, we had certain systemic non-compliances relating to the laws and regulations in respect of social insurance contributions and housing provident fund contributions in the PRC and filing of tax returns in Hong Kong. Please refer to the section headed “Business – Major non-compliance incidents” of this prospectus.

### LISTING EXPENSES

All incremental costs that are directly attributable to the issue of new Shares are recognised and directly deducted from equity while any expenses attributable to the listing of existing Shares are charged to the profit and loss accounts in which the expenses are incurred. The total expenses for the Listing are estimated to be approximately HK\$46.4 million (assuming an Offer Price of HK\$1.1 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$1.0 to HK\$1.2), of which approximately HK\$13.7 million is directly attributable to the issuance of new Shares in the Share Offer and to be accounted for as a deduction from equity and approximately HK\$32.7 million is to be charged as listing expenses to our profit and loss accounts in the period in which the expenses are incurred. The listing expenses of approximately HK\$12.5 million, approximately HK\$10.2 million and approximately HK\$2.4 million were charged to our profit and loss accounts for the two years ended 31 December 2016 and 2017 and the six months ended 30 June 2018, respectively, and approximately HK\$10.0 million are expected to be charged to our profit and loss accounts for the year ending 31 December 2018, which will be reflected in listing expenses for the year ending 31 December 2018. For further information, please refer to the section headed “Financial information – Impact of expenses relating to Listing to the profits and loss account of our Group after Listing” of this prospectus.

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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.*

|   |  |
|---|--|
| “Application Form(s)”                   | <b>WHITE</b> application form(s) and <b>YELLOW</b> application form(s) or, where the context so requires, any of them to be used in connection with the Public Offer   |
| “Articles of Association” or “Articles” | the articles of association of our Company, conditionally adopted by the then Shareholders on 16 August 2018 to effect on the Listing Date, as amended, supplemented or otherwise modified from time to time, a summary of which is set out in Appendix III to this prospectus   |
| “associate(s)”                          | has the meaning ascribed thereto under the Listing Rules   |
| “AUD”                                   | Australian dollars, the lawful currency of Australia   |
| “Audit Committee”                       | the audit committee of our Board   |
| “Billion Leading”                       | Billion Leading Limited (億進有限公司), a company incorporated in Hong Kong on 7 August 2015 and its ultimate beneficial shareholder is an Independent Third Party   |
| “Board”                                 | the board of Directors   |
| “business day”                          | any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which licensed banks in Hong Kong are generally open for business  |
| “BVI”                                   | the British Virgin Islands   |
| “CAGR”                                  | compound annual growth rate  |
| “Capitalisation Issue”                  | the issue of 404,990,000 Shares to be made upon capitalisation of certain sum standing to the credit of the share premium account of our Company as referred to in the section headed “Statutory and general information – A. Further information about our Company and its subsidiaries – 3. Resolutions in writing of all our Shareholders passed on 16 August 2018” in Appendix IV to this prospectus |

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## DEFINITIONS

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| “CCASS”                                  | the Central Clearing and Settlement System established and operated by HKSCC  |
| “CCASS Clearing Participant”             | a person admitted to participate in CCASS as a direct clearing participant or a 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 or a CCASS Custodian Participant or a CCASS Investor Participant   |
| “Chase On”                               | Chase On Development Limited (潮安發展有限公司), a company incorporated in Hong Kong on 16 June 1989 and is our indirect wholly-owned subsidiary  |
| “China” or “PRC”                         | the People’s Republic of China and, except where the context otherwise requires and only for the purpose of this prospectus, references in this prospectus to China or the PRC exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan region            |
| “Chinese Government” or “PRC Government” | the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or, where the context requires, any of them  |
| “Circular 37”                            | Circular of the SAFE on Issues Concerning Foreign Exchange Administration of Overseas Investments and Financing and Round-Trip Investments by Domestic Residents via Special Purpose Vehicles (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) promulgated by the SAFE on 4 July 2014 |
| “close associate(s)”                     | has the meaning ascribed to it under the Listing Rules  |
| “Co-Manager”                             | Yuzhou Financial, being the co-manager for the Share Offer  |

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## DEFINITIONS

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| “Companies Law”   | the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands  |
| “Companies Ordinance”   | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time   |
| “Companies (WUMP) Ordinance” or “Companies (Winding Up and Miscellaneous Provisions) Ordinance” | the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time  |
| “Company” or “our Company”  | Sun Cheong Creative Development Holdings Limited (新昌創展控股有限公司), incorporated as an exempted company with limited liability in the Cayman Islands on 22 March 2016   |
| “connected person(s)”   | has the meaning ascribed to it under the Listing Rules   |
| “Controlling Shareholder(s)”  | has the meaning ascribed thereto under the Listing Rules, including any person or group of persons who are entitled to exercise 30% or more of the voting power at our general meeting or are in a position to control the composition of a majority of our Board, which as at the date of this prospectus consist of Mr. Tong Ying Chiu and Ms. Ng Siu Kuen Sylvia (collectively as a group of Controlling Shareholders), Sun Cheong Creative and Uni-Pro |
| “core connected person(s)”  | has the meaning ascribed to it under the Listing Rules   |
| “CSRC”  | China Securities Regulatory Commission (中華人民共和國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC national securities markets   |

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## DEFINITIONS

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| “Deed of Non-competition” | a deed of non-competition dated 16 August 2018 executed by each of the Controlling Shareholders in favour of our Company as set out in the section headed “Relationship with our Controlling Shareholders – Non-competition undertakings” of this prospectus |
| “Director(s)”             | the director(s) of our Company   |
| “Eminent Sky”             | Eminent Sky Limited, a company incorporated in the BVI on 26 September 2011, details of which are set out in the section headed “History and development – Transfers to the Pre-IPO Investors – Background of the Pre-IPO Investors” of this prospectus      |
| “EU”                      | the European Union   |
| “Euro”                    | Euro, the lawful currency of the EU  |
| “Farm Chalk BVI”          | Farm Chalk Investment Limited (泛爵投資有限公司), a company incorporated in the BVI on 30 October 2008 and is owned as to 50% by Mr. Tong Ying Chiu and 50% by Ms. Ng Siu Kuen Sylvia  |
| “Farm Chalk HK”           | Farm Chalk Investment Limited (泛爵投資有限公司), a company incorporated in Hong Kong on 22 April 1987 and is owned as to 50% by Mr. Tong Ying Chiu and 50% by Ms. Ng Siu Kuen Sylvia and having a business name of Sun Cheong Industrial Company                    |
| “Foshan Haichang”         | Foshan Haichang New Materials Technology Co., Ltd. (佛山市海昌新材料科技有限公司), a company incorporated in the PRC with limited liability on 28 May 2012, which is an indirect subsidiary of our Company   |
| “Future Land”             | Future Land Resources Securities Limited, a licensed corporation under SFO to carry out type 1 (dealing in securities) regulated activity  |
| “GBP”                     | Great British Pounds, the lawful currency of the United Kingdom  |
| “Harrison Assets”         | Harrison Assets Limited, a company incorporated in the BVI on 18 June 1999, details of which are set out in the section headed “History and development – Transfers to the Pre-IPO Investors – Background of the Pre-IPO Investors” of this prospectus       |

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## DEFINITIONS

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| “Henggang Factories”                                      | Factory No. 9 and Factory No. 10 located in Henggang Sub-District, Longgang District, Shenzhen, the PRC and referred to in the section headed “Business – Properties leased by us” of this prospectus |
| “Henggang Leases”   | as defined in the section headed “Business – Defects of certain of our leased properties” of this prospectus  |
| “Henggang Lessor”   | as defined in the section headed “Business – Defects of certain of our leased properties” of this prospectus  |
| “Henggang Production Facilities”                          | the Henggang Factories and the Henggang Staff Quarters  |
| “Henggang Staff Quarters”                                 | our staff quarters located in Henggang Sub-District, Longgang District, Shenzhen, the PRC and referred to in the section headed “Business – Properties leased by us” of this prospectus               |
| “HK\$” or “Hong Kong dollars” or “HK dollars” and “cents” | Hong Kong dollars and cents respectively, the lawful currency of Hong Kong  |
| “HKFRS(s)”  | Hong Kong Financial Reporting Standards, which include the Hong Kong Accounting Standards, amendments and interpretations issued by the HKICPA, as in effect from time to time                        |
| “HKICPA”  | Hong Kong Institute of Certified Public Accountants   |
| “HKSCC”   | Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited  |
| “HKSCC Nominees”  | HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC  |
| “Hong Kong”   | the Hong Kong Special Administrative Region of the PRC  |
| “Hong Kong Branch Share Registrar”                        | Union Registrars Limited, the Hong Kong branch share registrar and transfer office of our Company   |

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## DEFINITIONS

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| “Independent Third Party(ies)”                  | an individual(s) or a company(ies) who or which, as far as our Directors are aware after having made all reasonable enquiries, is/are independent and not a connected person of our Company within the meaning of the Listing Rules |
| “Ipsos”   | Ipsos Limited (formerly known as Ipsos Hong Kong Limited), an Independent Third Party, being a professional market research company   |
| “Ipsos Report”                                  | a report commissioned by us and independently prepared by Ipsos   |
| “IRD”   | the Inland Revenue Department of Hong Kong  |
| “Joint Bookrunners”<br>or “Joint Lead Managers” | Giraffe Capital, South China and Future Land, being the joint bookrunners and joint lead managers for the Share Offer   |
| “Latest Practicable Date”                       | 13 September 2018, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information in this prospectus   |
| “Listing”                                       | the listing of the Shares on the Main Board   |
| “Listing Date”                                  | the date expected to be on Thursday, 4 October 2018, on which the Shares are listed and from which dealings therein are permitted to take place on the Main Board of the Stock Exchange   |
| “Listing Rules”                                 | the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time   |
| “M & A Rules”                                   | the Rules on Merger and Acquisition of Domestic Enterprise by Foreign Investors (《關於外國投資者併購境內企業的規定》)  |
| “Main Board”                                    | the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with GEM of the Stock Exchange   |
| “Memorandum” or<br>“Memorandum of Association”  | the memorandum of association of our Company, adopted on 16 August 2018, as supplemented, amended or otherwise modified from time to time, a summary of which is set out in Appendix III to this prospectus                         |



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## DEFINITIONS

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| “Ministry of Finance”                 | the PRC Ministry of Finance (中華人民共和國財政部)   |
| “MOFCOM”                              | the PRC Ministry of Commerce (中華人民共和國商務部)  |
| “New Production Facilities”           | Factory 4#, No. 228 Industrial District, Henggang Community, Henggang Street, Longgang District, Shenzhen (深圳市龍崗區橫崗街道橫崗社區228工業區4#廠房) and referred to in the section headed “Business – Properties leased by us” of this prospectus   |
| “Nomination Committee”                | the nomination committee of our Board  |
| “NPC” or “National People’s Congress” | 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 final offer price per Offer Share (exclusive of brokerage, SFC transaction levy and Stock Exchange trading fee) of not more than HK\$1.2 and expected to be not less than HK\$1.0 at which the Offer Shares are to be issued pursuant to the Share Offer, to be determined as further described in the section headed “Structure and Conditions of the Share Offer – Determining the Offer Price” of this prospectus |
| “Offer Share(s)”                      | the Public Offer Share(s) and the Placing Share(s)   |
| “PBOC”                                | the People’s Bank of China (中國人民銀行), the central bank of the PRC   |
| “Placing”                             | the conditional placing of the Placing Shares by the Placing Underwriters at the Offer Price to selected professional, institutional and other investors as set forth in the section headed “Structure and Conditions of the Share Offer” of this prospectus   |
| “Placing Shares”                      | 121,500,000 Shares initially being offered by our Company for subscription at the Offer Price under the Placing, subject to reallocation as described in the section headed “Structure and Conditions of the Share Offer” of this prospectus   |
| “Placing Underwriters”                | the underwriters of the Placing who are expected to enter into the Placing Underwriting Agreement to underwrite the Placing Shares   |
| “Placing Underwriting Agreement”      | the conditional placing underwriting agreement relating to the Placing expected to be entered into on or about the Price Determination Date by, among others, our Company and the Placing Underwriters, particulars of which are summarised in the section headed “Underwriting” of this prospectus  |

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## DEFINITIONS

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| “PRC Company Law”               | the Company Law of the PRC 《中華人民共和國公司法》, as enacted by the Standing Committee of the Eighth National People’s Congress on 29 December 1993 and effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time  |
| “PRC Legal Adviser”             | Hills & Co., our legal adviser as to the laws of the PRC   |
| “Pre-IPO Investor(s)”           | Eminent Sky, Harrison Assets and Mr. Lau Yuk Wing and each a “Pre-IPO Investor”, background and information of which are set out in the section headed “History and development – Transfers to the Pre-IPO Investors – Background of the Pre-IPO Investors” of this prospectus                           |
| “Price Determination Agreement” | the price determination agreement to be entered into between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on the Price Determination Date to record and fix the Offer Price  |
| “Price Determination Date”      | the date, expected to be on or around Friday, 28 September 2018 but no later than Saturday, 29 September 2018, on which the Offer Price is fixed for the purposes of the Share Offer   |
| “Public Offer”                  | the offer of the Public Offer Shares for subscription by the public in Hong Kong at the Offer Price (plus a brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) on the terms and subject to the conditions described in this prospectus and the Application Forms |
| “Public Offer Shares”           | 13,500,000 Shares being offered by our Company for subscription pursuant to the Public Offer at the Offer Price, subject to reallocation as described in the section headed “Structure and Conditions of the Share Offer” of this prospectus   |
| “Public Offer Underwriters”     | the underwriters of the Public Offer as listed in the section headed “Underwriting – Public Offer Underwriters, Joint Bookrunners and Joint Lead Managers” of this prospectus  |

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## DEFINITIONS

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| “Public Offer Underwriting Agreement” | the conditional underwriting agreement dated 20 September 2018 relating to the Public Offer entered into by, among other parties, our Company, the Controlling Shareholders and the Public Offer Underwriters as further described in the section headed “Underwriting – Public Offer Underwriting Arrangements and Expenses – Public Offer Underwriting Agreement” of this prospectus |
| “Regulation S”                        | Regulation S under the US Securities Act   |
| “Remuneration Committee”              | the remuneration committee of our Board  |
| “Reorganisation”                      | the reorganisation arrangements we have undergone in preparation for the listing of Shares on the Stock Exchange which are more particularly described in the section headed “Reorganisation” of this prospectus   |
| “Repurchase Mandate”                  | the general unconditional mandate to repurchase Shares given to our Directors by our Shareholders, particulars of which are set out in the section headed “Statutory and general information – A. Further information about our Company and its subsidiaries – 6. Repurchase of Shares by our Company” in Appendix IV to this prospectus   |
| “Risk Management Committee”           | the risk management committee of our Board   |
| “RMB” or “Renminbi”                   | Renminbi, the lawful currency of the PRC   |
| “SAFE”                                | the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), the PRC governmental agency responsible for matters relating to foreign exchange administration  |
| “Sanctions Laws Legal Adviser”        | Squire Patton Boggs (US) LLP, an international law firm  |
| “SAT”                                 | the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)  |
| “SCNPC”                               | the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會)   |

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## DEFINITIONS

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| “SFC”                               | the Securities and Futures Commission of Hong Kong   |
| “SFO”                               | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time  |
| “Share(s)”                          | ordinary share(s) in the share capital of our Company with a nominal value of HK\$0.01 each  |
| “Share Offer”                       | the Public Offer and the Placing   |
| “Share Option Scheme”               | the share option scheme of our Company conditionally adopted by our Company on 16 August 2018, the principal terms of which are summarised in the section headed “Statutory and general information – D. Other information – 1. Share Option Scheme” in Appendix IV to this prospectus |
| “Shareholder(s)”                    | holder(s) of the Share(s)  |
| “Shenzhen Sun Cheong”               | Shenzhen Xincang Plastic Article Co., Ltd. (深圳新昌塑膠用品有限公司), a company incorporated in the PRC with limited liability on 20 November 1992, which is an indirect wholly-owned subsidiary of our Company   |
| “SME Financing Guarantee Scheme”    | granted by Hong Kong Mortgage Corporation Limited to help small and medium-sized enterprises and non-listed enterprises to obtain financing from participating lenders for meeting their business needs  |
| “SME Loan Guarantee Scheme”         | granted by the government of the Hong Kong Special Administrative Region to provide loan guarantee to small and medium enterprises   |
| “Sole Sponsor” or “Giraffe Capital” | Giraffe Capital Limited, a licensed corporation under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities  |
| “South China”                       | South China Securities Limited, a licensed corporation under the SFO to carry out type 1 (dealing in securities) regulated activity  |
| “State Council”                     | the State Council of the PRC (中華人民共和國國務院)  |

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## DEFINITIONS

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|------------------------------|---|
| “Stock Exchange”             | The Stock Exchange of Hong Kong Limited   |
| “subsidiary(ies)”            | has the meaning ascribed thereto under the Listing Rules  |
| “Substantial Shareholder(s)” | has the meaning ascribed thereto under the Listing Rules  |
| “Sun Cheong Creative”        | Sun Cheong Creative Development Limited (新昌創展有限公司), a company incorporated in Hong Kong on 28 March 2014 and is owned as to 50% by Mr. Tong Ying Chiu and 50% by Ms. Ng Siu Kuen Sylvia |
| “Takeovers Codes”            | The Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time  |
| “Tax Adviser”                | Edwin Yeung & Company (CPA) Limited, the independent tax adviser to our Company   |
| “the branch of Sun Cheong”   | the Henggang branch of Shenzhen Sun Cheong (深圳新昌塑膠用品有限公司橫崗分公司), a branch established in the PRC on 5 February 2010  |
| “Top Leader International”   | Top Leader International Ltd (領高國際有限公司), a company incorporated in the BVI on 19 May 2016 and is our direct wholly-owned subsidiary   |
| “Track Record Period”        | the period comprising the four financial years ended 31 December 2017 and the six months ended 30 June 2018   |
| “UK”                         | the United Kingdom  |
| “Underwriters”               | the Public Offer Underwriters and the Placing Underwriters  |
| “Underwriting Agreements”    | the Public Offer Underwriting Agreement and the Placing Underwriting Agreement  |
| “Uni-Pro”                    | Uni-Pro Ltd (專業有限公司), a company incorporated in the BVI on 19 May 2016 and is wholly-owned by Sun Cheong Creative   |
| “United States” or “US”      | the United States of America  |

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## DEFINITIONS

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| “US dollars” or “US\$” or “USD”                  | United States dollars, the lawful currency of the United States  |
| “US Securities Act”                              | the US Securities Act of 1933, as amended, supplemented or otherwise modified from time to time, and the rules and regulations promulgated thereunder  |
| “we”, “us”, “our”,<br>“Group” and<br>“our Group” | our Company and our subsidiaries, or where the context refers to any time prior to the incorporation of our Company, the business in which the predecessors of its present subsidiaries were engaged and which were subsequently assumed by such subsidiaries pursuant to the Reorganisation |
| “WHITE Application Form(s)”                      | the application form(s) for Public Offer Shares for use by the public who require(s) such Public Offer Shares to be issued in the applicant’s or applicants’ own name(s)   |
| “YELLOW Application Form(s)”                     | the application form(s) for Public Offer Shares for use by the public who require(s) such Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS   |
| “Yuzhou Financial”                               | Yuzhou Financial Holdings Limited, a licensed corporation under the SFO to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities  |
| “sq.m”   | square metre(s)  |
| “%”  | per cent   |

*Unless expressly stated or the context otherwise requires, all data in this prospectus is as at the date of this prospectus.*

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

*In this prospectus, unless otherwise stated, certain amounts denominated in Hong Kong dollars have been translated into Renminbi at the then prevailing exchange rates. The exchange rates used in this prospectus are for illustration purpose only. Such conversions shall not be construed as representations that amounts in Hong Kong dollars were or could have been or could be converted into Renminbi at such rates or any other exchange rates on such date or any other date.*

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## DEFINITIONS

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*The English names of PRC nationals, enterprises, entities, departments, facilities, certificates, titles and the like are translations of their Chinese names and are for identification purposes only. In the event of inconsistencies, the Chinese name(s) shall prevail.*

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## GLOSSARY

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*This glossary contains an explanation of certain technical terms used in this prospectus as they relate to our Company and as they are used in this prospectus in connection with our business or us. Such terminology and meanings may not correspond to standard industry meanings or usages of those terms.*

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| “Bisphenol A” or “BPA” or<br>“Bisphenol A (BPA)” | a chemical produced in large quantities for use primarily in the production of polycarbonate plastics and epoxy resins  |
| “BSCI”   | the Business Social Compliance Initiative, a leading supply chain management system that supports companies to drive social compliance and improvements within the factories and farms in their global supply chains. BSCI implements the principle international labour standards protecting workers’ rights such as International Labour Organisation conventions and declarations, the United Nations Guiding Principles on Business and Human Rights and guidelines for multinational enterprises of the Organisation for Economic Co-operation and Development |
| “CFR”  | cost and freight, which requires the seller to arrange for the carriage of goods by sea to a port of destination, and provide the buyer with the documents necessary to obtain the goods from the carrier. Under CFR, the seller does not have to procure marine insurance against the risk of loss or damage to the goods during transit   |
| “CIF”  | cost, insurance and freight where the seller is responsible to arrange for the carriage of goods by sea to a port of destination, and provide the buyer with the documents necessary to obtain the goods from the carrier, and the risk delivered. The risk of loss of or damage to the goods passes when the goods are on board the vessel   |
| “ERP system”                                     | enterprise resource planning system   |
| “FDA”  | Food and Drug Administration, an agency within the Department of Health and Human Services, the United States   |
| “FOB”  | free on board, which requires the seller to deliver goods on board a vessel designated by the buyer. The seller fulfils its obligations to deliver when the goods have passed over the ship’s rail  |



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## GLOSSARY

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| “GMC”                          | Global Manufacturer Certificate, is a standard distinguishing quality Chinese manufacturers. The existing 8 GMC Benchmarks include manufacturing facilities, product quality control, company size, dedicated export team, research and development capability, social and environment responsibility, trust worthiness and reputation, as well as original equipment manufacturer/ODM experience |
| “ISO”                          | the International Organisation for Standardisation, a non-governmental organisation having a central secretariat based in Geneva, Switzerland, which gives world-class specifications for products, services and systems to ensure quality, safety and efficiency   |
| “ISO 9001”                     | Quality Management: a member of the ISO 9000 family, standards of which are set by ISO for quality management systems when an organisation needs to demonstrate its ability to provide products that fulfil customers and applicable regulatory requirements and aim to enhance customer satisfaction   |
| “LFGB”                         | Lebensmittel-, Bedarfsgegenstände- und Futtermittelgesetzbuch, the German Code covering Food, Articles of Daily Use and Feeding Stuffs  |
| “ODM”                          | acronym for original design manufacturing, where a manufacturer designs and manufactures a product which is specified by the customer and eventually sold under the brand name of the customer or under no specific brand   |
| “plastic household product(s)” | plastic-made utensil used within households, including tableware, kitchenwares, other household articles and hygienic articles of plastic   |
| “polymer”                      | a large molecule composed of repeating structural units that are connected to one another through chemical bonds  |
| “polypropylene”                | a thermoplastic polymer that is resistant to many chemical solvents, bases and acids  |
| “tritan”                       | a co-polyester, BPA-free plastic  |

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## FORWARD-LOOKING STATEMENTS

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This prospectus contains forward-looking statements, including, without limitation, words and expressions such as “aim”, “expect”, “believe”, “consider”, “continue”, “intend”, “plan”, “project”, “anticipate”, “seek”, “may”, “might”, “will”, “would”, “should”, “ought to”, “could”, “estimate”, “potential”, “predict” or similar words or statements, in particular, in the sections headed “Industry overview”, “Business” and “Financial information” of this prospectus in relation to future events, our future financial, business or other performance and development, the future development of our industry and the future development of the general economy of our key markets.

These statements are based on numerous assumptions regarding our present and future business strategy and the environment in which we will operate in the future. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus, and the following:

- our business and prospects;
- future developments, trends and conditions in the industry and markets in which we operate;
- our strategies, plans, objectives and goals;
- general economic conditions;
- changes to regulatory and operating conditions in the industry and markets in which we operate;
- our ability to control or reduce costs;
- our dividend policy;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors; and
- certain factors set out in the sections headed “Industry overview”, “Business” and “Financial information” of this prospectus.

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

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

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## RISK FACTORS

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*Potential investors of the Offer Shares should carefully consider all of the information set out in this prospectus and, in particular, the following risks and special considerations associated with an investment in our Company before making any investment decisions in relation to our Company. If any of the possible events as described below materialises, our Group's business, financial position and prospects could be materially and adversely affected and the market price of the Offer Shares could fall significantly and you may lose all or part of your investment.*

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

### RISKS RELATING TO OUR BUSINESS

#### **Increases in the prices or the unstable supply of the raw materials we use in our products may have a negative effect on our business**

We are subject to the price fluctuation in raw materials used in our manufacturing process. These include polypropylene resins, a key raw material, as well as packaging, and other ancillary materials such as silicon rings and other consumable materials.

For the four years ended 31 December 2017 and the six months ended 30 June 2018, our cost of material accounted for approximately 71.8%, 69.9%, 65.1%, 68.6% and 67.5% of our total cost of sales, respectively, and the cost of polypropylene resins accounted for approximately 57.0%, 55.6%, 49.5%, 52.2% and 49.0% of our total cost of sales, respectively. The decrease in the cost of polypropylene resins from the years ended 31 December 2014, 2015 and 2016 was in line with the drop in the prices of crude oil during the same period. Generally, the prices of polypropylene resins are subject to the fluctuations of crude oil prices. Due to the crude oil price plummet from a yearly average of about US\$52.3 per barrel in 2015 to a yearly average of about US\$45.9 per barrel in 2016, our average purchase price of polypropylene resins dropped from approximately HK\$10,333 per tonne in 2015 to approximately HK\$8,583 per tonne in 2016. For the six months ended 30 June 2018, our average purchase price of polypropylene resins was approximately HK\$10,352 per tonne, due to the increase in the price of crude oil to about US\$54.2 per barrel in 2017. Please refer to the section headed "Financial information – Material costs" of this prospectus for the sensitivity analysis of the prices of polypropylene resins on our profits.

Any significant fluctuations in the supply volume of our raw materials, especially polypropylene resins, may affect the selling prices. Supplies of raw materials may also be subject to a variety of factors that are beyond our control, including governmental control and policy, and overall economic conditions, all of which may have an impact on their market prices from time to time.

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## RISK FACTORS

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We will continue our efforts to pass our material cost increases on to our customers. However, competition and market pressures may limit our ability to do so, and may prevent us from doing so in the future. Even when we are able to pass price increases on to our customers, in some cases there is a delay before we are able to do so effectively because it takes time as new prices can only be adjusted when new orders are placed. Our inability to pass on or a delay in passing on price increases to our customers could adversely affect our operating margins and cash flow, resulting in a lower operating income and profitability. We cannot assure you that fluctuations in our material prices will not have a material adverse effect on our business, operating results and financial condition, or cause significant fluctuations in our operating results from period to period.

**Our business and financial position may be adversely affected if we are not able to continue servicing the Australian market effectively or if there is any adverse change in the macro-economic situation or economic downturn in Australia**

Unforeseen circumstances in Australia such as economic downturn, natural disaster, and significant changes in consumers' spending patterns, which are beyond our control, may affect our business.

We have historically been relying heavily on the Australian market. During the Track Record Period, Australia is our largest sales market. For the four years ended 31 December 2017 and the six months ended 30 June 2018, revenue arising from sales to Australia amounted to approximately HK\$188.5 million, HK\$204.4 million, HK\$183.5 million, HK\$217.9 million and HK\$113.6 million, representing approximately 62.4%, 64.8%, 61.0%, 66.9% and 71.1% of our total revenue during the corresponding period, respectively.

However, we cannot assure you that we will be able to continue to do so in the future. We believe that our geographical sales contribution is expected to, in the near term, remain skewed significantly towards the Australian market. In the event that there are significant changes in the consumers' spending patterns and if we are unable to respond effectively to the Australian market or offer competitive prices to our customers in Australia, our business and financial performance could be adversely affected. Our operating results are heavily dependent on the macro-economic situations of Australia. Macro-economic factors, such as changes in global or local economic and political conditions, general market sentiment, changes in the regulatory environment, fluctuations in interest rates, consumer preferences, spending patterns, and employment levels, may affect the overall performance of the economies of Australia.

We may be affected by factors which may have an adverse impact on the Australian's economy as a whole, such as the depreciation of AUD against USD. Sales to our Australian customers are settled in USD. According to the Ipsos Report, the average exchange rate of AUD against USD has depreciated from 1.03 in 2011 to 0.77 in 2017. The depreciation in AUD gives an indication that the purchasing power from Australia would drop. The continual depreciation of AUD can inhibit the economic growth and weaken the domestic demand in Australia. This may increase the prices of imported goods and services and thus increase the purchase cost of our Australian customers.

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## RISK FACTORS

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Further, if there is an economic downturn in Australia due to social or political instability, natural disaster or otherwise, demand for plastic household products from Australia may drastically decrease, and if we could not divert our business to other geographical locations, our revenue, profitability, and business prospects will be materially adversely affected.

**Our new products under development may not meet the market preference or achieve a wide market acceptance or receive a positive market response**

During the Track Record Period, we have invested and placed effort in the design and development of new products. We cannot assure you that our new products will be launched to the market according to our anticipated time frame or budget, or that our new products will meet the market preference, achieve a wide market acceptance, or receive a positive market response. There is no guarantee that these new products will be accepted by our customers and achieve anticipated sales target or profit margin. In addition, we cannot assure you that our competitors will not develop similar products as our new products. If the products under development cannot be successfully commercialised or fail to attract sufficient customers' demand and market response to generate sufficient revenue to cover the research and development costs and resources invested, our market share, profitability and financial conditions may be adversely affected.

**We may not be able to respond in an efficient and timely manner to product safety standards and certification requirements**

Certain of our products have to meet pre-requisite safety standards and/or requirements pursuant to certain certifications before the same are allowed to be imported by our destination countries or sold in the domestic markets. The safety standards and certification requirements are subject to changes by government and relevant certification organisation/institution and more stringent requirements may be imposed to enhance product safety. As such, it is important that we keep abreast of such possible changes and adjust our technical capability in advance. If we fail to respond to such changes in an efficient and timely manner, we may not be able to secure our businesses under the new requirements and we will lose our existing customers, and this in turn will adversely affect our operations and financial results.

**We may not be able to meet the regulatory requirements imposed by the PRC Government and the export destinations**

We export a certain amount of our products to our foreign customers. Certain countries to which we export our products may impose safety or other requirements on the export, distribution and sale of our products, which may be different from or more stringent than the standards imposed by the Hong Kong government or the PRC Government. In addition to the requirements imposed by the Hong Kong government and the PRC Government, other countries (such as Australia, New Zealand, the United States, the UK, Germany and other export destinations) may also require us to obtain various approvals, certifications, registrations or other documentation to sell our products overseas.

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## RISK FACTORS

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We need to comply with all laws and regulations applicable to us and relevant to our overseas sales in the destination countries to which we sell our products by completing all necessary procedures to obtain all relevant safety approvals, certifications, registrations or any other required documentation from the relevant government authorities in the destination countries with respect to the relevant products. We depend on our customers to complete our overseas sales, and they are responsible for complying with other aspects of the relevant foreign imports laws and regulations. As such, we cannot assure you that all of our customers are in compliance with all other aspects of foreign laws and regulations relevant to our overseas sales. If we or our customers to whom we sell our products fail to satisfy the relevant standards adopted by the destination countries, our products will be returned and we may also face regulatory actions or claims for significant damages, and there may be a material adverse effect on our business, operating results and financial position.

**We derive a significant portion of our revenue from our major customers with whom we have not entered into any long-term sales contracts**

For the four years ended 31 December 2017 and the six months ended 30 June 2018, sales to our five largest customers in aggregate accounted for approximately 72.7%, 75.5%, 74.8%, 81.0% and 85.3% of our revenue, respectively, and sales to our largest customer, accounted for approximately 37.8%, 40.7%, 41.5%, 48.4% and 49.6% of our revenue, respectively. We have not entered into any long-term sales contracts with any of our customers and instead the terms of each transaction are negotiated on a deal by deal basis. There is no guarantee that we will be able to obtain recurring orders from our customers in a timely manner. Any change or deterioration in our relationship with our customers may cause a significant adverse effect to our business, financial condition and operating results. As such, should there be any adverse development related to our customers' operations or any other reasons resulting in the reduction or termination of our business relationship with our customers, our business, financial condition, operating results and prospects could be materially and adversely affected.

**Brexit may have adverse consequences for our business, financial condition, operating results and our ability to implement our growth strategies**

On 23 June 2016, the UK held a referendum pursuant to which the UK electorate voted in favour of its withdrawal from the EU (“**Brexit**”). The outcome of the referendum does not effect a UK withdrawal from the EU (although the government is likely to act in accordance with it), and the timing, terms and implications of an eventual Brexit remain highly uncertain. The mechanism for the UK to withdraw from the EU requires the UK to provide notice to the EU of its intention to leave, which will be followed by a period of complex negotiations between the UK and the continuing members of the EU to agree on the terms of the UK's withdrawal from the EU, as well as to define the relationship between the UK and the EU following the UK's withdrawal. The UK will cease to be a member of the EU at the earlier of either i) the withdrawal agreement being agreed with the continuing members of the EU, or ii) two years from the date of notice, which is subject to possible extension.

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## RISK FACTORS

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Until such time, the UK will remain as a member of the EU and will remain subject to EU laws. The terms of the UK's withdrawal from the EU, as well as the relationship between the UK and the EU following the UK's withdrawal, including any transitional arrangements, may have significant consequences for our business, particularly with respect to the sales of our products in the UK and our ability to grow our UK business.

For the four years ended 31 December 2017 and the six months ended 30 June 2018, our sales to the UK accounted for approximately HK\$28.5 million, HK\$21.1 million, HK\$14.8 million, HK\$12.9 million and HK\$5.1 million, respectively, representing approximately 9.4%, 6.7%, 4.9%, 4.0% and 3.2% of our total revenue, respectively, for the corresponding period. The uncertainty of the UK economy and the fluctuation of currency exchange rate may be risky to our sales to the UK and also to our financial results. In the event that our sales are being affected by Brexit, we may take time to recover if we lose such businesses and may involve additional cost or investment to maintain our sales to the UK.

There can be no assurances as to the extent to which trade restrictions or new regulatory burdens may be imposed on our UK sales following Brexit. The nature of the arrangements that will be put in place to define the relationship between the UK and the EU following Brexit, the extent to which the UK will continue to apply laws that are based on EU legislations and the consequential impact on our business, operating results and financial condition remain highly uncertain.

Additionally, following the announcement of the outcome of the referendum on 24 June 2016, equity and other financial markets experienced significant declines in the UK, the EU, Hong Kong and other locations. The GBP experienced a significant decline in exchange rate against most major currencies, including the Euro and Hong Kong dollars. There can be no assurances as to whether these declines will persist in a manner that adversely affects our sales to the UK or, more broadly, our financial condition and operating results. Equity and currency markets may remain volatile for some time as a result of Brexit, particularly as negotiations between the UK and the continuing members of the EU proceed and become public.

The announcement of the referendum results and the prospect of an eventual Brexit have also created a high level of business and financial uncertainty. It cannot be ruled out that other EU countries will not follow the UK's example. There can be no assurances as to how the referendum results and an eventual Brexit may affect the general economic, financial and political conditions in the UK, Europe or globally, nor the impact such conditions may have on factors that affect our business, operating results and financial condition.

### **We may experience a decline in our overall gross profit margin as a result of changes in our product mix**

The composition of our product sales mix will affect our overall gross profit margin because the gross profit margins of our products vary significantly by product and from period to period. Our product mix varies depending on and subject to various factors including our production capacity, technology and skills, preferences of end-consumers and reception of the

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## RISK FACTORS

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products. Different products have different gross profit margins, which are affected by reasons such as material costs, production costs, product prices and our marketing and branding strategy. Our “*clipfresh*” brand products generally have higher gross profit margins than our ODM products. For the four years ended 31 December 2017 and the six months ended 30 June 2018, the gross profit margin for our “*clipfresh*” products was 44.5%, 48.3%, 51.3%, 52.6% and 54.1%, respectively, and the gross profit margin for our ODM products was 19.3%, 21.2%, 30.3%, 28.5% and 29.5%, respectively. We cannot assure you that we will be able to continue to expand our product mix, widen our customer base and maintain similar or better overall gross profit margins. Any changes in the types of products we offered will affect our overall gross profit margin and operating results. If the proportion of lower-margin products in our Group’s product sales mix increases either as a result of changes in the products ordered by our customers or changes in our customer base, we may experience a decline in our overall gross profit margin and such decline will adversely impact our financial condition and operating results.

### **We may face credit risks**

A majority of our customers settled the amount payable to us by telegraphic transfers and letters of credit and we, on average, offer a credit term of not more than 90 days to them. There is also no assurance that our customers will pay us on time or at all or whether any of them will fall into financial difficulties, thereby affecting their ability to pay us. If any of our customers fail to pay us on time or at all, our financial condition will be materially adversely affected, which will in turn affect our business operations.

### **Our success depends on our ability to retain our senior management and key personnel**

Our success is dependent on the ongoing efforts of our senior management and key personnel. We rely on our management team comprising our executive Directors and senior management as set out in the section headed “Directors and senior management” of this prospectus, for their extensive knowledge of, experience in and deep understanding of the plastic household products industry as well as the business environment, regulatory regime and certification requirements. The loss of any of these key personnel could adversely affect our ability to sustain and grow our business.

We cannot assure you that we will be able to hire additional qualified employees to strengthen our management team or integrate new employment into our existing operations in order to keep pace with the proposed growth of our business. Furthermore, competitors may also seek to poach our personnel. Competition for experienced individuals is fierce in the regions we operate in, and we may not be able to attract or retain suitably qualified personnel. Our failure to attract and retain additional qualified personnel may hinder our ability to grow our business, which could materially and adversely affect our business, financial condition and operating results.



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## RISK FACTORS

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**We may experience shortage of labour, high turnover rate of our manufacturing staff and our labour costs may continue to increase which may affect our operations and financial condition**

Certain of our production processes are to be carried out manually. For the four years ended 31 December 2017 and the six months ended 30 June 2018, our employee benefit expenses (excluding Directors' emoluments) amounted to approximately HK\$41.3 million, HK\$42.3 million, HK\$39.2 million, HK\$39.2 million and HK\$21.1 million, respectively. Labour costs have generally increased in the PRC in the recent years. In addition, due to the competitive labour market, we have experienced a relatively high turnover rate of our manufacturing staff, particularly during their probation period. We cannot assure you that we will not experience any shortage of labour for our production needs or that the costs of labour in the PRC will not continue to increase in the future. If we experience a shortage of labour or we are unable to recruit labour with appropriate experience in time, we may not be able to maintain our production volume. If labour costs continue to increase in the PRC, our production costs will increase and we may not be able to pass these increases to our customers due to competitive pricing pressures. Accordingly, if we experience a shortage of labour or our labour costs continue to increase, our business prospects, financial condition and operating results may be adversely affected.

**We may not be successful in maintaining our current market position or implementing our market expansion plan and such failure may affect our business and financial performance**

Our maintenance of our current market position and market expansion may be hindered by risks including instability or changes in the political, regulatory or economic environment, lack of understanding of the local business environment, financial and management system or legal system, differences in legal burdens when complying with local laws and regulations, changes in the safety standards and certification requirements, stringent product liability and warranty requirements, potentially adverse tax consequences, competition within the local market and volatility in currency exchange rates.

Maintaining our current market position and implementing our market expansion plan has resulted in, and will continue to result in, substantial demands for our resources. Managing our expansion will require, among other things:

- continued enhancement of our product design and development capabilities;
- successful hiring and training of personnel;
- increased marketing and service activities;
- management of our sales network;
- sufficient liquidity and capital investment;

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## RISK FACTORS

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- effective and efficient financial and management control; and
- effective cost and quality control.

There is no assurance that we will be able to successfully maintain or expand our market coverage, broaden our customer base or grow our business after deploying our management and financial resources, particularly in the overseas markets. Any failure in maintaining our current market position or implementing our market expansion plan could materially and adversely affect our business, financial condition and operating results.

### **We may be exposed to claims in respect of product quality and safety standards made by the end-consumers of our products**

We face an inherent risk of exposure to product liability claims in the event that the use of our products results in health or safety issues or damages. The end-consumers of our products may have the right to bring an action under tort and we may also be subject to tortious liabilities for any damages caused by defects of our products.

There is no assurance that we would not be named as a defendant in a lawsuit or proceedings brought by end-consumers in respect of our products in the future. A successful claim against us in respect of our products or a material recall of our products may result in (i) legal costs incurred in connection with such claim or other adverse allegations or rectifying such defects; (ii) deterioration of our brand and corporate image; and (iii) material adverse effect on our sales, operating results and financial condition.

### **We may fail to adequately protect our intellectual property rights**

Our principal intellectual property rights cover our proprietary technology, product designs and technical know-how and our patents and trademarks. We are susceptible to infringement by third parties of our intellectual property rights and there is no assurance that third parties will not copy or otherwise obtain and use our intellectual property rights without authorisation.

We have obtained patents for some of our proprietary technology and registered several of our trademarks. However, it is not possible for us to comply with, and seek every clearance under, the relevant laws of all possible jurisdictions for the protection and enforceability of our intellectual property rights and there is no assurance that such registrations can completely protect us against any infringements or challenges by our competitors or other third parties. When necessary, we may have to expend a significant amount of financial resources to assert, safeguard and/or maintain our intellectual property rights. In the event that our intellectual property rights cannot be enforced against an infringement by our competitors or other third parties, our business, financial condition and operating results could be adversely affected.

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## RISK FACTORS

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**Third parties may claim that we are infringing their intellectual property rights, and we could suffer significant litigation expenses or licensing expenses or be prevented from selling certain of our products if these claims are successful**

During the Track Record Period, we produced ODM products and products under our brand “*clipfresh*”. For ODM products, we produce them in accordance with the specifications provided by our customers and we are unable to assure that all such specifications do not infringe any third parties’ intellectual property rights.

In addition, we cannot rule out the possibility of third parties claiming that we are infringing or contributing to the infringement of their intellectual property rights. We may be required to obtain licenses for such patents. If we need to do so, we could be required to pay royalties on certain of our products. There is no assurance that if we are required to obtain patent licenses to develop and sell our products, we will be able to obtain such patent licenses on commercially reasonable terms. Our inability to obtain these patent licenses on commercially reasonable terms could have a material adverse impact on our business, operating results, financial condition or prospects.

Any litigation regarding patents or other intellectual property rights could be costly and time consuming and could divert our management and key personnel from our business operations. In addition, any intellectual property litigation involves significant risks. If there is a successful claim of intellectual property rights infringement against us, we might be required to pay substantial damages to the party claiming infringement, refrain from further sale of our products, develop non-infringing technology or enter into costly licensing agreements on an on-going basis. However, we may not be able to obtain royalties or licensing agreements on terms acceptable to us or at all. Any intellectual property litigation or successful claim could have a material adverse effect on our business, operating results or financial condition.

**Any failure to maintain an effective quality control system and any breakdown at our production facilities could have a material and adverse effect on our business, financial condition and operating results**

We focus on the consistency of the quality of our products and accessories as the product quality and safety are essential to the success of our business. The quality of our products is dependent on the effectiveness of our quality control system, which in turn depends on a number of factors, including the design of the system, the quality control training programme, and our ability to ensure that our employees adhere to our quality control policies and guidelines. Any failure of our quality control system could result in the production of substandard products, which in turn may impair our reputation, result in delays in the delivery of our products and the need to recall substandard products, which could have a material and adverse impact on our business, financial condition and operating results.

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## RISK FACTORS

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Furthermore, smooth and consistent daily operations of our production facilities are highly crucial to our business. Regular repair and maintenance programmes for our production facilities are scheduled by our production departments to ensure that our production facilities are in good conditions. Although we have implemented regular repair and maintenance programmes, there is no assurance that we are able to discover all the faults and defects whenever they exist or occur so as to execute repair works or take appropriate measures before any harm is caused to our plant, staff or production. Furthermore, we cannot assure you that there will be no sudden malfunctions or halts of our production facilities during our daily operations due to any natural disasters, power shortage or malicious human acts and if any breakdown or malfunctions of machinery happens, our business, financial condition and operating results could be adversely impacted.

**The quality of the products produced by our sub-contractors may not be satisfactory and this may materially affect our business and reputation**

We sub-contract the production of our products to our sub-contractors if sub-contracting such production will incur a lower cost than our own production. We review the performance, standard of services provided and pricing offered by our sub-contractors on a regular basis. Also, our quality control staff attends the production facilities of our sub-contractors to conduct on-site inspection on the quality of work. We have not received any material claims or complaints by our customers in respect of the quality of our products produced by our sub-contractors during the Track Record Period. However, there is no assurance that these sub-contractors will fully comply with our requirements or the quality of their services will be satisfactory. There is also no assurance that these sub-contractors will be able to deliver the finished products on time. In the event that the performance of any of these sub-contractors is not to our satisfaction, our business, reputation, financial condition and operating results could be materially and adversely affected.

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

During the Track Record Period, we produced our products through Shenzhen Sun Cheong. When Chase On received a purchase order, it would place a corresponding purchase order to Shenzhen Sun Cheong for production. Finished goods were sold by Shenzhen Sun Cheong to Chase On on a cost plus basis. During the Track Record Period, Shenzhen Sun Cheong had not received a demand or challenge by any PRC authorities for additional tax payment.

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

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

During the Track Record Period, Shenzhen Sun Cheong failed to pay the social insurance contributions and housing provident fund contributions in full for all of its employees. Please refer to the paragraph headed “Business – Major non-compliance incidents” of this prospectus for details.

In light of the above non-compliances, our Directors have assessed that the amount of outstanding social insurance and housing provident fund contributions were approximately RMB2.6 million, RMB3.5 million, RMB2.8 million, RMB0.7 million and nil as at 31 December 2014, 2015, 2016, 2017 and 30 June 2018, respectively. Provision for the unpaid amount has been made in our financial statements. On 2 November 2017, 1 March 2018 and 1 August 2018, we obtained three written confirmations from Nanshan Branch of Shenzhen Social Insurance Fund Management Bureau confirming that from 1 January 2011 to 30 September 2017, from 1 July 2017 to 15 January 2018 and from 1 January 2018 to 30 June 2018, respectively, Shenzhen Sun Cheong had not been penalised for violating the social insurance laws and regulations by Nanshan Branch of Shenzhen Social Insurance Fund Management Bureau. On 1 August 2018, we obtained a written confirmation from the Housing Provident Fund Management Centre of Shenzhen confirming that Shenzhen Sun Cheong had not been penalised for violating the laws and regulations by the Housing Provident Fund Management Centre of Shenzhen.

In the event that the relevant authority later strengthens the enforcement of the relevant laws and regulations on social insurance and housing provident fund in respect of the enterprises within its jurisdiction and accordingly considers it necessary to make retrospective contribution to social insurance fund and housing provident fund contributions and impose penalties, the amount of which may be significant, our Group’s business, financial condition and operating results may be materially and adversely affected.

### **We have records in respect of the tax incidents prior to the Track Record Period**

Prior to the Track Record Period, Chase On, Farm Chalk HK and Farm Chalk BVI were not in full compliance with certain requirements under the Inland Revenue Ordinance in Hong Kong. Please refer to the paragraphs headed “Business – Major non-compliance incidents” and “Business – Tax incident prior to the Track Record Period” of this prospectus for further details. We cannot assure you that the relevant authorities would not make further investigations or take further enforcement actions against members of our Group, its affiliates and their respective directors, which include our executive Directors, in relation to non-compliances and enforcement actions other than those already disclosed in this prospectus in the future if we fail to pay the tax penalty instalment on time according to the tax settlement our Group had reached with the IRD. In the event that any such investigation or enforcement action is taken, our reputation, business, results of operations, financial position and prospects may be materially and adversely affected.

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### **Certain of our leased properties are subject to title encumbrances, and we could be required to vacate such properties**

We currently lease the properties for the Henggang Production Facilities which has a total gross floor area of approximately 34,746.45 sq.m from an Independent Third Party. So far as we are aware, (i) the landlord does not possess the property ownership certificates or construction works planning permits for such leased properties; and (ii) as at the Latest Practicable Date, except for a part of a building on Factory No. 9 with a gross floor area of approximately 4,494.31 sq.m, most of the leased properties were registered as historical illegal buildings used for production and business (歷史遺留生產經營性違法建築) in Shenzhen, according to the applicable laws and regulations in the PRC. For details of the non-compliance and its legal consequence, please refer to the section headed “Business – Defects of certain of our leased properties” of this prospectus.

If we suffer loss and damage as a result of the title defects of the Henggang Production Facilities and that the indemnity from our Controlling Shareholders fails to sufficiently cover such loss and damage or at all, our financial position may be adversely affected.

### **Failure to commence operations at the New Production Facilities on time would have a material adverse effect on the business, financial condition, operating results and future prospects of the Group**

We commenced the relocation of the Henggang Production Facilities to the New Production Facilities in December 2017 and completed in August 2018. For details of the relocation plan, please refer to the paragraph headed “Business – Relocation to the New Production Facilities” of this prospectus. If the relocation takes longer than we expect, we may experience interruption and delays in our production process and our financial position may be adversely affected.

The future success of our Group depends, to a certain extent, on the productivity of the New Production Facilities. Certain major customers require an on-site factory audit of our production facilities, the New Production Facilities and new production equipment and machinery to be performed and passed before we can produce the products for these customers. There is no assurance that these on-site factory audits can be conducted on time or if we have to make adjustments to our production facilities pursuant to the results of the on-site factory audit. Thus, the New Production Facilities may not be able to commence its full operations as planned. Any delays in the commencement of its full operations might have a material adverse effect on our results, operations and planned future growth.

### **Our insurance coverage may not be sufficient to cover significant losses resulting from product liability claims or business interruptions**

We maintain various insurances covering our properties, including our buildings, vehicles, fixed assets, machinery equipment, raw materials and finished goods. We also maintain product liability insurance but not business interruption insurance. In the event that we suffer a loss to any of our properties in an amount that exceeds our insurance coverage, we

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may not be able to recover such amount exceeding our insurance coverage. As a result, we may have to pay out of our own resources for any uninsured financial or other losses, damages and liabilities, litigation or business disruption. The occurrence of certain incidents, including earthquake, fire, severe weather, war, floods, power outages, terrorist attacks or other disruptive events and its consequential damages and disruptions may not be fully covered by our insurance policy. 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 operating results.

**We rely on a few major suppliers for our principal raw materials and their discontinuation to supply to us may affect our business and financial condition**

For the four years ended 31 December 2017 and the six months ended 30 June 2018, our five largest suppliers accounted for approximately 65.7%, 65.1%, 65.3%, 67.5% and 65.2% of our total purchases and sub-contracting fees, respectively, and purchases from our largest supplier accounted for approximately 30.1%, 30.6%, 23.5%, 28.1% and 22.7% of our total purchases and sub-contracting fees, respectively. We have not entered into long-term agreements with our suppliers. We procure the supply of raw materials that we require in accordance with our sales orders. The future relationship between us and our suppliers and the willingness and capability of our suppliers to supply raw materials to us will be critical to our business and operations. If our existing suppliers do not continue to supply us with the raw materials at favourable or similar prices or at all and we are unable to replace such suppliers in a timely manner, our production could be interrupted, and our business, financial condition and operating results could also be adversely affected.

**We may face potential impact of the prepayment to suppliers in the event of the decrease in raw material price**

During the Track Record Period, our prepayments to suppliers were approximately HK\$2.1 million, HK\$1.0 million, HK\$29.0 million, HK\$30.9 million and HK\$37.7 million as at 31 December 2014, 2015, 2016 and 2017 and 30 June 2018, respectively, for the supply of polypropylene resins. As the price for polypropylene resins is subject to fluctuations and affected by various factors beyond our control and expectations, if the price of polypropylene resins further declines after we confirmed purchase orders and made prepayments, our purchase price for polypropylene resins may be higher than the prevailing market price, and our financial condition, profit margin and operation results could be adversely affected.

**We outsource the delivery of our products to logistics providers and our customers may claim us for the loss or damage to our products during delivery**

During the Track Record Period, we outsourced the delivery of our products to independent logistics providers for transportation from our production facilities to the port for exporting. Our delivery cost in engaging third party logistics providers accounted for approximately 4.2%, 4.5%, 4.4%, 4.3% and 4.7%, respectively, of our total revenue for the four years ended 31 December 2017 and the six months ended 30 June 2018.

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The logistics providers are responsible for any loss or damage to our products during delivery and are responsible for the insurance coverage in respect of our products delivered by them. The services provided by the logistics providers could be interrupted by various reasons beyond our control, including poor handling by the logistics providers, transportation bottlenecks, adverse weather conditions, natural disasters, social contests and labour strikes. There is no assurance that the logistics providers have sufficient insurance coverage for our products delivered by them, if at all. As such, our customers may have liability claims against us if there are any loss or damage to our products during delivery and the logistics providers do not have sufficient or any insurance coverage. Any such claims, regardless of whether they are ultimately successful, could cause us to incur litigation costs, harm our business reputation and disrupt our operations. If any such claims are ultimately successful, we could be liable for substantial damages, which could materially and adversely affect our business, financial condition and operating results.

### **We face risks associated with the obsolescence of our inventory**

Our inventory consists of raw materials, work in progress and finished goods. We believe maintaining an appropriate inventory level helps us to meet the changing market demands in a timely manner. Our balance of inventories as at 31 December 2014, 2015, 2016, 2017 and 30 June 2018 amounted to approximately HK\$26.4 million, HK\$25.9 million, HK\$22.5 million, HK\$18.3 million and HK\$17.9 million, respectively. Our inventory faces obsolescence risks if there are unexpected material fluctuations or abnormalities in the supply and demand of raw materials and finished goods by suppliers and customers, respectively, or where there are changes in end customers' preferences, which may lead to decreased demand and overstocking of our inventory.

### **We could be adversely affected as a result of our operations and sale to customers in certain countries that are subject to evolving international sanctions**

Certain countries or organisations, including the US, the EU, the United Nations, and Australia maintain economic sanctions targeting the sanctioned countries and/or sanctioned persons. During the Track Record Period, we had sales to customers in Iran, Lebanon and Russia and our revenue derived therefrom in aggregate accounted for approximately 0.2%, 0.8%, 0.5%, 0.5% and nil of our total revenue for the four years ended 31 December 2017 and the six months ended 30 June 2018, respectively. Of the abovementioned countries, only Iran is subject to comprehensive sanctions imposed by the US. All of the other listed countries are subject to more limited sanctions imposed by the US, the EU, the United Nations or Australia. For details of the sales of our products to customers in the Iran, Lebanon and Russia, please refer to the section headed "Business – Sanctions risks in relation to export of our products to Iran, Lebanon and Russia" of this prospectus. We undertake to the Stock Exchange that we will not use the proceeds from the Listing, as well as any other funds raised through the Stock Exchange, to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, any government, individual or entity sanctioned by the US, the EU, the United Nations, and Australia, including, without limitation, any government, individual or entity that



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is the subject of any OFAC-administered, EU-administered, United Nations-administered or Australian-administered sanctions to the extent such use will be sanctionable. We will not undertake any future business that would cause us, the Stock Exchange, HKSCC, HKSCC Nominees, or our Shareholders to violate or become a target of international sanctions. If we breach any of these undertakings to the Stock Exchange after the Listing, it is possible that the Stock Exchange may delist our Shares. In order to ensure our compliance with these undertakings to the Stock Exchange, we will continuously monitor and evaluate our business and take measures to protect the interests of our Group and our Shareholders. For further information, please refer to the section headed “Business – Sanctions risks in relation to export of our products to Iran, Lebanon and Russia – Measures in place to identify and monitor our exposure to sanctions risks” of this prospectus.

We cannot predict the interpretation or implementation of government policy at the US federal, state or local levels or any policy by the EU, the United Nations, Australia and other applicable jurisdictions with respect to any current or future activities by us or our affiliates in or with the sanctioned countries and/or with sanctioned persons. We can provide no assurance that our future business will be free of risk under international sanctions implemented in these jurisdictions or that we will conform our business to the expectations and requirements of the US authorities or the authorities of any other government that do not have jurisdiction over our business but nevertheless assert the right to impose international sanctions on an extraterritorial basis. Our business and reputation could be adversely affected if the United Nations, the government of the US, the EU and Australia or any other governmental entity were to determine that any of our activities constitute a violation of the international sanctions they impose or provides a basis for a designation of our Group under international sanctions. In addition, because many sanction programs are evolving, new requirements or restrictions could come into effect which might increase scrutiny on our business or result in one or more of our business activities being deemed to have violated relevant international sanctions, or being sanctionable.

In addition, certain states and local governments in the US have restrictions on the investment of public funds, or companies that are members of corporate groups with activities in certain sanctioned countries. As a result, concern of potential legal or reputational risk associated with our historical operations with the sanctioned countries could also reduce the marketability of the Shares to particular investors, which could affect the price of our Shares and Shareholders’ interests in us, despite our commitment not to use the proceeds from the Listing in any activity which is sanctionable. Before investing in our Shares, you should consider if such investment would expose you to any risk under the international sanctions arising from your nationality or residency. Any of these events could have an adverse effect on the value of your investment in us.

### **We are exposed to foreign exchange rate fluctuations**

We conduct all of our operations in Hong Kong and the PRC and our functional currencies are US dollars and Renminbi. The sales of our Group are mainly denominated in US dollars or Hong Kong dollars. Some of our polypropylene resins are sourced from overseas and settled in US dollars. As our production base is in the PRC, the rental payment and the related staff

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costs are paid in Renminbi. Therefore, we may be subject to risks associated with foreign exchange rate fluctuations, particularly the US dollars against the Renminbi. The value of Renminbi is subject to changes in PRC governmental policies and to international economic and political developments. There can be no assurance that the exchange rate of Renminbi will remain stable against the US dollar (or other currencies) in the market. While the international reaction of Renminbi revaluation has been generally positive, there remains significant international pressure on the PRC Government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of Renminbi against US dollars (or other currencies). Further appreciation of Renminbi against these currencies may lead to an increase in our PRC costs and/or a decline in the revenues of our overseas sales. Fluctuations in exchange rates may adversely affect the value, translated into our functional currencies, of our net assets, earnings and any declared dividends.

We believe that the fluctuations in currencies also have a direct impact on the end-consumer's demand of our products, which would in turn affect our sales performance and operating results. Our sales were mainly denominated in US dollars. As such, as a result of the depreciation of domestic currency of our targeted markets against US dollars, our products may become relatively more expensive to the end-consumers, and therefore our customers may reduce the purchasing of our products, which will in turn adversely affect our sales. If there is any further material fluctuations in the domestic currency of our targeted markets and we cannot mitigate such impact by enhancing our sales and marketing and stimulating demand for our products in other regions, our business, financial condition and operating results may be adversely affected.

### **Our international footprint exposes us to a variety of operational risks**

Our products are distributed and sold around the world, and most of our sales are denominated in US dollars during the Track Record Period. As the plastic household products industry is subject to stringent quality and safety standards in jurisdictions where our customers do business, the international scope of our operations exposes us to several types of complexities that increase the risks associated with our business, including but not limited to:

- the need to serve our overseas customers with different cultural background and time zones resulting in difficulties in maintaining relationship with them;
- the need to effectively adjust our business to target the local markets;
- different local laws and regulations, including those relating to consumer protection, data privacy, labour, intellectual property, licensing, tax, trade, and customs duties or other trade restrictions;
- the potential for unexpected changes in legal, political or economic conditions in the countries from which we source or into which we sell;
- exposure to liabilities under various anti-corruption and anti-money laundering laws; and

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- fluctuations in foreign exchange rates against the US dollars.

If we fail to address the potential risks above, or if one or more of these risks materialises, this could have a material adverse effect on our reputation, business, financial condition and operating results.

### **We may face disruptions in our ERP system**

We rely on our ERP system to monitor and control our operations to adjust sales and inventory level to changing market conditions. Consequently, any disruptions in our ERP system or the failure of these systems to operate as expected could, depending on the magnitude of the problem, impair our ability to effectively monitor and control our existing operations and improve our future sales efforts, and thereby materially adversely affect our operating results.

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

During each of the years ended 31 December 2014 and 2015, interim dividends of HK\$5.0 million and HK\$5.0 million were recognised as distribution by Chase On to its then shareholders, respectively. During each of the years ended 31 December 2016 and 2017 and the six months ended 30 June 2018, interim dividends of HK\$5.0 million, HK\$10.0 million and HK\$30.0 million were recognised as distribution by our Company to our then shareholders, respectively. Any dividend declared by us will have to be approved by our Board and the amount of any dividend will depend on various factors, including, without limitation, our operating results, financial condition, future prospects and other factors which our Board may determine as important. Accordingly, our historical dividends are not indicative of our future dividend distribution policy. Potential investors should be aware that the amount of dividends paid previously should not be used as a reference or basis upon which future dividends are determined.

### **The costs of share options to be granted under the Share Option Scheme may materially and adversely affect our operating results and any further issuance of Shares may result in a dilution of Shareholders' percentage shareholdings**

Pursuant to the Share Option Scheme, options may be granted after completion of the Listing and share options may be granted to eligible participants to subscribe for an aggregate of up to 54,000,000 Shares. Such options, if exercised in full, represent 10% of our issued share capital immediately following completion of the Listing (without taking into account Shares to be issued upon exercise of the options granted under the Share Option Scheme).

Any issuance of Shares upon the exercising of the options granted under the Share Option Scheme in the future will increase the number of issued Shares and result in a reduction in the percentage ownership of the Shareholders and hence in a dilution in the earnings per Share and net assets per Share.

We may need to raise additional funds in the future to finance our new development and other funding needs. If additional funds are raised through the issuance of new equity or equity-linked securities other than on a pro-rata basis to the existing Shareholders, the percentage of ownership of the Shareholders may be diluted, and such securities may have preferred rights, options and pre-emptive rights senior to the Shares.

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### **RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE**

#### **We face increasing competition in the plastic household products industry and failure to compete efficiently could materially and adversely affect our business**

We operate in a highly competitive and fragmented industry in which our competitors include a number of small to medium size enterprises that provide products similar to ours. Some of these enterprises may have greater access to capital, longer operating histories, longer or more established relationships with their customers, better distribution network and greater marketing and other resources than we do. Additional competitors with significant market presence and financial resources may enter those markets, and thereby intensify the competition. The entry of these competitors may reduce our market share as they may adopt more aggressive pricing policies than we can. Existing and potential competitors may also consolidate their operations and businesses or develop relationships with our customers in a manner that could significantly harm our ability to sell and market. If we fail to maintain or improve our market position or fail to respond successfully to changes in the competitive landscape, our business, profit margins, financial condition and operating results may be materially and adversely affected.

#### **We are subject to stringent environmental and workplace safety laws and regulations and we may incur substantial costs in complying with such laws and regulations and may be subject to potential liability**

We are subject to various national and local PRC environmental laws and regulations which impose standards on the emission and treatment of pollutants created during our production process, and are required to obtain environmental protection assessment approval and acceptance from the relevant PRC Government authorities for the operation of production facilities periodically.

As China is experiencing substantial issues with environmental pollution, environmental laws and regulations may become more stringent over time. As a result, we may need to incur more costs and devote more resources to comply with these laws and regulations. Furthermore, future changes in the scope, application and interpretation of these laws, regulations and approvals may limit or restrict the production capacity or increase the costs in connection with the installation of additional pollution control or safety improvement equipment or other related expenses substantially, and thus adversely affect our business. In addition, failure to comply with these laws and regulations could result in fines, penalties, clean-up costs or liabilities arising out of third-party civil or criminal claims.

### **RISKS RELATING TO OPERATIONS IN CHINA**

#### **Changes in political and economic policies of the Chinese Government could have an adverse effect on the overall economic growth of China, which could increase our manufacturing costs and adversely affect our competitive position**

Our production process and most of our business operations are conducted in China. Accordingly, our business, financial condition, operating results and prospects are affected significantly by economic, political and legal developments in China. The PRC economy

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differs from the economies of most developed countries in many respects, including the degree of government involvement, the level of development, the growth rate, the control of foreign exchange, access to financing, and the allocation of resources.

While the PRC economy has grown significantly in the past 30 years, the growth has been uneven, both geographically and among various sectors of the economy. The Chinese Government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on us. For example, our financial condition and operating results may be adversely and materially affected by government control over capital investments or changes in tax regulations that may be applicable to us.

The PRC economy has been transitioning from a planned economy to a more market oriented economy. However, the Chinese Government still exercises significant control over the economic growth of China through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Furthermore, as the PRC economy has become increasingly linked with the global economy, China is affected in various respects by downturns and recessions of major economies around the world. Any adverse change in the economic conditions in China, in policies of the Chinese Government or in laws and regulations in China, could have an adverse effect on the overall economic growth of China and market demand for our products and our competitive position.

**PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of the Share Offer to make loans or additional capital contributions to our PRC subsidiaries, which could adversely affect our liquidity and our ability to fund and expand our business**

Some funds we transfer to our PRC subsidiaries, such as a shareholder loan, is subject to approval by or registration with relevant PRC Government authorities. In addition, any foreign loan procured by our PRC subsidiaries is required to be registered of its foreign loan contract with SAFE or its local branches, and our PRC subsidiaries may not procure loans which exceed the difference between its registered capital and its total investment amount as approved or filed by MOFCOM or its local branches. Any medium or long term loan to be provided by us to our consolidated affiliated entity must be approved by SAFE or its local branches. We may not obtain these government approvals or complete such registrations on a timely basis, if at all, with respect to future foreign loans by us to our PRC subsidiaries.

On 29 August 2008, SAFE promulgated the Notice on Relevant Business Operations Issues Concerning Improving the Administration of the Payment and Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (《關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》 (the “**Circular 142**”) which regulates the conversion by a foreign-invested enterprise (“**FIE**”) of foreign currency into Renminbi by restricting how the converted Renminbi may be used. The Circular 142 requires that the Renminbi funds converted from the foreign currency capital of a FIE may only be used for purposes within the business

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scope approved by the applicable governmental authority and may not be used for equity investments within the PRC unless specifically provided for otherwise. In addition, SAFE strengthened its supervision over the flow and use of the Renminbi funds converted from the foreign currency capital of a FIE. The use of such Renminbi capital may not be changed without due authorisation, and may not, in any case, be used to repay Renminbi loans if such loans have not been used. Violations of the Circular 142 will result in severe penalties, such as heavy fines as set out in the relevant foreign exchange control regulations.

In addition, on 30 March 2015, the SAFE promulgated the Circular on Reform of the Administrative Method of the Settlement of Foreign Currency Capital by Foreign-invested Enterprises (《關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the “**Circular 19**”) which became effective on 1 June 2015. The Circular 19 provides greater flexibility to FIEs in converting foreign exchange in their capital account into Renminbi, and in particular, it provides that FIEs are allowed to use their converted Renminbi to make equity investments in the PRC after performing relevant procedures as stipulated in it. Under the Circular 19, FIEs may choose to convert any amount of foreign exchange in their capital account into Renminbi according to their actual business needs. The converted Renminbi will be kept in a designated account and if an FIE needs to make further payment from such account, it still needs to provide supporting documents and go through the review process with the banks. FIEs are still required to use the converted RMB within their approved business scope. SAFE Circular 142 has been abolished when the Circular 19 became effective on 1 June 2015.

We cannot assure you that we will be able to obtain these government approvals or registrations on a timely basis, if at all, with respect to our future loans or capital contributions to our PRC subsidiaries. If we fail to receive such approvals or registrations, our ability to use the proceeds received from the Share Offer to fund our PRC operations may be materially and adversely affected, which may materially and adversely affect our liquidity and ability to expand our business.

### **Uncertainties with respect to the Chinese legal system could have an adverse effect on our business**

The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, the Chinese Government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation since then has significantly enhanced the protections afforded to various forms of foreign investments in China. We conduct our business primarily through our subsidiaries established in China. These subsidiaries are generally subject to laws and regulations applicable to foreign investment in China. However, the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties, which may limit legal protections available to us.

In addition, some regulatory requirements issued by certain Chinese Government authorities may not be consistently applied. For example, we may have to resort to administrative and court proceedings to enforce the legal protection that we enjoy either by law

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or contract. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into with our business partners and customers.

Such uncertainties, including the inability to enforce our contracts, together with any development or interpretation of PRC law that is adverse to us, could materially and adversely affect our business and operations. Furthermore, intellectual property rights and confidentiality protections in China may not be as effective as in the more developed countries. We cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and other foreign investors, including you. In addition, any litigation in China may be protracted and result in substantial costs and diversion of our resources and management attention.

### **It could be difficult to effect service of process or to enforce foreign judgments in the PRC**

Since most of our assets are located in the PRC, investors could encounter difficulties in effecting service of process from outside the PRC upon us or most of our Directors and officers. Moreover, it is understood that the enforcement of foreign judgments in the PRC is subject to uncertainties. A judgement of a court from a foreign jurisdiction could be reciprocally recognised or enforced if the jurisdiction has a treaty with the PRC or if the judgments of the PRC courts have been recognised before in that jurisdiction, subject to the satisfaction of other requisite requirements.

China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the Cayman Islands and many other countries and regions. Therefore, recognition and enforcement in China of judgements of a court in any of these non-PRC jurisdictions in relation to any matter not subject to a binding arbitration provision could be difficult or impossible.

### **Companies having business in China may have a chance to be classified as a “resident enterprise” for PRC enterprise income tax purposes, and such classification could result in unfavourable tax consequences to us and our non-PRC Shareholders**

The PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) (the “**PRC EIT Law**”) which was promulgated by the SAT on 16 March 2007 and effective on 1 January 2008 and amended on 24 February 2017, enterprises established under the laws of jurisdictions other than the PRC may nevertheless be considered as PRC tax resident enterprises for tax purposes if these enterprises have their “de facto management body” within the PRC. Under the supplementary rules for the PRC EIT Law, the term “de facto management body” is defined as a body which substantially manages, or has control over the business, personnel, finance and assets, etc. of an enterprise. Since we are conducting business in the PRC through our PRC

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subsidiaries and some of the members of our management team continue to be located in the PRC after the effective date of the PRC EIT Law and as we expect them to continue to be located in the PRC for the foreseeable future, we may be considered as a PRC resident enterprise by the PRC tax authorities and therefore be subject to the EIT at the rate of 25% on our worldwide income. If we are considered by the PRC tax authorities as a PRC tax resident enterprise under the PRC tax regime, our business, financial condition and operating results may be materially and adversely affected.

**PRC tax laws on dividend distribution may adversely affect our operating results and dividends payable by us to our foreign investors and gains on the sale of our Shares may be subject to withholding taxes under PRC tax laws**

Dividends received by foreign investors from foreign-invested enterprises were exempt from withholding income tax prior to 1 January 2008. Therefore, we were exempt from withholding tax on dividends we received from our PRC subsidiaries prior to 1 January 2008. Under the PRC EIT Law, a withholding income tax at the rate of 20.0% is applicable to dividends derived from sources within China paid by foreign-invested enterprises to their non-PRC parent companies. However, pursuant to the implementation rules of the PRC EIT Law reduced withholding income tax rate of 10.0% shall be applicable in such cases. In addition, due to the Arrangement between Mainland China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion With Respect to Taxes On Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), promulgated by the SAT and Hong Kong Special Administrative Region on 21 August 2006 (the “**Hong Kong Tax Treaty**”), a company incorporated in Hong Kong will be subject to withholding income tax at a rate of 5.0% on dividends it receives from its PRC subsidiaries if it holds a 25.0% or more interest in that particular PRC subsidiaries, or 10.0% if it holds less than a 25.0% interest in that subsidiaries. With respect to dividends, the SAT promulgated the Notice on Certain Issues of “Beneficial Owners” under Tax Treaty (《國家稅務總局關於稅收協定中“受益所有人”有關問題的公告》) on 3 February 2018 (the “**Notice 9**”), which provides that conduit companies, which are established for the purpose of evading or reducing tax, or transferring or accumulating profits, may not be recognised as beneficial owners and thus will not be entitled to the above-mentioned reduced income tax rate of 5% under the Hong Kong Tax Treaty. It is unclear at this early stage whether the Notice 9 applies to dividends from our PRC subsidiaries paid to us through our Hong Kong subsidiary. It is possible however, that under the Notice 9, the Hong Kong subsidiary would not be considered as the “beneficial owner” of any such dividends, and that such dividends would as a result be subject to income tax withholding at the rate of 10.0% rather than the favourable 5.0% rate applicable under the Hong Kong Tax Treaty.

In addition, due to ambiguities in the PRC EIT Law and its implementation rules, a withholding tax at the rate of 10.0% may also be applicable to dividends payable to investors (excluding individual natural persons) that are non-resident enterprises to the extent such dividends are sourced within China. Similarly, any gain realised on the transfer of our Shares by such investors is also subject to a withholding tax at the rate of 10.0% if such gain is regarded as income derived from sources within China. If we are considered a resident



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## RISK FACTORS

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enterprise in China, it is unclear whether the dividends we pay with respect to our Shares would be treated as income derived from sources within China and be subject to PRC income tax. If we are required under the PRC EIT Law to withhold PRC income tax on our dividends payable to our foreign Shareholders, or if you are required to pay PRC income tax on the transfer of the Shares, the value of your investment in our Shares may be materially and adversely affected.

### **RISKS RELATING TO THE SHARE OFFER**

#### **There has been no prior public market for our Shares, and the liquidity, market price and trading volume of our Shares may be volatile**

Prior to the Share Offer, there has been no public market for our Shares. The indicative range of the Offer Price was determined as a result of negotiations between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company. The Offer Price may differ significantly from the market price for the Shares following the Share Offer. We have applied for the listing of and permission to deal in our Shares on the Stock Exchange. However, even if approved, being listed on the Stock Exchange does not guarantee that an active trading market for our Shares will develop following the Share Offer or that our Shares will always be listed and traded on the Stock Exchange. We cannot assure you that an active trading market will develop or be maintained following the completion of the Share Offer, or that the market price of our Shares will not decline below the Offer Price.

The price and trading volume of our Shares may be highly volatile. Factors such as variations in our revenue, earnings and cash flows and announcements of new investments, strategic alliances and/or acquisitions, fluctuations in market prices for our products and services or fluctuations in market prices for comparable companies could cause the market price of our Shares to change substantially. Any such developments may result in large and sudden changes in the volume and price at which our Shares will trade.

In addition, stock markets and the shares of companies listed on the Stock Exchange have experienced substantial price and volume fluctuations from time to time that are not related to the operating performance of any particular company. These fluctuations may also materially and adversely affect the market price of our Shares.

#### **The interests of our Controlling Shareholders may differ from those of our other Shareholders**

Immediately following the Share Offer and the Capitalisation Issue, our Controlling Shareholders will beneficially own 50.05% of the Shares (without taking into account the Shares to be allotted and issued upon exercise of any options which may be granted under the Share Option Scheme). The interests of our Controlling Shareholders may differ from the interests of our other Shareholders. If the interests of our Controlling Shareholders conflict with the interests of our other Shareholders, or if our Controlling Shareholders choose to cause us to pursue strategic objectives that conflict with the interests of our other Shareholders, those Shareholders may be disadvantaged by the actions that our Controlling Shareholders choose to cause us to pursue.

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## RISK FACTORS

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Our Controlling Shareholders may have significant influence in determining the outcome of any corporate transaction or other matter submitted to our Shareholders for approval, including mergers, consolidations and the sale of all, or substantially all, of our assets, election of Directors, and other significant corporate actions. Our Controlling Shareholders have no obligation to consider our interests or the interests of our other Shareholders.

**Investors for our Shares will experience immediate dilution and may experience further dilution if we issue additional Shares in the future**

As the Offer Price is higher than the net tangible asset value per Share of our Shares immediately prior to the Share Offer, investors of our Shares in the Share Offer will experience an immediate dilution in the unaudited pro forma adjusted net tangible assets value to approximately HK\$0.39 per Share, based on the maximum Offer Price of HK\$1.2 per Offer Share.

If we issue additional Shares in the future, investors of our Shares in the Share Offer may experience further dilution in their ownership percentage. We may need to raise additional funds in the future to finance the expansion of or new developments relating to our existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro-rata basis to the existing Shareholders, the percentage ownership of such Shareholders in our Company may be reduced or such new securities may confer rights and privileges that take priority over those conferred by the Offer Shares.

**Future offerings or sales could adversely affect the prevailing market price of our Shares**

Future offerings or sales of our Shares by us or our Controlling Shareholders, or other Shareholders in the public market, or the perception that such offerings or sales could occur, may cause the market price of our Shares to decline. Following the expiration of their respective lock-up periods, the market price of our Shares may decline as a result of future sales of substantial amounts of our Shares or other securities relating to our Shares (including the issuance of new Shares pursuant to the exercise of share options granted by us) or the perception that such sales or issuances may occur. This could also have a material and adverse effect on our ability to raise capital in the future at a time and at a price deemed appropriate. In addition, if we issue additional Shares or share options in the future, you may experience further dilution.

**Future sales by our existing Shareholders of a substantial number of our Shares in the public market could materially and adversely affect the prevailing market price of our Shares**

We cannot assure you that our existing Shareholders or our Controlling Shareholders will not dispose of their Shares following the expiration of their respective lock-up periods after completion of the Share Offer. We cannot predict the effect, if any, that any future sales of Shares by any Substantial Shareholder or Controlling Shareholder, or the availability of Shares

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## RISK FACTORS

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for sale by any Substantial Shareholder or Controlling Shareholder may have on the market price of our Shares. Sales of substantial amounts of Shares by any Substantial Shareholder or Controlling Shareholder or the market perception that such sales may occur, could materially and adversely affect the prevailing market price of the Shares.

### **RISKS RELATING TO STATEMENTS MADE IN THIS PROSPECTUS**

#### **Certain industry statistics contained in this prospectus are derived from various publicly available government, official sources or the Ipsos Report and may not be accurate or reliable**

Certain facts and statistics in this prospectus related to the PRC, its economy and the industries in which we operate within the PRC are derived from official government publications generally believed to be reliable or the Ipsos Report. We believe that the sources of these facts and statistics are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. These facts and statistics have not been independently verified by us, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Share Offer and therefore we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC and may not be complete or up-to-date. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable from period to period or to statistics produced for other economies and should not be unduly relied upon. Further, we cannot assure you that they are stated with the same degree of accuracy as may exist elsewhere. In all cases, investors should give consideration as to how much weight or importance they should place on all such facts and statistics.

#### **There are risks associated with forward-looking statements**

This prospectus contains certain statements and information that are “forward-looking” and uses forward-looking terminology such as “aim”, “expect”, “believe”, “consider”, “continue”, “intend”, “plan”, “project”, “seek”, “may”, “might”, “could”, “anticipate”, “estimate”, “should”, “will”, “would”, “ought to”, “potential”, “predict” or similar words or statements. Those statements include, among other things, the discussion of our growth strategy and expectations concerning our future business, operations, liquidity and capital resources. Purchasers of our Shares are cautioned that any forward-looking statements are subject to uncertainties and that, although we believe the assumptions on which the forward-looking statements are based are reasonable, any or all of these assumptions could also be incorrect. The uncertainties in this regard include, but are not limited to, those identified in this “Risk factors” section, many of which are not within our control. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be

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## **RISK FACTORS**

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regarded as representations by us that our plans or objectives will be achieved, and investors should not place undue reliance on such forward-looking statements. We do not undertake any obligation to update publicly or release any revisions of any forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER**

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### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

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

### **UNDERWRITING**

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

The Listing is sponsored by the Sole Sponsor. The Public Offer will be fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement and is subject to the agreement to the Offer Price between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters). The Share Offer is managed by the Joint Lead Managers. The Placing will be fully underwritten by the Placing Underwriters under the terms of the Placing Underwriting Agreement. For further information about the Underwriters and the underwriting arrangements, please refer to the section headed "Underwriting" of this prospectus.

### **DETERMINATION OF THE OFFER PRICE**

The Offer Shares are being offered at the Offer Price which will be determined by the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company on or around Friday, 28 September 2018 (Hong Kong time) or such later time as may be agreed between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company, but in any event no later than Saturday, 29 September 2018 (Hong Kong time). If, for any reason, the Offer Price is not agreed between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) by Saturday, 29 September 2018 (Hong Kong time), the Share Offer will not proceed.

### **RESTRICTIONS ON OFFER AND SALE OF OFFER SHARES**

No action has been taken to permit a 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 an offer or invitation is not authorised or to any person to whom

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER**

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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 jurisdiction pursuant to registration with or an authorisation by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been offered and sold, and will not be offered or sold, directly or indirectly in the US, except in compliance with the relevant laws and regulations of such jurisdiction.

### **INFORMATION ON THE SHARE OFFER**

The Offer Shares are offered to the public in Hong Kong for subscription solely on the basis of the information contained and the representations made in this prospectus and the related Application Forms. No person is authorised in connection with the Share Offer to give any information or to make any representation not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager, the Underwriters, any of their respective directors, agents, employees or advisers or any other person involved in the Share Offer.

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

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

### **APPLICATION FOR LISTING OF THE SHARES ON THE STOCK EXCHANGE**

We have applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme).

No part of our Shares is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or currently proposed to be sought in the near future.

### **HONG KONG BRANCH REGISTER OF MEMBERS AND STAMP DUTY**

All Shares issued by us pursuant to applications made in the Share Offer will be registered on our branch register of members to be maintained in Hong Kong by Union Registrars Limited, our Hong Kong Branch Share Registrar. Our principal register of members will be maintained in the Cayman Islands by our Company's principal share registrar, Conyers Trust Company (Cayman) Limited.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER**

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Dealings in Shares registered on our Hong Kong branch register of members will be subject to Hong Kong stamp duty. Only Shares registered on our Hong Kong branch register of members may be traded on the Stock Exchange.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

If you are unsure about the taxation implications of subscribing for, or purchasing, holding or disposing of or dealing in the Offer Shares, you should consult your professional advisers. None of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager, the Underwriters, their respective directors, agents, employees or advisers and any other person involved in the Share Offer accepts responsibility for any tax effects on, or liability of, any person or holders of Shares resulting from subscribing for, purchasing, holding or disposing of or dealing in the Offer Shares.

### **PROCEDURE FOR APPLICATION FOR THE PUBLIC OFFER SHARES**

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

### **STRUCTURE OF THE SHARE OFFER**

Details of the structure of the Share Offer, including conditions of the Share Offer, are set out in the section headed “Structure and Conditions of the Share Offer” of this prospectus.

### **SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

If the Stock Exchange grants the listing of, and permission to deal in, the Shares on the Stock Exchange and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or such other date HKSCC chooses. Investors should seek the advice of their stockbroker or other professional advisers for details of those settlement arrangements as such arrangements will affect their rights, interest and liabilities.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after a trading day.

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

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

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## INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

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### COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence at 9:00 a.m. on Thursday, 4 October 2018.

The Shares will be traded in board lots of 2,000 Shares each. The stock code for the Shares is 1781.

### ROUNDING

Unless otherwise stated, all the numerical figures are rounded to one decimal place. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding.

### LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. If there is any inconsistency between the names of any of the entities mentioned in this prospectus which are not in the English language and their English translations, the names in their respective original languages shall prevail.

### EXCHANGE RATES CONVERSION

For illustrative purpose only, unless otherwise indicated, the translation of Renminbi into Hong Kong dollars, of US dollars into Hong Kong dollars, and vice versa in this prospectus as at the Latest Practicable Date was made at the following rates:

|                |             |
|----------------|-------------|
| RMB0.87 .....  | to HK\$1.00 |
| HK\$7.78 ..... | to US\$1.00 |

For exchange rates translations throughout this prospectus (if any), we make no representations and none should be construed as being made, that any of the Hong Kong dollar, Renminbi or US dollar amounts contained in this prospectus could have been or could be converted into amounts of any other currencies at any particular rate or at all on such date or any other date.



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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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### DIRECTORS

| Name | Residential address | Nationality |
|------|---------------------|-------------|
|------|---------------------|-------------|

#### *Executive Directors*

|                      |   |         |
|----------------------|---|---------|
| Tong Ying Chiu (湯應潮) | Flat C, 18/F<br>The Westminster Terrace<br>2A Yau Lai Road<br>Tsuen Wan<br>New Territories<br>Hong Kong | Chinese |
|----------------------|---|---------|

|                          |   |         |
|--------------------------|---|---------|
| Ng Siu Kuen Sylvia (吳笑娟) | Flat C, 18/F<br>The Westminster Terrace<br>2A Yau Lai Road<br>Tsuen Wan<br>New Territories<br>Hong Kong | Chinese |
|--------------------------|---|---------|

|                          |   |         |
|--------------------------|---|---------|
| Tong Bak Nam Billy (湯栢楠) | Flat C, Floor 9, Block 1<br>Peak One<br>Tai Wai<br>New Territories<br>Hong Kong | Chinese |
|--------------------------|---|---------|

|                         |   |         |
|-------------------------|---|---------|
| Chan Kam Hon Ivan (陳錦漢) | Flat B, 67/F<br>Tower 6, The Hermitage<br>1 Hoi Wang Road<br>Mong Kok<br>Kowloon<br>Hong Kong | Chinese |
|-------------------------|---|---------|

#### *Independent non-executive Directors*

|                     |  |         |
|---------------------|--|---------|
| Yuen Chi Ping (袁志平) | Unit H, 59/F<br>Block 5<br>Manhattan Hill<br>Mei Foo<br>Kowloon<br>Hong Kong | Chinese |
|---------------------|--|---------|

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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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|                                |   |             |
|--------------------------------|---|-------------|
| Leung Leslie Yau Chak<br>(梁祐澤) | Flat B1, 18/F<br>Block B<br>Universal Towers<br>North Point<br>Hong Kong                                  | New Zealand |
| Cheung Ting Kin (張錠堅)          | Flat E, 10/F<br>Block 2, Rambler Crest<br>No. 1 Tsing Yi Road<br>Tsing Yi<br>New Territories<br>Hong Kong | Chinese     |

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

### PARTIES INVOLVED IN THE SHARE OFFER

#### Sole Sponsor

#### **Giraffe Capital Limited**

22/F, China Hong Kong Tower  
8-12 Hennessy Road  
Wan Chai  
Hong Kong

#### Joint Bookrunners and Joint Lead Managers

#### **Giraffe Capital Limited**

22/F, China Hong Kong Tower  
8-12 Hennessy Road  
Wan Chai  
Hong Kong

#### **South China Securities Limited**

28/F  
Bank of China Tower  
No. 1 Garden Road  
Central  
Hong Kong

#### **Future Land Resources Securities Limited**

Flat B, 20/F  
Guangdong Investment Tower  
148 Connaught Road Central  
Sheung Wan  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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**Co-Manager**

**Yuzhou Financial Holdings Limited**  
Unit E, 6/F  
Yardley Commercial Building  
1-6 Connaught Road West  
Sheung Wan  
Hong Kong

**Reporting accountants**

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
35/F, One Pacific Place  
88 Queensway  
Hong Kong

**Legal advisers to our Company**

*as to Hong Kong law:*

**Watson Farley & Williams**  
Suites 4610-4619  
Jardine House  
1 Connaught Place  
Hong Kong

*as to United Kingdom law and German law:*

**Watson Farley & Williams LLP**  
15 Appold Street  
London EC2A 2HB  
United Kingdom

*as to US, EU, United Nations and  
Australian sanctions laws:*

**Squire Patton Boggs (US) LLP**  
2250M Street, NW  
Washington, D.C. 20037  
US

*as to Hong Kong law on tax audit and  
agency arrangements:*

**Mr. Chan Chung**  
*Barrister-at-law of Hong Kong*  
10th Floor  
Grand Building  
15-18 Connaught Road Central  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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*as to PRC law:*

**Hills & Co.**

11th Floor  
Central Business Building  
No. 88 Fu Hua 1st Road  
Fu Tian Central Business District  
Shenzhen  
PRC

*as to Cayman Islands law:*

**Conyers Dill & Pearman**

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*as to Australian law:*

**McCullough Robertson**

Level 32 MLC Centre  
19 Martin Place  
Sydney NSW 2000  
Australia

*as to New Zealand law:*

**Chapman Tripp**

23 Albert Street  
PO Box 2206, Auckland 1140  
New Zealand

**Legal advisers to the Sole Sponsor,  
the Joint Bookrunners, the Joint Lead  
Managers, the Co-Manager and the  
Underwriters**

*as to Hong Kong law:*

**TC & Co.**

Units 2201-3  
Tai Tung Building  
8 Fleming Road  
Wanchai  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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*as to PRC law:*

**Tian Yuan Law Firm**

10/F, CPIC Plaza  
28 Fengsheng Lane  
Xicheng District  
Beijing  
PRC

**Hong Kong Tax Adviser to our Company**      **Edwin Yeung & Company (CPA) Limited**

12/F, Lucky Building  
39 Wellington Street  
Central  
Hong Kong

**Receiving bank**

**DBS Bank (Hong Kong) Limited**

11/F, The Center  
99 Queen's Road Central  
Central  
Hong Kong

**Industry consultant**

**Ipsos Business Consulting, Ipsos Limited**

22nd Floor  
Leighton Centre  
77 Leighton Road  
Causeway Bay  
Hong Kong

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## CORPORATE INFORMATION

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| <b>Registered office in the Cayman Islands</b>                               | Cricket Square<br>Hutchins Drive<br>P.O. Box 2681<br>Grand Cayman KY1-1111<br>Cayman Islands  |
| <b>Principal place of business in the PRC</b>                                | Factory 4#<br>No. 228 Industrial District<br>Henggang Community<br>Henggang Street<br>Longgang District<br>Shenzhen<br>PRC  |
| <b>Principal place of business in Hong Kong</b>                              | Flat B-F, 23/F, Block 4<br>Golden Dragon Industrial Centre<br>182-190 Tai Lin Pai Road<br>Kwai Chung<br>New Territories<br>Hong Kong  |
| <b>Company's website</b>   | <a href="http://www.clip-fresh.com">http://www.clip-fresh.com</a><br><i>(the information contained in this website<br/>does not form part of this prospectus)</i>   |
| <b>Company secretary</b>   | Chan Kam Hon Ivan (陳錦漢), CPA  |
| <b>Authorised representatives (for the<br/>purpose of the Listing Rules)</b> | Tong Bak Nam Billy (湯栢楠)<br>Flat C, Floor 9, Block 1<br>Peak One<br>Tai Wai<br>New Territories<br>Hong Kong<br><br>Chan Kam Hon Ivan (陳錦漢)<br>Flat B, 67/F<br>Tower 6, The Hermitage<br>1 Hoi Wang Road<br>Mong Kok<br>Kowloon<br>Hong Kong |

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## CORPORATE INFORMATION

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| <b>Audit committee of our Board</b>  | Cheung Ting Kin (張錠堅) ( <i>Chairman</i> )<br>Yuen Chi Ping (袁志平)<br>Leung Leslie Yau Chak (梁祐澤)  |
| <b>Nomination committee of our Board</b>                                   | Yuen Chi Ping (袁志平) ( <i>Chairman</i> )<br>Cheung Ting Kin (張錠堅)<br>Leung Leslie Yau Chak (梁祐澤)<br>Tong Bak Nam Billy (湯栢楠)                                |
| <b>Remuneration committee of our Board</b>                                 | Leung Leslie Yau Chak (梁祐澤) ( <i>Chairman</i> )<br>Yuen Chi Ping (袁志平)<br>Cheung Ting Kin (張錠堅)<br>Chan Kam Hon Ivan (陳錦漢)                                 |
| <b>Risk management committee</b>   | Tong Ying Chiu (湯應潮) ( <i>Chairman</i> )<br>Ng Siu Kuen Sylvia (吳笑娟)<br>Tong Bak Nam Billy (湯栢楠)<br>Chan Kam Hon Ivan (陳錦漢)<br>Leung Leslie Yau Chak (梁祐澤) |
| <b>Principal share registrar and transfer office in the Cayman Islands</b> | <b>Conyers Trust Company (Cayman) Limited</b><br>Cricket Square<br>Hutchins Drive<br>P.O. Box 2681<br>Grand Cayman KY1-1111<br>Cayman Islands              |
| <b>Hong Kong branch share registrar</b>                                    | <b>Union Registrars Limited</b><br>Suites 3301-04, 33/F.<br>Two Chinachem Exchange Square<br>338 King's Road, North Point<br>Hong Kong                     |

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## CORPORATE INFORMATION

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### Principal bankers

#### **CTBC Bank Co., Ltd.**

28/F, Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

#### **O-Bank Co., Ltd.**

Room 3210-3214, 32/F  
6 Gateway  
Harbour City  
9 Canton Road  
Tsim Sha Tsui  
Kowloon  
Hong Kong

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## INDUSTRY OVERVIEW

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*The information presented in this section, unless otherwise indicated, is derived from various official government publications and other publications and from the Ipsos Report prepared by Ipsos. Our Directors believe that the information is derived from appropriate sources and we have taken reasonable care in extracting and reproducing the information. We have no reason to believe that the information is false or misleading in any material respect or that any fact has been omitted that would render the information false or misleading in any material respect. The information has not been independently verified by us, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of our or their respective affiliates, advisers, directors, officers or representatives or any other person involved except Ipsos in the Share Offer and none of them gives any representation as to the accuracy, completeness or fairness of such information from official government publications.*

*The information extracted from the Ipsos Report reflects estimates of market conditions based on samples, and is prepared primarily as a market research tool. References to Ipsos should not be considered as the opinion of Ipsos as to the value of our Shares or the advisability of investing in our Group. Our Directors confirm that after making reasonable enquiries, there is no adverse change in the market information since the date of the Ipsos Report which may qualify, contradict or have an impact on the information in this section.*

### SOURCE OF INFORMATION

We commissioned Ipsos, an independent industry research company, to analyse and report on, among others, the historical and forecast trends of the plastic household products manufacturing industry in the PRC from 2011 to 2020 at a fee of HK\$772,000, and our Directors consider that such fee reflects market rates. To provide an analysis of the plastic household products manufacturing industry, Ipsos combined the following data and intelligence gathering methodology: (a) performing client consultations to facilitate the research including in-house background information of the client such as the business of our Company; (b) conducting desk research to gather background information and to obtain the relevant information and statistics on the plastic household products manufacturing industry; and (c) conducting in-depth interviews including face to face and phone interviews with key stakeholders and other market players in Hong Kong.

Founded in Paris, France, in 1975 and publicly-listed on the NYSE Euronext Paris in 1999, Ipsos SA acquired Synovate Ltd. in October 2011. After the acquisition, Ipsos became one of the largest research companies with offices across 89 countries to-date. Ipsos conducts research on market profiles, market size, share and segmentation analyses, distribution and value analyses, competitor tracking and corporate intelligence.

Our Directors confirmed that Ipsos, including all of its subsidiaries, divisions and units, are independent of and not connected with us (within the meaning of the Listing Rules) in any way and none of our Directors or their associates has any interest in Ipsos. Ipsos has given its consent for us to quote from the Ipsos Report and to use information contained in the Ipsos Report in this prospectus.

### ASSUMPTIONS AND PARAMETERS USED IN THE IPSOS REPORT

The assumptions used in the Ipsos Report include: (i) the demand and supply for plastic household goods are assumed to remain stable during the forecast period; (ii) the external environment is assumed to have no shocks, such as financial crises or natural disasters, that will influence the demand and supply of the plastic household goods industry in each country during the forecast period; and (iii) the plastic household goods retail value excludes the sales from informal sales channels generated within informal retailing, duty free sales, and second-hand products.

The parameters that have been taken into account in the Ipsos Report include: (i) average annual personal disposable income in Australia, Hong Kong, New Zealand, UK and Germany from 2011 to 2017; (ii) consumer price index and inflation rate in Australia, Hong Kong, New Zealand, UK and Germany from 2011 to 2017; (iii) retail sales value of plastic household products in Australia, Hong Kong and Germany from 2011 to 2017; (iv) total export value and volume of plastic household products from China from 2011 to 2017; (v) average export price of plastic household products from China from 2011 to 2017; (vi) total number of plastic household products manufacturers in China in 2017; (vii) average wages of workers in the manufacturing industry in China from 2011 to 2017; (viii) price trend of polypropylene used in the plastic household products manufacturing industry in China from 2011 to 2017; and (ix) total revenue of the plastic household products manufacturing industry in China from 2011 to 2017.

## INDUSTRY OVERVIEW

### OVERVIEW OF THE PLASTIC HOUSEHOLD PRODUCTS RETAIL MARKET IN AUSTRALIA, HONG KONG, NEW ZEALAND, UK AND GERMANY

#### Australia

##### *Economic environment*

The economic outlook of Australia is seen positive with strong pace of consumer spending, supported by rising employment levels and disposable incomes which offsets the current external challenges including China economic slowdown and the downturn in mining investment. Domestic demand for household goods will rise along the resilience of employment rate in Australia, which has increased from 71.6% in 2014 to 73.0% in 2017, resulting in a sequential rise of household income and consumption expenditure. Booming housing market also indicates a good opportunity for the expansion of homeware market in Australia. The total number of households are on the growing pace along a rising population which is expected to reach 25 million in 2017 from 24 million in 2014.

##### *The historical fluctuation in the exchange rate of Australian dollar to US dollar*

According to the Ipsos Report, the average exchange rate of AUD against USD has depreciated from 1.03 in 2011 to 0.77 in 2017, mainly influenced by the fall in iron ore and coal prices, which had declined by approximately 57.2% and 29.0% respectively from 2011 to 2017. These exports accounted for over one third of total Australia's exports, therefore resulted in a major trading deficit and dollar depreciation. In addition to the falling export prices, the Reserve Bank of Australia has played an important role by lowering interest rate to suppress perceived overvaluation of AUD. It was done sequentially to stimulate exports and domestic consumption.

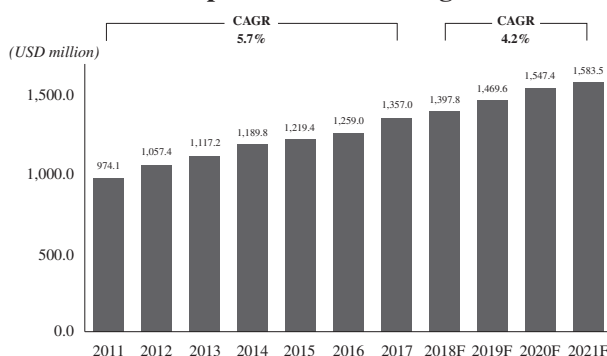
The exchange rate of AUD against USD is expected to be dampened further along the strong performance of USD and the declining demand for iron ore in China, which is the primary ingredient for steel manufacturing, will continue to reflect upon the trade value of AUD.

##### *Household goods retailing*

According to the Ipsos Report, household goods such as kitchen and tableware, taking approximately 50% of the market share is the dominant sector of total household goods market in Australia and lavatory seats, wash-basins and baths recorded approximately 9% of the market share in 2017. The growing household goods sales were directly influenced by changes in the housing market in Australia. Housing and construction have increased over the past few years, and there are significant signs of strong consumer demand for new household goods. Dynamic activities in the housing market will continue to drive positive growth in household goods sales in Australia. However, high level of household debt owing to soaring prices of houses and weakening Australian currency will decelerate spending on housewares over the coming few years.

##### *Plastic household goods retail sales*

#### Total retail sales of plastic household goods in Australia



Source: Ipsos Report

The sales of Australian plastic household goods products increased with an estimated CAGR of 5.7% for the period from 2011 to 2017 and reached USD1.4 billion in 2017. Strong pace of consumer spending was supported by rising employment levels and a strong growth of Australian economy.

##### *Historical average price of plastic household goods in Australia*

According to the Ipsos Report, historical average price of plastic household goods in Australia increased from about USD3.6 per kg in 2011 to about USD3.9 per kg in 2017 with a compound annual growth rate at approximately 1.3%. Average import price incurred a period of decline from 2014 to 2016, largely attributed to the lower price of crude oil as a key raw material in the manufacturing of plastic household goods. However, average price bounced back to USD3.9 per kg in 2017, largely affected by the increasing price of plastic household goods made in China, which accounted for the largest market share of plastic household goods imported by Australia in terms of value.

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## INDUSTRY OVERVIEW

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### *Competitive landscape of the plastic household goods market in Australia*

The Australian household goods market generally comprises: (i) a number of small and medium distributors that compete for market share; and (ii) large merchandise networks run by two large retail groups. However, price has appeared to be a major factor affecting consumers' decisions in both segments. Suppliers who have price advantage for its products of similar quality level to its competitors will more likely to secure larger market share.

Given the rapid inflow of the price competitive plastic household products from China to Australia in recent years, the plastic household goods market in Australia has witnessed intensifying competition at the supply side. Underpinned by the plunge of crude oil price and the subsequent impact to polypropylene as the key raw material for the production of the plastic household goods, Chinese manufacturers of plastic household goods are capable of exploiting cost advantages over their competitors through the economy of scale built upon the domestic market demand and the relatively lower costs of skilled labor forces in its manufacturing industry. By 2017, China is the largest supplier to Australia in plastic household products, and its share in value has increased from 61.1% in 2011 to 73.1% in 2017 and is likely to maintain the momentum supported by the demand for price competitive plastic household products.

As a distribution channel, online sales of household goods continued to grow all over the world as consumers increasingly enjoy the ease, convenience and broad assortments of online shopping. In Australia, the household good category in online retail continues to be the largest contributor to online spending, with the core driver being the sales from the online platforms of the traditional bricks and mortar furniture and household good retailers in Australia.

Large store-based retailers are broadening their offerings of household goods in the online spaces as well as at the physical stores to maintain the loyalty of shoppers due to increasing competition. Currently most of the retailers in Australia including large general merchandisers and small & medium sized household good specialists are operating the multi-channel strategy for their customers. Besides buying from pure online retailers, it is becoming increasingly common for consumers to finish the purchase online and pick up at the local stores. The seamless purchase experiences across in-store, online and mobile is getting important to the household good retailers.

### *Entry barriers of the plastic household goods market in Australia*

#### *Meeting the requirements of the local retailers*

As the major retailers in Australia have their respective internal processes for vendor sourcing and qualification assessment, plastic household products suppliers who intend to enter into these retail malls are usually required to demonstrate their capabilities in meeting the retailers' safety and health standards and need to agree with the retailers on trading terms, warranties, indemnities and guarantees. These requirements will likely set a high bar in shortlisting only the qualified suppliers for the retailers' consideration and thus benefit those with more competency and experiences in product quality control, compliance, and supply chain management.

#### *Safety and quality of the products*

Sales of plastic household products in Australia must meet the mandatory product safety requirements set by the Australian government, especially those will be intended to be used for food contact purposes. According to the existing regulatory framework in Australia, plastic household goods that will be used for food contact purposes must comply with certain standards which set out strict requirements for the control of chemical migration from packaging into food in Australia. Therefore, plastic household manufacturers must demonstrate the safety standards of their products to the Australian authorities, especially on critical elements such as Bisphenol A (BPA) and diethylhexyl phthalate (DEHP). Manufacturers with less competencies in quality control will find difficulties in ensuring consistent quality and safety standards for their products exported to Australia.

#### *Cost control and internal management experience*

Given the intensifying competition of the plastic household goods market in Australia, plastic household goods manufacturers are facing increasing pressure to improve performance in production cost control to make sure that they will not cede market share to competitors due to price reason. This pressure will in turn be a driving force to propel a company to review and improve its practice in key business segments such as production techniques, raw material sourcing, internal control and overall management experience. Companies with less capabilities in these aspects will face rising headwinds in gaining sustainable growth in the highly competitive Australian market.

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## INDUSTRY OVERVIEW

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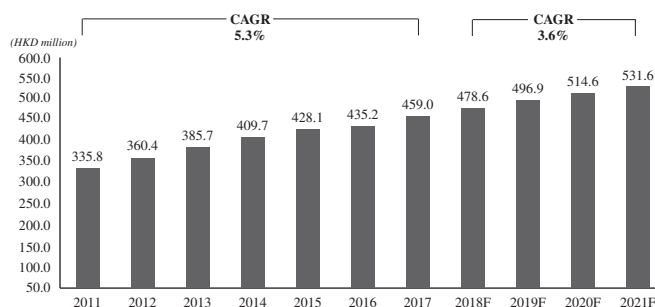
### Hong Kong

#### *Household goods retailing*

Household goods sales recorded an estimated CAGR of 5.2% from 2011 to 2017 and reached sales of HK\$1.7 billion in 2017. Improved disposable incomes directly influenced the general sales of household goods in Hong Kong and also raised consumers' willingness to buy houseware products with premium design and quality.

#### *Plastic household goods retail sales*

##### Plastic Household Goods Sales in Hong Kong from 2011 to 2021



Source: Ipsos Report

Between 2011 and 2017, total sales of plastic household goods in Hong Kong grew from approximately HK\$335.8 million in 2011 to approximately HK\$459.0 million in 2017, with a CAGR of approximately 5.3%. Between 2018 and 2021, total market sales of plastic household goods in Hong Kong will likely increase further from about HK\$478.6 million in 2018 to about HK\$531.6 million in 2021, with a CAGR of approximately 3.6%, supported by factors including the rising demand for flexible storage rooms at the shrinking sizes of residential apartments in Hong Kong (especially for those newly constructed) as well as the increase in total number of households in Hong Kong.

#### *Historical average price of plastic household goods in Hong Kong*

According to the Ipsos Report, historical average price of plastic household goods in Hong Kong increased from approximately USD3.2 per kg in 2011 to approximately USD4.6 per kg in 2017 with a CAGR of approximately 6.2%. The increase in the average price of plastic household goods was largely due to the higher quality of goods that are being catered to the market.

### New Zealand

#### *Household goods retailing*

According to the Ipsos Report, the household goods sales in New Zealand recorded an estimated CAGR of approximately 1.5% from 2011 to 2016 and reached USD668 million in 2016. The year over year growth rate declined from 2011 to 2016 with the New Zealand economy facing challenges in the slowdown in demand growth in China, falling global dairy prices and the sharp weakening of New Zealand dollar affecting overall consumption, including houseware products. However, the economic signs such as solid labour market condition, the growth of household incomes, lower interest rate and the growth of population are expected to remain positive to continue supporting ongoing growth of the housewares market in New Zealand. The industry is in the mature stage of its life cycle, but considering the whole number of population, the market tends to be saturated quickly compared to other countries. As a result, new products with innovative design and functions are required to boost the demand.

#### *Historical average price of plastic household goods in New Zealand*

Historical average price of plastic household goods in New Zealand declined from approximately USD3.6 per kg in 2011 to approximately USD3.4 per kg in 2017 with a compound annual decreasing rate of approximately 1.1%. After experiencing the five-year high level of USD3.9 per kg in 2012 and the second highest level of USD3.8 per kg in 2013 and 2014, the average price of plastic household goods declined sharply in 2015, as a reflection of the impact of lower raw material prices for plastic goods and the entry of more economic types of household goods into the New Zealand market.

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## INDUSTRY OVERVIEW

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### UK

#### *Household goods retailing*

According to the Ipsos Report, household goods retailing recorded an estimated CAGR of 0.6% from 2011 to 2017 and reached sales of GBP3.2 billion in 2017. Plastic remained as a popular material of household goods. The market share of plastic household goods rose from 9.5% in 2011 to 9.6% in 2017 in terms of sales value. Rising employment rate, recovering household disposable income and improved consumer confidence contributed to the increase in household goods consumption.

Household goods sales are expected to rise from GBP3.3 billion in 2018 to GBP3.6 billion in 2021, at a CAGR of 3.0%. Within the sector, sales of plastic household goods are expected to have a stable growth given its benefit of light, convenient, durable, and multi-functional strengths.

#### *Historical average price of plastic household goods in UK*

Historical average price of plastic household goods in UK declined from about USD3.6 per kg in 2011 to about USD3.1 per kg in 2017 with a compound annual decreasing rate of about 2.6%. The average price was between USD3.1 to USD3.6 per kg from 2011 to 2017. The decrease in the average price of plastic household goods in 2016 was mainly attributed to the decreasing oil price during the year, which drove down the production cost of plastic products.

### Germany

#### *Household goods retailing*

Household goods retailing recorded an estimated CAGR of 0.8% for the period from 2011 to 2017 and reached sales of EUR5,199.2 million in 2017. Plastic remained as a popular material of household goods. The market share of plastic household goods decreased from 16.6% in 2011 to 15.2% in 2017 in terms of sales value.

Household goods sales are expected to rise from EUR5,323.1 million in 2018 to EUR5,684.2 million in 2021, at a CAGR of 2.2%.

#### *Historical average price of plastic household goods in Germany*

Historical average price of plastic household goods in Germany experienced a downward trend from approximately USD4.3 per kg in 2011 to approximately USD3.0 per kg in 2017 with a compound annual decreasing rate of approximately 5.9%. Between 2014 and 2015, the average price of plastic household products experienced the sharpest drop by approximately 16.2%, largely due to the reduced costs of the plastic goods as a consequence of the fall of crude oil price since 2014.

## OVERVIEW OF THE PLASTIC HOUSEHOLD PRODUCTS MANUFACTURING IN CHINA

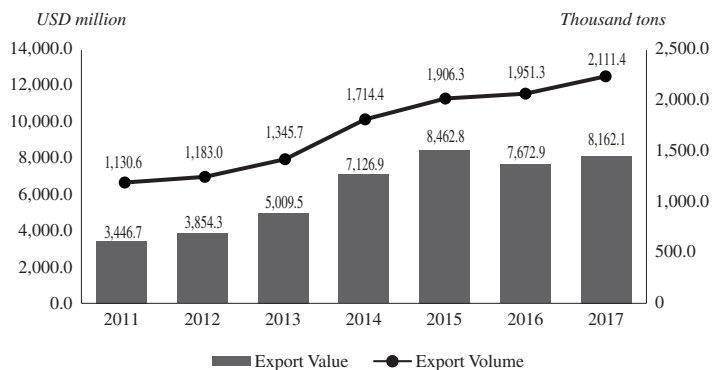
The plastic household goods market has grown rapidly with the technological development in plastic manufacturing and has become an important industry to drive the growth of China's plastics manufacturing industry. China has become the world's leader of plastic goods manufacturing industry, and has the world's largest production of injection moulding machines. There were over 1,600 plastic household products manufacturers in China in 2017. The total plastic household goods production in China increased from approximately 4.6 million tons in 2011 to approximately 6.7 million tons in 2017, with a CAGR of approximately 6.4%. Top 10 production provinces in 2017 were Guangdong, Zhejiang, Sichuan, Hubei, Hebei, Jiangsu, Henan, Shandong, Fujian, and Anhui. Guangdong contributes the largest portion to the whole country's production, which is of 1.5 million tons representing 22.8%.

## INDUSTRY OVERVIEW

### Export volume and value of plastic household goods from China

Driven by the steady growth of external demands for plastic household goods, total export of plastic household goods increased significantly from 2011 to 2017 in terms of both volume and value. Total value of export of plastic household products from China increased from USD3,446.7 million in 2011 to USD8,162.1 million in 2017, with a CAGR of approximately 15.5%. Total volume of export of plastic household goods from China increased from 1,130.6 thousand tons in 2011 to 2,111.4 thousand tons in 2017, with a CAGR of approximately 11.0%. In view of the gloomy global economy, many commodities including plastic household products experienced a decline in export value in 2016 as a result of price competition among plastic household product manufacturers in China to remain competitive as an export market.

### Total value and volume of export of plastic household products from Mainland China



Source: Ipsos Report

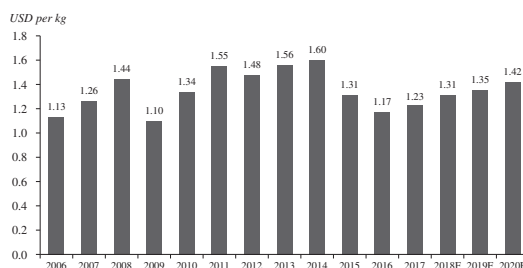
The average export price of plastic household products from China increased from about USD3.1 per kg in 2011 to approximately USD3.9 per kg in 2017, with a CAGR of approximately 4.0%. As the world's largest plastic household goods producer, the average export price of plastic household goods from China is approximately 15% to 50% lower than the price of other major exporting countries such as the United States, Italy and Germany, largely due to the comparatively low labour costs in China.

In 2017, the United States, Japan, the UK, Hong Kong and Australia, are the major export destinations, in aggregate, accounted for approximately 50% of total plastic household products export value from China in that year.

### Historical price trends of raw materials in China

#### Average price of polypropylene in China from 2006 to 2020

##### Import prices of polypropylene in China



Source: Ipsos Report

As a petrochemical product whose production cost is closely related to the fluctuation of crude oil price in a global scale, the historical price trend of polypropylene in China between 2006 and 2017 experienced a volatile period of development.

Between 2006 and 2010, average polypropylene price in China increased from about USD1.13 per kg in 2006 to about USD1.34 per kg in 2010, with a CAGR of approximately 4.4%. The most significant fluctuation of the polypropylene price in China was seen in 2009, which was affected by the global financial tsunami and the subsequent sharp decline of crude oil price in that year.

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## INDUSTRY OVERVIEW

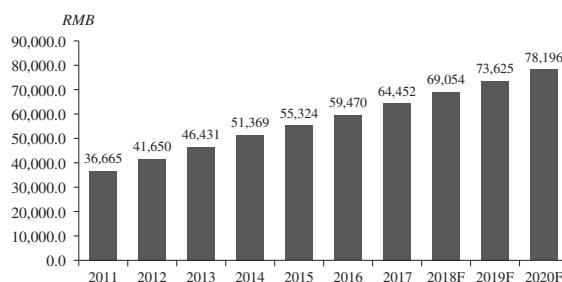
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Between 2011 and 2017, affected by the crude oil price plummet since mid-2014, average prices for polypropylene in China dropped from USD1.55 per kg in 2011 to USD1.23 per kg in 2017, with a compound annual decreasing rate of about 3.8%.

Between 2017 to 2020, the average polypropylene price in China is expected to increase from USD1.23 per kg to USD1.42 per kg, with a CAGR of approximately 4.9%. It will be attributed mainly to an expected price rise of global crude oil. As one of the fundamental raw materials of polypropylene production, the rise in crude oil price will lead to an increased production cost of plastic household goods manufacturing in China.

### *Average labour costs in manufacturing industry in China from 2011 to 2020*

**Average yearly wages in manufacturing industry in China**



Source: Ipsos Report

The average yearly wages in manufacturing industry in China increased from RMB36,665 in 2011 to RMB64,452 in 2017, with a CAGR of approximately 9.9%. The average yearly wages in China are expected to increase in a gentler pace from 2018 to 2020 at a CAGR of 6.4%.

The government wage related policy was the key factor to drive wage increase in China from 2011 to 2017. However, the growth rate of wages have slowed down due to the enactment of 13th Five Year Plan which addressed the need for a more reasonable wage levels and introduced a controlled mechanism for wage adjustment. Slower growth of minimum wage levels and stable wage adjustments are aimed to improve the competitiveness of manufacturing enterprises in China by shortening the wage difference with other developing economies such as India, Vietnam, Cambodia, etc. Narrowing the wage discrepancy between China and other competing economies may create stronger incentives for foreign investors and manufacturers to remain in or enter China. The 13th Five Year Plan was promulgated in 2016 and will be in effect until 2020. The wage enforcement led by this policy suggests a relatively gentle wage increment to be expected in the near future.

### **COMPETITIVE ANALYSIS OF THE PLASTIC HOUSEHOLD PRODUCTS MANUFACTURING IN CHINA**

The plastic household products manufacturing industry in China is highly fragmented. Over 1,600 companies compete in the plastic household goods manufacturing market with value of RMB203.3 billion in 2017. The majority of plastic household goods manufacturers are small to medium sized enterprises who typically focus on a limited range of products for mass production targeting lower retail price ranges for domestic or export consumption. The top five companies accounted for only 1.0% of the total market share in 2017.

The industry experienced intensifying market competition from 2011 to 2017. Some small and medium sized players have exited the market due to limited resources to extend their product range, upgrade manufacturing equipment and face challenges in securing larger orders or new clients for plastic household goods.

## INDUSTRY OVERVIEW

### Top five plastic household products manufacturers in China (by revenue)

The table below sets forth the information of the top five market players in the plastic household products manufacturing industry in China in 2017 in terms of revenue:

| Rank | Company name     | Headquarters Location  | Revenue in 2017 <sup>(Note)</sup><br>(RMB million) | Market share | Major Service Scope   |
|------|------------------|------------------------|--|--------------|---|
| 1    | Company A        | Fuzhou                 | 658.1  | 0.3%         | Offers design, development, production and sales of various plastic housewares  |
| 2    | Company B        | Hong Kong              | 557.1  | 0.3%         | Produces plastic houseware, food storage, etc.  |
| 3    | Company C        | Hong Kong              | 346.7  | 0.2%         | Offers around 3,000 houseware products including food storage, kitchenware, drinkware, serve ware and home organizing products  |
| 4    | <b>Our Group</b> | <b>Hong Kong</b>       | <b>282.6</b>                                       | <b>0.1%</b>  | <b>Specializes in production of plastic storage and kitchenware products, together with mainstream plastic products including bathroom accessories, buckets, rubbish bin and more</b> |
| 5    | Company D        | Jieyang<br>(Guangdong) | 245.2  | 0.1%         | Produces plastic household products especially plastic food container series, etc.  |
|      | Others           |                        | 201,165.0  | 99.0%        |   |
|      | <b>Total</b>     |                        | <b>203,254.7</b>                                   | <b>100%</b>  |   |

*Note:* The total revenue only includes the production of plastic household products. Other plastic products manufacturing for food and beverage or other uses were fairly excluded in this ranking.

*Sources:* Ipsos Report

### Top five plastic household products manufacturers in China (by export value)

The table below sets forth the information of the top five market players in the plastic household products manufacturing industry in China in 2017 in terms of export value:

| Rank | Company name     | Headquarters Location  | Revenue in 2017 <sup>(Note)</sup><br>(RMB million) | Market share | Major Service Scope   |
|------|------------------|------------------------|--|--------------|---|
| 1    | Company A        | Hong Kong              | 557.1  | 1.0%         | Produces plastics houseware, food storage, etc.   |
| 2    | Company B        | Hong Kong              | 329.4  | 0.6%         | Offers around 3,000 houseware products including food storage, kitchenware, drinkware, serve ware and home organizing products  |
| 3    | <b>Our Group</b> | <b>Hong Kong</b>       | <b>282.6</b>                                       | <b>0.5%</b>  | <b>Specializes in production of plastic storage and kitchenware products, together with mainstream plastic products including bathroom accessories, buckets, rubbish bin and more</b> |
| 4    | Company C        | Taizhou<br>(ZheJiang)  | 92.5   | 0.2%         | Manufactures variety of plastic household products including storage boxes, food containers, basins, waste bins, cups and water bottles   |
| 5    | Company D        | Jieyang<br>(Guangdong) | 88.4   | 0.2%         | Produces plastic household products especially plastic food container series, etc.  |
|      | Others           |                        | 54,198.5   | 97.5%        |   |
|      | <b>Total</b>     |                        | <b>55,548.5</b>                                    | <b>100%</b>  |   |

*Note:* The total export value only includes the export of plastic household products, other plastic products exporting for on-trade businesses were fairly excluded in this ranking.

*Sources:* Ipsos Report



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## INDUSTRY OVERVIEW

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### Market Drivers

#### *Increasing global demand for plastic-made household products*

There has been an increase of global demand for plastic household products in recent years. China, as one of the largest manufacturing hubs for plastic household products, has seen growth in export volume from 1,130.6 thousand tons in 2011 to 2,111.4 thousand tons in 2017. The growth indicates an increasing demand of global customers towards the use of plastic household products. Given the benefits of the product itself, fewer people purchase premium ceramic porcelain products for their own use and instead, they would purchase them as gifts. As the demand for household products made of other materials declined, plastic-made household products could potentially take up the demand from these segments, and increase its market share worldwide.

#### *Unique matrix of product offerings*

Plastic-made products are light, handy, durable and flexible for multiple purposes. The versatility of plastic compared with other materials is one of the major advantages plastic household products manufacturers have over their competitors. Other materials including stainless steel, aluminium, porcelain and wood might be less convenient and light as household goods, especially as kitchenwares. Consumers today prefer convenience and health-oriented solutions for food storage, food preparation and cooking products, plastic kitchenwares that meet these preferences will continue to be popular. However, food safety has always been a concern when it comes to kitchenwares. Most plastic food storage containers are now made to be microwave safe, Bisphenol A free and resistant to high heat.

### Market Entry Barriers

#### *Industry experience and established customer base*

Given the highly competitive landscape of the industry, the number of players leaving the market has increased over the past five years. The industry experienced consolidation with leading players with increasing revenue, with some opting to acquire smaller players to extend production capacity. Market players with more industry experience have typically an established customer base by delivering consistent quality and timely plastic household products. New entrants to the market would face a high barrier due to lack of experience for production capacity with both quality and quantity and an absence of track record to secure customer base to expand their business.

#### *Brand building and price disadvantages*

Several factors would be considered key barriers in the plastic household manufacturing industry in China including the track record of the company, quality consistency of the products and good network built with distribution channels across the supply chain. These factors contribute to the bargaining power of the manufacturers and the likelihood of getting recurring or referral businesses. Existing large players can negotiate lower prices for raw materials which represent a large percentage of total manufacturing costs. This enables them to offer products to their customers at more competitive prices than new entrants.

#### *High capital investment and operating costs*

Plastic household goods manufacturing requires high capital investment for equipment, machinery and moulds for the production of goods. Furthermore, products designers and plastic goods experts would be key to the research and development function, and vital to the competitiveness of the manufacturer's products. Raw materials, machinery and operators required for the manufacturing of plastic household goods would also require high working capital to support daily operations. The high capital investment, technical knowhow and sustaining cashflow for operating costs are key barriers to market for new entrants.

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## INDUSTRY OVERVIEW

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### Opportunities

#### *Demand from China's growing middle class population for more quality plastic household products*

The plastic household products industry is expected to show stable growth in the next few years. According to the Ipsos Report, middle class in China is expected to account for approximately 93% of the urban population by 2030. The number of middle class persons is expected to reach 854 million by 2030 from 326 million in 2014. With income growth and urbanisation, it is expected that the middle class population in China will drive the demand for more and better quality plastic household products, especially for daily household products such as lunch boxes, plastic food containers and plastic storage items that are durable and low cost. This demand is expected to drive China's plastic household goods manufacturing industry in the future.

#### *Price advantage of plastic household goods exported from China*

Household goods made of plastic are typically preferred due to their durability, versatility, and often, competitive prices when compared to goods made of other materials such as ceramics, metals and wood. Price competitiveness of plastic household products to export markets is a key factor of competition and opportunity to lead the development of plastic household goods manufacturing industry in China. Low cost of material and improved efficiency in manufacturing through manufacturing and technological development provide an opportunity for China to maintain its position as a leading manufacturer of plastic household goods in global trade. Additionally, the use of plastic as a material for household goods manufacturing for export is also supported by the Chinese government. The Ministry of Finance and State Administration of Taxation abolished export tax rebate regarding some commodities including leftovers of ethylene polymers, styrene polymers, vinyl chloride polymers and polyethylene terephthalate in 2010, which is expected to contribute to low-cost maintenance in plastic product industry.

### Threats

#### *Product safety issue regarding plastic household goods*

There have been safety concerns over the past few years about melamine contamination and excessive Bisphenol A in plastic food storage and kitchenwares products. Bisphenol A is an industrial chemical that has been used to make polycarbonate plastics and epoxy resins. Polycarbonate plastics are typically used in food and beverage containers, as well as other plastic goods, and epoxy resins are often used to coat the interior of metal products, such as food and beverage containers and water supply lines. Consumers who are exposed to excessive melamine and Bisphenol A residue face several health risks including health effects of Bisphenol A on the brain, development of foetus, kidney stones and kidney failure. Although manufacturers are moving towards developing Bisphenol A free plastic products to meet food safety requirements for plastic food and kitchenware products, contamination incidents relating to plastic household goods could significantly affect the demand for these products. To address previous and potential negative perception towards plastic food containers, several leading plastic household goods brands with a focus on food containers have incorporated glassware into their product offerings to mitigate risks to their product sales.

#### *Fluctuating cost of plastic raw materials for plastic household goods manufacturing in China*

The significant increased cost of food-grade plastic is a challenge to the majority of kitchenware manufacturers because it changes the affordability of products. As the price is a significant factor in the sales of plastic household products, a rising production cost caused by increased raw material costs could be a threat in the industry.

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## SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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This section sets out a summary of certain aspects of the laws and regulations in the PRC, Hong Kong, Australia and EU which are relevant to our Group's operations and business in the PRC, Hong Kong, Australia and EU. Information contained in this section should not be construed as a comprehensive summary of the laws and regulations applicable to our Group.

### LAWS AND REGULATIONS IN HONG KONG

The following sets forth a summary of the material laws and regulations relating to our Group's business operation and laws relating to transfer pricing and employment in Hong Kong.

#### Sale of Goods Ordinance

Contracts for the sale of goods in Hong Kong are mainly governed by the Sale of Goods Ordinance (Chapter 26 of the Laws of Hong Kong) (the "**Sale of Goods Ordinance**"), as amended, supplemented or otherwise modified from time to time. For consumer transactions, certain terms are implied into sales contracts to strengthen protection to consumers.

Examples include the implied undertaking that the goods are of merchantable quality, requiring that the goods should be fit for the purpose(s) for which goods of that kind are commonly bought, of such standard of appearance and finish, free from defects (including minor defects), safe, and durable as reasonably expected having regard to the relevant circumstances.

#### Consumer Goods Safety Ordinance and Consumer Goods Safety Regulation

The Consumer Goods Safety Ordinance (Chapter 456 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time (the "**Consumer Goods Safety Ordinance**") imposes a statutory duty on manufacturers, importers and suppliers of certain consumer goods (excluding for example pharmaceutical products) to ensure that the consumer goods supplied are safe and for incidental purposes.

Under the Consumer Goods Safety Ordinance, a person who supplies, manufactures or imports into Hong Kong consumer goods which do not comply with the general safety requirement for consumer goods (or where a standard has been approved by the Secretary for Commerce and Economic Development to apply to consumer goods, the approved standard for the particular consumer goods) commits an offence. General safety requirement in respect of consumer goods means that such goods are reasonably safe having regard to all of the circumstances, including, among others, the manner in which, and the purpose for which, the consumer goods are presented, promoted or marketed.

Certain defences are available under the Consumer Goods Safety Ordinance. One of the defences is that the relevant person supplied the consumer goods in the course of carrying on a retail business and at the time he supplied the consumer goods, he neither knew nor had reasonable grounds for believing that the consumer goods failed to comply with the general safety requirement.

The Consumer Goods Safety Regulation (Chapter 456A of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time (the "**Consumer Goods Safety Regulation**") requires that any warning or caution with respect to the safe keeping, use, consumption or disposal of any consumer goods (excluding pharmaceutical products) must be given in both Chinese and English.

Further, the warning or caution must be legible and placed in a conspicuous position on the consumer goods, any package of the consumer goods, or on a label securely affixed to the package, or a document enclosed in the package.

#### Trade Descriptions Ordinance

The Trade Descriptions Ordinance (Chapter 362 of the Laws of Hong Kong) (the "**Trade Descriptions Ordinance**") prohibits false trade description, false, misleading or incomplete information, false statements etc., in respect of goods offered in the course of trade. Therefore, all of the products and supplements sold by our Group are required to comply with the relevant provisions therein.

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## SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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Section 2 of the Trade Descriptions Ordinance provides, inter alia, that “trade description” in relation to goods means an indication, direct or indirect, and by whatever means given, of certain matters (including among other things, quantity, method of manufacture, composition, fitness for purpose, availability, compliance with a standard specified or recognised by any person, price, their being of the same kind as goods supplied to a person, price, place or date of manufacture, production, processing or reconditioning, person by whom manufactured, produced, processed or reconditioned etc.), with respect to any goods or parts of the goods; and in relation to services means an indication, direct or indirect, and by whatever means given, of certain matters (including among other things, nature, scope, quantity, fitness for purpose, method and procedures, availability, the person by whom the service is supplied, after-sale service assistance, price etc.).

Section 7 of the Trade Descriptions Ordinance provides that no person shall in the course of trade or business apply a false trade description to any goods or sell or offer for sale any goods with false trade descriptions applied thereto.

Section 7A provides that a trader who applies a false trade description to a service supplied or offered to be supplied to a consumer, or supplies or offers to supply to a consumer a service to which a false trade description is applied, commits an offence. Sections 13E, 13F, 13G, 13H and 13I provide that a trader who engages in relation to a consumer in a commercial practice that (a) is a misleading omission; (b) is aggressive; (c) constitutes bait advertising; (d) constitutes a bait and switch; or (e) constitutes wrongly accepting payment for a product, commits an offence. In accordance with section 18 of the Trade Descriptions Ordinance, a person who commits an offence under sections 7, 7A, 13E, 13F, 13G, 13H or 13I shall be subject, on conviction on indictment, to a fine of HK\$500,000 and to imprisonment for 5 years, and on summary conviction, to a fine at HK\$100,000 and to imprisonment for 2 years.

### **Trade Marks Ordinance**

Trade Marks Ordinance (Chapter 559 of the Laws of Hong Kong) provides for the registration of trademarks, the use of registered trademarks and related matters. As Hong Kong provides territorial protection for trademarks, trademarks registered in other countries or regions are not automatically entitled to protection in Hong Kong. In order to enjoy protection by the laws of Hong Kong, trademarks shall be registered with the Trade Marks Registry of the Intellectual Property Department under the Trade Marks Ordinance and the Trade Marks Rules (Chapter 559A of the Laws of Hong Kong).

Section 10 of the Trade Marks Ordinance provides that a registered trademark is a property right acquired through due registration under the Trade Marks Ordinance, through which the owner of a registered trademark is entitled to the statutory rights.

By virtue of section 14 of the Trade Marks Ordinance, the owner of a registered trademark is conferred exclusive rights in the trademark. The rights of the owner in respect of the registered trademark come into existence from the date of the registration of the trademark. Pursuant to section 48 of the Trade Marks Ordinance, the registration date is the filing date of the application for registration.

Subject to the exceptions under sections 19 to 21 of the Trade Marks Ordinance, any use of the trademark by third parties without the consent of the owner is an infringement of the trademark. Section 18 of the Trade Marks Ordinance further specifies the conducts which amount to infringement of the registered trademark. If infringement by any third party occurs, the owner of the registered trademark is entitled to remedies under the Trade Marks Ordinance, such as infringement proceedings under sections 23 and 25 of the Trade Marks Ordinance.

Trademarks which are not registered under the Trade Marks Ordinance and the Trade Marks Rules may still be protected by the common law action of passing off, which requires proof of the owner’s reputation in the unregistered trademark and that use of the trademark by third parties will cause damage to the owner.

### **Laws relating to transfer pricing**

The Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the “**IRO**”) is a statute enacted for the purposes of imposing taxes on property, earnings and profits in Hong Kong.

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## SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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Section 20(2) of the IRO provides that where a resident person conducts transactions with a “closely connected” non-resident person in such a way that if the profits arising in Hong Kong are less than the ordinary profits that might be expected to arise, the business performed by the non-resident person in pursuance of his or her connection with the resident person shall be deemed to be carried on in Hong Kong, and the non-resident person shall be assessable and chargeable with tax in respect of his or her profits from such business in the name of the resident person. Section 20A of the IRO gives the IRD wide powers to collect tax due from non-residents. The IRD may also make transfer pricing adjustments by disallowing expenses incurred by the Hong Kong resident under sections 16(1), 17(1)(b) and 17(1)(c) of the IRO and challenging the entire arrangement under general anti-avoidance provisions such as sections 61 and 61A of the IRO.

Further, the IRO provides, amongst other things, that profits tax shall be charged on every person carrying on a trade, profession or business in Hong Kong in respect of his or her assessable profits arising in or derived from Hong Kong at the standard rate, which stands as at the Latest Practicable Date at 16.5% for corporate taxpayers.

The IRO also contains detailed provisions relating to, amongst other things, permissible deductions for outgoings and expenses, set-offs for losses and allowances for depreciations of capital assets.

As stipulated by the IRO, the IRD may give notice in writing to any person requiring him or her to furnish a prescribed tax return. For the proper enforcement of the tax regime, the IRD is equipped with various powers, including the power to require any person to furnish any relevant information, the power to examine any person for the purposes of obtaining full information with regard to any matter affecting a person’s liability, responsibility or obligation under the IRO and the power to require a person to furnish a detailed statement of assets and liabilities. The IRD may also in certain circumstances apply to a magistrate for a search warrant. As required by the IRO, every person carrying on a trade, profession or business in Hong Kong is required to keep sufficient records of his or her income and expenditure and shall retain such records for a period of not less than seven years.

As stipulated by the IRO, a person commits a criminal offence if he or she, without reasonable excuse, (i) makes an incorrect tax return by omitting or understating anything; (ii) makes an incorrect statement in connection with a claim for any tax deduction or allowance; or (iii) gives any incorrect information in relation to any matter or thing affecting his or her (or some other person’s) tax liability. Such a person is liable on conviction to a fine. Depending on the situation, the IRD may, instead of instituting criminal prosecution, require the person to pay additional tax of an amount not exceeding treble the amount of tax which has been undercharged in consequence of the incorrect tax return, statement or information. If the person makes or gives the incorrect tax return, statement of information wilfully and with the intent to evade tax (or to assist any other person to evade tax), he or she is guilty of a criminal offence and is liable on conviction to a fine and imprisonment. The IRO further provides that a person who has been assessed additional tax shall not be liable to be charged on the same facts with an offence as described above.

### **Employment and labour legislation**

The principal employment and labour statutes in Hong Kong include the Employment Ordinance (Chapter 57 of the Laws of Hong Kong), the Employees’ Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) (“**ECO**”), the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) (“**MPF Ordinance**”) and the Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong).

The Employment Ordinance is an ordinance enacted for, among other things, the protection of the wages of employees and the regulation of the general conditions of employment and employment agencies. Under the Employment Ordinance, an employee is generally entitled to, among other things, notice of termination of his or her employment contract; payment in lieu of notice; maternity protection in the case of a pregnant employee; not less than one rest day in every period of seven days; severance payments or long service payments; sickness allowance; statutory holidays or alternative holidays; and paid annual leave of up to 14 days depending on the period of employment.

The ECO is an ordinance enacted for the purpose of providing for the payment of compensation to employees injured in the course of employment. As stipulated by the ECO, an employer is required to take out an insurance policy to insure against the injury risk of his or

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## SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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her employees. Any employer who contravenes this requirement commits a criminal offence and is liable on conviction to a fine and imprisonment. An employer who has taken out an insurance policy under the ECO is required to display a prescribed notice of insurance in a conspicuous place on each of its premises where any employee is employed.

The MPF Ordinance is an ordinance enacted for the purposes of providing for the establishment of non-governmental mandatory provident fund schemes (“**MPF Schemes**”). Under the MPF Ordinance, every employer of an employee of 18 years of age or above (but below the retirement age) is required to take all practical steps to ensure that the employee becomes a member of a registered MPF Scheme. Any employer who contravenes this requirement commits a criminal offence and is liable on conviction to a fine and imprisonment. If an employer has complied with such requirement to the satisfaction of the Mandatory Provident Fund Schemes Authority, a certificate will be issued to the employer, certifying that the employer is a participating employer in the specified MPF Scheme.

The Minimum Wage Ordinance provides for a prescribed minimum hourly wage rate for every employee employed under the Employment Ordinance. With effect from 1 May 2017, the statutory minimum wage was increased to HK\$34.5 per hour. Any provision of the employment contract which purports to extinguish or reduce the right, benefit or protection conferred on the employee by the Minimum Wage Ordinance is void.

### **LAWS AND REGULATIONS IN THE PRC**

The relevant laws and regulations applicable to the operations and business of our subsidiaries in the PRC are set out below:

#### **Product Quality and Safe Production**

##### *Product Quality*

Products made in the PRC are subject to the Product Quality Law of the PRC (《中華人民共和國產品質量法》) (the “**Product Quality Law**”), which was promulgated by the SCNPC on 22 February 1993 and became effective on 1 September 1993 and was subsequently amended on 8 July 2000 and 27 August 2009. According to the Product Quality Law, the producer of a product shall be liable to compensate for the damages done to a person or property other than the defective product itself due to the defects of the product, unless the producer is able to prove that: (i) the product has not been put in circulation; (ii) the defects causing the damages do not exist at the time when the product is put in circulation; or (iii) based on the level of science or technology at the time the product is put in circulation, the defects cannot be discovered. The Product Quality Law is applicable to all activities of production and sale of any product within the PRC. According to the Product Quality Law, manufacturers are liable for the quality of products they produce and sellers must take reasonable actions to ensure the quality of the products they sell. Both the manufacturers and sellers shall be liable to compensate for any bodily harm or damage to property (other than the defective product itself) caused by the defective products they manufactured or sold. Violation of the Product Quality Law may result in fines and the violator will be ordered to suspend its operations, or its business license will be revoked and criminal liability may be incurred under severe circumstances.

##### *Production Safety*

The Production Safety Law of the PRC (《中華人民共和國安全生產法》) (the “**Production Safety Law**”) was promulgated by the SCNPC on 29 June 2002, became effective on 1 November 2002 and was subsequently amended on 27 August 2009 and 31 August 2014. It governs the supervision and administration of production safety in the PRC. The Production Safety Law requires a production entity to meet the relevant requirements such as providing its staff with education and training, strengthening work safety control, setting up and improving the responsibility system and rules and regulations for work safety, improving the conditions for work safety, promoting the standardisation of work safety, raising the level of work safety and ensuring work safety. Any production entity that fails to meet the legal requirements shall not be allowed to engage in production activities in the PRC. Violation of the Production Safety Law may result in fines, penalties, suspension or cease of operations, or even criminal liabilities in severe cases.

#### **Environmental Protection**

In accordance with the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) which was promulgated by the SCNPC on 26 December 1989, the competent department of environmental protection administration under the State Council formulates the

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## SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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national environmental quality and discharge standards and monitors the PRC's environmental system. The local government of provinces, autonomous regions and municipalities directly under the central government may also set up their local standards for environment quality for items not specified in the national standards for environment quality and shall report them to the competent department of environmental protection administration under the State Council for the record. The Environmental Protection Law of the PRC was amended by the SCNPC on 24 April 2014 and became effective on 1 January 2015, which strengthens the supervision and regulation on the environmental protection at national level and imposes stricter punishment on the illegal activities. All entities and individuals in the PRC are subject to the Environmental Protection Law of the PRC.

Pursuant to the Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》) which was promulgated by the SCNPC on 28 October 2002 and became effective on 1 September 2003 and amended on 2 July 2016, the Administrative Regulations on Environmental Protection for Construction Projects (《建設項目環境保護管理條例》) which was promulgated by the State Council and became effective on 29 November 1998 and was amended on 16 July 2017 and the Administrative Measures on the Examination and Approval of Environmental Protection for the Completion of Construction Projects (《建設項目竣工環境保護驗收管理辦法》) which was promulgated by the State Environmental Protection Administration on 27 December 2001, became effective on 1 February 2002 and was further amended on 22 December 2010, enterprises which are planning to conduct construction projects shall engage qualified professionals to provide the assessment report/assessment form/registration form on the environmental impact of such projects. The assessment report/assessment form/registration form shall be filed with and approved by the relevant environmental protection bureau, prior to the commencement of any construction work. The construction project shall not commence operation after completion, unless inspected and approved by the relevant environmental protection bureau.

Enterprises in the PRC must comply with the Law of the PRC on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》) which was effective from 1 June 2008 and was amended on 27 June 2017, the Law of the PRC on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》) which was effective from 1 January 2016, the Law of the PRC on the Prevention and Control of Pollution from Environmental Noise (《中華人民共和國環境噪聲污染防治法》) which was effective from 1 March 1997, and the Law of the PRC on the Prevention and Control of Environmental Pollution of Solid waste (《中華人民共和國固體廢物污染環境防治法》), which was effective from 1 April 1996 and was amended on 29 December 2004, 29 June 2013, 24 April 2015 and 7 November 2016 respectively. These laws regulate extensive issues in relation to the environment protection including waste water discharge, air pollution control, noise pollution and solid waste pollution control. Pursuant to these laws, all the enterprises that may cause environmental pollution in the course of their production and business operation shall introduce environmental protection measures in their plants and establish a reliable system for environmental protection.

### **Labour and Social Insurance**

#### ***Labour Law***

Companies in the PRC are subject to the PRC Labour Law (《中華人民共和國勞動法》) (the “**PRC Labour Law**”) which was promulgated by the SCNPC on 5 July 1994, became effective on 1 January 1995 and was further amended on 27 August 2009, the PRC Labour Contract Law (《中華人民共和國勞動合同法》) (the “**PRC Labour Contract Law**”) which was promulgated by the SCNPC on 29 June 2007, became effective on 1 January 2008 and was further amended by the SCNPC on 28 December 2012, and the Implementation Regulations of the PRC Labour Contract Law (《中華人民共和國勞動合同法實施條例》) which was promulgated by the State Council on 18 September 2008 and became effective on the same date, as well as other related regulations, rules and provisions issued by the relevant governmental authorities from time to time. Compared to the PRC Labour Law, the PRC Labour Contract Law imposes stricter requirements in such respects as signing of labour contracts with employees, stipulation of probation period and violation penalties, termination of labour contracts, payment of remuneration and economic compensation, use of labour dispatches as well as social security premiums.

According to the PRC Labour Law and the PRC Labour Contract Law, a written labour contract shall be concluded when a labour relationship is to be established between an employer and an employee. An employer must pay an employee two times of his salary for each

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## SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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month in the circumstance where he fails to enter into a written labour contract with the employee for more than a month but less than a year; where such period exceeds one year, the parties are deemed to have entered into an unfixed-term labour contract. Employers must pay wages that are not lower than the local minimum wage standards to the employees. Employers are also required to establish labour safety and sanitation systems, which strictly abide by PRC rules and standards and provide relevant training to the employees.

According to the Provisions on Prohibition of Using Child Labour (《禁止使用童工規定》) which was promulgated by the State Council on 1 October 2002 and came into effect on 1 December 2002, the employers must verify the identification cards of the personnel to be employed and shall not employ any minor under 16 years old.

### *Social Insurance and Housing Provident Funds*

The PRC social insurance system is mainly governed by the Social Insurance Law of the PRC (the “**Social Insurance Law**”) (《中華人民共和國社會保險法》). The Social Insurance Law was promulgated by the SCNPC on 28 October 2010 and came into effect on 1 July 2011. According to Social Insurance Law, the Regulation of Insurance for Work-Related Injuries (《工傷保險條例》) (effective from 1 January 2011), the Provisional Measures on Insurance for Maternity of Employees (《企業職工生育保險試行辦法》) (effective from 1 January 1995), the Interim Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) (effective from 22 January 1999) and the Interim Provisions on Registration of Social Insurance (《社會保險登記管理暫行辦法》) (effective from 19 March 1999), employers in the PRC shall register social insurance with the competent authorities, and make contributions to five basic types of social insurance for their employees, namely, basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance.

According to the Social Insurance Law, if an employing entity does not pay the full amount of social insurance premiums as scheduled, the social insurance premium collection institution shall order it to make the payment or make up the difference within the stipulated period and impose a daily fine equivalent to 0.05% of the overdue payment from the date on which the payment is overdue. If the payment is not made within the prescribed time, the social insurance authority shall impose a fine ranging from one to three times of the overdue payment amount.

According to the Regulations on Management of Housing Provident Funds (《住房公積金管理條例》) which was promulgated by the State Council and came into effect on 3 April 1999 and was amended on 24 March 2002, all business entities (including foreign invested enterprises) are required to register with the local housing provident funds management centre and then maintain housing fund accounts with designated banks and pay the related funds for their employees. In addition, for both employees and employers, the payment rate for housing provident fund shall not be less than 5% of the average monthly salary of the employees in the previous year. The payment rate may be raised if the employer so desires.

### *Occupational Disease Prevention and Control*

According to the Law of the PRC on Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》) promulgated by the SCNPC on 27 October 2001, effective on 1 May 2002 and amended on 31 December 2011, 2 July 2016 and 4 November 2017, the employer shall create the working environment and conditions that conform to the national norms for occupational health and requirements for public health, provide protection facilities, truthfully report the hazardous item to the supervisory and administrative department of work safety if any hazardous factor causing an occupational disease as listed in the catalogue of occupational diseases exists in the work premise, be equipped with occupational health managing personnel and establish management rules.

### **Importation and Exportation of Goods**

#### *Foreign Trade*

The Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》) (the “**Foreign Trade Law**”) was last amended by the SCNPC on 7 November 2016 and took effect on the same date. Foreign trade mentioned in the Foreign Trade Law refers to the import and export



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## SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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of goods, technologies and international trade in services. According to the Foreign Trade Law, unfair competition activities such as selling products at unreasonably low prices, bidding in collusion, publishing false advertisements and offering commercial bribes are not allowed in foreign trade activities.

Pursuant to the Foreign Trade Law and the Measures for the Record Filing and Registration of Foreign Trade Business Operators (《對外貿易經營者備案登記辦法》) which was promulgated by the Ministry of Commerce on 25 June 2004 and became effective on 1 July 2004 and was subsequently amended on 18 August 2016, the PRC adopted a filing and registration system for foreign trade operators who engaged in the import and export of goods or technologies, implemented by the Ministry of Commerce or its entrusted agencies. Foreign trade operators that have not filed for registration in accordance with the provisions will be declined by the Customs to carry out the customs clearance and inspection procedures for their import and export of goods.

### Taxation

#### *Enterprise income tax*

According to the PRC EIT Law, promulgated by the NPC on 16 March 2007 and came into effect on 1 January 2008 and amended on 24 February 2017, and the Enterprise Income Tax Implementation Regulations of the PRC (《中華人民共和國企業所得稅法實施條例》) (the “EITIR”) which was promulgated by the State Council on 6 December 2007 and came into effect on 1 January 2008, the income tax rate for both domestic and foreign-invested enterprises is 25%.

Pursuant to the PRC EIT Law and the EITIR, enterprises established outside the PRC whose “*de facto management bodies*” are located in the PRC are considered as “resident enterprises” and are subject to the uniform 25% enterprise income tax rate for their global income.

#### *Value-added tax (VAT)*

According to the Provisional Regulations of the PRC on Value-Added Tax of the PRC (《中華人民共和國增值稅暫行條例》) promulgated by the State Council on 13 December 1993, and taking effect on 1 January 1994, which was subsequently amended on 10 November 2008, 6 February 2016 and 19 November 2017, and the Rules for the Implementation of the Provisional Regulations of the PRC on Value-Added Tax (《中華人民共和國增值稅暫行條例實施細則》), which was promulgated by the Ministry of Finance of the PRC on 25 December 1993, became effective on 1 January 1994 and was amended on 15 December 2008 and 28 October 2011 respectively (the latest revision became effective on 1 November 2011),

- (A) All entities and individuals engaged in (i) sales of goods, (ii) provision of processing, repairs and replacement services or (iii) importation of goods within the PRC are taxpayers of VAT, and shall pay VAT in accordance with these regulations.
- (B) Except as stipulated in these regulations, for taxpayers engaged in sales of goods or in provision of taxable services (“**Selling Goods or Taxable Services**”), the amount of VAT payable shall be the balance of output tax for the period after deducting the input tax for the period. The formula for computing the tax payable is as follows: Tax payable = Output tax for the period – Input tax for the period.
- (C) For taxpayers engaged in Selling Goods or Taxable Services, the output tax shall be the VAT calculated based on the sales volume and the tax rates prescribed in these regulations and the amount collected from the purchasers. The formula for computing the output tax is as follows: Output tax = Sales volume x VAT rate.
- (D) VAT rates: For taxpayers selling or importing goods, except for those stipulated in these regulations, the VAT rate shall be 17%. For taxpayers exporting goods, the VAT rate shall be 0%, except as otherwise stipulated by the State Council. For taxpayer providing processing, repairs and replacement services, the VAT rate shall be 17%.

On 4 April 2018, the Ministry of Finance and the SAT promulgated the Circular of the Ministry of Finance and State Administration of Taxation on Adjusting

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Value-added Tax Rates (《財政部稅務總局關於調整增值稅稅率的通知》), which reduced the tax rates for sale, import, and exports of goods, as well as the deduction rates for taxpayer's purchase of agriculture products.

### *Custom duties*

According to the Customs Law of the PRC (《中華人民共和國海關法》) which was promulgated by the SCNPC on 22 January 1987, and was came into effect on 1 July 1987 and amended on 8 July 2000, 29 June 2013, 28 December 2013, 7 November 2016 and 5 November 2017, the consignee of the imports, the consignor of the exports and the owners of the imports and exports are persons who are obligated to pay customs duties. The Customs of the PRC is the authority in charge of the collection of customs duties.

Customs duties in the PRC mainly fall under ad valorem duties, i.e. the price of import/export commodities is the basis for the calculation of the duties. When calculating the customs duties, import/export commodities shall be classified under appropriate tax items in accordance with the category provisions of the Custom Import and Export Tariff and shall be subject to tax levied pursuant to the relevant tax rated.

According to the Administrative Provisions of the PRC on the Registration of the Customs Declaring Entities (《中華人民共和國海關報關單位註冊登記管理規定》) promulgated by the General Administration of Customs of the PRC which came into effect on 13 March 2014 and was amended on 20 December 2017 and 29 May 2018, a declaring entity shall go through the registration procedures at the customs in accordance with these provisions. Registration of declaring entities shall be divided into two categories, the registration of declaring enterprises and the registration of consignees or consignors of import or export goods.

### *Withholding tax on dividends*

According to the PRC EIT Law and the EITIR, non-resident enterprises which have not set up institutions or premises in the PRC, or which have set up the institutions or premises in the PRC but whose income has no actual relationship with such institutions or premises shall be subject to the withholding tax of 10% on their income derived from the PRC. According to the Hong Kong Tax Treaty, dividends paid by a PRC enterprise to a Hong Kong resident may be taxed in the PRC according to the applicable PRC tax laws, and vice versa. Where the beneficial owner of the dividends is a resident of the other side (e.g. dividends of a PRC company paid to a Hong Kong resident), the tax charged shall not exceed: (a) where the beneficial owner holds at least 25% equity interest of the Company which pays the dividends, 5% of the distributed dividends; and (b) in any other case, 10% of the distributed dividends.

Pursuant to the Circular of the State Administration of Taxation on Relevant Issues Concerning the Implementation of Dividend Clauses in Tax Treaties (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》), which was promulgated by the SAT and became effective on 20 February 2009, all of the following requirements shall be satisfied for a taxpayer to be entitled to the tax rate specified in the tax agreement for dividends paid to it by a PRC resident company: (i) the tax fiscal resident of the other side who obtains dividends shall be a company as provided in the tax agreement; (ii) the proportions of the owner's equity interests and voting shares of the PRC resident company directly owned by such tax resident shall comply with the prescribed proportions; and (iii) the proportions of the equity interests directly owned by such tax resident in the PRC resident company shall, at any time within the successive twelve months before obtaining of the dividends, comply with proportions specified in the tax agreement.

According to the Administrative Measures for Non-resident Taxpayers to Enjoy the Treatments under Tax Treaties (《非居民納稅人享受稅收協定待遇管理辦法》) (the "Administrative Measures"), which was promulgated by the SAT on 27 August 2015 and came into effect on 1 November 2015, if non-resident taxpayers are eligible for the favourable tax treatment under the tax arrangements, they could enjoy such treatment when making tax declarations by themselves or through withholding agents. Under the Administrative Measures, when non-resident taxpayers or their withholding agents make declarations to the relevant tax authority, they should deliver the relevant reports and materials to the tax authority and such non-resident taxpayers and withholding agents will be subject to the follow-up management of the tax authority.

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## SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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### *Details of on the laws and regulations on transfer pricing in PRC*

According to the PRC EIT Law, the EITIR, Law of the People's Republic of China Concerning the Administration of Tax Collection (《中華人民共和國稅收徵收管理法》) and Detailed Rules for the Implementation of the Law of the People's Republic of China on the Administration of Tax Collection (《中華人民共和國稅收徵收管理法實施細則》), related party transactions should comply with the arm's length principle and if the related party transactions fail to comply with the arm's length principle and results in the reduction of the enterprise's taxable income, the tax authority are entitled to make a special adjustment within 10 years from the taxpaying year when the non-compliant related party transaction had occurred. Pursuant to such laws and regulations, any company entering into related party transactions with another company shall submit an annual related party transactions reporting form (年度關聯業務往來報告表) to the tax authority.

According to the Implementation Regulations for Special Tax Adjustments (《特別納稅調整實施辦法(試行)》) promulgated by SAT, enterprises entering into a transaction with associated parties, and taxation authorities reviewing and evaluating such transaction shall observe the arm's length principle and select and employ a reasonable transfer pricing method. As provided in the EITIR, transfer pricing methods include the comparable uncontrolled price method, the resale price method, the cost plus method, the transactional net margin method, the profit split method, and other approaches that are in compliance with the arm's length principle. In the event that the related party transactions exceed a certain threshold, the PRC company is required to prepare, keep and, as requested by the tax authority, submit the contemporaneous documents (同期資料) relating to the related party transactions to the same.

### **Foreign Exchange and Registration**

Foreign exchange control in the PRC is mainly regulated by the Regulations of the PRC on the Management of Foreign Exchange (《中華人民共和國外匯管理條例》), which was promulgated by the State Council on 29 January 1996, came into effect on 1 April 1996, and was amended on 14 January 1997 and 5 August 2008. According to the aforesaid regulations, RMB can be freely exchanged into foreign currency for payments under current accounts (such as foreign exchange transactions in relation to trade and service and dividends payment), but approval from the relevant foreign exchange administration shall be obtained before the exchange of RMB into foreign currency under capital accounts (such as direct investment, loan or stock investment outside the PRC).

Pursuant to the Circular 19, foreign-invested enterprises in the PRC may, according to their business demands, settle with a bank the portion of the foreign exchange capital in their capital accounts for which the local foreign exchange bureau has confirmed capital contribution rights and interests (or for which the bank has registered the account-crediting of monetary contribution), and the portion allowed to be settled by a foreign-invested enterprise is tentatively 100%. Furthermore, where foreign-invested enterprises are engaging in equity investment in the PRC, they shall comply with the regulations on reinvestment within the territory of the PRC.

On 4 July 2014, the SAFE promulgated the Circular 37. According to the Circular 37, PRC domestic residents, including both PRC domestic institutions and PRC domestic individual residents, shall register with their local SAFE branch before establishing or acquiring control of an overseas special purpose company with the domestic or overseas assets or equity they legally hold for the purpose of investment and financing and conducting round-trip investment in the PRC. The foreign-invested enterprise established as a result of round-trip investment shall go through relevant foreign exchange registration pursuant to the prevailing provisions on the foreign exchange administration of foreign direct investment, and truthfully disclose the actual controllers of its shareholders and other relevant information.

On 13 February 2015, the SAFE issued the Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving the Policies of Foreign Exchange Administration Applicable to Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》), under which the SAFE delegated to banks the power to examine and handle foreign exchange registration of overseas direct investment.

### **Intellectual Property**

The products in the PRC shall be subject to intellectual property laws, which mainly include the Copyright Law of the PRC (《中華人民共和國著作權法》) (the “**Copyright Law**”), the Patent Law of the PRC (《中華人民共和國專利法》) (the “**Patent Law**”) and the Trademark Law of the PRC (《中華人民共和國商標法》) (the “**Trademark Law**”).

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According to the Trademark Law, which was promulgated by the SCNPC on 23 August 1982 and amended on 22 February 1993, 27 October 2001 and 30 August 2013 respectively with the latest amendment taking effect on 1 May 2014, any of the following acts is an infringement of the right to exclusive use of a registered trademark: (i) using a trademark which is identical with a registered trademark on the same kind of commodities without a license from the registrant of that trademark; (ii) using a trademark which is similar to a registered trademark on the same kind of commodities, or using a trademark which is identical with or similar to the registered trademark on the similar commodities and mislead the public without a license from the registrant of that trademark, which is likely to cause confusion; (iii) selling the commodities that infringe the right to exclusive use of a registered trademark; (iv) forging or manufacturing without authorisation the marks of a registered trademark, or selling forged or manufactured marks of a registered trademark without authorisation; (v) changing a registered trademark and putting the commodities bearing the changed trademark into the market without the consent of the registrant of that trademark; (vi) deliberately providing convenience for and helping with the acts infringing upon the exclusive right to use a registered trademark; and (vii) causing other damage to the exclusive right to use a registered trademark of another person.

The Patent Law was promulgated by the SCNPC on 12 March 1984, became effective on 1 April 1985, and was amended on 4 September 1992, 25 August 2000 and 27 December 2008 respectively, with the latest amendment taking effect on 1 October 2009. According to the Patent Law, patent is divided into three categories: invention patent, utility model patent and design patent. Invention patent is intended to protect new technical solutions proposed for a product, a process or the improvement thereof. Utility model patent is intended to protect new technical solutions proposed for the shape and structure of a product or the combination thereof, which are fit for practical application. Design patent is intended to protect new designs of a product's shape, pattern, the combination thereof, or the combination of colour with shape and pattern, which create an aesthetic feeling and are fit for industrial application. According to the Patent Law, any exploitation of a patent without the authorisation of the patentee constitutes an infringement on the patent right.

The Measures for the Administration of Internet Domain Names(《互聯網域名管理辦法》) was promulgated by the Ministry of Industry and Information Technology of the PRC on 24 August 2017 and became effective on 1 November 2017. The aforementioned measures regulate the registration of domain names in China with the internet country code of “.CN and .中國”.

### **The Company Law and The Foreign Investment Laws and Regulations**

#### ***Incorporation, Operation and Management of Wholly Foreign Owned Enterprises (“WFOEs”)***

The establishment, operation and management of a company in the PRC are governed by the Company Law which was promulgated by the SCNPC on 29 December 1993 and became effective on 1 July 1994. It was subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013. The major amendments include, but are not limited to, cancelling the paid-up capital registration and removing the statutory minimum registered capital requirements and the statutory timeframe for the capital contribution. The PRC Company Law also governs foreign-invested limited liability companies and joint stock limited companies. According to the PRC Company Law, where laws on foreign investment have other stipulations, such stipulations shall apply.

The Wholly Foreign Owned Enterprise Law of the PRC (《中華人民共和國外資企業法》) promulgated on 12 April 1986 by the NPC and amended on 31 October 2000 and 3 September 2016 by the SCNPC and the Implementation Rules on the Wholly Foreign Owned Enterprise Law of the PRC (《中華人民共和國外資企業法實施細則》) promulgated by the Ministry of Foreign Economic Cooperation and Trade (now renamed as Ministry of Commerce of the PRC) on 12 December 1990 and subsequently amended by the State Council on 12 April 2001 and 19 February 2014, govern the establishment procedures, approval procedures, registered capital requirements, foreign exchange control, accounting practises, taxation, employment and all other relevant matters of WFOEs. According to the latest amendment to Wholly Foreign Owned Enterprise Law of the PRC on 3 September 2016, foreign-invested enterprises which do not fall within the scope of special administrative measures for foreign investment admission stipulated by the State, approval procedures stipulated in Article 6, Article 10 and Article 20 of the Wholly Foreign Owned Enterprise Law of the PRC shall be changed to the filing procedures.

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Pursuant to the Provisional Measures for Filing Administration of Establishment and Changes of Foreign-invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》) which was promulgated by the Ministry of Commerce on 8 October 2016 and became effective on the same date and was amended on 30 July 2017 and 29 June 2018, where establishments and changes to a the foreign-invested enterprise do not fall within the scope of special administration measures for foreign investment admission as stipulated by the State, the foreign-invested enterprise shall go through filing procedures instead of the procedures for approvals. However, where establishments and changes to a foreign-invested enterprise fall within the scope of the special administration measures for foreign investment admission as stipulated by the State, the foreign-invested enterprise shall go through procedures for approvals according to the relevant laws and regulations governing foreign investment.

Pursuant to the Provisions on Guiding Foreign Investment Direction (《指導外商投資方向規定》), which was promulgated by the State Council on 11 February 2002 and became effective on 1 April 2002, any investment conducted by foreign investors and foreign enterprises in the PRC is subject to the Catalogue for Guidance of Foreign Investment Industries (《外商投資產業指導目錄》) (the “**Guidance Catalogue**”), the latest version of which was promulgated by the MOFCOM and 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) on 28 June 2017 and came into effect on 28 July 2017 and was amended on 28 June 2018. The Guidance Catalogue provides guidance for market access of foreign capital by categorising industries into encouraged industries for foreign investment, restricted industries for foreign investment and prohibited industries for foreign investment. Those industries which are not stipulated in the Guidance Catalogue are deemed as “permitted industries for foreign investment”. According to the Guidance Catalogue, the industry in which our PRC subsidiaries engage are categorised as “permitted industries for foreign investment”.

### OTHER LAWS AND REGULATIONS

During the Track Record Period, we exported our products to countries including Australia, the UK, the United States, New Zealand and Germany through (i) direct sales to renowned chain supermarkets, department stores and chain household products retailers; and (ii) importers/exporters. Our products will have to comply with certain laws and regulations in relation to, among others, import duties/tariff, product safety, consumer protection, intellectual property rights and antidumping regulations, etc. According to our legal advisers as to the laws of Australia, New Zealand, the US, the EU, the UK and Germany, a summary of the laws and regulations of the Australia, New Zealand, the US, the EU, the UK and Germany which are relevant to our Group’s sales are set out as follows:

#### Laws and regulations in Australia

##### *Australia Consumer Law*

The Australian Consumer Law, as contained in Schedule 2 to the Competition and Consumer Act 2010 (Cth) (“**ACL**”), imposes statutory obligations upon manufacturers and suppliers of goods in terms of marketing and advertising, product safety, quality guarantees and product liability. It gives regulators (specifically the Australian Competition and Consumer Commission) (“**ACCC**”), competitors and consumers various statutory causes of action when a manufacturer’s or supplier’s conduct contravenes the legislation.

- (i) *Statutory guarantees into the supply of goods to consumers for which both manufacturers and suppliers are liable*

The ACL attaches a number of guarantees to the supply of goods and services to consumers. These guaranteed rights to consumers include, without limitation, that: (i) the supplier has the right to sell the goods; (ii) the goods are of acceptable quality; (iii) the goods match their descriptions; and (iv) the goods are fit for any purpose that the supplier represents, etc. A broad range of remedies is available against suppliers (including compensation, refund and replacement).

- (ii) *Provisions relating to safety standards, bans, recalls, safety warning notices and notification obligations*

Under the ACL, a rigorous product safety law applies to consumer goods and product-related services which includes: (i) the imposition of mandatory safety standards; (ii) bans on products, either on an interim or permanent basis; (iii) issuance of safety warning notices; and (iv) issuance of compulsory recall notices that require suppliers to recall a product.

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The Australian Commonwealth Minister may make a safety standard about a number of matters as are reasonably necessary to prevent or reduce risk of injury to any person. The supply of goods in contravention of a prescribed safety standard is prohibited. If a standard applies to consumer goods, and the goods do not meet that standard, a supplier also must not manufacture, possess or have control of those goods.

A supplier may be found guilty of a criminal offence if they fail to comply with a mandatory safety standard. The maximum fine is AUD500,000 for an individual and the greatest of AUD10 million, 10% of annual turnover or three times the gain from the contravention for a corporation. Civil penalties for the same amounts also apply. In addition, the ACL also provides the ACCC with a number of alternatives apart from criminal prosecution, which include the power to issue infringement notices for offences. The maximum amount payable by a corporation for such an infringement notice is AUD66,000.

### *Manufacturers directly liable for certain losses caused by defective goods*

The ACL allows a claim to be made against a manufacturer (or ‘deemed’ manufacturer which has a broad definition) when goods with safety defects cause injury, loss or damage. Goods have a safety defect if their safety is not such as persons generally are entitled to expect and the product must actually be unsafe, not just of poor quality or inoperative. A person suffering loss or damage as a result of a safety defect can seek compensation for personal injury and death.

### *Intellectual property rights*

It is unlawful to import goods into Australia which infringe intellectual property rights (including but not limited to trade mark, copyright, patents and designs). This includes registered and unregistered intellectual property rights. Failure to consider intellectual property rights in facilitating importing arrangements in Australia may result in the supplier and/or the importer being the subject of legal action by the owner of the intellectual property rights in Australia.

A range of enforcement options are available for owners of intellectual property rights in Australia who believe their rights are being infringed. These include: (i) civil court action seeking remedies such as injunctions to restrain the infringing conduct, damages or an account of profits, delivery up of infringing items and legal costs. Court action may be used to protect certain unregistered intellectual property rights, such as through actions for misleading or deceptive conduct or passing off; and (ii) notices of objection lodged with the Australian Customs and Border Protection Service by owners of intellectual property rights under which the service will seize goods infringing copyright or registered trademarks to enable the intellectual property rights holder to institute legal action.

Certain breaches of the Trade Marks Act 1995 (Cth) (“**TM Act**”) and Copyright Act 1968 (Cth) (“**Copyright Act**”) constitute criminal offences. In a limited number of circumstances, law enforcement agencies such as state and federal police will take action in relation to these criminal provisions. The Copyright Act similarly provides for criminal sanctions.

The Copyright Act and TM Act provide for individuals to be fined up to AUD136,500 and for corporations to be fined up to AUD682,500 for importing infringing products into Australia for commercial exploitation. The possible term of imprisonment is up to five years.

### *Laws and regulations relating to plastic household goods in Australia*

Australia is a signatory to the WTO Standards Code and has acceded to the WTO Agreement on Technical Barriers to Trade. However, Australia still maintains some restrictive standards requirements particularly quarantine and health restrictions that have an impact on the free flow of goods. If a product imported to Australia is required to comply with a mandatory Australian product safety standard, the persons or institutions importing products that violate the relevant product safety standard may result in a fine of up to AUD1.1 million.

Parties may choose to comply voluntarily with a non-mandatory Australian Standard. Parties must not represent that their product complies with an applicable Australian Standard if it does not, and should have documentary proof of compliance (e.g. test results) if they do claim that their product is standards-compliant. AS2070-1999 is a voluntary Australian Standard relating to plastic containers for food contact use.

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## SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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Suppliers should always consider the safety and suitability of any chemicals used in their products regardless of whether there are specific regulations. In terms of plastic household goods, BPA and DEHP should be reviewed carefully.

- (i) Bisphenol A (BPA) is a chemical widely used in plastic and metal food containers and some plastic eating utensils. The most common form of plastic that uses BPA is polycarbonate. BPA is also used in epoxy resin coatings used on the inside of most food and beverage containers. There is no mandatory standard or ban for consumer products containing BPA in Australia. Food Standards Australia New Zealand has recently issued a report (October 2017) that it will not proceed with a proposal to regulate the use of BPA in plastic food containers as scientific evidence indicates that BPA in plastics does not present a risk to human health because the level of BPA that transfers to the food contents is at levels considered safe for human consumption. In 2010, the Australian Government nevertheless implemented a voluntary phase-out of the use of BPA in polycarbonate baby bottles.
- (ii) On the other hand, diethylhexyl phthalate (DEHP) is strongly controlled by a permanent product safety ban, and this permanent ban was declared on 1 February 2011. The ban prohibits supply of plastic products for use by children under 36 months (such as toys, childcare articles and eating vessels and utensils) that contain more than 1% (by weight) of DEHP and are products that children up to 36 months can readily chew or suck. Other than those articles for babies and young children, the same FSANZ Report from October 2017 decided that DEHP in plastic food containers generally does not present a risk to human health through transfer to the food.

### **Laws and regulations in New Zealand**

Consumer protection legislation, including the Consumer Guarantees Act 1993 (the “CGA”) and the Fair Trading Act 1986 (the “FTA”) impose statutory obligations on manufacturers and suppliers of goods to New Zealand.

#### ***(i) The sale of consumer goods and associated guarantees***

The CGA provides consumers in New Zealand with certain guarantees relating to the supply of goods or services acquired for personal, domestic, or household use. The CGA requires that all products supplied to a consumer be of “acceptable quality”, meaning (i) fit for all the purposes for which products of the type in question are commonly supplied; (ii) acceptable in appearance and finish; (iii) free from minor defects; (iv) safe; and (v) durable. If a manufacturer give a guarantee in addition to the guarantees implied under the CGA, the manufacturer is also responsible for that particular guarantee.

The FTA prohibits people in trade from engaging in misleading and deceptive conduct. It applies to both wholesale and retail transactions.

#### ***(ii) Product safety standards in New Zealand***

Certain products are subject to minimum mandatory product safety standards that are set by regulation under the FTA. Importing products which do not meet those standards is prohibited. The current product safety standards relate to items such as children’s toys, cigarette lighters, baby walkers, household cots and pedal bicycles.

#### ***(iii) Liability for defective goods***

Where statutory guarantees are not met under the CGA, consumers have a right of redress against retailers, manufacturers and suppliers. Where products fail to comply, a consumer may require the manufacturer to remedy the failure within a reasonable time. A consumer may also obtain compensation for any reasonably foreseeable loss that they have incurred as a result of the failure to fulfil the implied guarantee. A manufacturer cannot contract out of its liability to New Zealand consumers under New Zealand consumer legislation, and a consumer may choose to file a claim against either a supplier or manufacturer of products.

The FTA is relevant to manufacturers’ obligations to communicate product risks. A failure to accurately describe known risks may be “misleading or deceptive conduct in trade” contrary to the FTA. Any person, including a consumer or a competitor, may take civil action against a product supplier or manufacturer for breach of the FTA.

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## SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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Under New Zealand tort law, manufacturers may also be directly liable to end-consumers of defective or unsafe products. Manufacturers must take reasonable care to ensure their products are safe; and in certain circumstances, warn potential consumers or users about the product's potentially harmful qualities or dangerous propensities.

New Zealand has a no-fault accident compensation system which compensates a victim when defective products cause personal injury or death. Compensation is provided by the Accident Compensation Corporation (a Crown entity) regardless of who is ultimately at fault. A supplier will therefore (except in limited and exceptional circumstances) not be liable for any personal injury suffered by a consumer in respect of defective products.

### *(iv) Competition and anti-dumping in New Zealand*

The Commerce Act 1986 (i) prohibits anti-competitive behaviour and agreements, including the taking advantage of substantial market power; (ii) prohibits the acquisition of shares of business assets if the acquisition would have or would be likely to have, the effect of substantially lessening competition in a market; and (iii) governs the imposition of price control on particular goods and services.

Dumping in New Zealand is governed by the Trade (Anti-dumping and Countervailing Duties) Act 1988. Dumping is the export of products into New Zealand at a price lower than the products' normal price in the market of origin. Dumping is not illegal in New Zealand. However, where dumping causes or may cause injury to New Zealand producers, the Ministry of Commerce may impose duties.

## **Laws and regulations in the EU**

### *Consumer protection in the EU*

Consumer protection legislation and policy are central to the EU objectives of achieving a high standard of quality for its citizens. The Treaty on the Functioning of the European Union ("TFEU") places a high premium on the interests, health and safety of consumers in the EU. For example, Article 12 TFEU explicitly sets out that consumer protection requirements shall be taken into account when defining and implementing EU policies and activities. Equally, Article 114 TFEU on the approximation of laws sets out that the European Commission in its proposals on consumer protection will take as a base a high level of protection. With a view to meeting such objectives, laws have been adopted to govern the economic and health protection of consumers, the safety of products and the free movement of only safe goods within the EU.

#### *(i) The sale of consumer goods and associated guarantees (the "Directive 1999/44/EC")*

Directive 1999/44/EC, which was adopted in May 1999 and required to be implemented in the member states of the EU ("Member States") by 1 January 2002, applies to all sellers of goods. The relevant provisions of this Directive provide consumers with a uniform minimum level of legal rights to remedies in the event of non-conformity of a product with the sale contract at the time of delivery. According to Directive 1999/44/EC, sellers must deliver only such goods to the consumers that are in conformity with the contract. Consumer goods are presumed to be in conformity with the contract if they: comply with seller's description; are fit for the purposes required by the consumer as made known by him to the seller; and are fit for their normal intended purpose and of quality and performance normally expected of products of this type.

#### *(ii) The liability for defective products (the "Directive 85/374/EEC")*

Directive 85/374/EEC, a Directive issued by the Council of the EU and published on 7 August 1985 in the Official Journal of the European Union, states that producers shall be liable to their consumers for damage caused by defects in their products. For imported products, the EU importer is considered to be the producer for the purposes of the Directive. Directive 85/374/EEC is important for all sellers in the EU as any defect in the goods leading to damage, defined as death or personal injury or damage to any item of property, can give rise to liability on parties in the chain between the manufacture and sale of the defective goods.

### *Anti-dumping in the EU*

Pursuant to Regulation (EU) 2016/1036 of 8 June 2016 ("**Regulation 2016/1036**"), the European Commission is responsible for investigating allegations of dumping within the EU. It usually conducts an investigation either upon receipt of a complaint from the relevant



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## SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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industry within the EU or on its own initiative. The investigation must show that (i) there is dumping pursuant to Article 2 of Regulation 2016/1036 by the exporting producers in the country/countries concerned; (ii) material injury (or threat thereof) has been suffered by the industry concerned within the EU; (iii) there is a causal link between the dumping and the injury; and (iv) the imposition of measures is in the interest of the EU as a whole.

If the investigation comes to the conclusion that the above four conditions have been met, then anti-dumping measures may be imposed on imports of the product concerned. These measures are usually duties or price undertakings. The duties are paid by the importer in the EU and collected by the national customs authorities of the respective EU countries. Exporting producers may offer “undertakings” agreeing to increase its export prices of the products concerned. If their offer is accepted, anti-dumping duties will not be imposed on imports. The European Commission is not obliged to accept an offer of an undertaking.

During the Track Record Period and up to the Latest Practicable Date, none of the products produced by our Group had been subject to any anti-dumping investigations or measures in the EU.

### ***The REACH Regulation 2006***

The REACH Regulation 2006 is directly applicable in EU Member States. However, each Member State must enforce the REACH regime within its own territory. Certain substances (including substances that are carcinogenic, mutagenic or toxic to reproduction) are listed in the regulation as substances of very high concern (“**SVHC**”) and can only be placed on the market in specific circumstances. There is a duty to notify the European Chemicals Agency and provide information to consumers about products containing a concentration of SVHC above 0.1% w/w.

### **Laws and regulations in the UK**

#### ***Product Safety***

##### *(i) General Product Safety Regulations 2005 (the “**GPSR 2005**”)*

The EU Directive 2001/95/EC on general product safety was implemented by the GPSR 2005 in the UK. The GPSR 2005 imposes criminal liability on producers and distributors of unsafe products in the UK. The maximum penalty of the most serious offence is a fine of £20,000 or 12 months’ imprisonment, or both.

Under the regulations, a “producer” is the manufacturer of a product and any other person presenting itself as the manufacturer, or if the manufacturer is not established in a Member State, its representative in a Member State or the importer of the product. A “distributor” means a professional in the supply chain whose activity does not affect the safety properties of a product.

The GPSR 2005 stipulates a number of offences, which includes:

- (i) the producer failing to: supply only safe products; provide consumers with information about risks of a product; adopt measures to stay informed about risks; or take appropriate action, including, where necessary, withdrawal, or recall of products;
- (ii) the distributor being involved in the supply of a product that it knows, or should have presumed, is a dangerous product or failing to participate in the monitoring of product safety; or
- (iii) the producer or distributor failing to notify and/or co-operate with enforcement authorities or comply with a safety notice.

The offence of a producer placing an unsafe product on the UK market is a strict liability offence, which means that the offence is committed once the producer places an unsafe product on the market (even though it does not know at that stage the product is unsafe). The only defence that the producer has is one of due diligence.

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### *Product Liability*

#### *(i) Consumer Protection Act 1987 (the “CPA 1987”)*

The Product Liability Directive 85/374/EEC was implemented by the CPA 1987, which lays down a scheme dealing with civil liability for unsafe goods under which the producer of an unsafe product or, as the case may be, another person in the chain of supply, is held strictly liable in damages with respect to any defect in those goods which causes damage. The primary liability for defective products lies on the producer but there are special provisions for components, persons who market products under their own brand name and importers. In order to meet cases where he cannot identify the producer, the person injured by the product may in the first instance hold liable to his immediate supplier, who may then in turn pass liability up the chain of distribution by identifying his supplier, and so on to the ultimate manufacturer or importer. Liability for damage caused by a defective product does not extend to all damage but only to specified damage.

The CPA 1987 imposes strict liability which means that people who are injured by defective products can sue for compensation without having to prove that the manufacturer was negligent. Liability under the CPA 1987 exists alongside liability in negligence, and in some cases a common law claim may succeed where a claim would not be available under the CPA 1987.

### **Laws and regulations in Germany**

#### *Product safety and product-related requirements*

##### *(i) German Product Safety Act*

In principle, product-related EU and domestic laws are applicable when a product is placed (Inverkehrbringen) or made available (Bereitstellen) on the German market irrespective of the acting legal or natural person being considered as manufacturer, importer or distributor. With regard to some product-related EU and domestic laws (e.g. the Product Safety Act, Produktsicherheitsgesetz ProdSG), a specific legal feature applies: product-related responsibility is not only triggered by placing or making a product available on the German market but also by someone importing a product to the German market. Thus, under German law, responsibility for product compliance requires a product being placed, made available on or imported to the German market whereby responsibility under certain product-related EU and domestic laws is assigned to an economic operator already at the earlier time of offering a product. A product is placed or made available when it is supplied on the German market for distribution, consumption or use which requires the transfer of ownership or possession for business purposes. This (not mandatorily physical) transfer must take place on the German market.

#### *Product liability*

We are subject to liability under the German Product Liability Act (Produkthaftungsgesetz) (the “**ProdHG**”). Liability under the ProdHG is mandatory, strict and can neither be restricted nor excluded in advance. Liability may occur if, as a result of a defective product, a human being is killed, injured, affected in its health, or a thing (other than the defective product) is damaged. If more than one person is liable for damages caused by a defective product, each person is jointly and severally liable for the damages attributable to any person. The maximum liability for damages relating to a human being killed, injured or affected in his/her health as a consequence of one certain defect in a product is EUR85 million. The ProdHG applies to us if (i) the aggrieved party has its habitual residence in Germany and the defective product was placed on the German market; (ii) if the defective product was bought in Germany and was placed on the German market; or (iii) if the harm arose in Germany and the defective product was placed on the German market according to Article 5 Regulation (EC) 864/2007. It is sufficient that we could reasonably foresee that a product might be placed on the German market by another market participant, e.g. one of our customers, to be liable under the ProdHG; thus it is not necessary that the defective product was imported to Germany by us.

We are also potentially subject to product liability under section 823 of the German Civil Code (Bürgerliches Gesetzbuch) (the “**BGB**”) which is a provision under German tort law. As ODM we have to fulfil various obligations such as constructing and producing products

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## SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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without defects, instructing the users about the use and/or potential residual risks in a proper way and monitoring the products after they have been placed on the market. Any negligent or intentional breach of such obligation causing damage to property, life, body, health or freedom of a third party or any violation of a protective law causing such damage may result in a liability towards the harmed party. Our liability under section 823 BGB is in principle unlimited and we would therefore be liable for all damages caused by the defective product. According to Article 4 Regulation (EC) 864/2007, section 823 BGB applies if the damage occurs in Germany.

### *Intellectual property*

#### *(i) Trade secrets*

In Germany, there is no particular statute for the protection of trade secrets or confidential information. Rather, different provisions from various areas of law apply (first and foremost, trade secrets are protected by sections 17-19 of the German Act against Unfair Competition (Gesetz gegen den unlauteren Wettbewerb, UWG)). Generally speaking, these provisions provide for criminal sanctions if someone exploits trade secrets of a third person without being authorised to do so. To preserve rights in a trade secret, a company must take reasonable measures to keep the information confidential. We may be obliged to maintain the confidentiality of any trade secrets we gained access to in the course of business with customers in Germany.

#### *(ii) Patents*

In Germany, under the German Patent Act (Patentgesetz, PatG) a patent is a right to exclude a third party from making, using, selling, or offering for sale a technical invention throughout Germany or importing the invention into Germany. Germany has a “first to file” system which means that the right to a patent for a given technical invention lies with the person who first filed the patent application (regardless of the date the actual invention was made). Another category of intellectual property rights similar to patents are utility models in accordance with the German Utility Model Act (Gebrauchsmustergesetz, GebrMG). If patent or utility rights are infringed by third parties, the owner can claim, in particular, injunctive relief, disclosure and compensation for damages.

### **Laws and regulations in the US**

During the Track Record Period, our products were sold and delivered to the United States. Certain US federal and state product safety laws and regulations and other laws and regulations may be applicable to our products sold to the United States. The laws, rules and regulations with the most significant impact on our operations are described below. However, other US federal, state and local laws may also impose certain obligations on us and affect our products sold within the United States.

#### ***Product Liability Laws – General***

Product liability regulations are not generally promulgated under US federal law, but rather state law in the United States, most of which are based on common law. Although differences do exist, the vast majority of states have adopted similar laws that share common principles as discussed below. Parties involved in manufacturing, distributing or selling a product may be subject to liability for harm caused by a defect in that product. There are three types of product defects, namely, design defects, manufacturing defects and defects in labelling (e.g. insufficient warning). Product liability claims may be based on negligence, strict liability or breach of warranty. In a negligence claim, a defendant may be held liable for personal injury or property damage caused by the failure to use due care in designing, manufacturing, or labelling the product. Strict liability claims, however, do not depend on the degree of carefulness by the defendant. A defendant is liable when it is shown that an injury (personal or to property) occurred as the result of a product’s defect. Breach of warranty is also a form of strict liability in the sense that a showing of fault is not required. The plaintiff needs only establish the warranty was breached, regardless of how that came about. Companies that manufacture, distribute or sell a product in a particular state would fall under the jurisdiction of such state’s product liability laws, whether the company’s jurisdiction of incorporation or principal place of business is in that state, in another US state or in a non-US jurisdiction.

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## SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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### *The Food and Drug Administration (“FDA”) Regulations*

Some of our products are intended to be used as food containers or for the preparation of food. Products intended for these uses must comply with certain provisions of the US Federal Food, Drug, and Cosmetic Act (FDCA). Once known as indirect food additives, these materials are now referred to as food contact substances (FCS). Because of the potential for migration of chemicals from the article to food, the products must be comprised of materials that the FDA has concluded are safe for such use and in accordance with the established specifications and limitations on the conditions of use. A food contact notification is required for a new use of an FCS and must be submitted at least 120 days prior first use. The notification becomes effective after 120 days unless FDA informs the submitter within that time period that use of the substance has not been shown to be safe. A notification to FDA is not required if the FCS was already found to be generally recognized as safe (GRAS) or is “prior sanctioned” (by explicit approval by FDA or the US Department of Agriculture) prior to September 6, 1958). An effective food contact notification is proprietary to the submitting manufacturer. Consequently, any entity intending to rely on an existing food contact notification submitted by a different company can only do so if the FCS has been manufactured or supplied by the manufacturer identified in the notification and in compliance with the established conditions.

Failure to comply with the FDCA can result in the issuance of a Warning Letter or Untitled Letter from FDA, corrective actions, such as a recall, administrative detention or import alert, and in civil and criminal actions and even individual liability.

Each component used in an article that will be in direct contact with food must either be authorized under FDA’s regulations, be the subject of a premarket notification filed with the agency, or otherwise meet a basis for exemption from these requirements in the FDA’s regulations. In addition, laws exist in certain states (such as the law known as “Proposition 65” in California) restricting the sale of food contact materials and packaging with levels of certain substances, such as heavy metals and bisphenol-A, and imposing fines and penalties for noncompliance and/or requiring cautionary labelling.

### *Product Safety Laws*

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

Section 14 of the CPSA provides that imported consumer products are required to bear certificates certifying compliance with applicable rules, bans, regulations, and standards under this Act. According to Section 17 of the CPSA, the importation of consumer products which fail to comply with relevant safety rules or to be accompanied by a certificate required by the CPSA will be refused importation into the United States. The CPSA provides for civil and criminal penalties with respect to the violation of the Act.

In addition, the CPSA contains several reporting requirements for manufacturers of consumer products sold in the United States. Section 15(b) of the CPSA requires manufacturers to inform the CPSC within 24 hours of obtaining information that one of their products (1) fails to comply with applicable consumer product safety rules, (2) contains certain defects, or (3) creates an unreasonable risk of serious injury or death. The CPSC may require the manufacturer to cease distribution of the affected product and notify persons to whom the product was sold or distributed of such non-compliance, defects or risk. In certain circumstances, the CPSC may require the manufacturer to bring the product into conformity with applicable consumer protection laws or regulations, repair the defect in the product, replace the product with an equivalent product that complies with relevant consumer safety rules, effect a product recall and/or refund the purchase price of the product.

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

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## SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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Many (but not all) states also have enacted very broad consumer protection statutes, which typically provide remedies for injured consumers against businesses' fraudulent, deceptive, or unfair practices. One of the available remedies is often treble damages, and enforcement matters are often resolved by a consent order that places restrictions on the future conduct of the company.

### *Import Regulations*

Our shipments of products to the United States are subject to inspection and compliance with relevant laws, regulations, and rules administered by US Customs and Border Protection. US Customs and Border Protection (CBP) is a federal law enforcement agency, and a subdivision of the United States Department of Homeland Security that is responsible for regulating and facilitating international trade, collecting import duties, and enforcing US trade and customs regulations, including those applicable to the importation of our products into the United States. An importer of record for products imported into the United States is ultimately responsible for the completeness and correctness of the entry documentation presented to CBP and payment of all applicable duties, taxes and fees. Our ODM Business products are mainly sold on a FOB or FCA basis as such terms are defined in the 2010 version of Incoterms, or International Commercial Terms, a series of pre-defined commercial terms published by the International Chamber of Commerce (ICC) relating to international commercial law, and commonly used in connection with cross-border shipment of products. Under FCA and FOB shipment terms, the Group is not the importer of record for imports of our products into the United States. Therefore, the burden of compliance with CBP regulations, rules, and processes is allocated to our customers, who act as the importer of record. However, to the extent our customers do not comply with relevant CBP regulations, rules, and processes, imports of our products into the United States may be delayed.

#### *(i) Import Tariffs*

The United States imposes tariffs or 'customs duties' on the importation of goods from most jurisdictions, including China. US import tariff rates are contained in the Harmonized Tariff Schedule of the United States (HTSUS), the primary resource for determining tariff (customs duties) classifications for goods imported into the United States. The HTSUS classifies a good based on its name, use, and/or the material used in its construction and assigns it a ten-digit classification code number. Although the US International Trade Commission publishes and maintains the HTSUS in its various forms, CBP is the only agency that can provide legally binding advice or rulings on classification of imports. The HTSUS is based on the international Harmonized System, the global system of nomenclature that is used to describe most world trade in goods, maintained by the World Customs Organization (WCO). Many countries base their tariff schedules on the WCO's Harmonized System. Any duty payable on the import of products of our Group into the United States will be paid by the importer of record, and not our Group, given our use of the FCA and FOB Incoterms. Our products appear to fall within Chapters 39 or 40 of the HTSUS. Pursuant to Section 304, Tariff Act of 1930, as amended (19 USC §1304), goods that are imported into the US are required to have a country of origin marking, such as the country of manufacture or production of the imported good. Embargoes, anti-dumping duties, countervailing duties, and other specific matters administered by the United States executive branch are not contained in the HTSUS and various regulations or administrative actions could result in modification of these duties.

Section 201 of the Trade Act of 1974, 19 USC. § 2101 et. seq. (the "**Trade Act**") permits the President of the United States to grant temporary import relief by raising import duties or imposing non-tariff barriers (e.g., quotas) on goods entering the United States that injure or threaten to injure domestic industries producing similar goods. Section 301 of the Trade Act authorises the President of the United States to take all appropriate actions, including retaliation, to obtain the removal of any act, policy, or practice of a foreign government that violates an international trade agreement or is unjustified, unreasonable, or discriminatory, and that burdens or restricts US commerce. The law does not require that the US government wait until it receives authorisation from the World Trade Organization ("**WTO**") to take enforcement actions.

### *Intellectual Property Regulation*

US trademark law is governed by both state and federal law. The primary federal statute is the Lanham Act. A trademark includes any word, name, symbol, slogan or device, or any combination of these, used to identify goods or services and to distinguish them from those manufactured, sold or serviced by others. Remedies for trademark infringement can include injunctions, lost profits and damages.

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## **SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS**

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US patent law in the US is governed exclusively by federal law, namely the Patent Act, which secures for inventors an exclusive right to their discoveries. Types of patents recognised under US law include utility patents, design patents and plant patents. A patent is used to provide protection for the developer or creator of an innovation or new product, and works to granting such developer or creator the exclusive right to make, use and sell the patented innovation or product for a limited period of time.

### **IMPACT OF INTERNATIONAL SANCTIONS LAWS**

During the Track Record Period, we had sales to customers in Iran, Lebanon, and Russia. For further information of our sales to the Iran, Lebanon and Russia and the impact of sanctions laws, please refer to the section headed “Business – Sanctions risks in relation to export of our products to Iran, Lebanon and Russia” of this prospectus.

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### BUSINESS DEVELOPMENT

#### Introduction

Our Group's history can be traced back to 1979 when Mr. Tong Ying Chiu founded a small family business to manufacture simple plastic products in Hong Kong. We had been operating under Farm Chalk HK and companies controlled by Mr. Tong Ying Chiu and Ms. Ng Siu Kuen Sylvia, principally engaged in the manufacture and sale of plastic household products on an ODM basis.

In 1992, we moved our production base to the PRC to increase our production capacity and cater for our business expansions.

In around 2008, Mr. Tong Ying Chiu, Ms. Ng Siu Kuen Sylvia and three other investors discussed the possibility of a co-operation to explore and develop (i) plastic product business; and (ii) other potential investment opportunities (the "**New Business Objectives**"). The three other investors were Mr. Tong Bak Nam Billy, an executive Director, a nephew of Ms. Ng Siu Kuen Sylvia and a friend of Mr. Tong Ying Chiu (together, the "**New Shareholders**"). As the investment intention was not limited to plastic products, and to avoid the cost and time incurred in conducting due diligence on Farm Chalk HK, the then existing major operating company, in October 2008, Farm Chalk BVI was incorporated and held by Mr. Tong Ying Chiu as to 50% and Ms. Ng Siu Kuen Sylvia as to 50%.

In April 2009, Mr. Tong Ying Chiu and Ms. Ng Siu Kuen Sylvia entered into sale and purchase agreements (the "**Sale and Purchase Agreements**") with each of the New Shareholders to transfer to them a total of 50% interests in Farm Chalk BVI. Pursuant to the Sale and Purchase Agreements, Mr. Tong Ying Chiu and Ms. Ng Siu Kuen Sylvia agreed to transfer to the New Shareholders a total of 5,000 shares in Farm Chalk BVI at a total consideration of HK\$50,000,000. The consideration would be settled in cash. Completion of the transfers should take place on the fifth business days after the fulfillment (or waiver) of the conditions, which include the passing of the relevant board resolutions of Farm Chalk BVI. Each of the New Shareholders agreed that until the consideration is fully received by Mr. Tong Ying Chiu and Ms. Ng Siu Kuen Sylvia, the shares held by the New Shareholders will be on a trust nature on behalf of Mr. Tong Ying Chiu and Ms. Ng Siu Kuen Sylvia.

As the New Shareholders intended to invest in the selling of plastic product business but not the operations of a factory, Mr. Tong Ying Chiu, Ms. Ng Siu Kuen Sylvia and the New Shareholders decided that Farm Chalk BVI only took up Farm Chalk HK's business of selling of plastic products. The business of manufacture of plastic products in the production facilities of Shenzhen Sun Cheong remained to be held by Farm Chalk HK. As a result, Farm Chalk BVI was mainly responsible for the selling of plastic products and Farm Chalk HK was mainly responsible for holding Shenzhen Sun Cheong.

Transfers of the shares under the Sale and Purchase Agreement to the New Shareholders were completed in August 2010. Since Farm Chalk BVI only had two shares in issue at that time, to facilitate the transfer, 2,499 shares were allotted and issued to Mr. Tong Ying Chiu and

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Ms. Ng Siu Kuen Sylvia, respectively, and 5,000 shares were allotted and issued to the New Shareholders. As a result, the issued share capital of Farm Chalk BVI was registered and held as to 50% by Mr. Tong Ying Chiu and Ms. Ng Siu Kuen Sylvia and the remaining 50% by the New Shareholders. Since the consideration was not paid, the New Shareholders held the 50% shares registered in their names on trust for Mr. Tong Ying Chiu and Ms. Ng Siu Kuen Sylvia and such interests remained beneficially owned by Mr. Tong Ying Chiu and Ms. Ng Siu Kuen Sylvia. The New Shareholders, as transferors, transferred the 50% interests in Farm Chalk BVI registered in their names back to Mr. Tong Ying Chiu and Ms. Ng Siu Kuen Sylvia, and the transfers were conducted with the consent of the New Shareholders and completed in March 2017.

In 2010, we commenced implementing the business strategy to reposition ourselves to provide mid-to-high end products. As part of our aforesaid business development plan, we launched products under our own brand “*clipfresh*”. As the New Business Objectives were not further proceeded with, Farm Chalk BVI only carried on the plastic business it took up from Farm Chalk HK.

In September 2011, after considering that (i) promoting and developing our “*clipfresh*” brand was one of our business strategies; and (ii) the impression of Farm Chalk HK and Farm Chalk BVI to our customers was mainly manufacturing and sale of products on an ODM basis, we decided to transfer the business of selling of plastic products to Chase On. In September 2011, Farm Chalk BVI started to gradually transfer its business to Chase On and the transfer was completed by 2013. Farm Chalk HK remained as the shareholder of Shenzhen Sun Cheong, our manufacture arm, and provided certain administration services and assistance, such as customs filings, to Chase On to facilitate a smooth transfer of business. The transfer took place gradually and was completed by the end of 2013. Since then, Farm Chalk BVI has not conducted any business activities.

Prior to 2011, Chase On was a company with no business operation. After completion of the transfer of business from Farm Chalk BVI in 2013, Chase On became a major operating subsidiary of our Group and had been performing major business operations such as sale of plastic products, management, administration and finance, sales and marketing and shipping. Chase On maintained approximately 24 to 31 staff members for the above operations.

To streamline our corporate structure, Farm Chalk HK transferred its entire equity interests in Shenzhen Sun Cheong, our manufacture arm, to Chase On in June 2016 and Farm Chalk HK was excluded from our Group as a result of the Reorganisation. For details of the Reorganisation, please refer to the section headed “Reorganisation” of this prospectus. During the Track Record Period and up to the Latest Practicable Date, Farm Chalk HK did not record any revenue and the shareholders of Farm Chalk HK will apply for voluntary deregistration of Farm Chalk HK pursuant to section 750 of the Companies Ordinance.

After 30 years of development, as at 30 June 2018, we had 75 plastic injection moulding machines with a total of 453 employees in Hong Kong and the PRC. Our Group continued to grow and our products were sold to customers which are located in Australia, the UK, the United States, New Zealand and Germany, etc.. According to the Ipsos Report, in 2017, we ranked fourth in terms of revenue and third in terms of export value in the plastic household product manufacturing industry in the PRC.



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## HISTORY AND DEVELOPMENT

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### Business milestones

The following table sets out our Group's business development milestones:

|               |   |
|---------------|---|
| July 1979     | our predecessor Sun Cheong Industrial Co. was established as a sole proprietor business for the manufacturing of simple plastic products  |
| November 1992 | production base moved to the PRC  |
| January 2010  | <ul style="list-style-type: none"><li>– first launched products under our own brand “<i>clipfresh</i>”</li><li>– obtained a patented design for a lid for storage containers in Hong Kong, such patent being applied in products under our own brand “<i>clipfresh</i>”</li></ul> |
| November 2013 | obtained the Operational Excellence Award granted by Kmart  |
| January 2014  | obtained the Global Manufacturer Certificate (GMC)  |
| December 2014 | first obtained the ISO 9001:2008 certificate  |
| October 2015  | obtained the Achievement Award issued by Intertek   |
| January 2017  | obtained Hong Kong Top Brand Awards 2016 for our brand “ <i>clipfresh</i> ”   |

### CORPORATE HISTORY

#### Chase On

Chase On was incorporated in Hong Kong with limited liability on 16 June 1989. Upon its incorporation, two shares were allotted and issued to its initial subscribers. On 8 September 1989, the initial subscribers transferred one share to Mr. Tong Ying Chiu and Ms. Ng Siu Kuen Sylvia, respectively, both at a consideration of HK\$1.00.

On 2 June 2016, Chase On allotted and issued 4,999 shares and 4,999 shares to Mr. Tong Ying Chiu and Ms. Ng Siu Kuen Sylvia, respectively, each at a consideration of HK\$4,999.

On 3 June 2016, 5,000 shares and 5,000 shares in Chase On were transferred from Mr. Tong Ying Chiu and Ms. Ng Siu Kuen Sylvia to Top Leader International, respectively, in consideration of the allotment and issue of 4,999 Shares and 5,000 Shares by our Company to Sun Cheong Creative, respectively. As a result of the transfers, Chase On is wholly-owned by Top Leader International.

The principal business of Chase On is trading of plastic products.

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## HISTORY AND DEVELOPMENT

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### **Shenzhen Sun Cheong**

Shenzhen Sun Cheong was incorporated as a foreign cooperative enterprise in the PRC with limited liability on 20 November 1992 by Farm Chalk HK and an Independent Third Party with an initial registered capital of RMB4.2 million. The initial registered capital of RMB4.2 million was paid up by Farm Chalk HK.

On 27 June 1998, the registered capital of Shenzhen Sun Cheong was increased to RMB7.5 million and the increased portion of the registered capital was paid up by Farm Chalk HK.

On 6 August 2007, the Independent Third Party completed the transfer of all of its interests in Shenzhen Sun Cheong to Farm Chalk HK at nil consideration which was due to the fact that the registered capital of Shenzhen Sun Cheong was paid up solely by Farm Chalk HK. Upon completion of the transfer, Shenzhen Sun Cheong became a wholly-foreign owned enterprise and was wholly-owned by Farm Chalk HK.

On 5 February 2010, Shenzhen Sun Cheong established a branch in Henggang Sub-District, Shenzhen, the PRC.

On 23 June 2016, Farm Chalk HK transferred its entire equity interests in Shenzhen Sun Cheong to Chase On at a cash consideration of RMB7,500,000, which was determined with reference to the registered capital of Shenzhen Sun Cheong.

The principal business of Shenzhen Sun Cheong is manufacturing of plastic products.

### **Foshan Haichang**

Foshan Haichang was incorporated in the PRC with limited liability on 28 May 2012 with an initial registered capital of RMB12.0 million, of which Shenzhen Sun Cheong contributed RMB7,320,000 (representing 61% of the equity interests) and an Independent Third Party contributed RMB4,680,000 (representing 39% of the equity interests).

Foshan Haichang has no operation.

In preparation for the Listing, we incorporated our Company and Top Leader International. For details of our Company and Top Leader International, please refer to the section headed “Reorganisation” of this prospectus.

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## HISTORY AND DEVELOPMENT

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### TRANSFERS OF SHARES IN OUR COMPANY

#### (1) Transfers to Mr. Chan Kam Hon Ivan

##### *The agreements*

On 31 May 2016, Sun Cheong Creative, the then shareholder of our Company, entered into the following agreements in respect of transfers of the Shares:

|                                     | <b>Sale and purchase agreement<br/>with Mr. Chan Kam Hon Ivan</b>  | <b>Sale and purchase agreement<br/>with Billion Leading</b>  |
|-------------------------------------|--|--|
| Date of agreement:                  | 31 May 2016  | 31 May 2016  |
| Parties:                            | Sun Cheong Creative as transferor<br><br>Mr. Chan Kam Hon Ivan as transferee   | Sun Cheong Creative as transferor<br><br>Billion Leading as transferee   |
| Number of Shares transferred:       | 1,334 Shares (13.34%)  | 1,000 Shares (10.0%)   |
| Consideration:                      | HK\$16,000,000, which was based on an agreed price-to-earnings ratio with reference to the unaudited combined financial statements of Chase On and Shenzhen Sun Cheong for the year ended 31 December 2015 | HK\$12,000,000, which was based on an agreed price-to-earnings ratio with reference to the unaudited combined financial statements of Chase On and Shenzhen Sun Cheong for the year ended 31 December 2015 |
| Date of completion of the transfer: | 4 June 2016  | 4 June 2016  |
| Special rights:                     | Nil  | Nil  |

##### *Reasons for the transfers*

Mr. Chan Kam Hon Ivan is our chief financial officer, company secretary and executive Director. He joined our Group since March 2013 and has been performing well and made valuable contributions to our Group. In particular, Mr. Chan Kam Hon Ivan has assisted our Group in building up our finance team. He has also assisted in sourcing and coordinating the grant and provision of banking facilities to our Group. In addition, Mr. Chan Kam Hon Ivan's effort in the improvement in timely settlements with our suppliers also brings a positive impact on the relationship with our suppliers which allows us to have more favourable credit term than before. Since our other three executive Directors, namely Mr. Tong Ying Chiu, Ms. Ng Siu Kuen Sylvia and Mr. Tong Bak Nam Billy, are mainly responsible for overall strategic

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## HISTORY AND DEVELOPMENT

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development and production of our Group, Mr. Chan Kam Hon Ivan plays an important role in overseeing our Group's overall financial operation and management. As an incentive to retain Mr. Chan Kam Hon Ivan and as a recognition of his past contributions to our Group, we considered the transfer of Shares to Mr. Chan Kam Hon Ivan would allow a personal participation in our Group as a Shareholder as well as an executive Director. Please refer to the section headed "Directors and senior management" of this prospectus for his biography.

Billion Leading is a company incorporated in Hong Kong and its ultimate beneficial shareholder is an Independent Third Party. To the best knowledge of our executive Directors, the principal businesses of Billion Leading include engaging in investment activities. Mr. Tong Ying Chiu acquainted with the ultimate beneficial shareholder of Billion Leading through the introduction of their common friend. The main reason for transferring Shares to Billion Leading was to broaden our shareholders' base.

On 30 June 2016, since Billion Leading failed to pay the consideration, Billion Leading transferred the 1,000 Shares to the following persons:

| <b>Transferor</b> | <b>Transferee</b>     | <b>Number of Shares transferred</b> | <b>Consideration</b> |
|-------------------|-----------------------|-------------------------------------|----------------------|
| Billion Leading   | Uni-Pro               | 600 Shares                          | HK\$1.00             |
| Billion Leading   | Mr. Chan Kam Hon Ivan | 400 Shares                          | HK\$4,820,000        |

Since Sun Cheong Creative has not received any consideration from Billion Leading, the transfer of the 600 Shares back to Uni-Pro, a company wholly-owned by Sun Cheong Creative, was at a nominal consideration.

The consideration for the transfer of the 400 Shares to Mr. Chan Kam Hon Ivan was determined with reference to the basis of the consideration under the aforesaid sale and purchase agreement with Mr. Chan Kam Hon Ivan. Since the proceeds from the transfer of Shares to Billion Leading are originally planned to be used as working capital of our Group and Billion Leading had not paid any consideration in relation to the 400 Shares acquired from Sun Cheong Creative, Billion Leading directed Mr. Chan Kam Hon Ivan to pay the consideration of HK\$4.82 million to our Group.

Based on the confirmation from Mr. Chan Kam Hon Ivan and to the best knowledge of our Directors, the consideration of the Shares transferred to Mr. Chan Kam Hon Ivan was funded from his personal financial resources and Mr. Chan Kam Hon Ivan is the sole beneficial owner of those Shares.

The proceeds from the transfer of Shares to Mr. Chan Kam Hon Ivan were paid to our Group as directed by the relevant transferor and such proceeds were used as the general working capital of our Group.

As a result of the above transfers, Billion Leading ceased to be our Shareholder.

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## HISTORY AND DEVELOPMENT

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### (2) Transfers to the Pre-IPO Investors

#### *The agreements*

On 13 October 2017, Uni-Pro entered into the following agreements in respect of transfers of the Shares:

|                                     | <b>Sale and purchase agreement with Mr. Lau Yuk Wing</b>  | <b>Sale and purchase agreement with Eminent Sky</b>  | <b>Sale and purchase agreement with Harrison Assets</b>   |
|-------------------------------------|---|--|---|
| Date of agreement:                  | 13 October 2017   | 13 October 2017  | 13 October 2017   |
| Parties:                            | Uni-Pro as transferor   | Uni-Pro as transferor  | Uni-Pro as transferor   |
|                                     | Mr. Lau Yuk Wing as transferee  | Eminent Sky as transferee  | Harrison Assets as transferee   |
| Number of Shares transferred:       | 86 Shares<br>(0.86%)  | 1,334 Shares<br>(13.34%)   | 173 Shares<br>(1.73%)   |
| Consideration:                      | HK\$2,438,100, which was based on an agreed price-to-earnings ratio with reference to the audited financial statements of our Company for the year ended 31 December 2016 | HK\$37,900,000, which was based on an agreed price-to-earnings ratio with reference to the audited financial statements of our Company for the year ended 31 December 2016 | HK\$4,904,550, which was based on an agreed price-to-earnings ratio with reference to the audited financial statements of our Company for the year ended 31 December 2016 |
| Date of completion of the transfer: | 13 October 2017   | 13 October 2017  | 13 October 2017   |
| Special rights:                     | Nil   | Nil  | Nil   |

#### *Background of the Pre-IPO Investors*

##### *Mr. Lau Yuk Wing*

Mr. Lau Yuk Wing is an Independent Third Party. Mr. Lau Yuk Wing is a businessman and to the best knowledge of our Directors, Mr. Lau Yuk Wing has been engaging in the trading of essential oils in Hong Kong and overseas. We acquainted with Mr. Lau Yuk Wing through Mr. Chan Kam Hon Ivan. To the best knowledge and belief of our Directors, Mr. Lau Yuk Wing decided to invest in our Group in view of the prospects of our business growth.

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## HISTORY AND DEVELOPMENT

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### *Eminent Sky*

Eminent Sky is a company incorporated in the BVI on 26 September 2011 and is owned by VMS Holdings Limited (together with its subsidiaries, the “**VMS Holding Group**”), an Independent Third Party. To the best knowledge and belief of our Directors, Eminent Sky is a member of VMS Holding Group which has fellow subsidiaries registered with the Securities and Futures Commission being licensed to carry on Types 1, 4, 6 and 9 regulated activities under SFO and engaged in proprietary trading of listed and unlisted securities. Our Directors believe having Eminent Sky as one of our Shareholders would benefit us through its provisions of advice on our future potential fund raising and investment activities.

We acquainted with the owners of Eminent Sky through an Independent Third Party, who is a business acquaintance of Mr. Chan Kam Hon Ivan. At a social event in September 2017 where both Mr. Chan Kam Hon Ivan and the business acquaintance were present, Mr. Chan Kam Hon Ivan expressed to the business acquaintance the Company’s interest to meet investors who have substantial experience and an established network in the equity market. Such business acquaintance then arranged a meeting between our Company and Eminent Sky in September 2017 to explore the opportunity to invest in our Company. After conducting due diligence review on our Group, Eminent Sky decided to invest in our Group.

### *Harrison Assets*

Harrison Assets is a company incorporated in the BVI on 18 June 1999 and is beneficially wholly-owned by Mr. Kwong Chi Shing Savio, an Independent Third Party. To the best knowledge and belief of our Directors, Harrison Assets is engaged in investment activities. Our Directors believe having Harrison Assets as one of our Shareholders would benefit us through its provisions of advice on our future potential fund raising and investment activities.

We acquainted with Mr. Kwong Chi Shing Savio through the same business acquaintance of Mr. Chan Kam Hon Ivan, who introduced Eminent Sky to our Company. Through such business acquaintance a meeting was set up between our Company and Mr. Kwok Chi Shing Savio in September 2017 to discuss the opportunity to invest in our Company. After conducting due diligence review on our Group, Mr. Kwok Chi Shing Savio decided to invest in our Group.

## HISTORY AND DEVELOPMENT

### DETAILS OF THE SHARES TRANSFERRED

| Name of Transferee       | Number and<br>approximate<br>percentage of<br>Shares held<br>before the<br>Capitalisation<br>Issue | Number and<br>approximate<br>percentage of<br>Shares upon<br>Listing<br><i>(Note 1)</i> | Consideration<br>and date of<br>full payment | Cost per<br>Share | Discount<br>to Offer<br>Price<br><i>(Note 2)</i> |
|--------------------------|--|---|--|-------------------|--|
| Mr. Chan Kam Hon<br>Ivan | 1,334 Shares<br>(13.34%)   | 54,027,000<br>Shares (10.00%)   | HK\$16,000,000<br>7 June 2016                | HK\$0.30          | 72.7%  |
|                          | 400 Shares<br>(4.00%)  | 16,200,000<br>Shares (3.00%)  | HK\$4,820,000<br>29 June 2016                | HK\$0.30          | 72.7%  |
|                          | 1,734 Shares<br>(17.34%)   | 70,227,000<br>Shares (13.00%)   | HK\$20,820,000                               | HK\$0.30          | 72.7%  |
| Mr. Lau Yuk Wing         | 86 Shares<br>(0.86%)   | 3,483,000 Shares<br>(0.65%)   | HK\$2,438,100<br>10 October 2017             | HK\$0.70          | 36.4%  |
| Eminent Sky              | 1,334 Shares<br>(13.34%)   | 54,027,000<br>Shares (10.00%)   | HK\$37,900,000<br>13 October 2017            | HK\$0.70          | 36.4%  |
| Harrison Assets          | 173 Shares<br>(1.73%)  | 7,006,500 Shares<br>(1.30%)   | HK\$4,904,550<br>13 October 2017             | HK\$0.70          | 36.4%  |

*Notes:*

- Based on the number of Shares to be issued upon completion of the Share Offer and Capitalisation Issue but without taking into account any Shares to be issued upon the exercise of any options that may be granted under the Share Option Scheme.
- Based on the mid-point of the indicative Offer Price range of HK\$1.1 per Share.

### LOCK-UP ARRANGEMENTS AND OTHER MATTERS

Mr. Chan Kam Hon Ivan has undertaken to our Company that the Shares held by him will be subject to a lock-up of a period of 24 months after the Listing. Please refer to section headed “Substantial Shareholders – Undertakings” of this prospectus for details of the undertakings. The agreements between Uni-Pro and each of the Pre-IPO Investors do not include provisions on the lock-up arrangements of the Pre-IPO Investors.

No special rights were granted to Mr. Chan Kam Hon Ivan or each of the Pre-IPO Investors. The Shares held by Mr. Chan Kam Hon Ivan and Eminent Sky will not be counted towards the public float after the Listing for purpose of Rule 8.08 of the Listing Rules.

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## HISTORY AND DEVELOPMENT

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Since (i) the consideration for the Shares transferred to Mr. Chan Kam Hon Ivan was fully settled by him on or before 29 June 2016 and (ii) the consideration for the Shares transferred to each of the Pre-IPO Investors was fully settled on or before 13 October 2017, the Sole Sponsor is of the view that the transfers of Shares to Mr. Chan Kam Hon Ivan and each of the Pre-IPO Investors are in compliance with the Interim Guidance on Pre-IPO Investments (HKEx-GL29-12) and the Guidance on Pre-IPO Investments (HKEx-GL43-12). The Guidance on Pre-IPO Investments in convertible Instruments (HKEx-GL44-12) was not applicable to the transfers of Shares to Mr. Chan Kam Hon Ivan and each of the Pre-IPO Investors as no convertible instrument was issued.



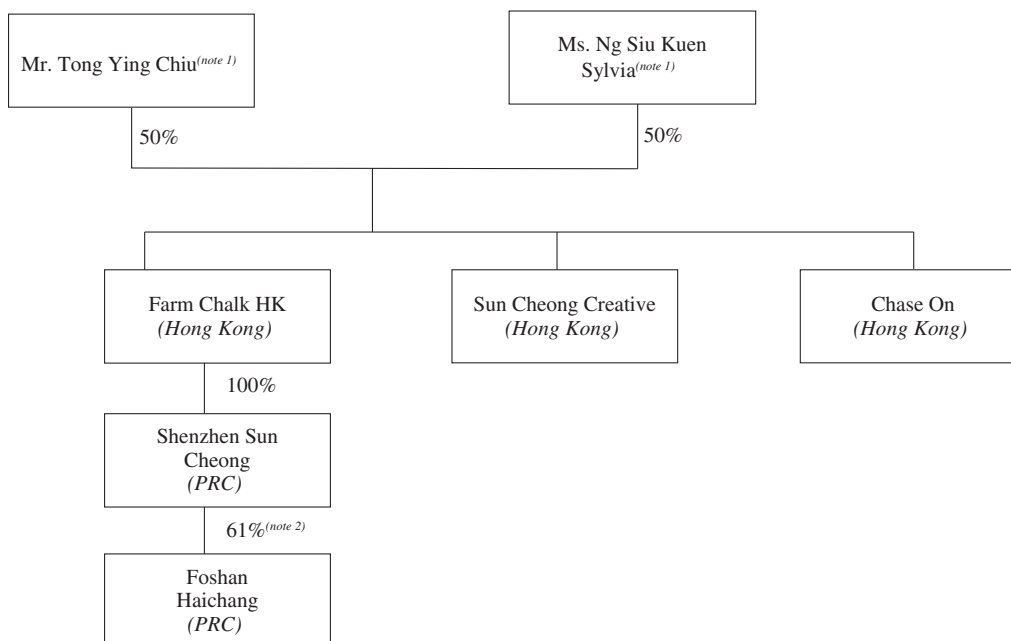
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## REORGANISATION

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### REORGANISATION

The following chart sets out our corporate and shareholding structure immediately prior to the Reorganisation:



Notes:

1. Mr. Tong Ying Chiu, the chairman and one of our executive Directors, is the spouse of Ms. Ng Siu Kuen Sylvia who is also one of our executive Directors.
2. The remaining 39% interests are held by an Independent Third Party.

In preparation for the Listing, the companies comprising our Group underwent the Reorganisation. The Reorganisation involved the following steps:

#### Incorporation of our Company

On 22 March 2016,

- (a) our Company was incorporated in the Cayman Islands as an exempted company with limited liability with an authorised share capital of HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each;
- (b) one Share was allotted and issued to the initial subscriber for cash at par; and
- (c) the subscriber transferred its one Share to Sun Cheong Creative for cash at par and our Company was wholly-owned by Sun Cheong Creative.

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## REORGANISATION

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### **Incorporation of Top Leader International**

On 19 May 2016, Top Leader International was incorporated in the BVI as our intermediate holding company.

On 30 May 2016, Top Leader International allotted and issued one share to our Company at a consideration of US\$1.00, and Top Leader International was wholly-owned by our Company.

### **Transfer of shares in Chase On**

On 3 June 2016, Mr. Tong Ying Chiu and Ms. Ng Siu Kuen Sylvia, as shareholders of Chase On, transferred all of their shares in Chase On to our Company. Our Company directed Top Leader International as the transferee of such transfers and Chase On was wholly-owned by Top Leader International.

As consideration for the transfers, our Company allotted and issued 9,999 Shares to Sun Cheong Creative in the following manner:

| <b>Transferor</b>      | <b>Transferee</b>        | <b>Shares in Chase On transferred</b> | <b>Consideration Shares allotted and issued</b> |
|------------------------|--------------------------|---------------------------------------|---|
| Mr. Tong Ying Chiu     | Top Leader International | 5,000 shares (50%)                    | 4,999 Shares                                    |
| Ms. Ng Siu Kuen Sylvia | Top Leader International | 5,000 shares (50%)                    | 5,000 Shares                                    |

### **Transfers of Shares to Mr. Chan Kam Hon Ivan and Billion Leading**

On 4 June 2016, Sun Cheong Creative transferred Shares in our Company to Mr. Chan Kam Hon Ivan and Billion Leading pursuant to the agreements referred to in the section headed “History and development – Transfers of Shares in our Company” of this prospectus.

Upon completion of the transfers of Shares to Mr. Chan Kam Hon Ivan and Billion Leading, our Company was held as to 76.66% by Sun Cheong Creative, 13.34% by Chan Kam Hon Ivan and 10.00% by Billion Leading.

### **Transfer of Shares from Sun Cheong Creative to Uni-Pro**

On 5 June 2016, Sun Cheong Creative transferred 7,666 Shares (representing approximately 76.66%) to Uni-Pro, a company incorporated in the BVI on 19 May 2016 and owned by Sun Cheong Creative for cash at par.

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## REORGANISATION

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### **Transfer of equity interests in Shenzhen Sun Cheong**

On 23 June 2016, the then shareholder of Shenzhen Sun Cheong transferred all its equity interests to Chase On at a cash consideration of RMB7,500,000, and Shenzhen Sun Cheong was wholly-owned by Chase On.

### **Transfers of Shares by Billion Leading to Uni-Pro and Mr. Chan Kam Hon Ivan**

On 30 June 2016, Billion Leading transferred 600 Shares and 400 Shares to Uni-Pro and Mr. Chan Kam Hon Ivan, respectively. Please refer to the section headed “History and development – Transfers of Shares in our Company” of this prospectus for details of such transfers.

Upon completion of such transfers, our Company was held as to 82.66% by Uni-Pro and 17.34% by Mr. Chan Kam Hon Ivan.

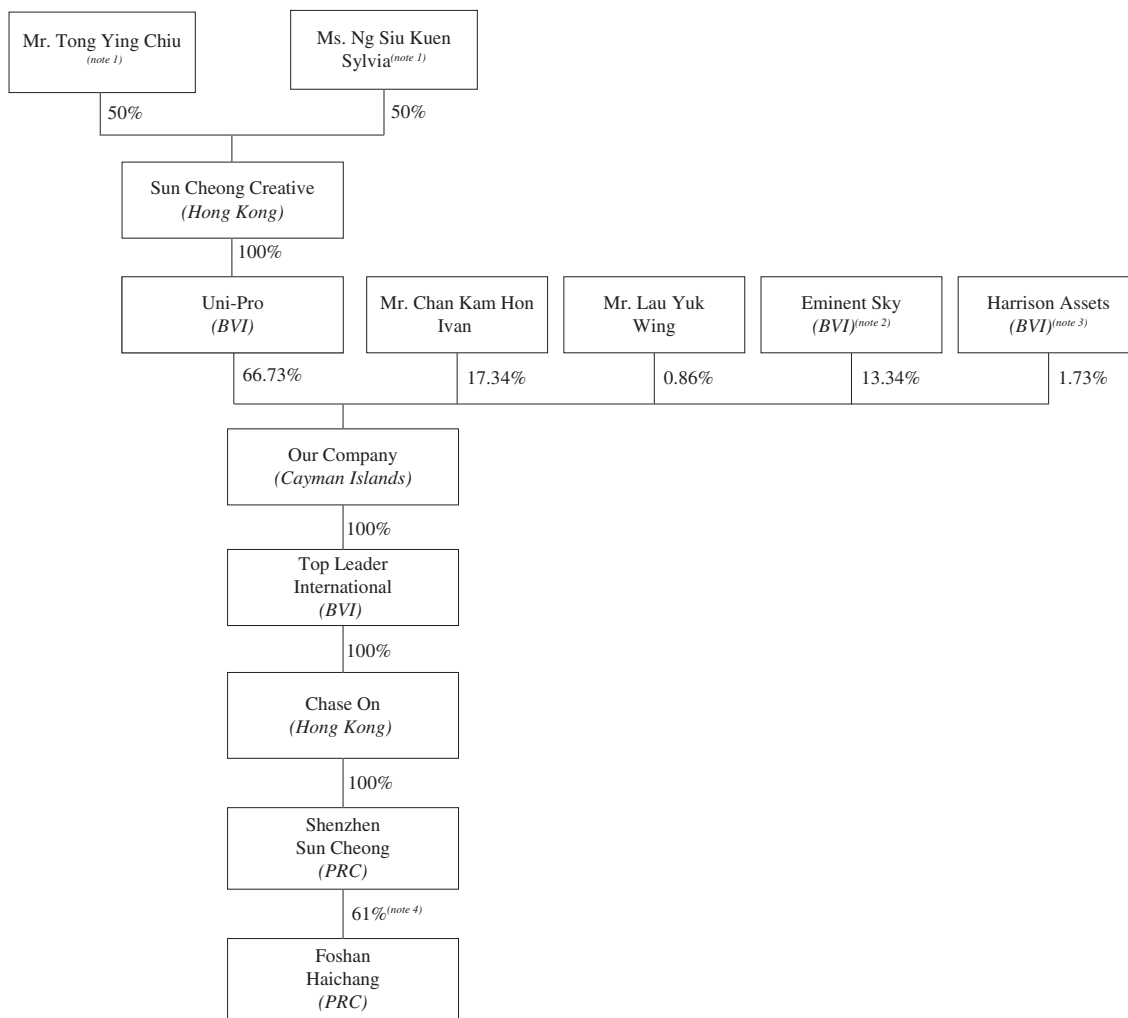
### **Transfers of Shares by Uni-Pro to Pre-IPO Investors**

On 13 October 2017, Uni-Pro transferred 86 Shares, 1,334 Shares and 173 Shares to Mr. Lau Yuk Wing, Eminent Sky and Harrison Assets, respectively. Please refer to the section headed “History and development – Transfers of Shares in our Company – (2) Transfers to the Pre-IPO Investors” of this prospectus for details of such transfers.

Upon completion of such transfers, our Company was held as to 66.73% by Uni-Pro, 17.34% by Mr. Chan Kam Hon Ivan, 0.86% by Mr. Lau Yuk Wing, 13.34% by Eminent Sky and 1.73% by Harrison Assets.

## REORGANISATION

The following chart sets forth our corporate and shareholding structure upon completion of the Reorganisation but immediately before the Share Offer and the Capitalisation Issue:

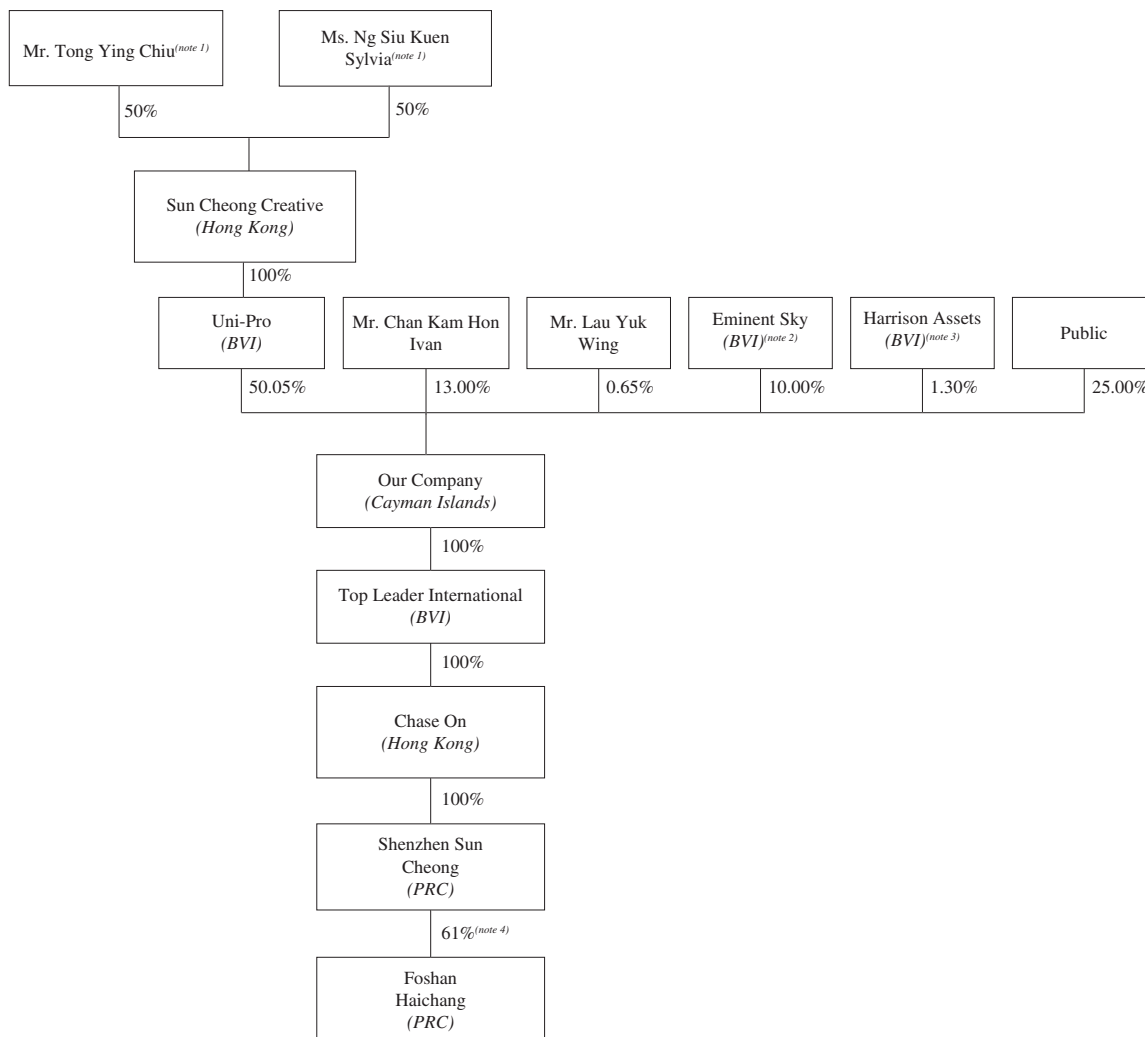


*Notes:*

1. Mr. Tong Ying Chiu, our chairman and one of our executive Directors, is the spouse of Ms. Ng Siu Kuen Sylvia who is also one of our executive Directors.
2. Eminent Sky is a company incorporated in the BVI and is ultimately controlled by Ms. Mak Siu Hang Viola.
3. Harrison Assets is a company incorporated in the BVI and is wholly-owned by Mr. Kwong Chi Shing Savio, an Independent Third Party.
4. The remaining 39% equity interests in Foshan Haichang are held by an Independent Third Party.

## REORGANISATION

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



*Notes:*

1. Mr. Tong Ying Chiu, our chairman and one of our executive Directors, is the spouse of Ms. Ng Siu Kuen Sylvia who is also one of our executive Directors.
2. Eminent Sky is a company incorporated in the BVI and is ultimately controlled by Ms. Mak Siu Hang Viola.
3. Harrison Assets is a company incorporated in the BVI and is wholly-owned by Mr. Kwong Chi Shing Savio, an Independent Third Party.
4. The remaining 39% equity interests in Foshan Haichang are held by an Independent Third Party.

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## REORGANISATION

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### PRC GOVERNMENTAL APPROVALS

As the ultimate individual shareholders of our Group are permanent residents in Hong Kong who hold overseas passports, and our Company and its subsidiaries incorporated outside PRC do not fall within the scope of being classified as a special purpose vehicle directly or indirectly established or controlled by PRC entities or individuals stipulated in the M & A Rules, our PRC Legal Adviser is of view that the M & A Rules are not applicable to the restructuring exercise or the Listing, and that approvals from CSRC or MOFCOM are not required.

As Mr. Tong Ying Chiu, Ms. Ng Siu Kuen Sylvia, Mr. Chan Kam Hon Ivan, Mr. Lau Yuk Wing, Mr. Kwong Chi Shing Savio and Ms. Mak Siu Hang Viola, being the indirect equity holders of Shenzhen Sun Cheong, our PRC subsidiaries, are not PRC domestic residents, our PRC Legal Adviser has confirmed that they are not required to carry out the foreign exchange registration pursuant to Circular 37.

Save as the approvals, permits and licenses obtained by the Shenzhen Sun Cheong in relation to the transfer of its equity interests from Farm Chalk HK to Chase On, our PRC Legal Adviser has further confirmed that no additional approvals, permits or licence shall be required under the PRC laws and regulations in connection with the Reorganisation, and all approvals, permits and licences required under the PRC laws and regulations in connection with the establishment and operation in respect of Shenzhen Sun Cheong and Foshan Haichang have been obtained.

## BUSINESS

### OVERVIEW

We primarily design, develop, manufacture and sell plastic household products with our headquarters in Hong Kong for more than 30 years.

According to the Ipsos Report, in 2017 we were ranked fourth in terms of revenue and third in terms of export value in the plastic household product manufacturing industry in the PRC.

We have launched a wide range of products including storage boxes, laundry and bathroom wares, food storage, rubbish bins, outdoor, gardenware and furniture, kitchenwares and others, such as office solutions, tool boxes, pet accessories, aircraft meal trays and seasonal goods. During the Track Record Period, our products are mainly sold to overseas countries including Australia, the UK, the United States, New Zealand and Germany through (i) direct sales to renowned chain supermarkets, department stores and chain household products retailers; and (ii) importers/exporters. Our products are sold in retailers such as Volume Distributors and Japan Home Centre (日本城).

Our products are sold either under our brand “clipfresh” or on an ODM basis.

Products sold under our “clipfresh” brand are designed and developed by us and they mainly include food storage containers and drinkwares, positioning as mid-to-high end products in the market. Our “clipfresh” products are BPA free, freezer safe, and depending on the series of the products, can withstand temperatures of up to 400 degrees Celsius. Our ODM customers normally provide us with the specifications of a product and our product design, research and development team will then develop the product based on such specifications provided.

The table below sets forth the breakdown of our revenue under our “clipfresh” brand and ODM products for the period indicated:

|                                  | Year ended 31 December |                |                 |                |                 |                |                 |                | Six months ended 30 June |                |                 |                |
|----------------------------------|------------------------|----------------|-----------------|----------------|-----------------|----------------|-----------------|----------------|--------------------------|----------------|-----------------|----------------|
|                                  | 2014                   |                | 2015            |                | 2016            |                | 2017            |                | 2017                     |                | 2018            |                |
|                                  | <i>% of</i>            | <i>% of</i>    | <i>% of</i>     | <i>% of</i>    | <i>% of</i>     | <i>% of</i>    | <i>% of</i>     | <i>% of</i>    | <i>% of</i>              | <i>% of</i>    | <i>% of</i>     |                |
|                                  | <i>total</i>           | <i>total</i>   | <i>total</i>    | <i>total</i>   | <i>total</i>    | <i>total</i>   | <i>total</i>    | <i>total</i>   | <i>total</i>             | <i>total</i>   | <i>total</i>    |                |
|                                  | <i>HK\$'000</i>        | <i>revenue</i> | <i>HK\$'000</i> | <i>revenue</i> | <i>HK\$'000</i> | <i>revenue</i> | <i>HK\$'000</i> | <i>revenue</i> | <i>HK\$'000</i>          | <i>revenue</i> | <i>HK\$'000</i> | <i>revenue</i> |
|                                  |                        |                |                 |                |                 |                |                 |                | <i>(unaudited)</i>       |                |                 |                |
| Products under “clipfresh” brand | 61,886                 | 20.5           | 66,761          | 21.2           | 73,889          | 24.6           | 82,793          | 25.4           | 41,931                   | 26.5           | 41,537          | 26.0           |
| ODM products                     | 240,101                | 79.5           | 248,766         | 78.8           | 226,743         | 75.4           | 243,021         | 74.6           | 116,021                  | 73.5           | 118,244         | 74.0           |
| <b>Total</b>                     | <b>301,987</b>         | <b>100.0</b>   | <b>315,527</b>  | <b>100.0</b>   | <b>300,632</b>  | <b>100.0</b>   | <b>325,814</b>  | <b>100.0</b>   | <b>157,952</b>           | <b>100.0</b>   | <b>159,781</b>  | <b>100.0</b>   |

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## BUSINESS

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Certain of our products have to pass the tests of food safety, high heat thermal resistance, melting index, performance and colour migration pursuant to the standards and/or requirements of certain certifications before we can sell such products to the relevant countries. As at 30 June 2018, certain of our products have passed the tests pursuant to the LFGB and the FDA regulations and/or standards and our production facilities have gone through the auditing process in accordance with the BSCI monitoring system.

Over the years, we have been placing great effort on our product design and development team to enhance the functionality, features and varieties of the existing products and develop new products. To protect our product design and development effort, we have obtained certain patents. Details of such patents are set out in the paragraph headed “Intellectual property rights of our Group” in Appendix IV to this prospectus.

During the Track Record Period, we manufactured our products in our production facilities located in Henggang Sub-District, Longgang District, Shenzhen, the PRC. We commenced the relocation of our production facilities to the New Production Facilities in December 2017 and completed in August 2018. We also outsource the production of our ODM products to the sub-contractors qualified by us if sub-contracting such production will incur lower cost than our own production or if production of the products will exceed our production capacity. We had two qualified sub-contractors during the Track Record Period and both of them are Independent Third Parties.

Polypropylene resins are the key raw materials for our products. During the Track Record Period, we purchased polypropylene resins mainly from suppliers located in Hong Kong, and to our best knowledge, they source polypropylene resins which are manufactured in countries including South Korea, the United Arab Emirates and Brazil. We also purchased packaging materials from suppliers located in the PRC.

### **OUR COMPETITIVE STRENGTHS**

We believe the following competitive strengths contribute to our success and distinguish us from our competitors:

#### **We have product design and development capabilities**

Our Directors believe that we will be able to maintain our competitiveness in the market if our product design and development are responsive to new product trends and safety standards.

Our Directors believe that our success is mainly attributable to our best knowledge of the market and products, the ability to identify market trends, and the hands-on experience on material and product design and development.

As at the Latest Practicable Date, our product design and development and mould design team consisted of 23 staff. These staff are experienced in product design and development and mould design for plastic household products.



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## BUSINESS

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Our product design and development and mould design team focuses on designing and developing new products and enhancing existing products to capture changing market trends and safety standards. Our product engineering team also explores the use of different and new types of materials. Given the consistent investment in product design and development, during the Track Record Period, we are normally capable of delivering 20 to 30 types of newly designed products each year.

Our product design and development and mould design team works closely with our production staff who transform the product concept, graphic arts and features into physical products. The process may involve numerous rounds of amendments, trials and testings. In order to keep abreast of the trends in householdware, kitchenwares and other plastic household products, we analyse and monitor market trends, new materials, colour trends, designs and safety standards updates on products. Information is collected through attending trade shows and events, studying industry magazines, communicating with major market players and understanding the market trends by visiting our major markets regularly. We continuously seek to identify new product trends and applications to cater to the latest market trends and safety standards.

In light of our product design and development effort, as at the Latest Practicable Date, we registered certain patents. For details, please refer to the paragraph headed “Intellectual property rights of our Group” in Appendix IV to this prospectus. We believe that our ability to deliver products with distinctive designs and features with protected patents provides us with the competitive advantage over our market peers.

### **We offer a diverse product portfolio**

We believe that one of our competitive strengths is our diverse product portfolio. We offer plastic products for specific purposes, such as food storage, and multi-functional products, such as container boxes. As at 30 June 2018, we offered approximately 1,070 types of products with various colours, sizes, shapes and features ranging from storage boxes, laundry and bathroom wares, food storage, rubbish bins, outdoor, gardenware and furniture, kitchenwares, and others including office solutions, tool boxes, pet accessories, aircraft meal trays and seasonal goods.

Since our customers include renowned chain supermarkets, department stores and chain household product retailers, a diversified and large range of household product mix will provide a convenient shopping experience to their shoppers. As such, these customers have to source from various suppliers to enhance their product offerings. Our ability to provide a diverse product portfolio will attract these customers to purchase from us because they can satisfy the preferences, market trends and demands of the end-consumers from one supplier and enjoy the benefits of bulk-purchase and lower transportation costs.

### **We prioritise strict compliance with standards for food contact substances and other safety standards and quality control**

Our kitchenwares include food storage containers, bowls, utensils, microwave items, drinkware and baby items. Our storage boxes can be used for storing all types of household items such as clothes, towels, shoes, toys and books. It is crucial that our products meet the relevant safety standards.

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## BUSINESS

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Certain products have to pass the tests of food safety, high heat thermal resistance, melting index, performance and colour migration and meet certain requirements before we can sell such products to the relevant countries. For example, our products sold to Europe shall meet the requirements pursuant to the LFGB regulations and/or standards and our products sold to the United States shall meet the requirements pursuant to the FDA regulations and/or standards. In some cases, a customer will conduct an on-site factory audit of our production facilities before placing purchase orders with us. Our production facilities have gone through the auditing process in accordance with the BSCI monitoring system.

We prioritise strict compliance with standards for food contact substances and other safety standards. We have implemented a set of stringent quality control measures throughout our manufacturing process from incoming materials, production process to outgoing products. We source our raw materials from suppliers qualified by us, and when a raw material we purchased is specified with certain standards, we require our suppliers to provide us the requisite certification of the raw material upon delivery. Product testing is carried out by our in-house quality control team and/or third party laboratories. As at the Latest Practicable Date, our quality control processes were carried out by a team of 19 staff.

We will provide certifications of our tailor-made products to our customers upon request. When a customer requires tailor-made products with specific features, prior to confirming orders placed by a customer, our sales and marketing team will communicate with the customer to understand and refine its needs, expectations and specifications for the products. We will adopt or tailor-make a specific quality assurance plan (“**QAP**”) which sets out a list of procedures and measurements to be undertaken to ensure the quality of the products by describing standards, inspection criteria and methodology checks. All the inspections and tests are carried out in accordance with QAP. Upon the requests of our customers, we may provide them with the testing reports prepared by our in-house quality control team and/or third party laboratories.

As a result of our stringent quality and safety control policies, we have obtained the ISO 9001 certification. Certain of our products have also passed the tests pursuant to the LFGB and the FDA regulations and/or standards. We believe that our continuous implementation of strict quality control and safety standards will assure the quality of our products and help maintain our reputation in the industry. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any major sales return nor complaint about product quality and safety from our customers.

According to the Ipsos Report, we ranked fourth in China in terms of revenue in the plastic household products industry in 2017. Our sales were made to various countries in the world. We believe our compliance with industry standards, safety standards and quality control gives us competitive advantage to obtain sales orders and therefore increase our market share.

Our Directors consider that our refined quality control management system and delivery of products with stable, consistent and reliable quality are the key contributing factors for us to receive recurring purchase orders from our existing customers and maintain long-term business relationships with them.

### **We have in-house mould design, creation and production capabilities**

We design, create and produce almost all of the moulds for our products, which saves mould design and creation costs, and ensures prompt response to required modifications. As at the Latest Practicable Date, we had approximately 2,000 product moulds which can be readily used for production. This allows us to efficiently convert our design patterns into mass production, which shortens our production lead time, increases our production efficiency and reduces our production cost as a whole.

As at 30 June 2018, we had 16 staff who were primarily responsible for the design and creation of product moulds. These staff have, on average, over 10 years of experience in product mould design and creation.

According to the Ipsos Report, a company's own ability to design and create product moulds allows such company to have a competitive advantage over its peers because such ability will enhance the production efficiency and cost effectiveness. In addition, it is not common for plastic household product manufacturers to possess its own mould design and creation ability because it requires substantial investment and very experienced staff. The common industry practice is that companies will normally request mould production companies to design and create the product moulds for them.

### **We have established long-term business relationships with our major customers and suppliers**

We have established long-term business relationships with our major customers, including JHC (International) Limited and KAS Pty Limited.

We provide a wide assortment of plastic household products, including storage containers kitchenwares and bathroomwares with different designs, styles, shapes, sizes, colours, usages, specifications and standards. Our Directors believe that one of our competitive strengths is our ability to secure and maintain long-term business relationships with our major customers.

For the four years ended 31 December 2017 and the six months ended 30 June 2018, four, five, four, four, and four of our top five customers have business relationship with us for eight years or more. We believe that (a) our product design and development capability; (b) our stringent quality and production control on our production facilities; (c) our product quality; (d) our ability to timely complete purchase orders and deliver products; and (e) our efficient and responsive communications with our customers have enabled us to earn recurring businesses from our major customers.

Our Directors believe that the key to maintaining long-term business relationships with our customers is our ability to provide a variety of products and to supply products which meet the specification and certification requirements as stipulated for a particular type of products, such as food contact substances safety and high heat thermal resistance standards.

We believe that with a stable customer base, we are well-positioned to obtain stable purchase orders from our customers and implement our expansion plan.

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## BUSINESS

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For the four years ended 31 December 2017 and the six months ended 30 June 2018, five, four, four, four, and three of our top five suppliers have worked with us for five years or more. We believe the stable business relationship with our suppliers enables us to secure a stable supply of polypropylene resins, which is the key raw material for our production.

### **We have a stable management team with extensive industry experience**

We have an experienced management team that is familiar with the plastic household products industry. Our management team is led by Mr. Tong Ying Chiu, our chairman and our founder, who has more than 30 years of experience and knowledge of the plastic household products industry and is primarily responsible for the overall management, strategic development and major decision-making of our Group. Ms. Ng Siu Kuen Sylvia, one of our executive Directors, who has more than 25 years of experience and knowledge of the plastic household products industry, is primarily responsible for managing our production.

Our other executive Director, Mr. Tong Bak Nam Billy has more than 10 years of experience in the plastic household products industry. We believe that our executive Directors and our senior management team are instrumental to our success. Our growth and development have been largely attributable to the extensive experience of our executive Directors and senior management team.

### **OUR BUSINESS STRATEGIES**

Leveraging our competitive strengths and further enhancing our market presence through rapid and profitable growth, our Directors plan to pursue the following growth strategies:

#### **Enhance brand recognition and awareness and promote our corporate reputation**

We will continue to market our “clipfresh” brand through our dedicated sales and marketing team. We intend to enhance recognition of our “clipfresh” brand through further promotion in various media channels such as advertising in the internet and participating in trade exhibitions. We target to develop and build our “clipfresh” brand as a notation for mid-to-high end food and household storage products with artistic design and practical functionality. We participate in trade fairs and exhibitions such as Canton Fair (廣交會), Hong Kong Houseware Fair, Mega Expo, Home Delight Show, Hong Kong Brands and Products Expo Fair (工展會), and Gift Fair South America.

As at the Latest Practicable Date, we have engaged an external professional design house to advise us on the packaging of our products, the layouts and contents of our marketing brochures and product catalogues. With such professional advice, we target to further enhance our brand recognition and enhance our corporate image and reputation.

We intend to utilise approximately HK\$8.4 million or approximately 8.2% of the net proceeds from the Share Offer (assuming an Offer Price of HK\$1.1 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$1.0 to HK\$1.2) for enhancing our brand recognition and awareness and promoting our corporate reputation.

**Strengthen our product design and development capabilities and increase our product offerings**

We believe that product design and development in response to safety standards, requirements and market trends are crucial to our success. We will continue to recruit experienced staff to further develop our product design and development capabilities of household products with better functions, while using safer and more cost-effective raw materials. Our sales and marketing team will continue to work closely with our product design and development and mould design team on exchange of product standards and requirements, market trends and customers' preferences to more effectively incorporate these feedback into our product development.

With the increasing health awareness of the public, we will also continue to place efforts on our product design and development to enhance our products with safe materials.

We plan to nurture the expertise and resources from external professional design house in providing advice and recommendations on our product designs. At present, we have engaged an independent professional design house. The design house will provide us with analysis, advice and recommendations on the anticipated trend and market preference of our products, including appearances, outlooks, colours, shapes, product materials, functional features and safety awareness.

We intend to utilise approximately HK\$9.7 million or approximately 9.5% of the net proceeds from the Share Offer (assuming an Offer Price of HK\$1.1 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$1.0 to HK\$1.2) for strengthening our product design and development capabilities and increasing our product offerings.

**Acquisition and replacement of production machinery and equipment**

"Plastic injection" is our most crucial production process and the production of all our plastic products involves this process. Accordingly, it is important that this production process is conducted efficiently. We believe that replacing our plastic injection moulding machinery with more advanced model can shorten moulding time, save energy and electricity, and improve the visual quality of the moulded product. This can increase production efficiency, reduce production cost and enhance profit margins. Acquisition and replacement of other machinery and equipment, such as robot hand, will also enhance our production efficiency and cost effectiveness.

We intend to use approximately HK\$24.3 million or approximately 23.8% of the net proceeds from the Share Offer (assuming an Offer Price of HK\$1.1 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$1.0 to HK\$1.2) for the acquisition and replacement of production machinery and equipment.

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## BUSINESS

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### **Purchase or development of moulds and related parts of moulds**

With the competition from other manufacturers, we believe that in order to increase our market share in the plastic household products manufacturing industry and to remain competitive with our new development of products based on our innovation, we generally develop and launch 20-30 new products a year and thus moulds and related parts of moulds would be a critical part to success. We believe that introduction of new products could increase market share and further strengthen our product design and development capability based on our historical experience.

We intend to use approximately HK\$29.1 million or approximately 28.5% of the net proceeds from the Share Offer (assuming an Offer Price of HK\$1.1 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$1.0 to HK\$1.2) to purchase or develop moulds and related parts of moulds.

### **Enhance and upgrade of our ERP system**

We believe that information system is a key component to support our business growth and internal controls. We plan to invest in the establishment of a centralised ERP system to support our procurement, inventory, sales and logistics in an efficient manner, allowing us to collect and monitor real time procurement, production and sales information to facilitate the formulation of our production plan, procurement decision making, inventory analysis, and sale and logistics analysis.

We have started providing our staff with the preliminary training on the operation of the ERP system in the second half of 2016. In 2017, we have implemented the ERP system in our Group after a trial run of the ERP system. We target to customise and fully implement the most optimal packages of ERP system to our Group by 2018. We believe with such ERP system, we will have access to real time products data to manage our procurement, production, warehousing, marketing and promotions, sales and logistics in an effective and timely manner under one integrated system. The real time inventory and sales data generated by our information system also enable us to analyse market trends and assist us in decision making process.

We intend to use approximately HK\$5.8 million or approximately 5.7% of the net proceeds from the Share Offer (assuming an Offer Price of HK\$1.1 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$1.0 to HK\$1.2) to enhance and upgrade our ERP system.

### **OUR BUSINESS MODEL**

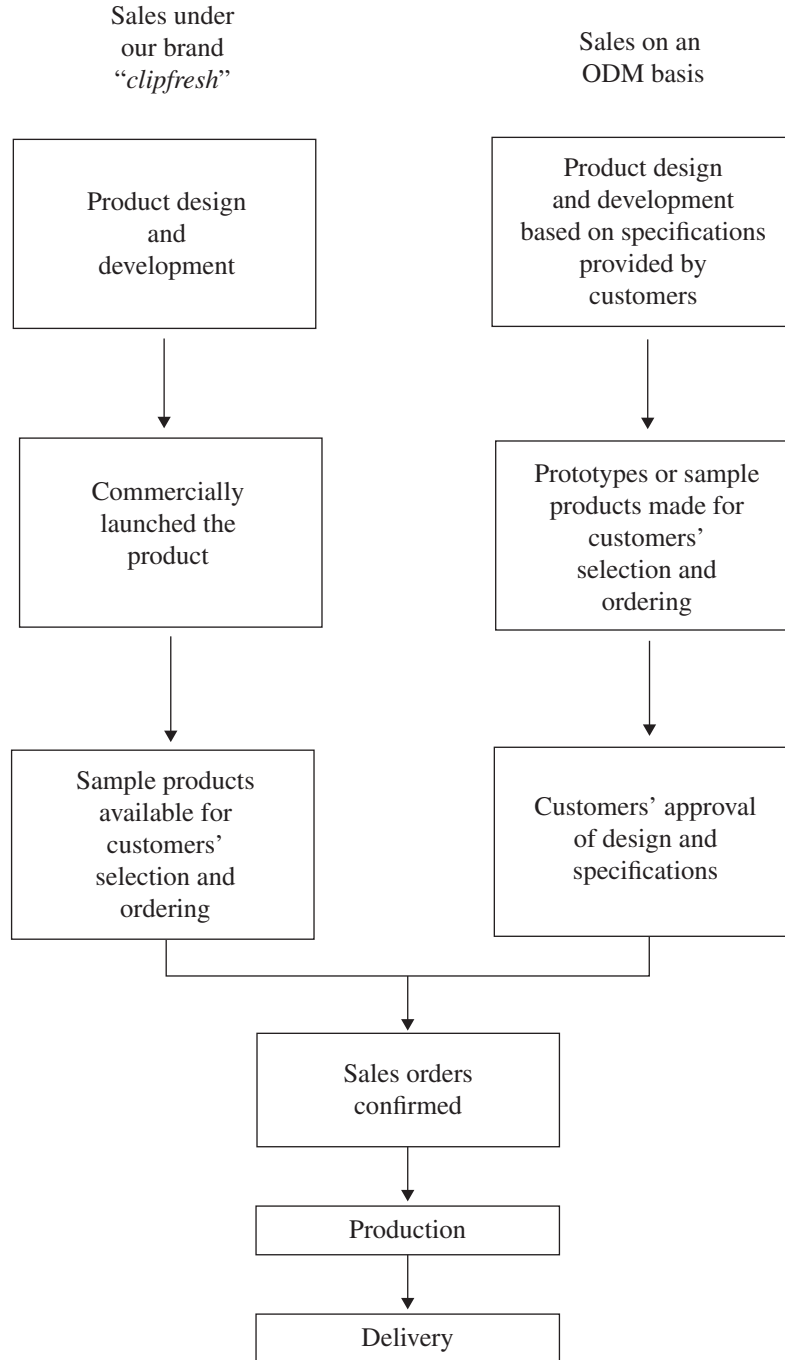
We primarily design, develop, manufacture and sell plastic household products. We offer a wide range of products including storage boxes, laundry and bathroom wares, rubbish bins, outdoor, gardenware and furniture, kitchenwares and other accessories, such as office solutions, tool boxes, pet accessories, aircraft meal trays and seasonal goods. We sell our products in Hong Kong and to countries including Australia, the UK, the United States, New Zealand and Germany. Our products are sold either under our brand “*clipfresh*” or on an ODM basis.

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## BUSINESS

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Our business model can generally be summarised as follows:



### **Sales under our brand “*clipfresh*”**

For the products under our brand “*clipfresh*”, our design and development team creates the ideas and concepts of our products and prepares the design and artistic drawings which are assessed by our production team for manufacturing feasibility, safety and quality issues. We then make samples, refine the designs and conduct various tests. After the samples or prototypes have passed all the relevant tests, we will determine the commercial launching time of the new products. We will provide the sample products to our customers. After we receive confirmation on sales orders from our customers, we proceed to manufacture the products.

### **Sales on an ODM basis**

For ODM sales, our product design, research and development team designs the product based on the specifications provided by customers. We then make prototypes or sample products for customers’ selection and ordering. The ODM customers will place sales orders with us after approving the design and specifications. Upon the receipt of sales orders, we will proceed to manufacture the products for our ODM customers. Depending on the request of our ODM customers, our products can be sold under the brands of our ODM customers or under no specific brand. Our ODM customers may also provide us with specific requirements for production, which may be related to the compliance with relevant safety and quality standards and restrictions on hazardous materials, packaging and labelling requirements. Our ODM customers may send personnel to our production facilities to inspect the products to ensure that the products comply with their requests and specifications. The finished products are then packaged and delivered to them.

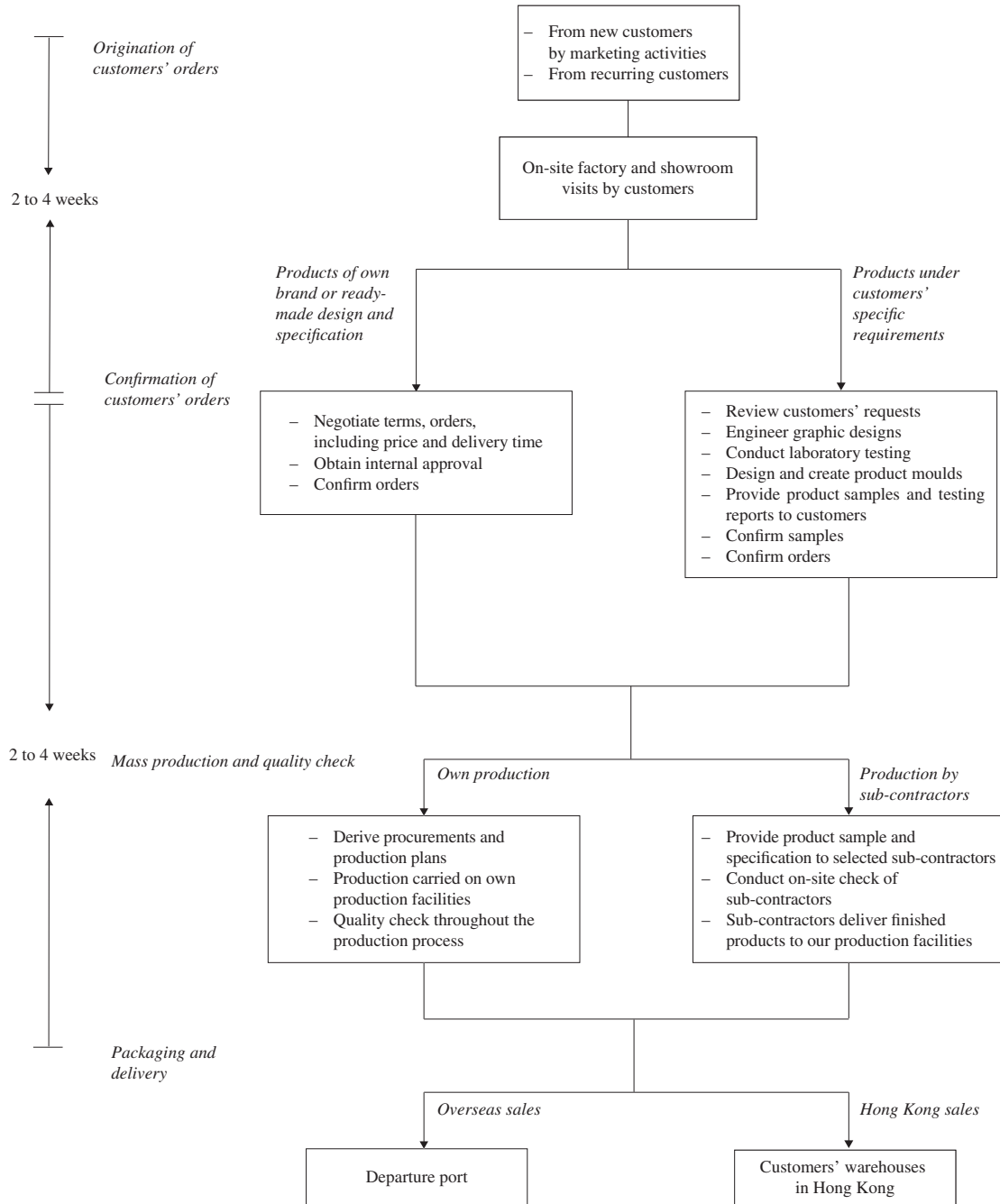
We take reasonable measures to check if the specifications provided by our ODM customers may have infringed any third party intellectual property rights and such measures include reviewing the specifications against other products in the market. During the Track Record Period and up to the Latest Practicable Date, we have not received any claims on the infringement of intellectual property rights of our ODM products from third parties.



# BUSINESS

## OUR OPERATION FLOW

Our operation flow can generally be summarised as follows:



### **Orders origination**

We generate our business primarily by participating in trade fairs to reach out for potential customers. In trade fairs, we promote our new and existing products. We also exchange market information and trends with potential and existing customers and receive purchase orders from our recurring customers.

New customers, in particular, the international renowned chain supermarkets and department stores, who are interested in placing orders with our Group generally request for an on-site factory visit to inspect our production and quality control processes. They may visit our showroom and also verify the international certifications we obtained for our products. In some cases, our recurring customers may also conduct an update on-site factory audit to ascertain that we are able to comply with their requested standards on the production and quality control process and product specifications continuously.

### **Negotiation and confirmation of orders**

Customers purchase products from our product catalogues. In some cases, customers may have specific feature and specification requirements on the products, such as high heat thermal resistance, colour migration and food safety standards. We will review the customers' product requirements, derive the engineering specifications on materials used, conduct various tests on materials by our in-house engineers and external third party laboratories, refine the needs and designs with the customers and provide sample product to the customers for their confirmation.

For products with new designs, we will design and create relevant product moulds by our in-house team in our own production facilities.

Our sales staff negotiate and confirm the terms of orders, including prices and delivery time, with our customers.

### **Materials procurement and production plan formulation**

We purchase our raw materials based on the customers' confirmed purchase orders and our sale projection. Our procurement and production departments, based on the customers' confirmed purchase orders, will formulate the production schedules, including the materials required for sub-contracting of production. Since polypropylene resins are the principal materials commonly used in our products, we generally make bulk purchase one or two months in advance of our production plan and we keep an inventory level of two to eight weeks for polypropylene resins.

### **Mass production**

After we receive confirmed purchase orders from our customers, our production department will analyse our production capacity, estimate the production cost and prepare and finalise the overall procurement and production plan and schedule. In case where sub-contracting of such production will incur lower cost than our own production or if production of the products will exceed our production capacity, we may sub-contract the production to the sub-contractors qualified by us.

## BUSINESS

### Quality inspection and control

Since our products have to meet the requirements of our customers and comply with certain applicable safety and certification standards, we place great emphasis on the quality and standard of our products. We have implemented a quality control measure throughout the production process, from incoming materials to finished products.

### Packaging and delivery

For overseas sales, our products are generally delivered through sea transportation and our products are sent to the designated departure port. For Hong Kong sales, our products are generally delivered by road transportation to the customers' warehouses in Hong Kong.

### OUR PRODUCTS

We produce and sell a comprehensive range of plastic household products. As at 30 June 2018, we offered approximately 1,070 types of products with various colours, sizes, shapes and features. Since 2010, we first launched new, safe and innovative series of products under our “clipfresh” brand. Since then, we have been offering our products either under our “clipfresh” brand and on an ODM basis.

For the four years ended 31 December 2017 and the six months ended 30 June 2018, approximately 20.5%, 21.2%, 24.6%, 25.4% and 26.0% of our total revenue were derived from sales of products under our “clipfresh” brand, respectively, and approximately 79.5%, 78.8%, 75.4%, 74.6% and 74.0% of our total revenue were derived from ODM sales of products, respectively.

The table below sets forth the breakdown of our revenue of sales of products under our “clipfresh” brand and ODM products for the periods indicated:

|                                  | 2014           |              | Year ended 31 December |              |                |              | Six months ended 30 June |              |                |              |                |              |
|----------------------------------|----------------|--------------|------------------------|--------------|----------------|--------------|--------------------------|--------------|----------------|--------------|----------------|--------------|
|                                  |                | % of         | 2015                   | 2016         | 2017           |              | 2017                     | 2018         |                |              |                |              |
|                                  | HK\$'000       | total        | HK\$'000               | HK\$'000     | HK\$'000       | HK\$'000     | HK\$'000                 | HK\$'000     | HK\$'000       | HK\$'000     | HK\$'000       | HK\$'000     |
|                                  | revenue        | revenue      | revenue                | revenue      | revenue        | revenue      | revenue                  | revenue      | revenue        | revenue      | revenue        | revenue      |
| Products under “clipfresh” brand | 61,886         | 20.5         | 66,761                 | 21.2         | 73,889         | 24.6         | 82,793                   | 25.4         | 41,931         | 26.5         | 41,537         | 26.0         |
| ODM products                     | 240,101        | 79.5         | 248,766                | 78.8         | 226,743        | 75.4         | 243,021                  | 74.6         | 116,021        | 73.5         | 118,244        | 74.0         |
| <b>Total</b>                     | <b>301,987</b> | <b>100.0</b> | <b>315,527</b>         | <b>100.0</b> | <b>300,632</b> | <b>100.0</b> | <b>325,814</b>           | <b>100.0</b> | <b>157,952</b> | <b>100.0</b> | <b>159,781</b> | <b>100.0</b> |

## BUSINESS

The table below sets forth our gross profit and gross profit margin of products under “clipfresh” brand and ODM products for the periods indicated:

|                                  | Year ended 31 December |             |               |             |                |             |                |             | Six months ended 30 June |             |               |             |
|----------------------------------|------------------------|-------------|---------------|-------------|----------------|-------------|----------------|-------------|--------------------------|-------------|---------------|-------------|
|                                  | 2014                   |             | 2015          |             | 2016           |             | 2017           |             | 2017                     |             | 2018          |             |
|                                  | Gross                  |             | Gross         |             | Gross          |             | Gross          |             | Gross                    |             | Gross         |             |
|                                  | Gross profit           | margin      | Gross profit  | margin      | Gross profit   | margin      | Gross profit   | margin      | Gross profit             | margin      | Gross profit  | margin      |
| HK\$'000                         | %                      | HK\$'000    | %             | HK\$'000    | %              | HK\$'000    | %              | HK\$'000    | %                        | HK\$'000    | %             |             |
|                                  | (unaudited)            |             |               |             |                |             |                |             |                          |             |               |             |
| Products under “clipfresh” brand | 27,542                 | 44.5        | 32,237        | 48.3        | 37,914         | 51.3        | 43,588         | 52.6        | 21,513                   | 51.3        | 22,463        | 54.1        |
| ODM products                     | 46,438                 | 19.3        | 52,634        | 21.2        | 68,805         | 30.3        | 69,289         | 28.5        | 35,207                   | 30.3        | 34,904        | 29.5        |
| <b>Total</b>                     | <b>73,980</b>          | <b>24.5</b> | <b>84,871</b> | <b>26.9</b> | <b>106,719</b> | <b>35.5</b> | <b>112,877</b> | <b>34.6</b> | <b>56,720</b>            | <b>35.9</b> | <b>57,367</b> | <b>35.9</b> |

### Products under our “clipfresh” brand

Products sold under our “clipfresh” brand mainly include food storage containers and drinkware of different series. Generally, our “clipfresh” brand products are targeting at higher quality and meeting more stringent safety and certification standards. We target to position our “clipfresh” products as mid-to-high end products in the market. The products are microwave/oven safe and freezer safe and, depending on the series of products, can withstand temperatures up to 400 degree Celsius. These containers are sealed with a unique patented durable clip locking system which provides a feature of air and liquid proof and keeps food safe from air, moisture and odours.

As at 30 June 2018, we launched three series of products under our “clipfresh” brand: (i) plastic series; (ii) glass series; and (iii) ceramic series. Our “clipfresh” products are generally liquid proof, pest proof, odour proof, moist proof and carrying the high-heat thermal resistant feature.

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## BUSINESS

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### Product



### Description

This series of products include (a) classic plastic food storage containers and large storage containers with various volume fit for multi-purposes and storage of household articles such as towels, sundry, utensils and gadgets; (b) food storage containers made of tritan plastic; and (c) food storage containers having a detachable inner silicone tray.

### Product series

plastic

They are food contact safe, microwave safe, dishwasher safe and freezer safe. They are BPA-free and have met the standards required by FDA and LFGB. Products under this series can withstand a temperature range from -20 degree Celsius to 260 degree Celsius.



This series of products are made of borosilicate glass. They are food contact safe, microwave and oven safe, dishwasher safe and freezer safe. Products under this series can withstand a temperature range from -20 degree Celsius to 400 degree Celsius.

glass



This highly decorative series of ceramic containers can be served directly on the table. They are food contact safe, microwave and oven safe, dishwasher safe and freezer safe. The ceramic containers can be used for baking and can withstand a temperature range from -30 degree Celsius to 250 degree Celsius.

ceramic



## BUSINESS

The table below sets forth the breakdown of the revenue of our “clipfresh” products by product series for the periods indicated:

|                | 2014          |             | Year ended 31 December |             |               |             | Six months ended 30 June |             |               |             |               |             |
|----------------|---------------|-------------|------------------------|-------------|---------------|-------------|--------------------------|-------------|---------------|-------------|---------------|-------------|
|                |               |             | 2015                   |             | 2016          |             | 2017                     |             | 2017          |             | 2018          |             |
|                | % of          |             | % of                   |             | % of          |             | % of                     |             | % of          |             | % of          |             |
|                | total         | total       | total                  | total       | total         | total       | total                    | total       | total         | total       | total         | total       |
| HK\$'000       | revenue       | HK\$'000    | revenue                | HK\$'000    | revenue       | HK\$'000    | revenue                  | HK\$'000    | revenue       | HK\$'000    | revenue       |             |
| Plastic series | 56,585        | 18.7        | 61,213                 | 19.5        | 67,616        | 22.5        | 75,712                   | 23.2        | 37,920        | 24.0        | 40,315        | 25.2        |
| Glass series   | 3,493         | 1.2         | 4,458                  | 1.4         | 5,349         | 1.8         | 7,081                    | 2.2         | 4,011         | 2.5         | 1,222         | 0.8         |
| Ceramic series | 1,808         | 0.6         | 1,090                  | 0.3         | 924           | 0.3         | -                        | 0.0         | -             | 0.0         | -             | 0.0         |
| <b>Total</b>   | <b>61,886</b> | <b>20.5</b> | <b>66,761</b>          | <b>21.2</b> | <b>73,889</b> | <b>24.6</b> | <b>82,793</b>            | <b>25.4</b> | <b>41,931</b> | <b>26.5</b> | <b>41,537</b> | <b>26.0</b> |

### ODM Products

All our ODM products are plastic products. We generally classify our ODM products into five main categories: (i) storage boxes; (ii) laundry and bathroom wares; (iii) food storage; (iv) rubbish bins, outdoor, gardenware and furniture; and (v) kitchenwares.

| Product   | Description   | Product category           |
|---|---|----------------------------|
|  | Products under this category include storage boxes of varied sizes mainly in square and rectangular shapes, drawers and baskets | storage boxes              |
|  | Products under this category are specifically designed for laundry and bathroom wares   | laundry and bathroom wares |

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## BUSINESS

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### Product



### Description

Products under this category are specifically designed for food storage

### Product category

food storage



Products under this category include rubbish bins of different sizes, shapes and features, flower pots, children chairs, buckets and beach sets

rubbish bins, outdoor, gardenware and furniture sets



Products under this category include plastic food containers, microwave items, trays, drinkware and tabletops

kitchenwares



## BUSINESS

The table below sets forth the breakdown of the revenue of our ODM products by product categories for the periods indicated:

|   | 2014           |                    | Year ended 31 December |                    |                |                    | 2017           |                    | Six months ended 30 June |                    |                |                    |
|---|----------------|--------------------|------------------------|--------------------|----------------|--------------------|----------------|--------------------|--------------------------|--------------------|----------------|--------------------|
|   |                |                    | 2015                   |                    | 2016           |                    |                |                    | 2017                     |                    | 2018           |                    |
|   | HK\$'000       | % of total revenue | HK\$'000               | % of total revenue | HK\$'000       | % of total revenue | HK\$'000       | % of total revenue | HK\$'000                 | % of total revenue | HK\$'000       | % of total revenue |
| Storage boxes                                   | 124,486        | 41.2               | 140,181                | 44.4               | 125,151        | 41.6               | 140,567        | 43.1               | 62,958                   | 39.9               | 66,221         | 41.5               |
| Laundry and bathroom wares                      | 40,617         | 13.5               | 39,181                 | 12.4               | 31,489         | 10.5               | 33,258         | 10.2               | 17,892                   | 11.3               | 15,319         | 9.6                |
| Food storage                                    | 25,462         | 8.4                | 29,846                 | 9.4                | 30,521         | 10.2               | 28,544         | 8.8                | 15,138                   | 9.6                | 11,825         | 7.4                |
| Rubbish bins, outdoor, gardenware and furniture | 16,377         | 5.4                | 18,559                 | 5.9                | 17,535         | 5.8                | 17,564         | 5.4                | 8,272                    | 5.3                | 9,318          | 5.8                |
| Kitchenwares                                    | 28,035         | 9.3                | 16,378                 | 5.2                | 15,343         | 5.1                | 14,560         | 4.5                | 7,751                    | 4.9                | 12,328         | 7.7                |
| Others (Note)                                   | 5,124          | 1.7                | 4,621                  | 1.5                | 6,704          | 2.2                | 8,528          | 2.6                | 4,010                    | 2.5                | 3,233          | 2.0                |
| <b>Total</b>                                    | <b>240,101</b> | <b>79.5</b>        | <b>248,766</b>         | <b>78.8</b>        | <b>226,743</b> | <b>75.4</b>        | <b>243,021</b> | <b>74.6</b>        | <b>116,021</b>           | <b>73.5</b>        | <b>118,244</b> | <b>74.0</b>        |

*Note:* Others include office solutions, tool boxes, pet accessories, aircraft meal trays and seasonal goods.

For further information on the price ranges of our products, please refer to the section headed “Financial information – Principal statement of comprehensive income components – Breakdown by product types” of this prospectus.

### PRODUCT DESIGN AND DEVELOPMENT

#### Product design and development team

We place great emphasis on our product design and development by offering a diversified range of quality and safe products. Our product design and development is performed by our engineers and our technical and moulding staff. As at the Latest Practicable Date, our product design and development and mould design team consisted of 23 staff, which was led by Mr. Tong Bak Nam Billy, our chief executive officer and executive Director. The engineers and our technical and moulding staff in our product design and development and mould design team are experienced in product design and development and mould design for plastic household products.

Our production design and development and mould design team is primarily responsible for enhancing the functions and designs of our existing products and developing new products. Our design and development and mould design team will also explore new features of our products and the use of different and new types of materials. We generally are capable of delivering 20 to 30 types of newly designed products each year. To protect our design and development effort, we have obtained patents in relation to a unique durable clip locking system used in our “clipfresh” products and other designs in our products. For details of our patents, please refer to the paragraph headed “Intellectual property rights of our Group” in Appendix IV to this prospectus.



### **Product design and development process**

Our product design and development process can be generally divided into three stages: (i) market assessment; (ii) product drawing and visual design; and (iii) manufacturing and technical feasibility evaluation.

*Market assessment* – Our sales and marketing team collects and provides our production design and development and mould design team with feedback from our customers, information on market trends and preferences and updates on safety and certification standards. Apart from feedback from the above, we also keep abreast of the market trends and up-to-date product safety standards through participating in trade fairs, studying industry statistics and market researches.

*Product drawing and visual design* – Our production design and development and mould design team analyses the information collected from various sources and generates the ideas and concepts on new products or enhancement of existing products. The ideas and concepts cover the types of materials to be used, visual design, functionality, features and safety standard of the product. Our production design and development and mould design team formulates the artistic and visual design of the product based on the new ideas and concepts, and for our ODM products, based on the specifications and requirements provided by our customers.

*Manufacturing and technical feasibility evaluation* – Upon completion of the artistic design, our production team assesses the manufacturing and technical feasibility of the products, including ensuring compliance with the relevant safety and quality standards. Samples and prototypes are produced in this phase. Both the production design and development and mould design team and the production team work closely to test the samples or prototypes and refine the design until it passes the relevant tests. These tests are carried out by our in-house engineers or independent third party laboratories. In some cases, we may apply for internationally and industry recognised certifications for the new products. Once the samples or prototypes have passed all the relevant tests, our management determines the commercial launching time of the new products after considering various factors including market trend, our business strategies, production and cost efficiency, etc. For our ODM sales, our ODM customers will approve and provide comments on the prototypes and sample products. The approved ODM products will be produced and delivered to our ODM customers according to the relevant purchase orders. Our production design and development and mould design team and the production team together will also prepare a report on the product covering design, type of material used, specifications and safety standards.

For the four years ended 31 December 2017 and the six months ended 30 June 2018, we incurred approximately HK\$1.1 million, HK\$1.3 million, HK\$1.4 million, HK\$1.4 million and HK\$0.6 million, respectively, as research and development expenses.

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## BUSINESS

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### OUR PRODUCTION FACILITIES

#### Our production facilities

As at the Latest Practicable Date, we had two production facilities: (i) the Henggang Production Facilities; and (ii) the New Production Facilities.

#### *Henggang Production Facilities*

The Henggang Production Facilities are located in Henggang Sub-District, Longgang District, Shenzhen, the PRC with a total gross floor area of approximately 34,746.45 sq.m.

We lease the land and properties for Henggang Production Facilities from an Independent Third Party. The Henggang Production Facilities comprise of the Henggang Factories with a total gross floor area of 22,887.92 sq.m. as our production facilities and the Henggang Staff Quarters with a total gross floor area of 11,858.53 sq.m. as dormitory for our staff. The leases of the Henggang Factories and the Henggang Staff Quarters will expire in April 2020 and February 2020, respectively. Please refer to the paragraph headed “Properties leased by us” of this section for details of the land and properties we lease.

The Henggang Production Facilities are used for the production of all of our products. As at 30 June 2018, the Henggang Production Facilities and the New Production Facilities were equipped with 75 plastic injection moulding machines in total. The following table sets forth the utilisation of our production facilities:

|  | Year ended 31 December |        |        |        | Six months ended |
|--|------------------------|--------|--------|--------|------------------|
|  | 2014                   | 2015   | 2016   | 2017   | 30 June 2018     |
| Effective designed capacity ( <i>tonnes</i> )<br>( <i>Note 1</i> ) | 16,688                 | 18,109 | 19,155 | 19,008 | 8,590            |
| Actual production volume<br>( <i>tonnes</i> ) ( <i>Note 2</i> )    | 14,152                 | 15,652 | 16,616 | 15,408 | 7,717            |
| Effective utilisation rate ( <i>Note 3</i> )                       | 84.8%                  | 86.4%  | 86.7%  | 81.1%  | 89.8%            |

*Notes:*

1. The effective designed capacity is estimated based on the designed capacity of the plastic injection moulding machines per hour multiplied by 24 hours per day multiplied by 365 or 366 days for the four years ended 31 December 2017 and 181 days for the six months ended 30 June 2018, minus the required maintenance days during the year/period. For the six months ended 30 June 2018, the calculation of the effective design capacity has taken into account of the impact on production as a result of the relocation to New Production Facilities.
2. The actual production volume refers to the actual weight of the polypropylene resins processed by the plastic injection moulding machines in respect of the products we sold to customers of the relevant year/period.
3. Effective utilisation rate is calculated by dividing the actual production volume by the effective designed capacity.

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## BUSINESS

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### *New Production Facilities*

As the Henggang Production Facilities are subject to certain title defects, as a remedial measure, we commenced to relocate our production to our New Production Facilities in December 2017 and completed in August 2018. For details of the defects to title of the Henggang Production Facilities, please refer to the paragraph headed “Defects of certain of our Leased Properties” of this section.

The land and properties for our New Production Facilities are leased from an Independent Third Party. The New Production Facilities are located at Factory 4#, No. 228 Industrial District, Henggang Community, Henggang Street, Longgang District, Shenzhen (深圳市龍崗區橫崗街道橫崗社區228工業區4#廠房). The New Production Facilities comprise one factory building with a total gross floor area of 11,865.79 sq.m.. Under the relocation to the New Production Facilities, our Group will not need an area of the size of the Henggang Production Facilities as currently, the space in the Henggang Production Facilities is not fully utilised. The New Production Facilities have an improved factory layout with sufficient space to accommodate all of our production equipment and machinery. The New Production Facilities are used for our production uses and do not contain staff quarters as our Director consider that the staff may seek for accommodation in the vicinity of the New Production Facilities.

Our Directors confirm that the New Production Facilities with an area of approximately 11,865.79 sq.m. is sufficient for our Group’s manufacturing operation.

Given all of our existing production equipment and machinery were relocated to the New Production Facilities, we do not expect material adverse impact to our production capacity as compared to that in the Henggang Production Facilities. The table below sets forth the key details of our New Production Facilities:

| <b>Progress</b>  | <b>Time/production capacity</b> |
|--|---------------------------------|
| Commencement date of our relocation plan   | December 2017                   |
| Completion date of our relocation plan   | August 2018                     |
| Commencement date of first trial operation   | January 2018                    |
| Expected commencement date of full operation   | September 2018                  |
| Estimated maximum designed annual production capacity after relocation ( <i>Note</i> ) | 19,928.78 tonnes                |

*Note:* The maximum designed annual production capacity is estimated based on the designed capacity of the plastic injection moulding machines per hour multiplied by 24 hours per day multiplied by 365 days, minus the required maintenance days during the year.

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## BUSINESS

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For details of our relocation plan to the New Production Facilities, please refer to the paragraph headed “Relocation to the New Production Facilities” of this section.

### **Our production equipment and machinery**

We purchase our production equipment and machinery from Independent Third Parties in the PRC. All of our production equipment and machinery are owned by us. We have a comprehensive maintenance system for our production facilities and equipment, including scheduled downtime for maintenance and repairs, and regular inspection of our production facilities and equipment in order to ensure our production lines run smoothly and operate at optimal levels. Our production lines are subject to on-going maintenance checks. Regular maintenance of our production facilities are generally on a monthly basis and are scheduled to rotate among different equipment to avoid complete shutdown of our operation.

During the Track Record Period, we have not experienced any material or prolonged interruption to our production processes due to equipment or machinery failure.

The table below sets forth information on our major machinery and equipment as at 30 June 2018:

| <b>Type of major machineries and equipments</b> | <b>Number of machineries and equipments</b> | <b>Average age (years)</b> | <b>Average remaining useful lives (years)<br/>(Note)</b> | <b>Upcoming replacement cycle</b> |
|---|---|----------------------------|--|-----------------------------------|
| Injection moulding machines                     | 75  | 4.2                        | 5.8  | 10 machines per year              |
| Automated robot arm machines                    | 57  | 8.7                        | 3.2  | 5 machines per year               |

*Note:* Machinery and equipment where the age had already passed its estimated useful life for accounting purpose (i.e. nil remaining useful life) were not included in the remaining useful life calculation.

### **PRODUCTION PROCESS**

Our production process used to be labour intensive. During the Track Record Period, we strived to increase the automation level of our production process to increase the production and cost efficiency.

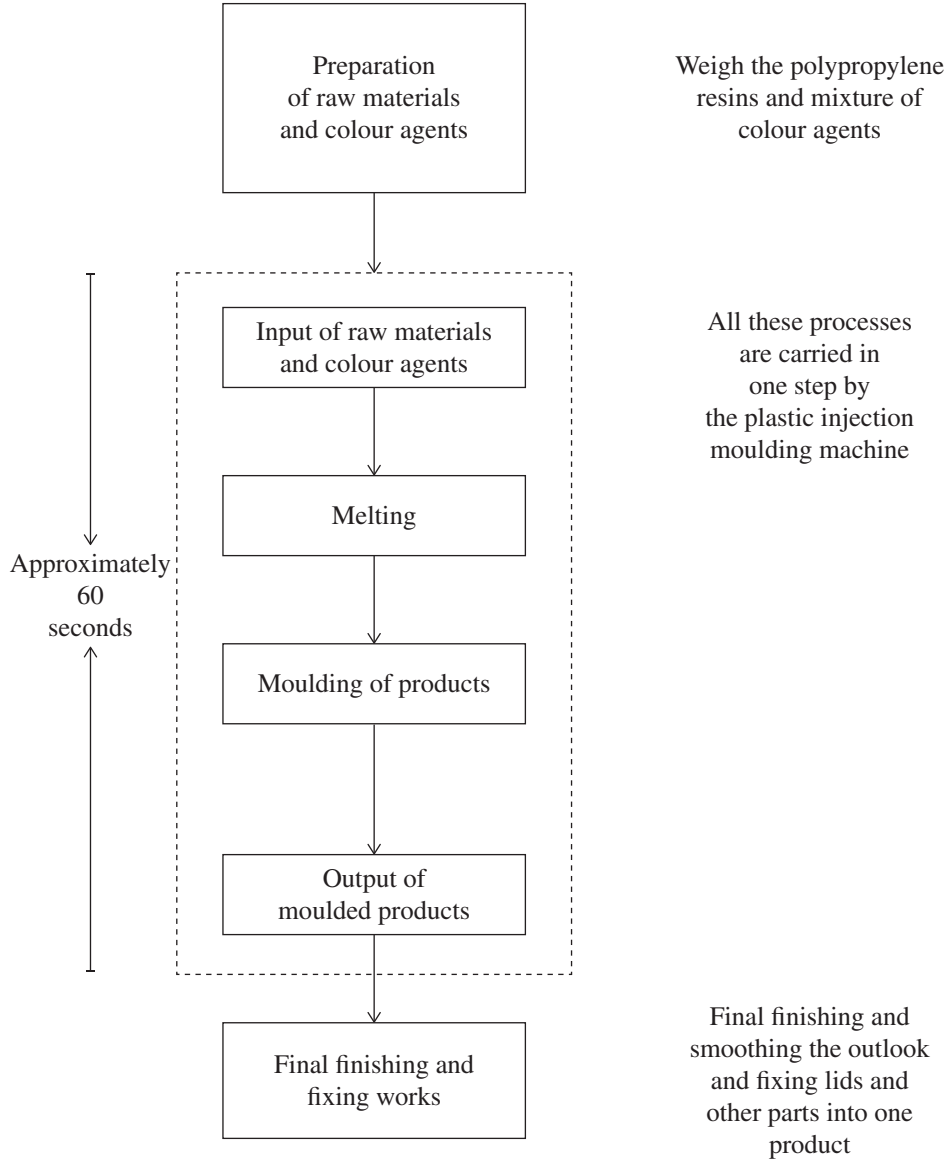
During the Track Record Period, we carried out the production process of our products in our own production facilities and our production staff work 24 hours a day in shifts. On occasions where the sub-contracting of production incurs lower production cost or if production of the products will exceed our production capacity, we may sub-contract the production of our products to the sub-contractors qualified by us. For details of our sub-contracting, please refer to the paragraph headed “Sub-contracting” of this section.

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The following chart illustrates the typical production process of our products:



### SUB-CONTRACTING

For purposes of providing flexibility in our production planning and enhancing our cost effectiveness, we may outsource the production of our products to sub-contractors if sub-contracting such production will incur lower cost than our own production or if production of the products will exceed our production capacity. These sub-contractors are located near to our production facilities. During the Track Record Period, we had two qualified sub-contractors and both of them are Independent Third Parties. Among the sub-contractors qualified by us, we review from time to time and conduct on-site inspection, if necessary. We have maintained business relationships with these two sub-contractors for over four years. With these stable business relationships with these sub-contractors and our past experiences of transactions with them, we do not foresee any imminent risk of their failure to provide the sub-contracting services to our Group. In addition, given that there are numerous factories

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engaging in the production of plastic products, our Directors are of the view that we will not encounter any major difficulty in engaging a substitute sub-contractor on similar terms if we fail to secure these sub-contractors to provide the sub-contracting services to us.

Our typical sub-contracting arrangements include the following:

- the terms of the sub-contracting including the sub-contracting fees, the type, quantity and specifications of the products and the delivery time are set out in the relevant purchase orders with the sub-contractors;
- we provide to the sub-contractor the specifications of the products, which will be treated as a benchmark for quality inspection on the products delivered by the sub-contractors; and
- our quality control staff attend the production facilities of the sub-contractors to provide guidance during the production of our products, conduct sample testing and quality checks on the products and conduct on-site inspection, if necessary.

Upon completion of the production process, the sub-contractors will deliver the finished products to our production facilities. Before the delivery of the products to our customers, our quality control staff will again conduct sample check on the finished products of the sub-contractors against the specifications as set out in the purchase orders.

During the Track Record Period, the products we sub-contracted for production were ODM products. We provide to our sub-contractors the raw materials and the product moulds of the sub-contracted products. As a control measure against the infringement of intellectual property rights of sub-contracted products, the sub-contractors are required to promptly return to us all the unused raw materials and product moulds after completion of the production process. During the Track Record Period and up to the Latest Practicable Date, we were not aware of any infringement of the intellectual property rights of the sub-contracted products by our sub-contractors.

For the four years ended 31 December 2017 and the six months ended 30 June 2018, the sub-contracting fees paid to our sub-contractors amounted to approximately HK\$12.5 million, HK\$11.5 million, HK\$9.9 million, HK\$10.5 million and HK\$0.8 million, respectively, representing approximately 5.5%, 5.0%, 5.1%, 4.9% and 0.8% respectively, of our total cost of sales during the corresponding periods.

During the Track Record Period and up to the Latest Practicable Date, we had not received any material claims or complaints by our customers in respect of the quality of the finished products produced by our sub-contractors.

During the Track Record Period, we have not entered into any long-term agreements with our sub-contractors and we placed orders with them on an order-by-order basis, but we believe we have managed to maintain good relationships with our sub-contractors. During the Track Record Period, we did not experience any material disputes with or delays in delivery by our sub-contractors.

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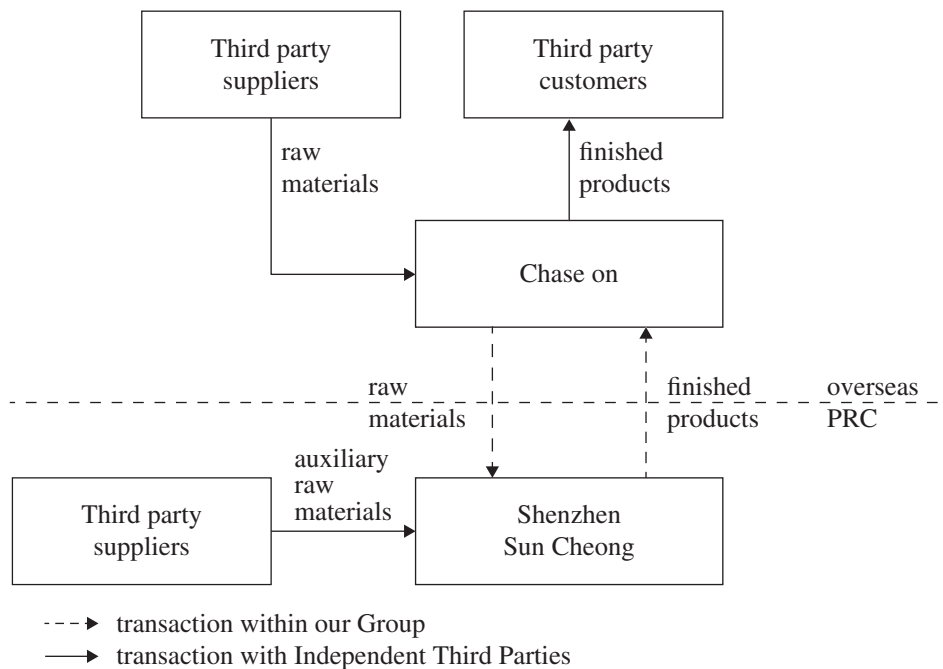
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### INTRA-GROUP SALES BETWEEN CHASE ON AND SHENZHEN SUN CHEONG

#### The transactions

Shenzhen Sun Cheong is our production arm while our sales orders are concluded by Chase On with our customers. Upon receipt of the sales orders from our customers, Chase On would channel the purchase orders to Shenzhen Sun Cheong to produce the products. The transactions between Shenzhen Sun Cheong and Chase On are treated as sales by Shenzhen Sun Cheong to Chase On and the selling prices are on a cost-plus basis.

The following chart shows the transactions between Shenzhen Sun Cheong and Chase On:



#### *Procurement of raw materials*

- Chase On purchases the raw materials from third party suppliers outside the PRC
- Chase On sells these raw materials to Shenzhen Sun Cheong
- For auxiliary raw materials, Shenzhen Sun Cheong sources such materials from third party suppliers in the PRC
- Materials used for the production are delivered to Shenzhen Sun Cheong

#### *Sales of products*

- Chase On received purchase orders from third party customers outside the PRC and Chase On would channel these purchase orders to Shenzhen Sun Cheong

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- Chase On would place purchase orders to Shenzhen Sun Cheong and the purchase prices are on a cost plus basis

The major functions undertaken by Shenzhen Sun Cheong in the transactions include (i) production; (ii) quality control; and (iii) general administration works. The major functions undertaken by Chase On in the transactions include (i) procurement; (ii) inventory control and logistics; (iii) sales and marketing; (iv) after-sales services; (v) payment request and return of products; and (vi) general administration works.

### **Potential tax exposure**

During the Track Record Period, the pricing of the sales of the finished products between Chase On and Shenzhen Sun Cheong was based on the cost-plus basis. We assessed and referenced to similar transactions in the market and are of the view that the transactions are carried out under arm's length basis.

In order to assess whether the sales between Chase On and Shenzhen Sun Cheong were carried on an arm's length basis, we have engaged an independent tax consultant (the "**Tax Consultant**"), the tax department of one of the four largest international auditing, tax and advisory firms, to conduct an analysis of the above transactions and re-assess the potential tax liability that may be imposed on Shenzhen Sun Cheong by benchmarking the profit margin ranges derived from companies comparable to Shenzhen Sun Cheong during the Track Record Period. Given the functional profile of the parties involved in the transactions, a transactional net margin method is selected as an appropriate transfer pricing analysis methodology to test the arm's length nature of the above transactions. The analysis result suggests that an income tax provision for Shenzhen Sun Cheong of approximately RMB0.5 million, nil, nil, nil and nil for the four years ended 31 December 2017 and the six months ended 30 June 2018, respectively, is to be made, and we have made such provisions accordingly.

Our Directors and the Tax Consultant are of the view that the above comprehensive assessment basis by referencing to similar market transactions and applying the profit margin ranges derived from comparable companies during the Track Record Period complies with the applicable transfer pricing rules and regulations in the PRC and Hong Kong which require related party transactions to be carried out at arm's length basis.

### **Commercial rationale**

Our Directors believe that such transactions enhance the effectiveness of our overall management and operations and avoid the concentration of our marketing and production functions into a single entity within our Group.

### **Measures to ensure on-going compliance**

Our Group's transfer pricing arrangement is part of a normal trading operation where a transaction price needs to be established. We have implemented a general policy in this area to follow the arm's length principle and to achieve an arm's length outcome. We will regularly review the arrangements between Chase On and Shenzhen Sun Cheong.



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As at the Latest Practicable Date, we were not aware of any enquiry, audit or investigation by any tax authority in the PRC or Hong Kong with respect to transfer pricing carried out by our Group.

### RAW MATERIALS AND MAJOR SUPPLIERS

#### Principal raw materials

The primary raw material used in the production of our products is polypropylene resins. In general, we purchase polypropylene resins mainly from suppliers located in Hong Kong. We also source packaging materials from suppliers located in the PRC.

For the four years ended 31 December 2017 and the six months ended 30 June 2018, the cost of materials accounted for approximately 71.8%, 69.9%, 65.1%, 68.6% and 67.5%, respectively, of our total cost of sales.

The following table sets out the breakdown of our total material costs during the Track Record Period:

|                      | 2014                |              | Year ended 31 December |              |                     |              | 2017                |              | Six months ended 30 June |              |                     |              |
|----------------------|---------------------|--------------|------------------------|--------------|---------------------|--------------|---------------------|--------------|--------------------------|--------------|---------------------|--------------|
|                      | % of total material |              | % of total material    |              | % of total material |              | % of total material |              | % of total material      |              | % of total material |              |
|                      | HK\$'000            | costs        | HK\$'000               | costs        | HK\$'000            | costs        | HK\$'000            | costs        | HK\$'000                 | costs        | HK\$'000            | costs        |
| Polypropylene resins | 129,995             | 79.4         | 128,130                | 79.5         | 96,058              | 76.1         | 111,172             | 76.1         | 52,989                   | 76.1         | 50,167              | 72.5         |
| Packaging materials  | 14,181              | 8.7          | 14,215                 | 8.8          | 14,708              | 11.7         | 22,444              | 15.4         | 10,004                   | 14.4         | 11,978              | 17.3         |
| Others (Note)        | 19,479              | 11.9         | 18,914                 | 11.7         | 15,426              | 12.2         | 12,391              | 8.5          | 6,602                    | 9.5          | 7,026               | 10.2         |
| <b>Total</b>         | <b>163,655</b>      | <b>100.0</b> | <b>161,259</b>         | <b>100.0</b> | <b>126,192</b>      | <b>100.0</b> | <b>146,007</b>      | <b>100.0</b> | <b>69,595</b>            | <b>100.0</b> | <b>69,171</b>       | <b>100.0</b> |

Note: Others represent ancillary materials such as silicon rings and other consumable materials.

#### Procurement planning

As at 30 June 2018, our procurement department was comprised of four staff. Our production department, based on the customers' confirmed purchase orders, will formulate the production plan. Our procurement department formulates the procurement plan for polypropylene resins primarily based on historical and estimated production need for polypropylene resins.

For raw materials where there are available inventories, our production department will place an internal raw material withdrawal request form to retrieve the necessary amount of raw materials from our warehouse. Since polypropylene resins are commonly used in our products,

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we generally make bulk purchases one to two months in advance of our production plan. We formulate such bulk purchase plan with reference to our historical purchase amount and raw material inventory level. Our production department will place an internal purchase request with our procurement department upon receipt of the confirmed purchase orders from our customers. Our procurement staff normally request for price quotations from at least three suppliers from our list of qualified suppliers to obtain the best price for the polypropylene resins and packaging materials. Generally, the prices of polypropylene resins are subject to the fluctuations in the prices for crude oil. Due to the crude oil price plummet from a yearly average of about US\$52.3 per barrel in 2015 to a yearly average of about US\$45.9 per barrel in 2016, our average purchase price of polypropylene resins dropped from approximately HK\$10,333 per tonne in 2015 to approximately HK\$8,583 per tonne in 2016. For the six months ended 30 June 2018, our average purchase price of polypropylene resins was approximately HK\$10,352 per tonne, due to the increase in the price of crude oil to about US\$54.2 per barrel in 2017. Please refer to the paragraph headed “Financial information – Material costs” of this prospectus for the sensitivity analysis of the prices of polypropylene resins on our profits.

Since we did not engage in any hedging activity or enter into any futures contract to manage price fluctuation of our raw materials during the Track Record Period and do not plan to enter into any hedging activity in the foreseeable future, it is our policy that when we anticipate an increase in the raw materials or a shortage of supply, we will adjust our procurement plans accordingly in order to minimise our exposure to the fluctuations in prices and supply.

During the Track Record Period, we did not experience any significant adverse fluctuations of the prices of our raw materials.

### **Our suppliers**

In general, we purchase polypropylene resins mainly from suppliers located in Hong Kong, who to our best knowledge, source polypropylene resins which are manufactured in countries including South Korea, the United Arab Emirates and Brazil. We source our packaging materials such as carton boxes, plastic bags and labels from suppliers located in the PRC. Our suppliers also include our sub-contractors.

As at 30 June 2018, we had 81 qualified suppliers and 11 of whom were suppliers of polypropylene resins and a stable supply of this key raw material would be secured and the other qualified suppliers are suppliers of packaging materials and other materials. For the four years ended 31 December 2017 and the six months ended 30 June 2018, five, four, four, four and three of our top five suppliers have worked with us for five years or more.

Our suppliers generally grant us a credit term ranging from cash on delivery to 90 days. Some of our suppliers require advance payment from us. In case of transaction with new suppliers, they may require us to pay upon the delivery of goods. During the Track Record Period, we mainly settled payments with our suppliers in US dollars and RMB by telegraphic transfers or by cheque.

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We adopt strict procedures in selecting our suppliers. We review their background information. We also assess the suppliers in aspects including their scale of operation, quality control system, prices, financial position and reputation in the industry. Having met our selection criteria, the supplier will become our qualified supplier. We also conduct evaluation of our qualified suppliers from time to time, which includes the stability and schedule of supply, production facilities, quality control system and the validity of their relevant licences and permits.

Since polypropylene resins is our key raw material and the quality of which will affect the quality of our finished products, we place great emphasis on the quality of polypropylene resins. We require our polypropylene resins suppliers to provide us the certifications of the polypropylene resins they supply to us. These certifications remain valid for the same type of polypropylene resins unless there are changes in the safety standard or requirement. For a new type of polypropylene resins or a recent change in the safety standard or requirement, we require our suppliers to provide a certification on such new polypropylene resins, safety standard or requirement.

Delivery of raw materials we imported from overseas countries are delivered by shipment on a CIF basis at the destination port in Hong Kong. Delivery of raw materials we purchased takes place in Hong Kong and the PRC.

During the Track Record Period, we have not experienced any material return of raw materials to our suppliers.

We do not foresee any significant difficulty in finding alternate suppliers for our raw materials and packaging materials, although we have not entered into any long-term or framework supply agreement with our suppliers. We place individual purchase orders with our suppliers for packaging materials. We believe this arrangement provides us with the greatest flexibility in choosing our suppliers and obtaining a competitive price for the raw materials we require in our production process.

During the Track Record Period, we have not experienced any material dispute with our suppliers, nor any disruption, shortage or delay in relation to the supply of our raw materials which may materially and adversely affect our operations and financial condition.

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### Our five largest suppliers

The table below sets forth a summary of our five largest suppliers for the four years ended 31 December 2017 and the six months ended 30 June 2018:

*For the year ended 31 December 2014*

| Rank       | Supplier   | Background  | Approximate<br>years of<br>relationship<br>up to the<br>Latest<br>Practicable<br>Date | Principal raw<br>materials<br>purchased/<br>services<br>received | Approximate<br>amount of<br>purchase<br>and sub-<br>contracting<br>fees<br><i>(HK\$'000)</i> | Approximate  | Credit<br>term(s)<br><i>(Days)</i> | Settlement<br>method(s)        |
|------------|------------|---|---|--|--|--|------------------------------------|--------------------------------|
|            |            |   |   |  |  | percentage<br>of our<br>total<br>purchase<br>and sub-<br>contracting<br>fees<br><i>(%)</i> |                                    |                                |
| 1.         | Supplier A | A Hong Kong private company engaging in the sourcing and trading of raw plastic materials                       | 7   | polypropylene resins   | 57,048   | 30.1   | Cash on delivery                   | Telegraphic transfer           |
| 2.         | Supplier B | A Hong Kong private company engaging in the distribution of polymers products and raw plastic materials         | 5   | polypropylene resins   | 33,817   | 17.8   | 0-30                               | Telegraphic transfer or cheque |
| 3.         | Supplier C | A Hong Kong private company engaging in the sourcing and trading of chemical raw materials                      | 12 <i>(Note)</i>  | polypropylene resins   | 18,272   | 9.6  | 14-60                              | Telegraphic transfer           |
| 4.         | Supplier D | A PRC private company engaging in the processing and selling of plastic products and hardware packing materials | 6   | sub-contracting services   | 8,202  | 4.3  | Cash on delivery                   | Telegraphic transfer           |
| 5.         | Supplier E | A Hong Kong private company engaging in the sourcing and trading of plastic materials                           | 5   | polypropylene resins   | 7,468  | 3.9  | 14                                 | Telegraphic transfer           |
| Sub-total: |            |   |   |  | 124,807  | 65.7   |                                    |                                |

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*For the year ended 31 December 2015*

| Rank       | Supplier   | Background  | Approximate<br>years of<br>relationship<br>up to the<br>Latest<br>Practicable<br>Date | Principal raw<br>materials<br>purchased/<br>services<br>received | Approximate<br>amount of<br>purchase<br>and sub-<br>contracting<br>fees<br>(HK\$'000) | Approximate<br>percentage<br>of our total<br>purchase<br>and sub-<br>contracting<br>fees<br>(%) | Credit<br>term(s)<br>(Days) | Settlement<br>method(s)        |
|------------|------------|---|---|--|---|---|-----------------------------|--------------------------------|
| 1.         | Supplier C | A Hong Kong private company engaging in the sourcing and trading of chemical raw materials                  | 12 (Note)   | polypropylene resins   | 52,985  | 30.6  | 14-60                       | Telegraphic transfer or cheque |
| 2.         | Supplier A | A Hong Kong private company engaging in the sourcing and trading of raw plastic materials                   | 7   | polypropylene resins   | 29,824  | 17.2  | Cash on delivery            | Telegraphic transfer           |
| 3.         | Supplier F | A company listed on the Korea Stock Exchange which engages in the processing of petrochemical products      | 4   | polypropylene resins   | 11,734  | 6.8   | Advance payment             | Telegraphic transfer           |
| 4.         | Supplier E | A Hong Kong private company engaging in the sourcing and trading of plastic materials                       | 5   | polypropylene resins   | 9,298   | 5.4   | 14                          | Telegraphic transfer           |
| 5.         | Supplier D | A PRC private company engaging in processing and selling of plastic products and hardware packing materials | 6   | sub-contracting services   | 8,828   | 5.1   | Cash on delivery            | Telegraphic transfer           |
| Sub-total: |            |   |   |  | 112,669   | 65.1  |                             |                                |

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*For the year ended 31 December 2016*

| Rank       | Supplier   | Background  | Approximate<br>years of<br>relationship<br>up to the<br>Latest<br>Practicable<br>Date | Principal raw<br>materials<br>purchased/<br>services<br>received | Approximate<br>amount of<br>purchase<br>and sub-<br>contracting<br>fees<br>(HK\$'000) | Approximate<br>percentage<br>of our<br>total<br>purchase<br>and sub-<br>contracting<br>fees<br>(%) | Credit<br>term(s)<br>(Days) | Settlement<br>method(s)        |
|------------|------------|---|---|--|---|--|-----------------------------|--------------------------------|
|            |            |   |   |  |   |  |                             |                                |
| 1.         | Supplier C | A Hong Kong private company engaging in the sourcing and trading of chemical raw materials                      | 12 (Note)   | polypropylene resins   | 31,617  | 23.5   | 21                          | Telegraphic transfer or cheque |
| 2.         | Supplier A | A Hong Kong private company engaging in the sourcing and trading of raw plastic materials                       | 7   | polypropylene resins   | 28,194  | 21.0   | Cash on delivery            | Telegraphic transfer           |
| 3.         | Supplier G | A Hong Kong private company engaging in the sourcing and trading of plastic materials                           | 5   | polypropylene resins   | 10,407  | 7.7  | 30                          | Telegraphic transfer           |
| 4.         | Supplier D | A PRC private company engaging in the processing and selling of plastic products and hardware packing materials | 6   | sub-contracting services   | 9,004   | 6.7  | Cash on delivery            | Telegraphic transfer           |
| 5.         | Supplier H | A private company based in Singapore engaging in the marketing and selling of plastic products                  | 4   | polypropylene resins   | 8,584   | 6.4  | Advance payment             | Telegraphic transfer           |
| Sub-total: |            |   |   |  | 87,806  | 65.3   |                             |                                |

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*For the year ended 31 December 2017*

| Rank       | Supplier      | Background   | Approximate<br>years of<br>relationship<br>up to the<br>Latest<br>Practicable<br>Date | Principal raw<br>materials<br>purchased/<br>services<br>received | Approximate<br>amount of<br>purchase<br>and sub-<br>contracting<br>fees<br>(HK\$'000) | Approximate<br>percentage<br>of our total<br>purchase<br>and sub-<br>contracting<br>fees<br>(%) | Credit<br>term(s)<br>(Days) | Settlement<br>method(s)        |
|------------|---------------|--|---|--|---|---|-----------------------------|--------------------------------|
| 1          | Supplier<br>C | A Hong Kong private company engaging in the sourcing and trading of chemical raw materials               | 12 (Note)   | Polypropylene resins   | 42,511  | 28.1  | 14-60                       | Telegraphic transfer or cheque |
| 2          | Supplier<br>A | A Hong Kong private company engaging in the sourcing and trading of raw plastic materials                | 7   | Polypropylene resins   | 26,776  | 17.7  | Cash on delivery            | Telegraphic transfer           |
| 3          | Supplier<br>G | A Hong Kong private company engaging in the sourcing and trading of plastic materials                    | 5   | Polypropylene resins   | 14,993  | 9.9   | 30                          | Telegraphic transfer           |
| 4          | Supplier<br>D | A PRC private company engaging in processing and selling plastic products and hardware packing materials | 6   | Sub-contracting services   | 10,189  | 6.7   | Cash on delivery            | Telegraphic transfer           |
| 5          | Supplier I    | A Hong Kong private company engaging in the sourcing and trading of plastic materials                    | 3   | Polypropylene resins   | 7,756   | 5.1   | 30                          | Telegraphic transfer           |
| Sub-total: |               |  |   |  | 102,225   | 67.5  |                             |                                |

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*For the six months ended 30 June 2018*

| Rank       | Supplier   | Background   | Approximate<br>years of<br>relationship<br>up to the<br>Latest<br>Practicable<br>Date | Principal raw<br>materials<br>purchased/<br>services<br>received | Approximate<br>amount of<br>purchase<br>and sub-<br>contracting<br>fees<br>(HK\$'000) | Approximate<br>percentage<br>of our total<br>purchase<br>and sub-<br>contracting<br>fees<br>(%) | Credit<br>term(s)<br>(Days) | Settlement<br>method(s)        |
|------------|------------|--|---|--|---|---|-----------------------------|--------------------------------|
| 1          | Supplier A | A Hong Kong private company engaging in the sourcing and trading of raw plastic materials  | 7   | Polypropylene resins   | 15,681  | 22.7  | Cash on delivery            | Telegraphic transfer           |
| 2          | Supplier C | A Hong Kong private company engaging in the sourcing and trading of chemical raw materials | 12 (Note)   | Polypropylene resins   | 13,977  | 20.3  | 14-60                       | Telegraphic transfer or cheque |
| 3          | Supplier G | A Hong Kong private company engaging in the sourcing and trading of plastic materials      | 5   | Polypropylene resins   | 7,897   | 11.4  | 30                          | Telegraphic transfer           |
| 4          | Supplier J | A Hong Kong private company engaging in the sourcing and trading of plastic materials      | 3   | Polypropylene resins   | 4,462   | 6.5   | 30                          | Telegraphic transfer           |
| 5          | Supplier I | A Hong Kong private company engaging in the sourcing and trading of plastic materials      | 3   | Polypropylene resins   | 2,943   | 4.3   | 30                          | Telegraphic transfer           |
| Sub-total: |            |  |   |  | 44,960  | 65.2  |                             |                                |

*Note:* This supplier has first established business relationships with companies controlled by Mr. Tong Ying Chiu and Ms. Ng Siu Kuen Sylvia (including Farm Chalk HK) and as a result of the internal business restructuring as referred to in the paragraph headed “History and development – Business development” of this prospectus, it became a supplier of Chase On.



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For the four years ended 31 December 2017 and the six months ended 30 June 2018, purchases and sub-contracting fees (if any) from our five largest suppliers amounted to approximately HK\$124.8 million, HK\$112.7 million, HK\$87.8 million, HK\$102.2 million and HK\$45.0 million, which accounted for approximately 65.7%, 65.1%, 65.3%, 67.5% and 65.2%, respectively, of our total purchases and sub-contracting fees respectively. Purchases from our largest supplier amounted to approximately HK\$57.0 million, HK\$53.0 million, HK\$31.6 million, HK\$42.5 million and HK\$15.7 million, which accounted for 30.1%, 30.6%, 23.5%, 28.1% and 22.7%, respectively, of our total purchases and sub-contracting fees. None of our Directors, Shareholders (which to the best knowledge of our Directors owns more than 5% of the issued share capital of our Company) or their respective close associates had any interest in any of our five largest suppliers during the Track Record Period.

### OUR SALES AND CUSTOMERS

#### Overview

During the Track Record Period, we exported our products to countries including Australia, the UK, the United States, New Zealand and Germany, and sold our products in Hong Kong as well.

The table below sets forth the breakdown of our revenue by geographical locations for the periods indicated:

|                   | Year ended 31 December |                           |                 |                           |                 |                           |                 |                           | Six months ended 30 June |                           |                 |                           |
|-------------------|------------------------|---------------------------|-----------------|---------------------------|-----------------|---------------------------|-----------------|---------------------------|--------------------------|---------------------------|-----------------|---------------------------|
|                   | 2014                   |                           | 2015            |                           | 2016            |                           | 2017            |                           | 2017                     |                           | 2018            |                           |
|                   | <i>HK\$'000</i>        | <i>% of total revenue</i> | <i>HK\$'000</i> | <i>% of total revenue</i> | <i>HK\$'000</i> | <i>% of total revenue</i> | <i>HK\$'000</i> | <i>% of total revenue</i> | <i>HK\$'000</i>          | <i>% of total revenue</i> | <i>HK\$'000</i> | <i>% of total revenue</i> |
| Australia         | 188,478                | 62.4                      | 204,401         | 64.8                      | 183,469         | 61.0                      | 217,938         | 66.9                      | 100,030                  | 63.3                      | 113,620         | 71.1                      |
| Hong Kong         | 28,669                 | 9.5                       | 26,082          | 8.3                       | 26,703          | 8.9                       | 21,389          | 6.6                       | 10,566                   | 6.7                       | 10,173          | 6.4                       |
| The UK            | 28,500                 | 9.4                       | 21,062          | 6.7                       | 14,791          | 4.9                       | 12,908          | 4.0                       | 8,013                    | 5.1                       | 5,062           | 3.2                       |
| The United States | 20,796                 | 6.9                       | 15,985          | 5.1                       | 13,853          | 4.6                       | 4,533           | 1.4                       | 1,507                    | 1.0                       | 4,370           | 2.7                       |
| New Zealand       | 6,713                  | 2.2                       | 9,467           | 3.0                       | 10,884          | 3.6                       | 17,523          | 5.4                       | 7,603                    | 4.8                       | 7,345           | 4.6                       |
| Germany           | 356                    | 0.1                       | 6,877           | 2.2                       | 15,809          | 5.3                       | 18,114          | 5.5                       | 12,888                   | 8.2                       | 7,317           | 4.6                       |
| Others (Note)     | 28,475                 | 9.5                       | 31,653          | 9.9                       | 35,123          | 11.7                      | 33,409          | 10.2                      | 17,345                   | 10.9                      | 11,894          | 7.4                       |
|                   | <u>301,987</u>         | <u>100.0</u>              | <u>315,527</u>  | <u>100.0</u>              | <u>300,632</u>  | <u>100.0</u>              | <u>325,814</u>  | <u>100.0</u>              | <u>157,952</u>           | <u>100.0</u>              | <u>159,781</u>  | <u>100.0</u>              |

*Note:* Others mainly include Singapore, Belgium, Chile, France, Ireland, Italy, Japan, Thailand, the Republic of Panama, the Philippines, Saudi Arabia, South Africa, Switzerland, etc. and each of such regions accounted for nominal percentage of our total revenue ranging from approximately 0.0% to 1.3%, 0.0% to 1.5%, 0.0% to 1.2%, 0.0% to 1.1% and 0.0% to 1.0% for the four years ended 31 December 2017 and the six months ended 30 June 2018, respectively.

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During the Track Record Period, Australia is our largest sales market. For the four years ended 31 December 2017 and the six months ended 30 June 2018, revenues arising from sales to Australia amounted to approximately HK\$188.5 million, HK\$204.4 million, HK\$183.5 million, HK\$217.9 million and HK\$113.6 million, representing approximately 62.4%, 64.8%, 61.0%, 66.9% and 71.1% of our total revenue during the corresponding period, respectively.

During the Track Record Period and up to the Latest Practicable Date, our Directors considered that our business from the Australian market was stable, notwithstanding the fluctuation of currency and economic environment. For further information on the economic environment of Australia, please refer to the section headed “Industry Overview – Overview of the plastic household products retail market in Australia, Hong Kong, New Zealand, UK and Germany – Australia” of this prospectus. We intend to explore opportunities for expansion of our sales network so as to consolidate our market position and enter new geographical areas.

The average exchange rate of AUD against USD has depreciated from 1.03 in 2011 to 0.77 in 2017. The depreciation in AUD gives an indication that the purchasing power from Australia would drop, however, our businesses with and sales made to Australia remained positive over the years. Our Directors are of the view that the fluctuation in the economic environment in Australia and the Australian currency does not have a significant impact on our operation and financial performance during the Track Record Period and up to the Latest Practicable Date.

### **Our sales department and customers**

Our sales and marketing department is responsible for our sales activities. As at 30 June 2018, our sales and marketing department consisted of 15 staff. Our sales and marketing department is responsible for formulating our overall sales strategies, collecting and analysing market data and negotiating and finalising sales terms with our customers.

Our customers are mainly (i) chain supermarkets, department stores and household products retailers; and (ii) importers/exporters. Our products are sold in retailers such as Volume Distributors and Japan Home Centre (日本城). For the four years ended 31 December 2017 and the six months ended 30 June 2018, four, five, four, four and four of our top five customers have business relationship with us for eight years or more.

Our overseas sales and Hong Kong sales include sales of our “*clipfresh*” products and ODM products. Our overseas customers are mainly (i) chain supermarkets, department stores and household product retailers, who to our best knowledge, sell our products to the end-users; and (ii) importers/exporters. We understand that the importers and the exporters will further sell or export our products to their customers who may be wholesalers or retailers located overseas and in Hong Kong. Our Hong Kong customers primarily are household product retailers.

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During the Track Record Period, we sold all of our products directly to our customers. We had not appointed any distributors or agents to conduct sales on our behalf. The following table sets out the number and movement of each type of our customers for each of the years ended 31 December 2014, 2015, 2016 and 2017 and the six months ended 30 June 2018:

|                             | Chain<br>supermarkets/<br>department<br>stores/chain<br>household<br>product retailers | Importers/<br>exporters | Total      | Overseas<br>customers | Hong<br>Kong<br>customers | Total      |
|-----------------------------|--|-------------------------|------------|-----------------------|---------------------------|------------|
| As at 1 January 2014        | 36   | 109                     | 145        | 124                   | 21                        | 145        |
| Addition during the year    | 11   | 35                      | 46         | 32                    | 14                        | 46         |
| Reduction during the year   | (4)  | (47)                    | (51)       | (45)                  | (6)                       | (51)       |
| As at 31 December 2014      | <u>43</u>  | <u>97</u>               | <u>140</u> | <u>111</u>            | <u>29</u>                 | <u>140</u> |
| As at 1 January 2015        | 43   | 97                      | 140        | 111                   | 29                        | 140        |
| Addition during the year    | 7  | 38                      | 45         | 28                    | 17                        | 45         |
| Reduction during the year   | (13)   | (39)                    | (52)       | (39)                  | (13)                      | (52)       |
| As at 31 December 2015      | <u>37</u>  | <u>96</u>               | <u>133</u> | <u>100</u>            | <u>33</u>                 | <u>133</u> |
| As at 1 January 2016        | 37   | 96                      | 133        | 100                   | 33                        | 133        |
| Addition during the year    | 9  | 43                      | 52         | 46                    | 6                         | 52         |
| Reduction during the year   | (10)   | (33)                    | (43)       | (23)                  | (20)                      | (43)       |
| As at 31 December 2016      | <u>36</u>  | <u>106</u>              | <u>142</u> | <u>123</u>            | <u>19</u>                 | <u>142</u> |
| As at 1 January 2017        | 36   | 106                     | 142        | 123                   | 19                        | 142        |
| Addition during the year    | 18   | 28                      | 46         | 39                    | 7                         | 46         |
| Reduction during the year   | (5)  | (51)                    | (56)       | (47)                  | (9)                       | (56)       |
| As at 31 December 2017      | <u>49</u>  | <u>83</u>               | <u>132</u> | <u>115</u>            | <u>17</u>                 | <u>132</u> |
| As at 1 January 2018        | 49   | 83                      | 132        | 115                   | 17                        | 132        |
| Addition during the period  | 6  | 15                      | 21         | 16                    | 5                         | 21         |
| Reduction during the period | (14)   | (34)                    | (48)       | (40)                  | (8)                       | (48)       |
| As at 30 June 2018          | <u>41</u>  | <u>64</u>               | <u>105</u> | <u>91</u>             | <u>14</u>                 | <u>105</u> |

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The reduction in the number of importers/exporters customers for the years ended 31 December 2014 and 2015 was primarily due to our strategy to increase direct sales to chain supermarkets, department stores and chain household products retailers, which generally has a more stable demand for our products as compared to importers/exporters customers. The reduction in the number of overseas customers for the years ended 31 December 2014 and 2015 was primarily due to the reduction as a result of the consolidation among the overseas customers and that certain overseas importers/exporters customers closed down due to global adverse economic environment. Due to the effort of our sales and marketing team in promoting and marketing our products, the number of overseas customers increased for the year ended 31 December 2016.

During the Track Record Period, all of our importers/exporters customers are our direct and end customers and our sales to them are normally transported under FOB basis. Under the FOB arrangement, the risks of loss or damage of goods transported under FOB basis pass to the buyer when the goods are on board of the vessel, and the buyer bears all costs from that moment onwards. We do not refund or provide inventory to them. During the Track Record Period, we did not engage any distributors to distribute our products.

As at 30 June 2018, we had 41 supermarket/department store/retailer customers and 64 importers/exporters customers, of which 91 were overseas customers and 14 were Hong Kong customers.

### **Pricing strategy and policy**

Our pricing policy aims to facilitate our profitable and sustainable growth strategy. In general, prices of our products are based on various factors including the cost of raw materials, the required specification of the products and the labour costs.

The price of our products is generally determined on a “cost-plus” basis, comprising mainly the price of the raw materials, labour costs and our profit margin and our envisaged gross profit amount with reference to the market demand, anticipated market trends, historical sales data and prices of our competitors’ products. By adopting a “cost-plus” pricing strategy, the cost, including any increase in the cost of raw materials, will be taken into account in determining the selling price for our customers. As a result of our “cost-plus” pricing strategy, our Directors believe that we can pass on the increase in purchase costs of raw materials to our customers.

### **Credit period and payments**

We generally grant to our customers a credit period of not more than 90 days based on factors including their length of business relationship and historical payment records. For new customers, we normally request for payment of a deposit and settlement of our payment on a cash-on-delivery basis.

Our customers mainly settled our payments by way of telegraphic transfer or letters of credit in US dollars and Hong Kong dollars.

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During the Track Record Period, we had not experienced any major defaults in payments or bad debts from our customers which may materially affect our financial condition and operating results.

### **Products return policy and after-sale services**

Given the nature of our products, we are not required by our customers to offer after-sale services. If an end-user returns our product to the store where he/she purchased it from because of defects, the store may refer the case to us. If the store refers the case to us, we normally will replace the product to the store at our own cost. During the Track Record Period, we had not received any cases referred to us from our retail customers and we did not experience any substantial replacement or exchange of our products owing to any quality issues and the cost incurred from our after-sale services was insignificant, thus there has been no material adverse impact on our financial condition and operating results.

Our sales managers are responsible for dealing with complaints of our customers. All complaints of our products received will be directed to the relevant sale manager and he/she will directly handle the complaint with the customer and report the results to our management. During the Track Record Period, we had not received any material complaints lodged by our customers or in relation to our products.

Our staff from the sales and marketing department communicate with our customers regularly to collect their feedback on the quality, preferences, improvements and market demands of our products. Our sales and marketing team will share this information collected with our product design and development and mould design team in order to improve our existing products and develop new products.

### **Delivery and logistics**

Delivery of our products is made by shipment to our overseas customers and by road transportation to our Hong Kong customers.

For our overseas sales, our products are delivered through shipment primarily on a FOB basis. Under such arrangement, we are responsible for arranging the delivery of our products from our production facilities to specified ports in the PRC. Title and risks of our products pass to our customers when the products are on board of the vessel.

For Hong Kong sales, we deliver our products from our production facilities or warehouses to locations specified by our customers. For overseas sales, we engage third party logistics providers to deliver the products to designated ports in the PRC. For the four years ended 31 December 2017 and the six months ended 30 June 2018, the costs for engaging third-party logistics providers amounted to approximately HK\$12.7 million, HK\$14.1 million, HK\$13.1 million, HK\$14.1 million and HK\$7.5 million, respectively. Our Directors confirmed that we had not experienced any material disruption or damage to our products in the delivery of our products during the Track Record Period.

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### Our five largest customers

The table below sets forth a summary of our five largest customers for the four years ended 31 December 2017 and the six months ended 30 June 2018:

#### *For the year ended 31 December 2014*

| Rank | Customer   | Background<br><i>(Note 1)</i>   | Approximate<br>years of<br>relationship<br>up to the<br>Latest<br>Practicable<br>Date | Principal<br>product(s) sold                 | Approximate<br>amount of<br>revenue<br><i>(HK\$'000)</i> | Approximate<br>percentage<br>of our total<br>revenue<br><i>(%)</i> | Credit<br>term(s)<br><i>(Days)</i> | Settlement<br>method(s) |
|------|------------|---|---|--|--|--|------------------------------------|-------------------------|
| 1.   | Customer A | A company listed on ASX Limited and its business activities include the operation of supermarkets, liquor stores, hotels, convenience stores and department stores, with a market capitalisation of approximately AUD57.3 billion as at the Latest Practicable Date   | 13 <i>(Note 2)</i>  | General storage, food storage, laundry wares | 114,020  | 37.8   | 47-90                              | Telegraphic transfer    |
| 2.   | Customer B | A company listed on ASX Limited which is one of Australia's largest discount variety retailer with over 300 stores in Australia and principally engages in offering general consumer merchandise, including homewares, kitchenwares and home decorations with a market capitalisation of approximately AUD142.5 million as at the Latest Practicable Date | 9 <i>(Note 2)</i>   | General storage                              | 51,403   | 17.0   | 60                                 | Telegraphic transfer    |

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| Rank | Customer                                   | Background<br>(Note 1)  | Approximate<br>years of<br>relationship<br>up to the<br>Latest<br>Practicable<br>Date | Principal<br>product(s) sold                 | Approximate<br>amount of<br>revenue<br>(HK\$'000) | Approximate<br>percentage<br>of our total<br>revenue<br>(%) | Credit<br>term(s)<br>(Days) | Settlement<br>method(s) |
|------|--|---|---|--|---|---|-----------------------------|-------------------------|
| 3.   | Japan Home<br>Centre and<br>its associates | Subsidiaries of a company listed on the Main Board of the Stock Exchange which principally engages in retail sales of houseware products with over 300 stores globally, with a market capitalisation of approximately HK\$1.4 billion as at the Latest Practicable Date | 22 (Note 2)   | General Storage, food storage, laundry wares | 23,850  | 7.9   | Letter of credit at sight   | Letter of credit        |
| 4.   | Customer C<br>(Note 3)                     | A US company founded in 1976 which principally engages in trading consumer products including dinnerware, flatware and storage containers   | 5   | Food storage                                 | 17,331  | 5.7   | 30                          | Telegraphic transfer    |
| 5.   | Customer D                                 | A subsidiary of a company listed on ASX Limited which principally engages in retail operations in Australia and New Zealand with more than 3,000 stores and with a market capitalisation of approximately AUD36.0 billion as at the Latest Practicable Date             | 8 (Note 2)  | General storage                              | 12,998  | 4.3   | 60                          | Telegraphic transfer    |
|      |  |   |   |  | Sub-total:  | 219,602   | 72.7                        |                         |

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*For the year ended 31 December 2015*

| Rank | Customer   | Background<br>(Note 1)  | Approximate<br>years of<br>relationship<br>up to the<br>Latest<br>Practicable<br>Date | Principal<br>product(s) sold                 | Approximate<br>amount of<br>revenue<br>(HK\$'000) | Approximate<br>percentage<br>of our total<br>revenue<br>(%) | Credit<br>term(s)<br>(Days) | Settlement<br>method(s) |
|------|------------|---|---|--|---|---|-----------------------------|-------------------------|
| 1.   | Customer A | A company listed on ASX Limited and its business activities include the operation of supermarkets, liquor stores, hotels, convenience stores and department stores, with a market capitalisation of approximately AUD57.3 billion as at the Latest Practicable Date   | 13 (Note 2)   | General storage, food storage, laundry wares | 128,429   | 40.7  | 90                          | Telegraphic transfer    |
| 2.   | Customer B | A company listed on ASX Limited which is one of Australia's largest discount variety retailer with over 300 stores in Australia and principally engages in offering general consumer merchandise, including homewares, kitchenwares and home decorations with a market capitalisation of approximately AUD142.5 million as at the Latest Practicable Date | 9 (Note 2)  | General storage                              | 58,471  | 18.5  | 60                          | Telegraphic transfer    |



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| Rank       | Customer                                   | Background<br>(Note 1)  | Approximate<br>years of<br>relationship<br>up to the<br>Latest<br>Practicable<br>Date | Principal<br>product(s) sold                 | Approximate<br>amount of<br>revenue<br>(HK\$'000) | Approximate<br>percentage<br>of our total<br>revenue<br>(%) | Credit<br>term(s)<br>(Days) | Settlement<br>method(s) |
|------------|--|---|---|--|---|---|-----------------------------|-------------------------|
| 3.         | Japan Home<br>Centre and<br>its associates | Subsidiaries of a company listed on the Main Board of the Stock Exchange which principally engages in retail sales of houseware products with over 300 stores globally, with a market capitalisation of approximately HK\$1.4 billion as at the Latest Practicable Date                                 | 22 (Note 2)   | General Storage, food storage, laundry wares | 24,855  | 7.9   | Letter of credit at sight   | Letter of credit        |
| 4.         | Customer D                                 | A subsidiary of a company listed on ASX Limited which principally engages in retail operations in Australia and New Zealand with more than 3,000 stores and with a market capitalisation of approximately AUD36.0 billion as at the Latest Practicable Date   | 8 (Note 2)  | General storage                              | 14,648  | 4.6   | 60                          | Telegraphic transfer    |
| 5.         | Customer E                                 | A subsidiary of a company listed on the London Stock Exchange which principally engages in operating supermarkets and convenience stores in the UK with over 600 supermarkets and 700 convenience stores with a market capitalisation of approximately GBP7.0 billion as at the Latest Practicable Date | 10 (Note 2)   | Food storage, table wares                    | 12,148  | 3.8   | 75-90                       | Telegraphic transfer    |
| Sub-total: |  |   |   |  | 238,551   | 75.5  |                             |                         |

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*For the year ended 31 December 2016*

| Rank | Customer   | Background<br>(Note 1)  | Approximate<br>years of<br>relationship<br>up to the<br>Latest<br>Practicable<br>Date | Principal<br>product(s) sold                 | Approximate<br>amount of<br>revenue<br>(HK\$'000) | Approximate<br>percentage<br>of our total<br>revenue<br>(%) | Credit<br>term(s)<br>(Days) | Settlement<br>method(s) |
|------|------------|---|---|--|---|---|-----------------------------|-------------------------|
| 1.   | Customer A | A company listed on ASX Limited and its business activities include the operation of supermarkets, liquor stores, hotels, convenience stores and department stores, with a market capitalisation of approximately AUD57.3 billion as at the Latest Practicable Date   | 13 (Note 2)   | General storage, food storage, laundry wares | 124,652   | 41.5  | 90                          | Telegraphic transfer    |
| 2.   | Customer B | A company listed on ASX Limited which is one of Australia's largest discount variety retailer with over 300 stores in Australia and principally engages in offering general consumer merchandise, including homewares, kitchenwares and home decorations with a market capitalisation of approximately AUD142.5 million as at the Latest Practicable Date | 9 (Note 2)  | General storage                              | 49,751  | 16.6  | 60                          | Telegraphic transfer    |

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| Rank       | Customer                                   | Background<br>(Note 1)  | Approximate<br>years of<br>relationship<br>up to the<br>Latest<br>Practicable<br>Date | Principal<br>product(s) sold                 | Approximate<br>amount of<br>revenue<br>(HK\$'000) | Approximate<br>percentage<br>of our total<br>revenue<br>(%) | Credit<br>term(s)<br>(Days) | Settlement<br>method(s) |
|------------|--|---|---|--|---|---|-----------------------------|-------------------------|
| 3.         | Japan Home<br>Centre and<br>its associates | Subsidiaries of a company listed on the Main Board of the Stock Exchange which principally engages in retail sales of houseware products with over 300 stores globally, with a market capitalisation of approximately HK\$1.4 billion as at the Latest Practicable Date                                 | 22 (Note 2)   | General Storage, food storage, laundry wares | 25,356  | 8.4   | Letter of credit at sight   | Letter of credit        |
| 4.         | ALDI Sourcing<br>Asia Limited<br>(Note 4)  | A sourcing office of a leading global discount supermarket chain operator based in Germany with almost 10,000 stores in 18 countries, including Germany, the UK, the United States, Ireland and Australia   | 4   | Food storage                                 | 15,445  | 5.1   | Letter of credit at sight   | Letters of credit       |
| 5.         | Customer E                                 | A subsidiary of a company listed on the London Stock Exchange which principally engages in operating supermarkets and convenience stores in the UK with over 600 supermarkets and 700 convenience stores with a market capitalisation of approximately GBP7.0 billion as at the Latest Practicable Date | 10 (Note 2)   | Food storage, table wares                    | 9,545   | 3.2   | 75-90                       | Telegraphic transfer    |
| Sub-total: |  |   |   |  | 224,749   | 74.8  |                             |                         |

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*For the year ended 31 December 2017*

| Rank | Customer                             | Background<br>(Note 1)  | Approximate<br>years of<br>relationship<br>up to the<br>Latest<br>Practicable<br>Date | Principal<br>product(s) sold                 | Approximate<br>amount of<br>revenue<br>(HK\$'000) | Approximate<br>percentage<br>of our total<br>revenue<br>(%) | Credit<br>term(s)<br>(Days) | Settlement<br>method(s) |
|------|--------------------------------------|---|---|--|---|---|-----------------------------|-------------------------|
| 1.   | Customer A                           | A company listed on ASX Limited and its business activities include the operation of supermarkets, liquor stores, hotels, convenience stores and department stores, with a market capitalisation of approximately AUD57.3 billion as at the Latest Practicable Date   | 13<br>(Note 2)  | General storage, food storage, laundry wares | 157,540   | 48.4  | 90                          | Telegraphic transfer    |
| 2.   | Customer B                           | A company listed on ASX Limited which is one of Australia's largest discount variety retailer with over 300 stores in Australia and principally engages in offering general consumer merchandise, including homewares, kitchenwares and home decorations with a market capitalisation of approximately AUD142.5 million as at Latest Practicable Date | 9<br>(Note 2)   | General storage                              | 59,281  | 18.2  | 60                          | Telegraphic transfer    |
| 3.   | Japan Home Centre and its associates | Subsidiaries of a company listed on the Main Board of the Stock Exchange which principally engages in retail sales of houseware products with over 300 stores globally with a market capitalisation of approximately HK\$1.4 billion as at the Latest Practicable Date  | 22<br>(Note 2)  | General storage, food storage, laundry wares | 21,512  | 6.6   | Letter of credit at sight   | Letter of credit        |

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| Rank       | Customer                                  | Background<br>(Note 1)  | Approximate<br>years of<br>relationship<br>up to the<br>Latest<br>Practicable<br>Date | Principal<br>product(s) sold | Approximate<br>amount of<br>revenue<br>(HK\$'000) | Approximate<br>percentage<br>of our total<br>revenue<br>(%) | Credit<br>term(s)<br>(Days) | Settlement<br>method(s) |
|------------|---|---|---|------------------------------|---|---|-----------------------------|-------------------------|
| 4.         | ALDI Sourcing<br>Asia Limited<br>(Note 4) | A sourcing office of a leading global discount supermarket chain operator based in Germany with almost 10,000 stores in 18 countries, including Germany, the UK, the US, Ireland and Australia  | 4   | Food storage                 | 16,088  | 4.9   | Letter of credit at sight   | Letter of credit        |
| 5.         | Customer E                                | A subsidiary of a company listed on the London Stock Exchange which principally engages in operating supermarkets and convenience stores in the UK with over 600 supermarkets and 700 convenience stores with a market capitalisation of approximately GBP7.0 billion as at the Latest Practicable Date | 10 (Note 2)   | Food storage, table wares    | 9,289   | 2.9   | 75 – 90                     | Telegraphic transfer    |
| Sub-total: |   |   |   |                              | 263,710   | 81.0  |                             |                         |

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*For the six months ended 30 June 2018*

| Rank | Customer                                   | Background<br>(Note 1)   | Approximate<br>years of<br>relationship<br>up to the<br>Latest<br>Practicable<br>Date | Principal<br>product(s) sold                       | Approximate<br>amount of<br>revenue<br>(HK\$'000) | Approximate<br>percentage<br>of our total<br>revenue<br>(%) | Credit<br>term(s)<br>(Days)     | Settlement<br>method(s) |
|------|--|--|---|--|---|---|---------------------------------|-------------------------|
| 1.   | Customer A                                 | A company listed on ASX Limited and its business activities include the operation of supermarkets, liquor stores, hotels, convenience stores and department stores, with a market capitalisation of approximately AUD57.3 billion as at the Latest Practicable Date  | 13 (Note 2)   | General storage,<br>food storage,<br>laundry wares | 79,296  | 49.6  | 90                              | Telegraphic<br>transfer |
| 2.   | Customer B                                 | A company listed on ASX Limited which is one of Australia's largest discount variety retailer with over 300 stores in Australia, principally engages in offering general consumer merchandise, including homewares, kitchenware and home decorations, with a market capitalisation of approximately AUD142.5 million as at the Latest Practicable Date | 9 (Note 2)  | General storage                                    | 33,580  | 21.0  | 60                              | Telegraphic<br>transfer |
| 3.   | Japan Home<br>Centre and its<br>associates | Subsidiaries of a company listed on the Main Board of the Stock Exchange which principally engages in retail sales of houseware products with over 300 stores globally with a market capitalisation of approximately HK\$1.4 billion as at the Latest Practicable Date   | 22 (Note 2)   | General storage,<br>laundry wares                  | 10,170  | 6.4   | Letter of<br>credit at<br>sight | Letter of<br>credit     |

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| Rank       | Customer                                  | Background<br>(Note 1)  | Approximate<br>years of<br>relationship<br>up to the<br>Latest<br>Practicable<br>Date | Principal<br>product(s) sold | Approximate<br>amount of<br>revenue<br>(HK\$'000) | Approximate<br>percentage<br>of our total<br>revenue<br>(%) | Credit<br>term(s)<br>(Days) | Settlement<br>method(s) |
|------------|---|---|---|------------------------------|---|---|-----------------------------|-------------------------|
| 4.         | ALDI Sourcing<br>Asia Limited<br>(Note 4) | A sourcing office of a leading global discount supermarket chain operator based in Germany with almost 10,000 stores in 18 countries, including Germany, the UK, the US, Ireland and Australia  | 4   | Food storage                 | 8,956   | 5.6   | Letter of credit at sight   | Letter of credit        |
| 5.         | Customer E                                | A subsidiary of a company listed on the London Stock Exchange which principally engages in operating supermarkets and convenience stores in the UK with over 600 supermarkets and 700 convenience stores with a market capitalisation of approximately GBP7.0 billion as at the Latest Practicable Date | 10 (Note 2)   | Food storage, tabletop       | 4,252   | 2.7   | 75-90                       | Telegraphic transfer    |
| Sub-total: |   |   |   |                              | 136,254   | 85.3  |                             |                         |

*Notes:*

1. Such information is based on publicly available information from the official websites of our customers or their respectively holding company and the stock exchange, if applicable.
2. These customers have first established business relationships with companies controlled by Mr. Tong Ying Chiu and Ms. Ng Siu Kuen Sylvia (including Farm Chalk HK) and as a result of the internal business restructuring as referred to in the paragraph headed “History and development – Business development” of this prospectus, became customers of Chase On.
3. No public information on the market capitalisation of this customer is available.
4. Based on the information provided by an independent search agent, the registered capital of this customer is about HK\$100 million.

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For the four years ended 31 December 2017 and the six months ended 30 June 2018, sales to our five largest customers amounted to approximately HK\$219.6 million, HK\$238.6 million, HK\$224.7 million, HK\$263.7 million and HK\$136.3 million and accounted for approximately 72.7%, 75.5%, 74.8%, 81.0% and 85.3%, respectively, of our total revenue, and sales to our largest customer amounted to approximately HK\$114.0 million, HK\$128.4 million, HK\$124.7 million, HK\$157.5 million and HK\$79.3 million and accounted for approximately 37.8%, 40.7%, 41.5%, 48.4% and 49.6%, respectively, of our total revenue during the same periods. None of our Directors, Shareholders (which to the best knowledge of our Directors owns more than 5% of the issued share capital of our Company) or their respective close associates had any interest in any of our five largest customers during the Track Record Period.

We will continue our efforts to broaden and diversify our customer bases through our sales and marketing team.

During the Track Record Period, we did not have any customers who were also our suppliers.

### **Factoring arrangements**

For cash flow and credit risk management purposes, during the Track Record Period, we entered into factoring arrangements with commercial banks in Hong Kong for certain customers covering invoice value of approximately HK\$9.4 million, HK\$38.8 million, HK\$53.3 million, HK\$55.7 million and HK\$35.1 million, respectively, representing 3.1%, 12.3%, 17.7%, 17.1% and 22.0% of our total revenue for the four years ended 31 December 2017 and the six months ended 30 June 2018.

Under the factoring arrangement, banks generally only purchase up to a certain percentage, but not all, of the confirmed invoice value of a particular customer, and the relevant percentage is normally determined with reference to the coverage of the relevant credit insurance policy which is typically required for accounts receivables under factoring arrangements. In such circumstances, the risk of non-payment by the debtors will be borne by the insurance company and/or the bank and our customers will pay the banks directly in respect of the trade receivables.

Cash received by us from the banks for the invoice value factored are regarded as factoring loans from banks which are secured by our accounts receivables.

As at 31 December 2014, 2015, 2016, 2017 and 30 June 2018, the amount of receivables factored on a recourse basis was approximately HK\$1.6 million, HK\$0.7 million, HK\$0.1 million, HK\$0.6 million and nil, respectively, representing approximately 11.7%, 4.5%, 0.5%, 3.6% and nil of our corresponding trade receivables as at 31 December 2014, 2015, 2016, 2017 and 30 June 2018, respectively.

If the trade receivables are not paid on maturity, the banks have the right to request our Group to pay the unsettled balance receivables. Since we have not transferred the significant risks and rewards relating to the receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer of bank borrowings from factoring of trade receivables with recourse.



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Our management would generally determine whether to enter into factoring arrangements for invoices of particular customers upon considering a number of factors including the historical and sales amount of the customers, credibility of the customers and ordering frequencies of the customers.

### **SANCTIONS RISKS IN RELATION TO EXPORT OF OUR PRODUCTS TO IRAN, LEBANON AND RUSSIA**

During the Track Record Period, we have generated certain amount of our revenue from sales of our products to customers in Iran, Lebanon and Russia. The sales to customers in Iran, Lebanon and Russia was approximately HK\$0.7 million, HK\$2.6 million, HK\$1.5 million, HK\$1.5 million and nil for the four years ended 31 December 2017 and the six months ended 30 June 2018, respectively, representing approximately 0.2%, 0.8%, 0.5%, 0.5% and nil, respectively, of our total revenue during the corresponding period.

#### **Sanctions in relation to Iran**

The US, EU and Australian sanctions in relation to Iran are multiple and varied, and prohibit persons subject to those regulations (including US, EU and Australian persons and, in some cases, non-US,-EU or-Australian persons) from engaging in specified trade, supporting or financing specified transactions with, or supplying specified goods or services (including military or dual use items) to Iran, the Government of Iran or persons in Iran; or engaging in dealings with or in the property of, certain designated persons. Pursuant to the 16 January 2016 implementation of the Joint Comprehensive Plan of Action (“JCPOA”), many nuclear-related sanctions imposed by the US, the EU and the United Nations have been eased. Following the announcement of the US on 8 May 2018 to withdraw from the JCPOA on 8 May 2018, the United States has commenced the process of re-authorising economic sanctions that were lifted or waived in connection with the JCPOA. Our Directors confirm that, after making all reasonable inquiries, the customer involved in our sale to Iran is neither a designated person nor is owned by a designated person, nor were the products sold to our customer in Iran (i) comprised of military or dual use items; (ii) manufactured in or comprised of parts or components sourced from the US, the EU or Australia; (iii) carried on vessels flagged or registered in the US, the EU or Australia; or (iv) engaged in activities which are expected to be re-authorised following the withdrawal of the United States from the JCPOA. Taking into consideration that the Group has already ceased dealing with entities in Iran, our Directors are of the view that the additional sanctions imposed against Iran (e.g. US withdrawal from the JCPOA) are irrelevant to the Group.

#### **Sanctions in relation to Lebanon**

The US, EU and Australian sanctions in relation to Lebanon, in general, include the freezing of funds of, prohibition on providing economic resources to, and travel bans and restrictions on specified entities and individuals, subject to some exceptions and prohibition on persons subject to those regulations (including US, EU and Australian persons and, in some cases, non-US,-EU or-Australian persons) from the direct or indirect sale, supply, transfer or

export of arms, including weapons and ammunition, military vehicles and equipment, paramilitary equipment and spare parts to Lebanon. This extends to include any financial assistance related to military activities such as the provision or purchase of arms for use in Lebanon. The United Nations has also imposed country-specific sanctions against Lebanon. The United Nations sanctions against Lebanon are limited to an arms embargo and asset freezes/travel bans.

### **Sanctions in relation to Russia**

The sanctions imposed by the US, EU and Australia against Russia are, in general, targeted at (i) military, technology, energy, securities related items; (ii) specific enterprises or specific individuals in Russia; or (iii) the Crimea region of Ukraine. Our Directors confirm that, after making all reasonable enquiries, none of our Russian customer(s) who had business transactions with us during the Track Record Period is a target of sanctions or is owned by any sanctions target.

### **Applicability of the sanctions imposed by the US, the United Nations, the EU and Australia**

According to our Sanctions Laws Legal Adviser, the “primary” sanctions imposed by the US generally only apply to US citizens or permanent residents, persons physically in the US, activities that take place inside the US, entities organised under the US law and certain transactions involving products or technology with origins from the US. However, the US sanctions are still applicable in the absence of the above factors if there are US dollar transactions involving sanctioned countries, third-party country entities or individuals that clear through US banks. Past sales by our Group to customers in Russia and Lebanon have been made to customers who were not subject to US sanctions. Therefore, US clearing banks were not prohibited from clearing payments made by those customers to our Group. Past sales to a customer in Iran have been paid for in US dollars. In the case of Iran-related payments, US banks are generally prohibited from clearing any related US dollar-denominated funds transfers. However, to date, US enforcement authorities have only sought to penalize the persons who initiate such funds transfers. They have never sought to penalize a company that merely receives such funds transfers.

US “secondary” sanctions targeting Iran and Russia authorize the imposition of sanctions against non-US persons if they engage in transactions or activities declared “sanctionable” by US law even if the absence of US dollar payments or any involvement of a US person. The Group has reviewed the list of Iran-related and Russia-related transactions and activities declared sanctionable by US law including the list of sanctioned activities expected to be re-authorized following the withdrawal of the United States from the JCPOA, and has determined that it has not engaged in any such “sanctionable” transaction or activity. According to our Sanctions Laws Legal Adviser, the sanctions imposed by the EU, on the other hand, generally apply within the territory of the EU, on board aircraft and vessels under the jurisdiction of a member state of the EU, to nationals of and legal persons, entities and bodies incorporated or constituted under the laws of a member state of EU, as well as to any natural person or legal person, entity or body (of any nationality) in respect of business done in whole or in part within the EU.

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According to our Sanctions Laws Legal Adviser, the sanctions imposed by Australia will not affect products exported by our Group because Australian sanctions are limited in application in a manner similar to sanctions imposed by the EU.

As advised by our PRC Legal Adviser, the goods exported by our Group to customers in the Iran, Lebanon and Russia fall outside the scope of the goods prohibited for export by the PRC government authorities under the relevant PRC laws and regulations and our Group had not violated any PRC Laws and regulations in relation to the PRC export bans.

### **Sanction risks faced by our Group in relation to our export of products to the Iran, Lebanon and Russia**

In light of the following factors, namely, (1) as advised by our PRC Legal Adviser, the goods exported by our Group to customers in Iran, Lebanon and Russia fall outside the scope of the goods prohibited for export by the PRC government authorities under the relevant PRC laws and regulations and our Group had not violated any PRC Laws and regulations in relation to the PRC export bans; (2) we employ no EU citizens; (3) the products we export do not contain 10% or more inputs of US-origin; (4) if we sell to persons or countries sanctioned by the US, no US persons have any role or involvement in those sales other than US banks that clear related dollar-denominated payments; (5) customers in Russia and Lebanon have not been subject to US sanctions and US banks were therefore not prohibited from clearing related US dollar-denominated payments; (6) our Group received US dollar-denominated payments from or on behalf of a customer in Iran, but US enforcement authorities have never sought to penalize the recipient of such payments ; (7) if we sell to persons or countries sanctioned by the EU, no EU persons have any role or involvement in those sales and corresponding payments are denominated in a currency other than Euros; (8) if we sell to persons or countries sanctioned by Australia, no Australian persons have any role or involvement in those sales and corresponding payments are denominated in a currency other than Australian dollars; and (9) we do not engage in activities or transactions that are subject to US “secondary” sanctions, our Directors confirm, and our Sanctions Laws Legal Adviser concurs that the sanctions risk imposed by the United States, the United Nations, the EU and Australia on our Company, our investors and Shareholders and persons who might, directly or indirectly, be involved in permitting the listing, trading and clearing of our Shares including the Stock Exchange and related group companies is extremely low because of the following reasons: (i) neither our Company nor any of its affiliates are United States or EU persons; (ii) there is only a remote possibility that our Group might engage in business with companies that the United States or some other sanctions-implementing authority would find to be acting as false-fronts for sanctioned entities or individuals; and (iii) the businesses of our Group are not of a type that should place it in any danger of engaging in the types of actions that have been sanctioned by the United States or the EU in the past such as selling tankers to a sanctioned Iranian shipping line, brokering the sales of such ships, providing financial services to money launderers and terrorist organisations, providing support for the spread of weapons of mass destruction, or facilitating violations or evasions of sanctions laws.

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### Measures in place to identify and monitor our exposure to sanctions risks

To identify and monitor our exposure to sanctions risks, we will adopt the following measures:

- a. maintain an updated log based on the publicly available sanction lists such as the sanction lists maintained by the US, United Nations, EU and Australia (together the “**Sanction Lists**”), and disseminate the updated Sanction Lists to our sales and marketing team on a regular basis to promote staff awareness in general and to facilitate effective monitoring of sanction laws and orders;
- b. intake of new businesses or clients will be pre-screened by our compliance and internal control department (headed by the chief financial officer). Such personnel will also ensure our products will not be directly sold to countries, persons or entities that are subject to country-wide sanctions;
- c. upon identifying material risks relating to sanctions in our operations, we will seek appropriate advice from reputable external legal advisers;
- d. in order to ensure our compliance with those undertakings to the Stock Exchange, our chief financial officer will continuously monitor the use of proceeds from the Share Offer, as well as any other funds raised through the Stock Exchange, to ensure that such funds will not be used to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, any sanctioned countries to the extent such use is sanctionable;
- e. our risk management committee will oversee and monitor our exposure to international sanctions risks and our implementation of the related risk management procedures; and
- f. if necessary, we will engage external international legal advisers to provide training programmes relating to the international sanctions to our Directors, our senior management and other relevant personnel to assist them in evaluating the potential international sanctions risks in our daily operations.

### Undertakings to the Stock Exchange

We have undertaken to the Stock Exchange that we will not, (i) enter into any future dealings or transactions with sanctioned entities and entities in countries where country-wide sanctions have been imposed; and (ii) use the proceeds from the Share Offer, as well as any other funds raised through the Stock Exchange, to finance or facilitate, directly or indirectly, any projects or businesses with sanctioned entities and entities in countries where country-wide sanctions have been imposed. If we were in breach of such undertaking to the Stock Exchange, we risk the possible delisting of our Shares on the Stock Exchange.

### MARKETING AND PROMOTION

As at 30 June 2018, our sales and marketing team consisted of 15 staff who are responsible to communicate with our customers from time to time to collect their feedbacks on our products and updated market information.

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To promote our Group and our products, we attend trade fairs such as Canton Fair (廣交會), Hong Kong Houseware Fair, Mega Expo, Home Delight Show, Hong Kong Brands and Products Expo Fair (工展會) and House and Gift Fair South America.

We also promote our products through the set-up of show rooms in our Shenzhen office and Hong Kong office.

In April 2017, we have launched our online shopping platform at [www.mastercookshop.com](http://www.mastercookshop.com) with the view to promote and market our brand “*clipfresh*” to different groups of consumers. Products sold through our online shopping platform include our own products and household products of third parties. Since the launch of our online shopping platform up till the Latest Practicable Date, our revenue generated from our online shopping platform was approximately HK\$118,000.

We believe our online shopping platform represents an effective channel for us to promote our brand “*clipfresh*”, enhance the profile and public awareness of our Group and therefore broaden our customer base and enhance our revenue.

### QUALITY CONTROL

As at 30 June 2018, we had 19 staff responsible for quality control. We have implemented quality control measures throughout our manufacturing process from incoming material quality control to delivery of finished products in accordance with the requirements of ISO 9001 standards. As a recognition of the quality of our products, our “*clipfresh*” products were awarded the Hong Kong Q-Mark Product Certificate by the Hong Kong Q-Mark Council in September 2017. We also obtained the Hong Kong Top Brand Awards 2016 for our brand “*clipfresh*” as awarded by the Hong Kong Brand Development Council in January 2017. Our quality control manager is in charge of the overall quality control of the production. Our quality control staff are mandated to identify any quality control issues and provide solutions to the production team to address the quality control issues. Our production team with our quality control staff are tasked with examination of our products at each key stage of production to ensure that the quality of our products is satisfactory to our internal standards/customers’ requirements. Members of our production team and quality control staff are trained to look out for certain quality control issues.

As such, we obtain certifications or test results from our suppliers showing that the polypropylene resins they supply to us meet certain safety standards and requirements. Such certifications or test results remain valid for that particular polypropylene resins unless there are changes in the safety standards and requirements. We also obtain the relevant certifications or test results from our suppliers on these new types of polypropylene resins and new safety standards and requirements. Upon discovery of any sub-standard or defective polypropylene resins, we will request for a refund of the purchase price or a set-off of the purchase price of the defective polypropylene resins against our outstanding purchase price with the supplier. For defective packaging materials, we will arrange for return or substitute of the packaging materials with our suppliers.

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During the production process, our quality control personnel conduct random sample check on the products covering aspects of quality and appearance. Those products that fail to meet the quality standards are disposed of and are subject to failure analysis to identify the root cause of failures and determine corrective actions. Our production personnel and quality control personnel meet regularly to discuss the causes of the quality problems of our goods and the corresponding solution to improve and ensure the quality of our products.

Before packaging and delivery of our finished products, we conduct final control check to ensure that outgoing products comply with the relevant standards and specifications. We require our quality control personnel to conduct random visual or standardised inspection and safety testing on our finished products in accordance with our internal quality control policy. The finished products must pass our final quality testing before packaging. Those products that fail to meet the quality standard will be subject to disposal and those which meet the requisite standard will be subject to final inspection by our customers, if required.

Occasionally, some of our customers also send representatives to conduct quality checks on our finished products during the production process shortly before delivery of finished products.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any substantial return or recall of our products due to quality and safety defects.

### INVENTORY MANAGEMENT

Our inventory comprises mainly of polypropylene resins, packaging materials and finished products. We closely monitor our inventory level to meet our production requirements, minimise any waste on inventory and avoid obsolete inventory.

Since polypropylene resins are the key raw materials for our production, we generally maintain our average inventory level for polypropylene resins of two to eight weeks. For packaging materials and other raw materials for specific use, we formulate our inventory policy according to our confirmed purchase orders. We adopt a first-in-first-out approach for the utilisation of the raw materials and parts and components. We continuously monitor our inventory level by conducting regular checks on quality and quantity. In addition, our procurement staff work closely with our production staff to formulate our procurement plan and budget.

As we normally manufacture our products after receipt of purchase orders placed by our customers, we do not maintain a high level of inventory for finished goods. As at 31 December 2014, 2015, 2016, 2017 and 30 June 2018, the finished good inventories amounted to approximately HK\$10.7 million, HK\$6.7 million, HK\$5.3 million, HK\$4.2 million and HK\$4.6 million, respectively.

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### AWARDS AND CERTIFICATIONS

In recognition of our quality and management, we have been granted a number of awards and certifications.

The following table sets forth the major awards/certifications received by us:

| <b>Date of grant</b> | <b>Award/Certification</b>   | <b>Issuing authority/<br/>institution</b> |
|----------------------|--|---|
| N/A                  | Outstanding Contribution for 2013  | Home Retail Group (Asia) Limited          |
| N/A                  | Operational Excellence Award for 2013  | Kmart                                     |
| 24 January 2014      | Certificate of Registration – complies with certain standards of Global Manufacturer Certificate | Global Market Group (Asia) Ltd.           |
| 10 December 2014     | ISO 9001:2008  | SGS United Kingdom Ltd.                   |
| 25 January 2017      | Hong Kong Top Brand Awards 2016 for our “ <i>clipfresh</i> ” brand                               | Hong Kong Brand Development Council       |
| 10 April 2017        | Hong Kong Q-Mark Product Certificate for our “ <i>clipfresh</i> ” products                       | Hong Kong Q-Mark Council                  |

### COMPETITION

We face competition from a number of small to medium size enterprises that provide products similar to ours. We believe that the principal competitive factors include the following:

- product quality;
- solid sales network;
- good track record of on-time delivery;
- good payment terms with customers;
- internal costs control; and
- patent protection.

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Our Directors believe that the principal entry barrier of the industry is high capital cost for sustaining investments in upgrading machinery and equipment, industry experience and established customer base, brand building and pricing advantages and the ability to produce diversified varieties of products. Such ability is subject to various factors, including the product design and development capability and availability of types of product moulds. As at the Latest Practicable Date, we had approximately 2,000 product moulds which can be readily used for production. This can only be built up over years and through long history of operation.

Another entry barrier is industry experience and reputation and established customer base. Given that the plastic household products industry is very fragmented and there are numerous competitors in the market, in order to outweigh other market players, industry experience and reputation for quality products is important. It takes time to build up a brand through consistently providing quality products and stable customer base.

According to Ipsos, we are one of the leading participants in the market that has been consistently investing in product design and development. We maintain a product design and development team based near our manufacturing facilities in Shenzhen which specialises in carrying out product design and development work. We also enjoy an exceptional advantage from our in-house capacity of carrying out mould design and production activities. The high level of product diversity is also a competitive advantage of our Group that makes us capable of delivering different products to cater for demands of different consumer groups in different markets.

### INSURANCE

We maintain various insurance policies covering our product liability and properties, including our buildings, vehicles, fixed assets, machinery equipment, raw materials and finished goods but we do not maintain business interruption insurance. For details, please refer to the paragraph headed “Risk factors – Risks relating to our business – Our insurance coverage may not be sufficient to cover significant losses resulting from product liability claims or business interruptions” of this prospectus.

During the four years ended 31 December 2017 and the six months ended 30 June 2018, the premiums which we paid for our insurances were approximately HK\$0.3 million, HK\$0.2 million, HK\$0.3 million, HK\$0.3 million and HK\$0.4 million, respectively.

We believe that our insurance coverage is adequate in the context of our business and in line with industry practice. During the Track Record Period and up to the Latest Practicable Date, we have not made or been the subject of any material insurance claims.

### ENVIRONMENTAL PROTECTION

We are subject to the PRC national and local environmental laws, regulations and rules including, among others, the Environmental Protection Law of the PRC 《中華人民共和國環境保護法》. Our PRC Legal Adviser confirmed that we have complied with the legal or regulatory requirements under environmental protection in the PRC.



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Our costs of compliance with the applicable environmental protection laws and regulations for the four years ended 31 December 2017 and the six months ended 30 June 2018 was approximately HK\$0.5 million, HK\$0.2 million, HK\$0.2 million, HK\$9,600 and nil, respectively. Going forward, we expect that our costs of compliance with the applicable environmental protection laws and regulations for the year ending 31 December 2018 will be approximately HK\$0.1 million.

Our Directors believe that we have adopted effective measures to prevent and control pollution to the environment. Our Directors confirmed that our Group was in full compliance with all relevant environmental laws and regulations in the PRC and we have not encountered penalty for failure to comply with the applicable environmental laws and regulations during the Track Record Period and up to the Latest Practicable Date.

### **OCCUPATIONAL SAFETY**

We are subject to the PRC laws and regulations on labour, safety and work-related incidents. We provide safety protection to our employees working in our production facilities, which includes the using of robotic arms to transport the products from the plastic injection moulding machines to avoid scalding, allocation of safety zones and provision of protective mouth masks. We have in place safety guidelines and operating manuals setting out safety measures for our production process. We also provide our employees with training programmes on work safety to ensure that all of our employees are aware of our safety procedures and policies, which include guidelines for safety management, emergency situations and proper operation and usage of equipment and machinery.

During the Track Record Period and up to the Latest Practicable Date, we have not had any incidents or complaints relating to workplace safety which had materially and adversely affected our operations.

### **CORPORATE SOCIAL RESPONSIBILITY**

While we endeavour to promote business development and strive for greater rewards for our Shareholders, we acknowledge our corporate social responsibility by continuously contributing to the society. We make charity donations to organisations and sponsor various corporate philanthropic activities such as delivering festive gifts to the elderly during Chinese New Year. We have also participated in charitable activities hosted by organisations such as Pok Oi Hospital and the Community Chest of Hong Kong. While charity is the primary goal, such charitable activities still provide valuable exposure of our brand and enhance the public image of our brand as a socially responsible enterprise.

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### EMPLOYEES

As at 31 December 2014, 2015, 2016, 2017 and 30 June 2018, we had a total of 473, 385, 495, 443 and 453 employees, respectively. The following table sets out the functional distribution of our Group's employees as at the Latest Practicable Date:

| Department   | Number of employees |            |            |
|--|---------------------|------------|------------|
|  | Hong Kong           | PRC        | Total      |
| Directors and senior management                    | 6                   | –          | 6          |
| Administration and finance                         | 8                   | 24         | 32         |
| Product design and development and<br>mould design | 1                   | 22         | 23         |
| Production   | 1                   | 322        | 323        |
| Quality control and assurance                      | 1                   | 18         | 19         |
| Procurement  | –                   | 4          | 4          |
| Sales and marketing                                | 8                   | 9          | 17         |
| Shipping   | 3                   | 3          | 6          |
| Information technology                             | –                   | 2          | 2          |
| <b>Total</b>                                       | <b>28</b>           | <b>404</b> | <b>432</b> |

We believe that our ability to recruit and retain experienced and skilled labour is crucial to our growth and development. We provide training to our new employees and such trainings cover various areas of our operations including knowledge on the operations of the production machinery and equipment, safety inspections, and the internal control system of our Group. In addition to providing our staff with the opportunities to receive on-the-job trainings, we strive to create a harmonious and warm working and living environment for our staff.

We consider that we have maintained a positive relationship with our employees during the Track Record Period and up to the Latest Practicable Date. We have not experienced any strike, labour dispute or other labour disturbances which have materially and adversely interfered with our operations during the Track Record Period and up to the Latest Practicable Date.

We have established the remuneration and review management system in accordance with our employees' positions and their responsibilities. The head of each of our departments is responsible for the salary review and promotion appraisal of the staff of his/her own department.

### INTELLECTUAL PROPERTY

Our production know-how in the production process is important to our success. We have registered certain patents and trademarks. For details, please refer to the paragraph headed "Intellectual property rights of our Group" in Appendix IV to this prospectus.

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To the best of our Directors' knowledge, during the four years ended 31 December 2017 and the six months ended 30 June 2018 and up to the Latest Practicable Date, we were not aware of any material infringement or were not alleged to infringe any intellectual property rights owned by third parties, which would have a material adverse effect on our business.

### PROPERTIES LEASED BY US

As at the Latest Practicable Date, we did not own any property.

Details of the properties we leased as at the Latest Practicable Date are set out as follows:

| Address of the property   | Gross floor area | Landlord                   | Date of tenancy agreement                    | Use of the property   | Key terms of the tenancy agreement  |
|---|------------------|----------------------------|--|-----------------------|---|
| No. 701-2, Zhongguan Building, Xili, Nanshan District, Shenzhen, Guangdong Province<br>(廣東省深圳市南山區西麗翠冠大廈701-2)   | 78.7 sq.m        | An Independent Third Party | 9 May 2018                                   | For business purpose  | For a term from 1 May 2018 to 30 April 2019 at a rental of RMB7,953 per month         |
| No. 9, Xihu Industrial Area, Xikeng Communities, Henggang Sub-District, Longgang District, Shenzhen, Guangdong Province<br>(廣東省深圳市龍崗區橫崗街道西坑社區西湖工業區9號的廠房)<br>("Factory No. 9")   | 12,511 sq.m      | An Independent Third Party | 9 April 2014, 4 March 2015 and 15 April 2016 | Production facilities | For a term from 19 April 2014 to 18 April 2020 at a rental of RMB128,487.97 per month |
| No. 10, Xihu Industrial Area, Xikeng Communities, Henggang Sub-District, Longgang District, Shenzhen, Guangdong Province<br>(廣東省深圳市龍崗區橫崗街道西坑社區西湖工業區10號的廠房)<br>("Factory No. 10")  | 10,376.92 sq.m   | An Independent Third Party | 9 April 2014, 4 March 2015 and 15 April 2016 | Production facilities | For a term from 19 April 2014 to 18 April 2020 at a rental of RMB106,570.97 per month |
| No. 1, 2, 3, 4 dormitory, No. 9 Xihu Industrial Area, Xikeng Communities, Henggang Sub-District, Longgang District, Shenzhen, Guangdong Province<br>(廣東省深圳市龍崗區橫崗街道西坑社區西湖工業區9號宿舍1、宿舍2、宿舍3及宿舍4的物業)<br>("Henggang Staff Quarters") | 11,858.53 sq.m   | An Independent Third Party | 15 April 2016                                | Staff quarter         | For a term from 15 April 2016 to 28 February 2020 at a rental of RMB38,000 per month  |

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| Address of the property   | Gross floor area | Landlord   | Date of tenancy agreement | Use of the property   | Key terms of the tenancy agreement   |
|---|------------------|--|---------------------------|-----------------------|--|
| Factory 4#, No. 228 Industrial District Henggang Community, Henggang Street, Longgang District, Shenzhen<br>(深圳市龍崗區橫崗街道橫崗社區 228工業區4#廠房) | 11,865.79 sq. m. | An Independent Third Party   | 30 October 2017           | Production facilities | For a term from 30 October 2017 to 31 August 2022 at a rental of RMB393,944 per month (subject to increase by 10% every two years) |
| E201, 15/F, Dada Commercial Building, No.3 Longxi Street, Eling West Road, Huizhou<br>(惠州市鵝嶺西路龍西街3號大大商務大廈 15樓E201)                      | 35 sq. m.        | An Independent Third Party   | 7 July 2018               | For business purpose  | For a term from 7 July 2018 to 6 July 2019 at a rental of RMB1,225 per month   |
| Factory B-E, 23/F, Block 4, Golden Dragon Industrial Centre, 182-190 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong           | N/A (Note)       | A company controlled by Mr. Tong Bak Nam Billy, our executive Director | 4 April 2018              | For business purpose  | From 1 April 2018 to 31 March 2020 (both days inclusive) at a rental of HK\$45,500 per month (excluding utilities charges)         |
| Factory F, 23/F, Block 4, Golden Dragon Industrial Centre, 182-190 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong             | N/A (Note)       | Ng Siu Kuen Sylvia, our Controlling Shareholder and executive Director | 4 April 2018              | For business purpose  | From 1 April 2018 to 31 March 2020 (both days inclusive) at a rental of HK\$13,500 per month (excluding utilities charges)         |

*Note:*

The total gross floor area of the properties at the address of Factory B-E, 23/F, Block 4, Golden Dragon Industrial Centre, 182-190 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong and Factory F, 23/F, Block 4, Golden Dragon Industrial Centre, 182-190 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong is 650.32 sq.m.

Accordingly, we had no single property with a carrying amount of 15% or more of our total assets, and on this basis, we are not required by the Listing Rules to include in this prospectus any property valuation reports. Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with 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 of our interests in land or buildings.

Our property rentals and related expenses in relation to the properties leased by us were approximately HK\$4.1 million, HK\$4.9 million, HK\$5.2 million, HK\$7.1 million and HK\$5.8 million, respectively, for the four years ended 31 December 2017 and the six months ended 30 June 2018.

## **DEFECTS OF CERTAIN OF OUR LEASED PROPERTIES**

### **The defects**

We currently lease the properties for the Henggang Production Facilities from an Independent Third Party (the “**Henggang Lessor**”) under three leases dated 9 April 2014, 9 April 2014 and 15 April 2016 respectively, and two supplementary agreements dated 4 March 2015 and two supplementary agreements dated 15 April 2016 (together, the “**Henggang Leases**”). So far as we are aware, the Henggang Lessor did not possess the relevant property ownership certificates or construction works planning permits for the relevant leased properties. Our PRC Legal Adviser has advised that there is a potential risk that the relevant authorities in the PRC may deem the Henggang Leases invalid owing to the Henggang Lessor not having obtained the relevant certificates and hence, we may not be able to continue to occupy and conduct operations at the relevant leased properties if the Henggang Leases are adjudicated as invalid. For associated risks, please refer to the section headed “Risk factors – Risks relating to our business – Certain of our leased properties are subject to title encumbrances, and we could be required to vacate such properties” of this prospectus.

In respect of the Henggang Production Facilities, except for a part of building on Factory No. 9 with gross floor area of approximately 4,494.31 sq.m (the “**non-registered building**”), the Henggang Lessor has made the necessary applications in accordance with 《深圳經濟特區處理歷史遺留違法私房若干規定》 (Rules of Shenzhen Special Economic Zone on Dealing Historical Illegal Private Houses), 《深圳經濟特區處理歷史遺留生產經營性違法建築若干規定》 (Rules of Shenzhen Special Economic Zone on Dealing Historical Illegal Buildings Used for Production and Business) and 《深圳市龍崗區實施〈深圳經濟特區處理歷史遺留生產經營性違法建築若干規定〉的辦法》 (Rules of Shenzhen City Longgang District on Implementing <Rules of Shenzhen Special Economic Zone on Dealing Historical Illegal Buildings Used for Production and Business>) (the “**Rules**”) with the Leading Group on Historical Illegal Buildings Disposal Office in Henggang Town, Longgang District, Shenzhen (深圳市龍崗區橫崗鎮處理歷史遺留違法建築領導小組辦公室) (the “**appropriate authority**”), which was later renamed the Leading Group on Historical Illegal Buildings Disposal Office in Henggang Sub-District, Longgang District, Shenzhen (深圳市龍崗區橫崗街道處理歷史遺留違法建築領導小組辦公室) (the “**Longgang Leading Group**”) to commence the process of obtaining the outstanding property title certificates (the “**Rectification Applications**”), and the Henggang Production Facilities have been registered as historical illegal buildings used for production and business (歷史遺留生產經營性違法建築).

Our PRC Legal Adviser has advised as follows:

- (i) we have used the Henggang Production Facilities in accordance with the permitted usages under the Henggang Leases and the main structures of the properties for the Henggang Production Facilities have passed the structure test and identification and meet the safety requirements as required under the PRC laws;
- (ii) as the Rectification Applications have been filed with the appropriate authorities in the PRC on 30 September 2003 and 14 October 2003, the appropriate authorities will process the Rectification Applications, and will grant the property title certificates to the Henggang Lessor if it fulfills the requirements prescribed by the Rules;

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- (iii) no regulation with respect to the time frame for dealing with such historical issue and the issuance of the relevant property title certificates has been promulgated. Given that (i) the appropriate authorities are processing the Rectification Applications; (ii) a written reply dated 1 June 2017 issued by Longgang City Reconstruction Commission of Shenzhen Municipality (深圳市龍崗區城市更新局), which our PRC Legal Adviser confirmed to our Group is the competent authority for the matters in relation to city reconstruction plan in Longgang district, confirming that the lands with land lot no. G07244-0115, G07244-0112 and G07244-0111 (where the Henggang Production Facilities are situated) were not part of any city reconstruction plan at present; (iii) an undertaking from the Henggang Lessor dated 2 June 2017, which the Henggang Lessor undertook that it would not negotiate any city reconstruction plan with any property developer before the expiry date of the Henggang Leases (i.e. 18 April 2020) and will continue to lease the Henggang Production Facilities to our Group in accordance with the terms of the Henggang Leases; (iv) the enquiries with the Longgang Leading Group made by our PRC Legal Adviser on 27 January 2016, confirming that the buildings which had been registered as historical illegal buildings used for production and business would not be demolished; and (v) the enquiries with the Longgang Urban Planning, Land and Resources Commission of Shenzhen Municipality (深圳市規劃和國土資源委員會龍崗管理局) (the “**Shenzhen Longgang Land Commission**”) made by our PRC Legal Adviser on 10 May 2017, which our PRC Legal Adviser confirmed to our Group is the competent authority to give the confirmation, confirming that the land where the Henggang Production Facilities was situated was not part of any city reconstruction plan, municipal project plan or demolition plan and the Shenzhen Longgang Land Commission would not force our Group to relocate from the Henggang Production Facilities or retrieve the land where the Henggang Production Facilities was situated or forbid the use of Henggang Production Facilities in the next three years. The possibility of the leased properties for the Henggang Production Facilities (except for the non-registered building) being compulsorily demolished, relocated or ordered to stop using by the government due to the title defects of Henggang Production Facilities and being forced to relocate due to the city reconstruction plan in next three years is remote;
- (iv) Shenzhen Sun Cheong and the branch of Sun Cheong has not been challenged, investigated or penalised by relevant government authorities regarding the Henggang Leases;
- (v) we will not be subject to any criminal, civil or administrative penalty or fine as a result of the Henggang Lessor’s failure to obtain the relevant property ownership certificates and construction works planning permits;
- (vi) as the non-registered building has not been registered as historical illegal buildings used for production and business, it may be mandatorily demolished or ordered to stop using. Considering that (i) the non-registered building has passed the quality inspection and fire protection and its structural safety has met current requirement

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for normal use of the plant; (ii) we have not been subject to any investigation or punishment of being mandatory demolished or ordered to stop using the non-registered building from any governmental authority; and (iii) we have the relocation arrangement to the New Production Facilities in place as disclosed below, our PRC Legal Adviser and our Directors are of the view that the defects with respect to the non-registered building would not have any material adverse impact on our normal operations; and

- (vii) according to The Urban Real Estate Administration Law of the People's Republic of China (《中華人民共和國城市房地產管理法》), those real estate which have not been registered and have not obtained property ownership certificates in accordance with relevant laws shall not be transferred. Besides, the mortgage of real estate shall be made upon the presentation of the land use certificate and housing property ownership certificate. According to The Property Law of the People's Republic of China (《中華人民共和國物權法》), mortgage registration shall be made upon the mortgage of buildings and other fixed objects on the ground and the right to mortgage shall be established as of the date of registration. Based on the aforesaid laws, the existence of title defects of Henggang Production Facilities will legitimately prevent Henggang Production Facilities from being bought, sold or being accepted by banks as security for mortgages.

Based on the above advice of our PRC Legal Adviser, our Directors consider that the possibility of us being forced to relocate from the Henggang Production Facilities is remote.

### **Relocation arrangement for our production and business operation**

Based on the Rules and our PRC Legal Adviser's enquiries with the appropriate authority in the PRC, the process of obtaining title certificate for the Henggang Production Facilities includes:

- (i) apply for the Rectification Applications;
- (ii) ownership survey and boundary measurement of the building by the appropriate authority;
- (iii) the Shenzhen Longgang Land Commission and other responsible departments to review and pass the Rectification Applications;
- (iv) pass the quality inspection, fire protection and environment protection procedures of the Henggang Production Facilities;
- (v) the Longgang Leading Group to review and pass the Rectification Applications;
- (vi) the Disposal Office on Historical Illegal Private Houses and Historical Illegal Buildings Used for production and Business in Longgang District, Shenzhen (深圳市龍崗區處理歷史遺留違法私房和生產經營性違法建築辦公室) (the "**Longgang Disposal Office**") to record the Rectification Applications;

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- (vii) pay the penalty and the land parcel cost after obtaining the penalty notice issued by the appropriate authority;
- (viii) apply for the treatment certificate issued by the Longgang Disposal Office; and
- (ix) apply for property title certificate from the real estate registration authorities upon the above-mentioned documents are fully accepted.

To the best knowledge of our Directors, the Henggang Lessor has completed procedures under items (i) to (v) above. However, as obtaining the property title certificate will take up the quota of non-agricultural construction lands, a consent letter issued by all the shareholders from the parent company of the Henggang Lessor shall be obtained prior to proceeding with the follow-up procedures. As at the Latest Practicable Date, such consent letter has not been obtained and to the best knowledge of the Directors, there is a large number of individual shareholders involved and as at the Latest Practicable Date, the Henggang Lessor, as one of the subsidiaries of its parent company, could not convene all the shareholders of its parent company of the Henggang Lessor to get the consent letter, therefore the Henggang Lessor is unable to estimate the time required. Based on the above, our Directors are of the view that the expected date of the Henggang Lessor obtaining the property title certificate of the Henggang Production Facilities cannot be ascertained.

Notwithstanding that our Directors consider that the possibility of us being forced to relocate from the Henggang Production Facilities is remote, in order to avoid the risk of any disruption to our business operations, we have entered into the lease agreement in relation to the New Production Facilities and commenced the relocation from the Henggang Production Facilities to the New Production Facilities in December 2017. The relocation to the New Production Facilities was completed in August 2018.

### **Protective measures during the relocation period**

The relocation of our production facilities from the Henggang Production Facilities to the New Production Facilities will take place gradually by two phases and there are periods where we will concurrently operate on both the Henggang Production Facilities and the New Production Facilities. To minimize the possible interruption that might be caused by the relocation of our production facilities or the title defects of certain properties of the Henggang Production Facilities, we have implemented the following measures:

#### ***(i) Undertaking from the Henggang Lessor***

We have obtained an undertaking from the Henggang Lessor under which the Henggang Lessor has undertaken to us that:

- (i) the Henggang Leases are operating in the normal course of business;
- (ii) we, as the lessee, have not committed any breach of the Henggang Leases;



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- (iii) there is no such circumstance that will result in the Henggang Leases being modified or terminated;
- (iv) the Henggang Leases have not been subject to investigation or punishment from any governmental authority for any reason;
- (v) it will not terminate the Henggang Leases for whatever reason during the term and the renewed term of the leases unless mandatorily repossessed by the government for the reason of public benefit under the relevant laws;
- (vi) the leased properties do not violate urban planning, occupation of agricultural land in protected areas and occupation of land in protected areas of grade one sources of drinking water;
- (vii) the Henggang Leases are free from encumbrances or other similar rights and do not constitute violations of third parties' land use rights, collective ownership rights and rights of use, building ownership rights, and that no third party has raised any doubt as to the ownership right of the leased properties and so far as the Henggang Lessor is aware, the leased properties are not considered as demolished properties;
- (viii) the leased properties were registered as historical illegal buildings used for production and business in 2003. Once the relevant governmental authorities allow the processing of the application of the property title documents and the consent of applying the property title certificate from all of the Henggang Lessor's shareholders, it will assist and cooperate with the authorities and submit all necessary documents to the authorities in a timely manner and pay all necessary taxes in relation to the processing of the property title documents;
- (ix) it will continue to lease the leased properties to us in accordance with the terms of the Henggang Leases regardless of whether it could obtain the property title documents and complete the relevant registration procedures;
- (x) if it is unable to perform its obligations under the Henggang Leases due to the mandatory repossession, demolition by the government or any other reason, it will give us at least six months' prior notice and will indemnify us against any losses if the Henggang Leases cannot continue to operate for reasons due to it; and
- (xi) it will complete the registration procedures of the Henggang Leases in accordance with the relevant laws and regulations once the relevant governmental authorities allow the registration procedures of the Henggang Leases, and will indemnify us against any penalties or losses arising from the failure to complete the registration procedures in time.

Our PRC Legal Adviser has advised us that the undertaking from the Henggang Lessor is legal, valid and enforceable under the laws of the PRC.

*(ii) Indemnity from Controlling Shareholders*

Our Controlling Shareholders will execute a deed of indemnity in favour of our Group whereby they will indemnify our Group and each member of our Group and hold each member of our Group harmless from and against all or any depletion in, loss of or reduction in, the value of our respective assets or increase in our respective liabilities as a result of or there being any losses, liabilities or damages suffered by our Group arising out of or in connection with the title defects of the Henggang Leases.

*(iii) Outsourcing arrangement*

Other than the two qualified sub-contractors we outsourced for production during the Track Record Period, on 11 August 2016 we have also entered into an agreement (which was amended and supplemented by an agreement dated 29 November 2016) with a sub-contractor, being an Independent Third Party engaged in plastic household products manufacturing services and located in Shenzhen (the “**Contingent Manufacturing Agreement**”) pursuant to which we have the right at nil consideration to request the sub-contractor to provide manufacturing services for plastic household products to us and the sub-contractor has agreed to reserve production capacity and production equipment for production of products specified by us on an exclusive basis. The Contingent Manufacturing Agreement is entered into for contingency purpose and does not impose any obligation on us to engage the services of the sub-contractor. The Contingent Manufacturing Agreement is effective for 36 months from 11 August 2016 and may be renewed by the parties thereto upon expiry subject to negotiation.

Under the Contingent Manufacturing Agreement, if we exercise our right to request the sub-contractor to provide manufacturing services to us, we will provide to the sub-contractor a production schedule in advance, which includes the required amount, type and specifications of product, and the delivery time will be provided by us one day in advance, and the sub-contractor will provide a fee quote for us to confirm. The quality standard of the products will be benchmarked against our quality standards. We will arrange delivery of raw materials to the warehouse designated by the sub-contractor at our cost. The sub-contractor will arrange delivery of the finished products to the warehouse designated by us at its cost. The sub-contractor is prohibited from using any other materials to replace raw materials supplied by us.

In choosing such sub-contractor, we considered factors including proximity of its location to the Henggang Production Facilities, its manufacturing capabilities, its capacity to complete our orders on time and its ability to comply with our quality requirements.

Our PRC Legal Adviser has advised us that the Contingent Manufacturing Agreement is legal, valid and enforceable under the laws of the PRC.

**Views of our Directors and the Sole Sponsor**

Our Directors believe, and the Sole Sponsor concurs that the above defects of certain of the Henggang Production Facilities would not individually or collectively be crucial to our operation and have any material adverse impact on our business taken as a whole because (i) the Henggang Lessor has undertaken that, among others, it will not terminate the Henggang Leases for whatever reason during the term and the renewed term of the leases unless the leased properties are mandatorily repossessed by the government for the reason of public benefit under the relevant laws; (ii) the Henggang Lessor will indemnify us against any penalties or losses arising from the failure to complete the lease registration procedures in time or failure to perform the obligations under the Henggang Leases by the Henggang Lessor due to the mandatory repossession, demolition by the government or any other reasons; (iii) we commenced the relocation of our production facilities to the New Production Facilities from December 2017; (iv) we have entered into a Contingent Manufacturing Agreement with an Independent Third Party which allows us to sub-contract the production of our products where necessary; and (v) we will obtain an indemnity from our Controlling Shareholders.

**Enhanced internal control measures to prevent recurrence**

In order to prevent the recurrence of leasing properties with title defects, we have adopted the following measures:

1. establishment of a policy and procedure for when our Group enters into any leasing arrangement, of which sets out (i) a formal mechanism on the flow of initiating, approving, executing and monitoring of leasing properties, (ii) the requirements of the registration of lease with relevant government department(s) and (iii) the corresponding responsible person with regards to registering leases;
2. requirement that our Chairman must, as evidence of approval, sign the said policy and procedure;
3. engagement of an external legal adviser to provide training on the updated rules and regulation to our Chairman from time to time;
4. engagement of an external legal adviser to perform due diligence on relevant properties including but not limited to confirming the title of the property, the validity of the documents obtained from the landlord and the identity of the landlord;
5. establishment of a clear line of communication so that potential non-compliance incidents detected by our staff can be duly reported;
6. engagement of an external independent internal control consultant to perform regular review on our Group's risk management and internal control system; and
7. appointment of our chief financial officer, company secretary and executive Director, Mr. Chan Kam Hon Ivan, to oversee and monitor our Group's future compliance with various applicable laws and regulations and when required, take follow-up actions.

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In view of the previous non-compliance incident, an independent internal control reviewer (the “**Independent Reviewer**”) which is a professional firm specializing in corporate governance, internal audit and internal control review services, has been appointed to, inter alia, review the adequacy and effectiveness of our enhanced internal control measures to prevent the recurrence of such non-compliance. The Sole Sponsor had discussed with the Independent Reviewer and reviewed their findings and recommendations, and understood that our Group had put in place measures to prevent the recurrence of the aforesaid non-compliance incident as set out in the above. Our Directors consider that the current implemented internal control measures can prevent the recurrence of the identified non-compliance incident. Our Directors are of the view, the Sole Sponsor and the Independent Reviewer also concur, that the enhanced internal control measures have been properly designed to prevent the recurrence of those identified non-compliance incidents, and are adequate and effective.

### RELOCATION TO THE NEW PRODUCTION FACILITIES

In light of the title defects of certain properties of the Henggang Production Facilities, we entered into a lease agreement with an Independent Third Party as landlord (the “**Landlord**”) on 30 October 2017 (the “**New Lease**”), pursuant to which Shenzhen Sun Cheong agrees to lease the premise at the New Production Facilities. As advised by our PRC Legal Adviser, the property owner of the New Production Facilities has obtained the valid title certificates of the New Production Facilities and the Landlord has obtained the consent from the property owner of the New Production Facilities in relation to the sublease of the New Production Facilities to our Group.

The table below sets forth a summary of the salient terms of the New Lease:

|                            |  |
|----------------------------|--|
| Location:                  | Factory 4#, No. 228 Industrial District, Henggang Community, Henggang Street, Longgang District, Shenzhen (深圳市龍崗區橫崗街道橫崗社區228工業區4#廠房) |
| Area:                      | 11,865.79 sq.m.  |
| Duration of the New Lease: | 30 October 2017 to 31 August 2022  |
| Monthly rent:              | RMB393,944 (with a rent free period from 30 October 2017 to 29 December 2017 and subject to increase by 10% every two years)         |

We commenced the relocation from the Henggang Production Facilities to the New Production Facilities in December 2017.

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Our current plan is that the relocation will take places in two phases, details of which are set forth below.

The first phase involved the preparation works on the New Production Facilities, including foundation building for plastic injection moulding machines, pipe installation and layout planning, etc. We engaged relocation company for the provision of logistic services. This phase involved the gradual relocation of 38 out of 75 plastic injection moulding machines by batches from the existing production plant to the New Production Facilities. The relocation of machineries was gradually carried out in parallel with the operation of the remaining machineries at the Henggang Production Facilities to minimize any adverse effect and disruption on our production operations. In terms of a plastic injection moulding machine being relocated, there was a production downtime of approximately 6 hours. As at the Latest Practicable Date, the first phase has completed and the production at the New Production Facilities has commenced. We have obtained all the required licenses, permits and approvals from competent authorities prior to the commencement of production.

In June 2018, we have commenced the second phase of relocation, which involved the gradual relocation of the remaining 37 out of 75 plastic injection moulding machines and other moulding equipment, inventory and staff by batches from the existing production plant to the New Production Facilities. We have been recruiting labour for the New Production Facilities, and discussing with relocation company for the provision of logistic services. During the relocation process, in terms of a plastic injection moulding machines being relocated, we estimate that there will be a production downtime of approximately 6 hours while the relevant injection moulding machines are relocated. This phase took approximately eight weeks and completed in August 2018.

We estimate the total relocation costs will be approximately RMB2.6 million, which we intend to fund through internal resources.

Given that the relocation will take place in phases, we expect the relocation will not cause a material interruption in our production nor will it cause any material adverse impact on our financial position.

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### LICENSES AND PERMITS

As at the Latest Practicable Date, our PRC Legal Adviser confirmed that our PRC subsidiaries had obtained the requisite governmental licences, permits and certifications and renewal which are necessary for its respective operations, details of which are as below:

| Name of licences/permits   | Date of grant     | Granting authority  | Validity period                          |
|--|-------------------|---|--|
| Business Licence<br>(No. 9144030061885418X6)   | 20 May 2016       | Market Supervision Commission of Shenzhen Municipality          | Up to 20 November 2022                   |
| Approval Certificate (商外資粵深<br>南外資證字 [2007] No. 0025)  | 16 June 2016      | People's Government of Shenzhen Municipality                    | Up to 20 November 2022                   |
| Registration certificate of freight enterprises in and out of Hong Kong<br>(No. 5318CX0062/61885418-X) | N/A               | Meilin Customs of the PRC                                       | From 30 October 2015 to 11 November 2018 |
| Institutional Credit Code Certificate<br>(No. 0021376695)  | 24 June 2016      | People's Bank of China Credit Reference Centre                  | Up to 23 June 2021                       |
| Registration Form for the Record of Foreign Trade Operators<br>(No. 02018355)                          | 19 August 2016    | Nanshan Economy Promotion Bureau of Shenzhen Municipality       | N/A                                      |
| Entry-Exit Inspection and Quarantine Declaration Form<br>(No. 16092112032700000362)                    | 22 September 2016 | Shenzhen Entry-Exit Inspection and Quarantine Bureau of the PRC | N/A                                      |
| Certificate of Registration of Customs Declaration Entities of the PRC<br>(No. 4403040827)             | 24 May 2016       | Shenzhen Customs of the PRC                                     | Permanent                                |
| Account Open Licence<br>(No. 5840-00015691)  | 27 May 2005       | Shenzhen Central Sub-branch of the People's Bank of China       | N/A                                      |
| Business Registration Certificate<br>(No. 14440300200807161223)  | N/A               | Shenzhen Branch of SAFE   | N/A                                      |
| Business Licence<br>(No. 91440300550316659F)   | 25 October 2016   | Market Supervision Commission of Shenzhen Municipality          | Up to 20 November 2022                   |

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| Name of licences/permits   | Date of grant     | Granting authority  | Validity period        |
|--|-------------------|---|------------------------|
| Approval of Environmental Impact Review of Construction Projects<br>(深龍環批 [2013] No. 700692) | 24 September 2013 | Longgang Environmental Protection and Water Affairs Bureau            | N/A                    |
| Business Licence<br>(No. 91440600597400671B)   | 30 December 2016  | Foshan Administration for Industry and Commerce of Guangdong Province | Permanent              |
| Account Open Certificate<br>(No. 5810-02694620)  | 30 May 2012       | Foshan Central Sub-branch of the People's Bank of China               | N/A                    |
| Business license<br>(No. 91441300MA4WXMUJXW)   | 2 August 2017     | Huizhou Administration for Industry and Commerce                      | Up to 20 November 2022 |
| Account Open Licence<br>(No. 5810-06389576)  | 20 December 2017  | Huizhou Central Sub-branch of the People's Bank of China              | N/A                    |
| Business Licence<br>(No. 91440300MA5EWW0510)   | 13 December 2017  | Market Supervision Commission of Shenzhen Municipality                | Up to 20 November 2022 |
| Approval of Environmental Impact Review of Construction Project<br>(深龍環批 [2017] No. 701727)  | 3 January 2018    | Longgang Environmental Protection and Water Affairs Bureau            | N/A                    |

Save as disclosed in the paragraph headed “Major non-compliance incidents” of this section, our Group has complied, in all material respects, with all applicable laws and regulations in the PRC. A summary of the relevant PRC laws and regulations has been set out in the section headed “Summary of principal legal and regulatory provisions” of this prospectus.

### LEGAL PROCEEDINGS

During the Track Record Period and up to the Latest Practicable Date, to the best knowledge of our Directors after having made reasonable enquiries, there was no litigation or arbitration proceedings pending or threatened against us or any of our Directors which would have a material adverse effect on our financial condition or operating results.

**MAJOR NON-COMPLIANCE INCIDENTS**

During the Track Record Period, we have experienced the following major non-compliance incidents, which are systemic in nature:

| Non-compliance incidents  | Reasons for non-compliance  | Legal consequences and potential maximum penalties  | Rectification actions taken and preventive measures to be taken  | Any operational and financial impact   |
|---|---|---|--|--|
| <p>1. Systemic non-compliance – Shenzhen Sun Cheong failed to pay full social insurance contributions for all of their employees.</p> | <p>(i) During the Track Record Period, some of our employees were reluctant to participate in the social insurance fund contribution plans; and</p> <p>(ii) our human resources department was not familiar with the relevant laws and regulations.</p> | <p>Pursuant to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), the social insurance authority is entitled to order Shenzhen Sun Cheong to pay the underpaid social insurance contributions within a prescribed time limit and impose a daily late charge of 0.05% of the outstanding amount as from the due date. If Shenzhen Sun Cheong fails to pay the outstanding amount within the prescribed time, the social insurance authority is entitled to impose a fine ranging from one to three times the outstanding social insurance fund contributions.</p> | <p>Shenzhen Sun Cheong has made social insurance contributions in accordance with the relevant regulations for all of its employees since April 2016.</p> <p>During the Track Record Period and up to the Latest Practicable Date, Shenzhen Sun Cheong had not received any orders or demands from the relevant government authorities requesting Shenzhen Sun Cheong to pay the unpaid social insurance.</p> <p>On 2 November 2017, 1 March 2018 and 1 August 2018, we obtained three written confirmations from Nanshan Branch of Shenzhen Social Insurance Fund Management Bureau confirming that from 1 January 2011 to 30 September 2017, from 1 July 2017 to 15 January 2018 and from 1 January 2018 to 30 June 2018 respectively, Shenzhen Sun Cheong had not been penalised for violating the social insurance laws and regulations by Nanshan Branch of Shenzhen Social Insurance Fund Management Bureau. As advised by our PRC Legal Adviser, the Nanshan Branch of Shenzhen Social Insurance Fund Management Bureau is the competent authority to issue the above confirmations.</p> <p>Based on the above factors, our PRC Legal Adviser is of the view that (i) the possibility of Shenzhen Sun Cheong being penalised by the social authorities in relation to the non-compliance incidents is very low; and (ii) the Nanshan Branch of Shenzhen Social Insurance Fund Management Bureau are time-barred from ordering payment based on the two-year statute of limitations.</p> | <p>Such non-compliance incidents will not result in any material adverse operational and financial impact on our Group (i) having considered the advice of our PRC Legal Adviser; (ii) given that Shenzhen Sun Cheong had not received any complaints or payment requests from the relevant employees or any government authorities; and (iii) our Directors consider adequate provision has been made in the financial statements of our Group.</p> |



| Non-compliance incidents | Reasons for non-compliance | Legal consequences and potential maximum penalties | Rectification actions taken and preventive measures to be taken   | Any operational and financial impact |
|--------------------------|----------------------------|--|---|--------------------------------------|
|                          |                            |  | <p>Our Directors have assessed that the unpaid amount of contributions to the social insurance fund was approximately RMB1,618,000, RMB2,195,000, RMB1,747,000, RMB390,000 and nil as at 31 December 2014, 2015, 2016 and 2017 and 30 June 2018, respectively.</p>  |                                      |
|                          |                            |  | <p>Although any potential claims arising from the non-compliance of Shenzhen Sun Cheong is covered by the deed of indemnity referred to in the paragraph headed “Estate duty, tax and other indemnities” in Appendix IV to this prospectus, for prudence sake, provision for the unpaid social insurance fund has been made in the financial statements of our Group.</p> |                                      |
|                          |                            |  | <p>We have implemented a set of internal control policies related to the compliance with the requirements of social insurance fund in the PRC. For further information, please refer to the paragraph headed “Major non-compliance incidents – Measures to prevent recurrence of non-compliance” in this section.</p>   |                                      |

| Non-compliance incidents  | Reasons for non-compliance   | Legal consequences and potential maximum penalties   | Rectification actions taken and preventive measures to be taken  | Any operational and financial impact  |
|---|--|--|--|---|
| <p>2. Systemic non-compliance – Shenzhen Sun Cheong failed to make housing provident fund contributions for all of their employees in full.</p> | <p>(i) During the Track Record Period, our employees were reluctant to participate in the housing provident fund contribution plans; and</p> <p>(ii) our human resources department was not familiar with the relevant laws and regulations.</p> | <p>Pursuant to the Regulation on the Administration of Housing Provident Fund (《住房公积管理條例》), the housing provident fund authority is entitled to order Shenzhen Sun Cheong to pay the outstanding housing provident fund contributions within the prescribed time limit. If they fail to do so, the housing provident fund authority is entitled to apply to the PRC court for mandatory enforcement.</p> | <p>Shenzhen Sun Cheong has made housing provident fund contributions in accordance with the relevant regulations for all of its employees since May 2016.</p> <p>On 1 August 2018, we obtained a written confirmation from the Housing Provident Fund Management Centre of Shenzhen confirming that Shenzhen Sun Cheong had not been penalised for violating laws and regulations by the Housing Provident Fund Management Centre of Shenzhen. As advised by our PRC Legal Adviser, the Housing Provident Fund Management Centre of Shenzhen is the competent authority to issue the above confirmation.</p> <p>During the Track Record Period and up to the Latest Practicable Date, Shenzhen Sun Cheong had not received any orders or demands from the relevant government authorities requesting our Group to pay the unpaid housing provident fund amounts.</p> | <p>Such non-compliance incidents will not result in any material adverse operational and financial impact on our Group</p> <p>(i) having considered the advice of our PRC Legal Adviser; (ii) given that Shenzhen Sun Cheong had not received any complaints or payment requests from the relevant employees or any government authorities; and</p> <p>(iii) our Directors consider adequate provision has been made.</p> |

| Non-compliance incidents | Reasons for non-compliance | Legal consequences and potential maximum penalties | Rectification actions taken and preventive measures to be taken   | Any operational and financial impact |
|--------------------------|----------------------------|--|---|--------------------------------------|
|                          |                            |  | <p>Based on the above factors, our PRC Legal Adviser is of the view that (i) the possibility of Shenzhen Sun Cheong being penalised by the housing provident fund authorities for the failure to pay housing provident fund contributions for all of employees is very low; and (ii) the Housing Fund Management Centre of Shenzhen are time-barred from ordering payment based on the two-year statute of limitations.</p> |                                      |
|                          |                            |  | <p>Our Directors have assessed that the unpaid amount of contributions to the housing provident fund was approximately RMB989,000, RMB1,318,000, RMB1,068,000, RMB315,000 and nil as at 31 December 2014, 2015, 2016, 2017 and 30 June 2018, respectively.</p>  |                                      |
|                          |                            |  | <p>Although the non-compliance is covered by the deed of indemnity referred to in the paragraph headed “Estate duty, tax and other indemnities” in Appendix IV to this prospectus, for prudence sake, provision for the unpaid housing provident amount has been made in the financial statements of our Group.</p>   |                                      |
|                          |                            |  | <p>We have implemented a set of internal control policies related to compliance with the requirements of housing provident fund in the PRC. For further information, please refer to the paragraph headed “Major non-compliance incidents – Measures to prevent recurrence of non-compliance” in this section.</p>  |                                      |

| Non-compliance incidents   | Reasons for non-compliance  | Legal consequences and potential maximum penalties  | Rectification actions taken and preventive measures to be taken  | Any operational and financial impact   |
|--|---|---|--|--|
| <p>3. Systemic non-compliance – Filing of incorrect tax returns to the IRD</p> | <p>In April 2014, the IRD initiated a tax field audit on Chase On for the years of assessment from 2011/12 to 2015/16. In August 2015, an initial interview was conducted. Chase On appointed a tax representative (the “<b>Tax Representative</b>”) to assist in handling the relevant matters. With the assistance of the Tax Representative, accounting records and certain documents requested by the IRD have been submitted by Chase On. The Tax Representative was informed that IRD’s major concern is that the source of profits of the sales negotiated and concluded by Chase On’s sales person (the “<b>Questionable Profits</b>”). Chase On was of the view and declared that the Questionable Profits were derived from outside of Hong Kong (the “<b>Offshore Claim</b>”).</p> <p>Certain expenses of Chase On, for example the entertainment and travelling expenses were also reviewed by the IRD.</p> <p>During the field audit, various rounds of questions and information requests were raised by the IRD. In the course of handling the questions and information requests raised by the IRD, substantial time was required to gather the documents and information and to prepare replies to IRD. The IRD also had to spend considerable time in reviewing the documents, information and replies submitted. In addition, various meetings and discussions with the IRD were held from time to time to explain the business operations of the relevant companies and to formulate the settlement proposals. All these involved protracted exchanges of correspondences and communications.</p> <p>Due to large volume of information and documents to be provided to substantiate the Offshore Claim, Chase On determined to compromise with the IRD by withdrawing the Offshore Claim and accepting adjustments for various expenses.</p> | <p>Under section 80(2) of the IRO, any person who without reasonable excuse makes an incorrect return or statement or gives incorrect information is liable to a fine of \$10,000 and a further fine of treble the amount of the tax undercharged. Where there is no prosecution instituted under section 80(2) of the IRO, any person who without reasonable excuse makes an incorrect return or statement or gives incorrect information is liable to a maximum fine of treble of the tax undercharged by virtue of section 82A of the IRO.</p> <p>We have engaged an independent tax adviser, namely, Edwin Yeung &amp; Company (CPA) Limited (the “<b>Tax Adviser</b>”), to advise on our liabilities arising from the field audit. The Tax Adviser was of the view that there were non-compliances of section 80(2) of the IRO by Chase On. Chase On will be exposed to liability on tax exposure and tax penalty. We have decided to settle the tax field audit on a compromise basis and after discussions with IRD’s case assessors, has accordingly submitted a final settlement proposal to IRD in June 2017. The additional tax liabilities and tax penalty of Chase On in accordance with the settlement proposal amounted to approximately HK\$14.7 million and HK\$6.6 million, respectively. In July 2017, the IRD accepted the settlement proposal.</p> <p>Chase On has arranged settlement of the additional tax liabilities (together with the relevant surcharges) and tax penalty by instalments, which has been verbally endorsed by IRD. As at the Latest Practicable Date, Chase On had settled approximately HK\$10.6 million of the additional tax of HK\$14.7 million and all of the tax penalty.</p> | <p>As a remedial measure to prevent recurrence of a similar incident, we have implemented the internal control measures in respect of the book keeping and financial reporting procedures since May 2016. We will engage a tax consultant to advise us on and provide assistance to us in relation to tax reporting matters. We have also delegated Mr. Chan Kam Hon Ivan, our chief financial officer, company secretary and executive Director for handling and overseeing the book keeping, financial reporting, financial planning and reviewing internal control of our Group. For further information of Mr. Chan Kam Hon Ivan, please refer to the section headed “Directors and senior management – Directors” of this prospectus.</p> | <p>Our Group has made the provision of the additional tax liabilities of HK\$10.7 million, HK\$2.0 million, HK\$1.0 million, nil, HK\$1.0 million and nil for the periods before 1 January 2014, the four years ended 31 December 2017 and the six months ended 30 June 2018, respectively, the periods for which the potential additional tax liabilities incurred. The provision of the additional tax liabilities was included in the income tax expense in respective years. The provision of tax penalty of approximately HK\$8.6 million was included in other expenses for the year ended 31 December 2016. An amount of approximately HK\$2.1 million, representing the overprovision of compound penalty, was recognised as reversal of other expenses in the consolidated statements of profit or loss and other comprehensive income for the year ended 31 December 2017.</p> |

| Non-compliance incidents | Reasons for non-compliance  | Legal consequences and potential maximum penalties   | Rectification actions taken and preventive measures to be taken   | Any operational and financial impact  |
|--------------------------|---|--|---|---|
|                          | <p>Technically, when Chase On reaches settlement with the IRD and admits liability to additional profits tax even on a compromise basis, the relevant tax returns previously filed by Chase On with the IRD were incorrect and therefore constitute a breach of section 80(2) of the Inland Revenue Ordinance (“IRO”). Nevertheless, our Directors are of the view that the reason for the non-compliance was primarily due to the different views between Chase On and the IRD in interpreting the source of profit as our Directors consider that certain sales were negotiated and concluded by a sales person stationed outside Hong Kong and hence no Hong Kong profits tax should be payable in respect of that part of profit.</p> | <p>The potential additional tax liabilities were derived from (i) deducting the profits reported by Shenzhen Sun Cheong for PRC tax from the consolidated profits of the Group and (ii) adjusting the deduction claims for entertainment, overseas travelling and sundry expense for the years prior to 2014/15 with reference to the amount incurred in 2014/15 (as a percentage of turnover). The tax penalty was primarily determined on the basis that the non-compliance incident is categorised under “Disclosure with full information promptly on challenge” based on the published penalty policy of the IRD.</p> | <p>The Tax Adviser is also of the view that the non-compliance, which was a sheer result of the different views between Chase On and IRD on offshore claims which was contentious and involved complex legal and technical argument, is of technical nature and should not imply any credibility issues. The Tax Adviser is of the view that offshore claim is a technical issue as under the territorial source concept, a person is chargeable to Hong Kong tax only in respect of his profits arising in or derived from Hong Kong. However, the IRO does not define the term “arising in or derived from Hong Kong”. Although there were established guidelines to assist in locating the source of profits, none of them were intended to be exhaustive. Based on the above, the Tax Adviser is of the view that the non-compliance does not constitute tax evasion under the relevant laws and regulations. Mr. Chan Chung, the barrister-at-law advising our Company on certain Hong Kong legal issues, also concurred with the view of the Tax Adviser.</p> | <p>Mr. Chan Chung is of the view that, based on the advice of the Tax Adviser and that there is no material suggesting any wilful intention to evade tax or the acts and conducts involve any fraud or deceit, the non-compliance in relation to filing of incorrect tax returns to the IRD does not adversely affect the integrity and suitability of our Directors.</p> |
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**Tax incident prior to the Track Record Period**

Prior to the Track Record Period, the IRD initiated a field audit on Farm Chalk HK and Farm Chalk BVI with the years of assessment from 2008/09 to 2011/12 (the “**Field Audit**”). Farm Chalk HK and Farm Chalk BVI considered that their substantial actual operations were carried out outside of Hong Kong and claimed that their profits were not arising in or derived from Hong Kong (the “**Offshore Claim**”), which led to significant discrepancy in judgement about the source of income made by us and by the IRD. The IRD required Farm Chalk HK and Farm Chalk BVI to provide voluminous records and information to support the Offshore Claim. The IRD also required Farm Chalk HK and Farm Chalk BVI to justify their deduction claims for various expense items. Farm Chalk HK and Farm Chalk BVI have engaged a tax representative (the “**Tax Representative**”), who is the same tax representative to handle the field audit of Chase On, to handle the Field Audit. During the Field Audit, various rounds of questions and information requests were raised by the IRD. In the course of handling the questions and information requests raised by the IRD, substantial time was required to gather the documents and information and to prepare replies to IRD. The IRD also had to spend considerable time in reviewing the documents, information and replies submitted. In addition, various meetings and discussions with the IRD were held from time to time to explain the business operations of the relevant companies and to formulate the settlement proposals. All these involved protracted exchanges of correspondences and communications. We considered that it was hard to provide a full set of supporting documents due to the voluminous records requested by the IRD and some of such records were in oral form. Given the prolonged negotiation with the IRD and to avoid protracted exchanges of correspondence, Farm Chalk HK and Farm Chalk BVI compromised with the IRD by withdrawing the Offshore Claim and accepting the adjustments for various expenses.

The Tax Adviser was engaged to review issues regarding the Field Audit. The Tax Adviser is of the view that Farm Chalk HK and Farm Chalk BVI have committed offences under section 80(2) or 82A, namely making incorrect tax returns for the years of assessment from 2008/09 to 2011/12. Taking into account the controversial nature of the Offshore Claim, the breach or non-compliance in the Field Audit was a sheer result of the different views between Farm Chalk HK/Farm Chalk BVI and the IRD on the Offshore Claim which was contentious and involved complex legal and technical arguments. According to the Tax Adviser, the Offshore Claim involves determination of the source of profits, which must be determined on the totality of facts, and the law does not provide an exhaustive objective test. The Offshore Claim is therefore of technical nature and should not imply any credibility issues. Moreover, as advised by the Tax Adviser, according to the Tax Representative, the tax undercharged in this case mainly arose from technical and compromise adjustments of offshore claim. As a result, there is no evidence to show that the adjustments in this case constitute tax evasion under the Inland Revenue Ordinance.

Mr. Chan Chung, the barrister-at-law, also concurred with the view of the Tax Adviser. Mr. Chan Chung is of the view that, based on the advice of the Tax Adviser, (i) there is no material suggesting any wilful intention to evade tax or that the acts and conducts involve any fraud or deceit, the non-compliance in relation to the filing of incorrect tax returns to the IRD does not adversely affect the integrity and suitability of the directors of Farm Chalk HK and Farm Chalk BVI to be directors of the Company; and (ii) the chance of prosecution against Farm Chalk HK, Farm Chalk BVI and/or their directors is not high.

Having considered the opinions of the Tax Adviser and Mr. Chan Chung above, the Sole Sponsor is of the view that the Field Audit does not affect the Directors' competence and integrity and their suitability to act as the Directors under Rules 3.08 and 3.09 of the Listing Rules.

The sales of plastic products operations was transferred from Farm Chalk BVI to Chase On in about 2011 and there was no material change in sales arrangement following the transfer.

Subsequent to various discussions with the IRD case assessors, Farm Chalk HK and Farm Chalk BVI have submitted a final settlement proposal to the IRD in June 2017 to settle the Field Audit on compromise basis. The additional tax and compound penalty of Farm Chalk HK amounted to approximately HK\$4.0 million and HK\$4.6 million, respectively. The additional tax and compound penalty of Farm Chalk BVI amounted to approximately HK\$8.2 million and HK\$8.5 million, respectively. In July 2017, the IRD accepted the settlement proposal. As at the Latest Practicable Date, Farm Chalk HK and Farm Chalk BVI had settled all of the additional tax and the tax penalty.

### **Measures to prevent recurrence of non-compliance**

To strengthen the effectiveness of our corporate governance and our internal control system and to ensure our compliance with the relevant laws and regulations after the Listing, we intend to adopt or have adopted the following measures, in addition to the remedial measures for the specific non-compliance set out in the paragraph under "Major non-compliance incidents" in this section:

1. we engaged the Independent Reviewer to conduct a review of our internal control systems and have implemented the relevant suggestions proposed by the Independent Reviewer. As our business continues to expand, we will refine and enhance our internal control systems to respond to the evolving requirements of our expanded operations as appropriate. We will continue to review our internal control systems to ensure compliance with applicable legal and regulatory requirements;
2. our chief financial officer, company secretary and executive Director, Mr. Chan Kam Hon Ivan, will act as the principal channel of communication between members of our Group and our Company in relation to legal, regulatory and financial reporting compliance matters of our Group as well as the chief coordinator to oversee the internal control procedures in general. Upon receipt of any queries or reports on legal, regulatory and financial reporting compliance matters, our company secretary will look into the matter and, if considered appropriate, seek advice, guidance and recommendation from professional advisers and report to relevant members of our Group and/or our Board;
3. we appointed Giraffe Capital Limited as our compliance adviser upon Listing to advise our Group on compliance matters in accordance with the Listing Rules;
4. we will appoint a qualified PRC law firm as our external PRC legal adviser which will provide assistance to us in relation to the PRC legal and compliance matters in the future;

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5. we will provide our Directors, senior management and employees with training, development programmes and/or updates regarding the legal and regulatory requirements applicable to the business operations of our Group from time to time;
6. we will appoint an external Hong Kong legal adviser to advise us on compliance with the Listing Rules and the applicable Hong Kong laws and regulations; and
7. we have delegated Mr. Chan Kam Hon Ivan to handle and oversee the book keeping, financial reporting, financial planning and review our internal control.

In order to prevent the recurrence of the tax non-compliance incident, we have adopted or intend to adopt the following measures in monitoring the tax affairs of our Group:

- (i) we will engage a tax consultant to advise our Group and provide assistance to us in relation to tax reporting matters;
- (ii) we intend to engage Deloitte Touche Tohmatsu as our auditor, who will undertake independent audit on our financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA, upon Listing;
- (iii) before the filing of any tax return, it will be reviewed and approved by Mr. Chan Kam Hon Ivan, who is a member of the HKICPA with over 10 years of experience in the accounting and auditing disciplines. Please refer to the section headed “Directors and senior management” of this prospectus for more details of the experience and qualifications of Mr. Chan Kam Hon Ivan;
- (iv) we will arrange regular training on tax issues and tax filings to our accounting staff from time to time;
- (v) Mr. Chan Kam Hon Ivan will be responsible for handling any tax queries from the IRD. Depending on the complexity of the issues or the queries, we will seek advice from the tax consultant, and when required, on tax related matters; and
- (vi) our Audit Committee will oversee the financial reporting and internal control procedures in accounting and financial matters to ensure compliance with the Listing Rules and all relevant laws and regulations.

### **Internal control measures to monitor the transfer pricing arrangement**

In relation to the transfer pricing issue as disclosed in the section headed “Potential tax exposure” under this section, we have adopted the following internal control measures to monitor the transfer pricing arrangement:

- (i) we engaged an independent tax representative in July 2016 and January 2017 to issue a study report (the “**Study Report**”) and advise on the transfer pricing arrangement during the Track Record Period. Mr. Chan Kam Hon Ivan reviewed the Study Report and will take into account the result of the Study Report for the forthcoming tax reporting;



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- (ii) we adopted a policy in January 2017 that our finance department will compare the transactions between Chase On and Shenzhen Sun Cheong with similar transactions in the market; and
- (iii) Mr. Chan Kam Hon Ivan attended the training in relation to, among other things, the transfer pricing arrangement in the PRC organised by the HKICPA on 13 May 2017. A training on transfer pricing issue will be provided to our finance department once every year.

### **Views of our Directors and the Sole Sponsor**

We have engaged the Independent Reviewer to conduct a review of our internal control system (including those relating to the tax affairs). The Independent Reviewer put forward several recommendations based on their review of our internal control. Accordingly, we have implemented the aforesaid rectification or improvement measures, as the case may be, in response to these findings and recommendations. The Independent Reviewer has completed the follow-up procedures on our internal control system (including those relating to the tax affairs) with regard to those actions taken by us.

Given the above rectification and improvement actions taken by our Group, and our business nature and operation scale, our Directors are satisfied that our internal control system is adequate and effective for our current operation environment and consider that the non-compliance incidents do not have any material impact on the suitability of our executive Directors under Rules 3.08 and 3.09 of the Listing Rules and the suitability of listing of our Company under Rule 8.04 of the Listing Rules. In particular, (i) the non-compliance incidents were unintentional, did not involve any fraudulent act by our executive Directors, and did not raise any question as to the integrity of our executive Directors; and (ii) we have taken rectification actions and implemented measures (including those relating to the tax affairs), as the case may be, in response to these findings and recommendations put forward by the Independent Reviewer.

Our Directors are of the view that the non-compliance incidents were not of a serious nature and each of them was an isolated event, which was primarily due to unfamiliarity of the relevant legal requirement by our handling staff in the PRC and of a technical nature with respect to the Inland Revenue Ordinance.

Our Directors confirm that we have taken reasonable steps to improve the internal control system (including those relating to the tax affairs) and procedures based on the suggestions recommended by our Independent Reviewer. Our Directors are of the view, and the Sole Sponsor concurs, that the enhanced internal control measures adopted by us are adequate and effective in significantly reducing the risk of future non-compliance with the relevant legal and regulatory requirements.

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The Sole Sponsor concurs with our Directors that the occurrence of the non-compliance incidents were principally due to the lack of knowledge of and familiarity with the applicable legal requirements and the technical nature with respect to the offshore claim for the tax non-compliance incident rather than any material deficiencies in our internal control system or an intentional fraudulent act for the tax non-compliance incident. As part of the Listing process, our Directors have undergone directors' training and we have also engaged our PRC Legal Adviser to advise on applicable legal or regulatory requirements. In relation to the tax non-compliance incident, we have engaged a tax consultant, one of the four largest international auditing firms, to advise and assist us in relation to the tax reporting matters. After making enquiries with the management of our Company and interviewing the Independent Reviewer regarding our internal control system (including those relating to the tax affairs), nothing has come to the Sole Sponsor's attention that our Company's enhanced internal control measures (including those relating to the tax affairs) are inadequate and ineffective.

For the tax non-compliance incident, the Sole Sponsor concurs with (i) the view of the Tax Adviser that the non-compliance, which mainly relates to the offshore claim of Chase On, is of a technical nature and should not imply any credibility issues; and (ii) the view of Mr. Chan Chung that the non-compliance does not adversely affect the integrity and suitability of our Directors.

Based on the above, the Sole Sponsor is of the view that our Directors have the standard of competence commensurate with the positions as directors of a listed issuer under Rules 3.08 and 3.09 of the Listing Rules and that the abovementioned non-compliance incidents would not affect the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules and the suitability of listing of the Company under Rule 8.04 of the Listing Rules, having taken into account that: (i) our Group has implemented (or will implement where applicable) the abovementioned measures to avoid recurrence of the non-compliance incidents; (ii) there were no recurrence of similar non-compliance incidents since the implementation of such measures; and (iii) the non-compliance incidents were unintentional, did not involve any dishonesty or fraudulent act on the part of our Directors, and did not raise any question as to the integrity of our Directors.

### **CORPORATE GOVERNANCE AND INTERNAL CONTROL MEASURES**

We have engaged the Independent Reviewer to review the internal control system of our Group. The Independent Reviewer has reviewed the internal control system of our Group according to the agreed scope which covers the procedures, systems and controls established by our Group in regard to the operating cycles of our Group (including the review of our Group's corporate governance practise and regulatory compliance, revenue and receipts cycle, expenses and payments cycle, treasury management cycle, financial reporting cycle and IT general controls).

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As at the Latest Practicable Date, we had implemented the recommendations from the Independent Reviewer to the extent practicable. The Independent Reviewer has performed follow-up review in October 2017 on our internal control measures implemented for verifying the implementation status of the system improvement recommendations. All deficiencies have been remedied. Our Directors are also of the view that our Group's enhanced internal control measures are adequate and effective.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### CONTROLLING SHAREHOLDERS

Immediately following the completion of the Share Offer and the Capitalisation Issue (taking no account of the Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), Uni-Pro will be interested in approximately 50.05% of the issued share capital of our Company. Hence, Mr. Tong Ying Chiu and Ms. Ng Siu Kuen Sylvia (collectively as a group of Controlling Shareholders), Sun Cheong Creative and Uni-Pro will be our Controlling Shareholders.

### INDEPENDENCE TO OUR CONTROLLING SHAREHOLDERS

Our Directors do not expect that there will be any significant transactions between our Group and our Controlling Shareholders or their respective close associates upon or shortly after the Listing. Having considered the following factors, our Directors consider that, our Group is capable of carrying out our business independently, and does not place undue reliance on our Controlling Shareholders and their respective close associates after Listing.

#### Management independence

Our Board comprises four executive Directors and three independent non-executive Directors. Our Board comprises a balanced composition of independent non-executive Directors who have sufficient character, integrity and calibre for their views to carry weight, and thus can effectively exercise independent judgement. In addition, each of our Directors is aware of his or her fiduciary duties as a director which require, among others, that he or she must act for the benefit of 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 interests. If there is any potential conflict of interests arising out of any transactions to be entered into between our Group and our Directors or their respective close associates, the interested Directors shall declare such interest to the Board at or prior to the meeting of the Board in which the relevant transactions are to be considered as soon as he or she is aware of the conflicts in accordance with the Articles. Save for certain circumstances, the interested Directors shall also abstain from voting at the relevant Board meetings in respect of such transactions and shall not be counted in the quorum in accordance with the Articles.

In addition, our Group has a senior management team which is capable of carrying out the business decision of our Group independently. None of our senior management team has any family relationship with our Controlling Shareholders or any of their respective close associates.

Three of our Board members are independent non-executive Directors who are experienced in different professions to ensure that the decisions of the Board are made only after due consideration of independent and impartial opinions.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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Our Directors believe that the presence of Directors from different backgrounds provides a balance of views and opinions.

Furthermore, our Board's main functions include approving our Group's overall business plans and strategies, monitoring the implementation of these policies and strategies and managing our Company. Our Board acts collectively by majority decisions in accordance with the Articles and the applicable laws, and no single Director is supposed to have any decision-making power unless otherwise authorised by our Board.

### **Operational independence**

While our Board has full rights to make all decisions on the overall strategic development, management and operational aspects of our Group, all essential operational functions (such as financial and accounting management, invoicing and billing and human resources) have been and will be overseen by the senior management of our Group (whose biographies are disclosed in the section headed "Directors and senior management" of this prospectus), without unduly requiring the support of our Controlling Shareholders and their close associates.

Our Group holds all the trademarks, patents and domain names that are material to our business, and has sufficient capital, equipment and employees to operate our business independently from our Controlling Shareholders and their respective close associates. Our Group does not rely on our Controlling Shareholders or their close associates and has independent access to our customers.

Our Group has also established a set of internal control policies and guidelines to facilitate the effective and independent operation of our business. Further details are set out in the section headed "Business – Corporate governance and internal control measures" of this prospectus.

### **Administrative independence**

Our Group has our own capabilities and staff to perform all essential administrative functions, including financial and accounting management and human resources. Our senior management staff is independent of our Controlling Shareholders.

### **Financial independence**

Our Group has our own financial management system and the ability to operate independently from our Controlling Shareholders from a financial perspective. All guarantees provided by our Controlling Shareholders and/or their respective close associates to secure loans/financing facility and bank term loans granted to our Group under the SME Financing Guarantee Scheme will be fully discharged upon Listing. Our Directors are of the view that our Group is able to obtain financing from external sources without relying on our Controlling Shareholders after Listing. There will be no financial dependence on our Controlling Shareholders or any of their respective close associates.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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Having considered the above factors and in light of the non-competition undertakings given by our Controlling Shareholders in favour of our Group (as more particularly disclosed in the paragraph headed “Non-competition undertakings” below), our Directors are satisfied that they are able to perform their roles in our Group independently and are of the view that they are capable of managing our business independently from our Controlling Shareholders and their respective close associates after Listing.

### NON-COMPETITION UNDERTAKINGS

None of our Directors, our Controlling Shareholders nor any of their respective close associates is a director or a shareholder of any business apart from the business of our Group which competes or is likely to compete, either directly or indirectly, with the business of our Group or has other conflicts of interest with our Group.

In order to eliminate any future competition with us, our Controlling Shareholders, as covenantors (the “**Covenantors**”), have entered into the Deed of Non-competition with our Company whereby each of the Covenantors has jointly and severally, irrevocably and unconditionally, undertaken and covenanted with our Company (for ourselves and for the benefit of our subsidiaries from time to time) that with effect from the Listing Date and for so long as the Shares remain listed on the Stock Exchange and (i) the Covenantors, individually or collectively (whether or not with their respective close associates), are directly or indirectly interested in not less than 30% of the Shares in issue; or (ii) the relevant Covenantor remains as our executive Director, each of the Covenantors shall, and shall procure that its/his respective close associates shall:

- (a) not directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activities of our Group or any business activities which our Group may undertake in the future;
- (b) not take any direct or indirect action which constitutes an interference with or a disruption to the business activities of our Group including solicitation of customers, suppliers and staff of our Group;
- (c) keep our Board informed of any matter of potential conflicts of interests between the relevant Covenantor (including its/his close associates) and our Group, in particular, a transaction between any of the relevant Covenantor (including its/his close associates) and our Group; and
- (d) provide as soon as practicable upon our Company’s request a written confirmation in respect of compliance by it with the terms of the Deed of Non-competition and their respective consent to the inclusion of such confirmation in our Company’s annual report and all such information as may be reasonably requested by the Company for its review.

In addition, each of the Covenantors irrevocably and unconditionally, undertakes that if any new business opportunity relating to any products and/or services of our Group (the “**Business Opportunity**”) is made available to it/him or its/his close associates (other than

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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members of our Group), it or he will direct or procure the relevant associate to direct such Business Opportunity to our Group with such required information to enable our Group to evaluate the merits of the Business Opportunity.

The relevant Covenantor shall provide or procure its/his associates to provide all such reasonable assistance to enable our Group to secure the Business Opportunity. If he or it (or his/its close associates) plans to participate or engage in any new activities or new business which may, directly or indirectly, compete with the existing business activities of our Group, he or it shall give our Company a first right of refusal to participate or engage in the Business Opportunity and will not participate or engage in these activities unless with the prior written consent of our Company. None of the Covenantors and their respective close associates (other than members of our Group) will pursue the Business Opportunity until our Group decides not to pursue the Business Opportunity because of commercial reasons. Any decision of our Company will have to be approved by our independent non-executive Directors taking into consideration the prevailing business and financial resources of our Group, the financial resources required for the Business Opportunity and, where necessary, any expert opinion on the commercial viability of the Business Opportunity.

Each of the Covenantors further irrevocably and unconditionally undertakes that it or he will (i) provide to our Group all information necessary for the enforcement of the undertakings contained in the Deed of Non-competition; and (ii) confirm to our Company on an annual basis as to whether it or he has complied with such undertakings.

The Deed of Non-competition will cease to have any effect on the earliest of the date on which:

- (a) our Company becomes wholly-owned by any of the Covenantor and/or its/his close associates;
- (b) the aggregate beneficial shareholding (whether direct or indirect) of the Covenantors and/or its/his close associates in the Shares in issue falls below 30% of the number of Shares in issue and the relevant Covenantor shall cease to be our executive Director; or
- (c) the Shares cease to be listed on the Stock Exchange.

## CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following corporate governance measures to manage the potential conflict of interests between us and our Controlling Shareholders, and to safeguard the interests of our Shareholders:

- (i) our independent non-executive Directors will review, at least on an annual basis, compliance and enforcement of the terms of the Deed of Non-competition;
- (ii) we will disclose any decisions on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of the Deed of Non-competition either through our annual report or by way of announcement;

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (iii) we will disclose in the corporate governance report contained within our annual report on how the terms of the Deed of Non-competition have been complied with and enforced; and
- (iv) in the event that any of our Directors and/or their respective close associates has material interest in any matter to be deliberated by our Board in relation to compliance and enforcement of the Deed of Non-competition, he/she may not vote on the resolutions of our Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Articles.

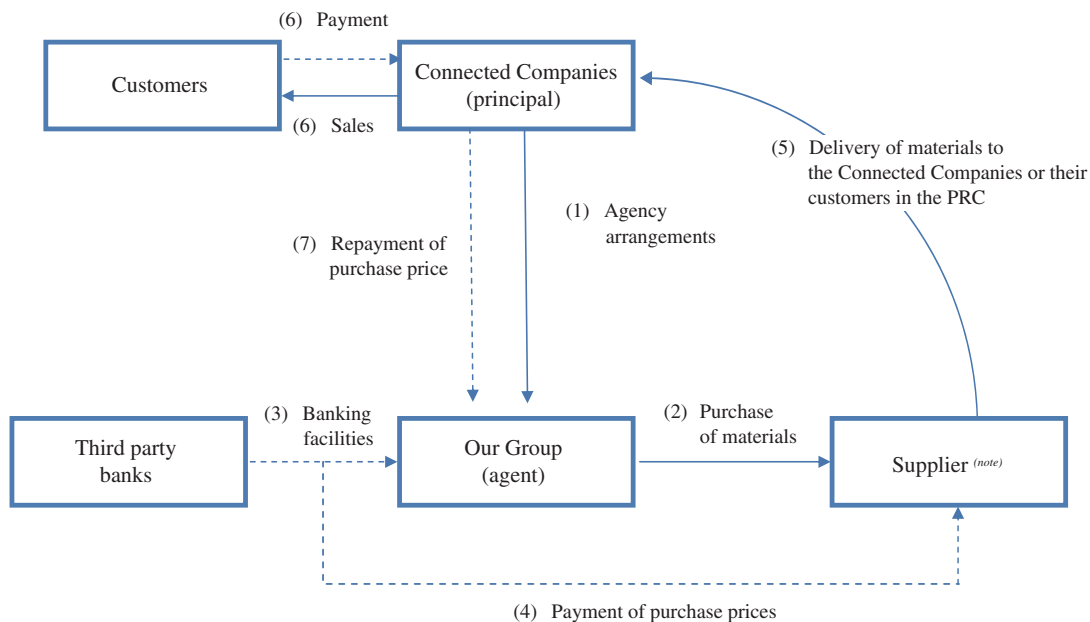
Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between our Controlling Shareholders and their respective close associates and our Group and to protect the interests of our Shareholders, in particular, the minority shareholders.

### AGENCY ARRANGEMENTS WITH COMPANIES CONTROLLED BY OUR CONTROLLING SHAREHOLDERS AND CLOSE ASSOCIATE OF OUR DIRECTOR

During the Track Record Period, Chase On provided services to our related companies which were controlled by our Controlling Shareholders and close associate of our Director (the “**Connected Companies**”) whereby Chase On was appointed by these Connected Companies as their agent to provide services including the purchase of materials and arrangement for payment of the material purchase prices on behalf of the Connected Companies.

#### The arrangements

The following chart sets forth the operation flow of the agency arrangements:



*Note:* The supplier is a company incorporated in Hong Kong on 11 May 2007 and is controlled by Mr. Lam Hon Kwong, who was a member of our senior management at the material time.



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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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- (1) The Connected Companies are Fifteen International Limited and Sky Market Limited, which are companies incorporated in Hong Kong on 25 April 2014 and 13 March 2012, respectively. Fifteen International Limited was controlled by our Controlling Shareholders, and Sky Market Limited was then controlled by the spouse of Mr. Tong Bak Nam Billy, one of our executive Directors and chief executive officer. Since 6 December 2016, Sky Market Limited became controlled by our Controlling Shareholders. The principal business of these Connected Companies is the trading of materials. With a longer history of establishment, Chase On has established a good relationship with its third party banks. As such, these two Connected Companies appointed Chase On as their agent to be responsible for the purchase of materials and financing arrangements for payment of the purchase prices.
- (2) Pursuant to the agency arrangements, Chase On purchases the polypropylene resins from the relevant supplier. The terms of the purchase orders are negotiated and fixed by the Connected Companies and the supplier.
- (3) With the invoice issued by the relevant supplier, Chase On as the borrower then applies to the third party banks in Hong Kong for loans to settle the purchase prices stated in the invoice.
- (4) In the application for the loan, it states that the loan will be paid directly to the supplier's account to settle the purchase price of the relevant invoice, usually within two days from the date of invoice from the supplier.
- (5) The materials purchased will be delivered by the supplier to the Connected Companies or to the location of their customers in the PRC, usually within two days of the payment to the supplier.
- (6) The Connected Companies receive payment of the purchase prices from their customers, usually within one to two days from the delivery of the materials.
- (7) Upon the receipt of the purchase prices from their customers, the Connected Companies will repay Chase On (or such persons directed by Chase On) the purchase prices Chase On paid to the supplier.

### **Reasons for and details of the agency arrangements**

During the Track Record Period, we were granted banking facilities which were secured by the personal assets of our Directors. Since Chase On had a longer history of establishment and better relationship with the banks, the Connected Companies appointed Chase On to be their agent to be responsible for the purchasing of materials and financing arrangements for payment of the purchase prices. Since the Connected Companies were controlled by our Controlling Shareholders and their close associate, Chase On accepted such appointment.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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In the agency arrangements, we did not bear pricing risk nor inventory risk and did not bear any insurance cost and freight cost. We negotiated and corresponded with the supplier on behalf of the Connected Companies. The price of the materials was negotiated between the Connected Companies and the supplier. The inventory risk was borne by the supplier and Connected Companies during the course of transportation.

For each of the years ended 31 December 2014, 2015 and 2016, the gross amount of purchases from the supplier which Chase On settled under the instructions of the Connected Companies amounted to approximately HK\$252.3 million, HK\$389.9 million and HK\$158.3 million, respectively. Our Group's borrowings for each of the years ended 31 December 2014, 2015 and 2016 related to the agency arrangements were approximately HK\$223.1 million, HK\$347.0 million and HK\$156.6 million, respectively. The finance costs incurred for each of the years ended 31 December 2014, 2015 and 2016 related to the agency arrangements were approximately HK\$1.7 million, HK\$2.2 million and HK\$1.6 million, respectively, which were fully reimbursed through the charge of agency service income against the Connected Companies as set out in note 31(b) of Accountants' Report as set out in Appendix I to this prospectus.

In the preparation for the Listing, for the purpose of establishing a better corporate governance and with a view to minimise the transactions between our Group and our connected persons, such agency arrangements were terminated in August 2016.

### **Validity of the arrangements**

Based on the opinion of a Hong Kong legal counsel engaged by us, our Directors confirmed that (i) the above agency arrangements with the Connected Companies and drawing of loans by Chase On to settle the purchase prices for materials purchased under the instructions of the Connected Companies do not violate the terms and conditions of the relevant facilities agreements with the lending banks; and (ii) such arrangements are valid, legal and enforceable.

### **Termination of the arrangements**

For reasons that the Connected Companies have established track records and relationship with the banks, the agency arrangements with the Connected Companies will constitute continuing connected transactions of our Company under Chapter 14A of the Listing Rules after the Listing, the parties terminated the above agency arrangements on 31 August 2016.

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## SUBSTANTIAL SHAREHOLDERS

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So far as our Directors are aware, the following persons will, immediately following the completion of the Share Offer and the Capitalisation Issue (taking no account of any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), have beneficial interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group:

| Name of Shareholder                      | Capacity  | Number of Shares   | Approximate percentage of issued Shares |
|--|---|--|---|
| Uni-Pro ( <i>Note 1</i> )                | Beneficial owner  | 270,256,500 Shares<br>(long position)                      | 50.05%                                  |
| Sun Cheong Creative                      | Interest of a controlled corporation                    | 270,256,500 Shares<br>(long position)<br>( <i>note 2</i> ) | 50.05%                                  |
| Mr. Tong Ying Chiu                       | Interest of a controlled corporation/interest of spouse | 270,256,500 Shares<br>(long position)<br>( <i>note 3</i> ) | 50.05%                                  |
| Ms. Ng Siu Kuen Sylvia                   | Interest of a controlled corporation/interest of spouse | 270,256,500 Shares<br>(long position)<br>( <i>note 3</i> ) | 50.05%                                  |
| Mr. Chan Kam Hon Ivan                    | Beneficial owner  | 70,227,000 Shares<br>(long position)                       | 13.0%                                   |
| Eminent Sky<br>( <i>Note 4</i> )         | Beneficial owner  | 54,027,000 Shares<br>(long position)                       | 10.0%                                   |
| VMS Proprietary Investment Limited       | Interest of a controlled corporation                    | 54,027,000 Shares<br>(long position)<br>( <i>note 5</i> )  | 10.0%                                   |
| VMS Proprietary Investment Group Limited | Interest of a controlled corporation                    | 54,027,000 Shares<br>(long position)<br>( <i>note 5</i> )  | 10.0%                                   |

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## SUBSTANTIAL SHAREHOLDERS

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| Name of Shareholder      | Capacity                             | Number of Shares  | Approximate percentage of issued Shares |
|--------------------------|--------------------------------------|---|---|
| VMS Holdings Limited     | Interest of a controlled corporation | 54,027,000 Shares<br>(long position)<br><i>(note 5)</i> | 10.0%                                   |
| Master Competent Limited | Interest of a controlled corporation | 54,027,000 Shares<br>(long position)<br><i>(note 5)</i> | 10.0%                                   |
| Ms. Mak Siu Hang Viola   | Interest of a controlled corporation | 54,027,000 Shares<br>(long position)<br><i>(note 5)</i> | 10.0%                                   |

*Notes:*

1. Uni-Pro is a company incorporated in the BVI and is wholly-owned by Sun Cheong Creative.
2. These Shares are held by Uni-Pro, a company incorporated in the BVI and is wholly-owned by Sun Cheong Creative. Accordingly, Sun Cheong Creative is deemed to be interested in the Shares held by Uni-Pro under the SFO.
3. These Shares are held by Uni-Pro, a company incorporated in the BVI and is wholly-owned by Sun Cheong Creative. Sun Cheong Creative is a company incorporated in Hong Kong and is held as to 50% by Mr. Tong Ying Chiu and as to 50% by Ms. Ng Siu Kuen Sylvia. Mr. Tong Yiu Chiu is the spouse of Ms. Ng Siu Kuen Sylvia. Accordingly, Mr. Tong Ying Chiu and Ms. Ng Siu Kuen Sylvia are deemed to be interested in the Shares held by Uni-Pro under the SFO.
4. Eminent Sky is a company incorporated in the BVI and wholly-owned by VMS Proprietary Investment Limited.
5. These Shares are held by Eminent Sky, a company incorporated in the BVI and is wholly-owned by VMS Proprietary Investment Limited. VMS Proprietary Investment Limited is a company incorporated in the BVI and is wholly-owned by VMS Proprietary Investment Group Limited, which is a company incorporated in the BVI and is wholly-owned by VMS Holdings Limited. VMS Holdings Limited is a company incorporated in the BVI and is owned by Ms. Mak Siu Hang Viola as to 59.8%, Master Competent Limited as to 32.2% and by an Independent Third Party as to 8%. Master Competent Limited is a company incorporated in the BVI and is wholly-owned by Ms. Mak Siu Hang Viola. Accordingly, each of VMS Proprietary Investment Limited, VMS Proprietary Investment Group Limited, VMS Holdings Limited, Master Competent Limited and Ms. Mak Siu Hang Viola is deemed to be interested in the Shares held by Eminent Sky under the SFO.

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## SUBSTANTIAL SHAREHOLDERS

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Except as disclosed in this prospectus, our Directors are not aware of any person who will, immediately following the completion of the Share Offer and the Capitalisation Issue (assuming no Shares are to be issued upon the exercise of any options which may be granted under the Share Option Scheme), have beneficial interests or short positions in any Shares or underlying Shares, which would be required to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly interested in 10% or more of the issued voting shares of any members of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

### UNDERTAKINGS

Each of our Controlling Shareholders has given certain undertakings in respect of the Shares held by them to our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager, the Public Offer Underwriters, details of which are set forth in the section headed “Underwriting – Undertakings pursuant to the Public Offer Underwriting Agreement – Undertakings by our Controlling Shareholders” of this prospectus. Each of our Controlling Shareholders, namely Mr. Tong Ying Chiu and Ms. Ng Siu Kuen Sylvia (collectively as a group of Controlling Shareholders), Sun Cheong Creative and Uni-Pro, has also given undertakings to our Company and the Stock Exchange as required by Rule 10.07 of the Listing Rules and are bound by the non-disposal restrictions as imposed by Rule 10.07 of the Listing Rules.

To demonstrate commitment to our Group, each of our Controlling Shareholders, namely Mr. Tong Ying Chiu and Ms. Ng Siu Kuen Sylvia (collectively as a group of Controlling Shareholders), Sun Cheong Creative and Uni-Pro, and Mr. Chan Kam Hon Ivan has further voluntarily undertaken to our Company, the Stock Exchange, the Sole Sponsor, the Joint Bookrunners (for themselves and on behalf of the Underwriters), the Joint Lead Managers and the Co-Manager for a period of 24 months commencing on the Listing Date, he/she/it shall not, and shall procure that the relevant registered holder(s) and his/her/its associates or companies controlled by him/her/it and any nominee or trustee holding in trust for himself/herself/itself shall not, without the prior written consent of our Company, the Stock Exchange, the Sole Sponsor, the Joint Bookrunners (for themselves and on behalf of the Underwriters), the Joint Lead Managers and the Co-Manager dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any Shares held by him/her/it or any of his/her/its associates or companies controlled by him/her/it or any nominee or trustee holding on trust for himself/herself/itself. Further details of such undertakings are set out under the section headed “Underwriting – Lock-up undertakings to the Stock Exchange pursuant to the Listing Rules – Undertakings by our Controlling Shareholders” of this prospectus.

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## DIRECTORS AND SENIOR MANAGEMENT

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### DIRECTORS

Our Board currently consists of seven Directors, being four executive Directors and three independent non-executive Directors. The powers and duties of our Board include determining business and investment plans, preparing our annual financial budgets and final reports, formulating proposals for profit distributions as well as exercising other powers, functions and duties as conferred by our Memorandum and Articles of Association. We have entered into service contracts with our executive Directors. We have also entered into letters of appointment with our independent non-executive Directors.

The table below shows certain information in respect of members of the Board:

| Name                         | Age | Position  | Responsibility  | Date of joining our Group | Date of appointment as Director | Relationship with other Directors and senior management               |
|------------------------------|-----|---|---|---------------------------|---------------------------------|---|
| Mr. Tong Ying Chiu (湯應潮)     | 67  | Chairman and executive Director                                   | Overall management, strategic development and major decision-making of our Group  | July 1979                 | 22 March 2016                   | Spouse of Ms. Ng Siu Kuen Sylvia and father of Mr. Tong Bak Nam Billy |
| Ms. Ng Siu Kuen Sylvia (吳笑娟) | 64  | Executive Director  | Managing the production of our Group  | 16 June 1989              | 22 March 2016                   | Spouse of Mr. Tong Ying Chiu and mother of Mr. Tong Bak Nam Billy     |
| Mr. Tong Bak Nam Billy (湯栢楠) | 40  | Chief executive officer and executive Director                    | Overall management, strategic development and major decision-making of our Group  | 1 March 2006              | 28 June 2016                    | Son of Mr. Tong Ying Chiu and Ms. Ng Siu Kuen Sylvia                  |
| Mr. Chan Kam Hon Ivan (陳錦漢)  | 35  | Chief financial officer, company secretary and executive Director | Overall strategy development and financial operations and management of our Group | 1 March 2013              | 28 June 2016                    | Nil   |

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## DIRECTORS AND SENIOR MANAGEMENT

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| Name                            | Age | Position                           | Responsibility  | Date of joining our Group | Date of appointment as Director | Relationship with other Directors and senior management |
|---------------------------------|-----|------------------------------------|---|---------------------------|---------------------------------|---|
| Mr. Yuen Chi Ping (袁志平)         | 39  | Independent non-executive Director | Supervising our Group's compliance and corporate governance matters, providing independent judgement to our Board | 16 August 2018            | 16 August 2018                  | Nil   |
| Mr. Cheung Ting Kin (張錠堅)       | 36  | Independent non-executive Director | Supervising our Group's compliance and corporate governance matters, providing independent judgement to our Board | 16 August 2018            | 16 August 2018                  | Nil   |
| Mr. Leung Leslie Yau Chak (梁祐澤) | 32  | Independent non-executive Director | Supervising our Group's compliance and corporate governance matters, providing independent judgement to our Board | 16 August 2018            | 16 August 2018                  | Nil   |

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## DIRECTORS AND SENIOR MANAGEMENT

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### Executive Directors

**Mr. Tong Ying Chiu (湯應潮)**, aged 67, is our founder, Chairman and executive Director. Mr. Tong founded our Group in July 1979 and is responsible for the overall management, strategic development and major decision-making of our Group. Mr. Tong attended secondary education in Hong Kong. Mr. Tong has over 30 years of experience in the plastic products industry with extensive business and client network and experience in sales and marketing, product development, customer service and business management, which contributed to the long-term client relationship maintenance and business expansion of our Group.

Mr. Tong is the spouse of Ms. Ng Siu Kuen Sylvia, our executive Director and the father of Mr. Tong Bak Nam Billy, our chief executive officer and executive Director.

**Ms. Ng Siu Kuen Sylvia (吳笑娟)**, aged 64, is our executive Director. Ms. Ng has been serving our Group since June 1989. Ms. Ng is responsible for managing the production of our Group. Ms. Ng has over 25 years of experience in the plastic products industry with in-depth knowledge in the manufacturing of plastic household products acquired through our Group.

Ms. Ng is the spouse of Mr. Tong Ying Chiu, our Chairman and executive Director and the mother of Mr. Tong Bak Nam Billy, our chief executive officer and executive Director.

**Mr. Tong Bak Nam Billy (湯栢楠)**, aged 40, is our chief executive officer and executive Director. Mr. Billy Tong joined our Group in March 2006. Mr. Billy Tong is responsible for the overall management, strategic development and major decision-making of our Group.

Mr. Billy Tong attended Macquarie University from July 1997 to November 2002 and was admitted into the Bachelor of Science in the Division of Information and Communication Sciences. Mr. Billy Tong has over 10 years of experience of managing and operating a plastic household products business. Since April 2017, Mr. Billy Tong has been a director of Pok Oi Hospital (a charity organisation) in Hong Kong. In August 2017, he was selected as a winner of the Young Industrialist Awards of Hong Kong 2017 by the Federation of Hong Kong Industries.

Mr. Billy Tong is the son of Mr. Tong Ying Chiu, our Chairman and executive Director and Ms. Ng Siu Kuen Sylvia, our executive Director.

**Mr. Chan Kam Hon Ivan (陳錦漢)**, aged 35, is our chief financial officer, company secretary and executive Director. Mr. Chan joined the Group in March 2013 and is responsible for overall strategy development and financial operations and management of our Group. Mr. Chan obtained a degree of Bachelor of Commerce, with a double major in accounting and commercial law, from The University of Auckland in New Zealand, in May 2005. He has been a Certified Public Accountant (Practising) of the HKICPA since January 2013 and a member of the HKICPA since March 2009. Mr. Chan has over 10 years of experience in the accounting and auditing disciplines. Prior to joining our Group, Mr. Chan worked in a number of accounting firms in the assurance department including Horwath Hong Kong CPA Limited from January 2005 to February 2007, Grant Thornton from March 2007 to February 2008, and PricewaterhouseCoopers Ltd. from February 2008 to August 2012.



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## DIRECTORS AND SENIOR MANAGEMENT

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### Independent non-executive Directors

**Mr. Yuen Chi Ping** (袁志平), aged 39, has been appointed as our independent non-executive Director on 16 August 2018. Mr. Yuen is a qualified lawyer in Hong Kong and England and Wales and has over 12 years of experience practising as a lawyer in the PRC and Hong Kong. Mr. Yuen obtained a Bachelor of Laws in November 2001 and was awarded the Postgraduate Certificate in Laws in June 2002 from the University of Hong Kong. Mr. Yuen started his training as a trainee solicitor at Koo and Partners in association with Paul, Hastings, Janofsky & Walker LLP (now known as Paul Hastings) in August 2002. Mr. Yuen was admitted as a solicitor of The High Court of Hong Kong in October 2004. He then worked as an assistant solicitor in Philip K H Wong, Kennedy Y H Wong & Co. from August 2004 to August 2006, as an assistant solicitor in Clyde & Co., Solicitors from November 2006 to August 2007 and as a special counsel in Baker & McKenzie LLP from August 2007 to May 2014.

Mr. Yuen was the chief operating officer of Fullshare Holdings Limited from October 2014 to March 2018, which mainly engaged in real estate development, the provision of green building services and investment activities, and the healthcare business, and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 607). Since July 2016, Mr. Yuen has been a non-executive director of Hin Sang Group (International) Holding Co. Ltd., which mainly engaged in the business of children's health care, Chinese medicines and traditional Chinese medical related projects, and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 6893). Since September 2016, Mr. Yuen has been an executive director and chief executive officer of Applied Development Holdings Limited, which mainly engaged in property investment, resort and property development and investment holding, and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 519). Since December 2016, Mr. Yuen has been a non-executive director of China High Speed Transmission Equipment Group Co., Ltd., which principally engaged in producing mechanical transmission equipment and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 658). Since April 2017, Mr. Yuen has also been a director of Pok Oi Hospital (a charity organisation). Since April 2018, Mr. Yuen has been an executive director, the vice-chairman and the co-chief executive officer of Longitech Smart Energy Holding Limited, which principally engaged in the primary land development and public infrastructure construction business and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1281).

Despite that Mr. Yuen maintains concurrent directorships at various listed companies at the same time, Mr. Yuen will have sufficient time and resources to serve on the Board without affecting his discharge of fiduciary duties as a director of our Company as required by the Listing Rules as: (a) Mr. Yuen had attended most of the board meetings and meetings of the board committees which he is a member of the relevant listed companies since his appointment based on the attendance record of Mr. Yuen at the board and board committee meetings of the relevant listed companies as disclosed in the respective annual reports of the relevant listed companies and the confirmation from Mr. Yuen; and (b) Mr. Yuen confirmed that none of the listed companies that he has directorship has questioned or complained about his time devoted to the listed companies.

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## DIRECTORS AND SENIOR MANAGEMENT

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**Mr. Cheung Ting Kin (張錠堅)**, aged 36, has been appointed as our independent non-executive Director on 16 August 2018. Mr. Cheung has been admitted to the degree of Bachelor of Commerce Accounting and Finance by Curtin University of Technology in Australia in September 2004 and has been awarded the degree of Master of Finance by The Australian National University in December 2005. Mr. Cheung worked in Ernst & Young as an accountant from September 2006 to November 2009, in Surrey Junction Investment Limited, a company engaging in media, entertainment and lifestyle in the PRC, as the chief financial officer from May 2010 to November 2011, and in Seige Communication Limited, a company engaging in financial public relations, manufacturing and trade, as the chief financial officer from January 2012 to December 2013. From October 2013 to July 2014, he was a financial controller at Richly Field China Development Limited, a company engaging in commercial and residential property development and operation and whose shares are listed on the Main Board of the Stock Exchange (stock code: 313). He was further appointed as the chief financial officer and company secretary of Richly Field China Development Limited since July 2014 and July 2015, respectively. In June 2016, he was appointed as a director of Maia Global Investments Limited, a company engaged in private equity investment fund. Since 28 February 2017, he has been appointed as a director of Guardians Asset Management Limited with principal business of assets management.

Mr. Cheung has been a Certified Public Accountant of the HKICPA since March 2015, an associate of CPA Australia since June 2004 and certified dealmaker of the China Mergers & Acquisitions Association since February 2015.

**Mr. Leung Leslie Yau Chak (梁祐澤)**, aged 32, has been appointed as our independent non-executive Director on 16 August 2018. Mr. Leung obtained a Bachelor of Commerce degree majoring in Accounting and Finance from The University of Auckland in New Zealand in May 2006. Mr. Leung worked at Bloomberg L.P., a company engaging in providing financial software tools, data services, and news to financial companies and organisations as a data expert from May 2008 to June 2010. He later worked at N.M. Rothschild & Sons (Hong Kong) Limited (now known as Rothschild (Hong Kong) Limited), a company engaging in providing M & A, strategy and financing advisory to corporations, private equity, families and entrepreneurs, as an analyst from September 2010 to June 2013 and as an associate from July 2013 to July 2015. Mr. Leung then worked as a manager in the strategic investment department of Taobao China Holding Limited from December 2015 to January 2017.

Mr. Leung has been working at Chow Tai Fook Enterprises Limited, an investment holding company as a senior associate from February 2017 to April 2018, and has been appointed as the vice-president since April 2018.

Mr. Leung has been a chartered financial analyst charterholder of the CFA Institute since October 2012.

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## DIRECTORS AND SENIOR MANAGEMENT

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### Further information required to be disclosed pursuant to Rule 13.51(2)(l) of the Listing Rules

Mr. Tong Ying Chiu was a director of the following companies, which were struck off or deregistered and dissolved with details as follows:

| <b>Name of company</b>   | <b>Place of incorporation</b> | <b>Nature of business</b>  | <b>Date of dissolution</b> | <b>Means of dissolution</b>   |
|--|-------------------------------|--|----------------------------|---|
| Yet Dragon Industrial Limited  | Hong Kong                     | Investment holding   | 19 December 2008           | Striking off under section 291 of the then in force Companies Ordinance   |
| Selective Development Company Limited  | Hong Kong                     | Never commenced business   | 16 November 2001           | Deregistration under section 291AA of the then in force Companies Ordinance   |
| 佛山市雍昌塑膠用品有限公司<br>(Foshan Yong Chang Plastic Supplies Co., Ltd)   | PRC                           | Manufacture and sales of daily use plastic products                  | 4 December 2015            | Dissolution and deregistration pursuant to shareholders' resolutions under article 180(2) of the then in force Company Law of the PRC |
| 深圳市南山區順安新昌塑膠五金來料加工廠<br>(Shenzhen Nanshan Shun'an Xinchang Plastic Article Hardware Processing Factory)<br>(Note) | PRC                           | Manufacture and sales of plastic products and general metal products | 18 July 2011               | Dissolution and deregistration pursuant to investors' resolutions   |

*Note:* Mr. Tong Ying Chiu was a responsible person of 深圳市南山區順安新昌塑膠五金來料加工廠 (Shenzhen Nanshan Shun'an Xinchang Plastic Article Hardware Processing Factory).

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## DIRECTORS AND SENIOR MANAGEMENT

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Ms. Ng Siu Kuen Sylvia was a director of the following companies, which were struck off or deregistered and dissolved with details as follows:

| <b>Name of company</b>   | <b>Place of incorporation</b> | <b>Nature of business</b>                           | <b>Date of dissolution</b> | <b>Means of dissolution</b>   |
|--|-------------------------------|---|----------------------------|---|
| Welfery Industrial Limited                                     | Hong Kong                     | Investment holding                                  | 17 October 2008            | Striking off under section 291 of the then in force Companies Ordinance   |
| 佛山市雍昌塑膠用品有限公司<br>(Foshan Yong Chang Plastic Supplies Co., Ltd) | PRC                           | Manufacture and sales of daily use plastic products | 4 December 2015            | Dissolution and deregistration pursuant to shareholders' resolutions under article 180(2) of the then in force Company Law of the PRC |

Mr. Tong Bak Nam Billy was a director of the following companies, which were struck off or deregistered and dissolved with details as follows:

| <b>Name of company</b>   | <b>Place of incorporation</b> | <b>Nature of business</b>                           | <b>Date of dissolution</b> | <b>Means of dissolution</b>   |
|--|-------------------------------|---|----------------------------|---|
| Winner Best (Asia) Development Limited                         | Hong Kong                     | Investment holding                                  | 15 May 2015                | Striking off under section 744 of the Companies Ordinance   |
| 佛山市雍昌塑膠用品有限公司<br>(Foshan Yong Chang Plastic Supplies Co., Ltd) | PRC                           | Manufacture and sales of daily use plastic products | 4 December 2015            | Dissolution and deregistration pursuant to shareholders' resolutions under article 180(2) of the then in force Company Law of the PRC |

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## DIRECTORS AND SENIOR MANAGEMENT

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Mr. Cheung Ting Kin was a director of the following company, which was deregistered with details as follows:

| <b>Name of company</b>                        | <b>Place of incorporation</b> | <b>Nature of business</b> | <b>Date of dissolution</b> | <b>Means of dissolution</b>   |
|---|-------------------------------|---------------------------|----------------------------|---|
| Brilliance Media & Communication Co., Limited | Hong Kong                     | Investment holding        | 27 December 2013           | Deregistration under section 291AA of the then in force Companies Ordinance |

Mr. Leung Leslie Yau Chak was a director of the following companies, which were removed from the companies register with the details as follows:

| <b>Name of company</b>                    | <b>Place of incorporation</b> | <b>Nature of business</b> | <b>Date of dissolution</b> | <b>Means of dissolution</b>   |
|---|-------------------------------|---------------------------|----------------------------|---|
| Strong Fine Limited                       | New Zealand                   | Property investment       | 29 September 2009          | Removal of the company from the Companies Register by the Registrar of Companies in New Zealand |
| Scenic Properties Limited                 | New Zealand                   | Property investment       | 21 July 2009               | Removal of the company from the Companies Register by the Registrar of Companies in New Zealand |
| International Accounting Services Limited | New Zealand                   | Dormant                   | 3 April 2008               | Removal of the company from the Companies Register by the Registrar of Companies in New Zealand |

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## DIRECTORS AND SENIOR MANAGEMENT

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| Name of company        | Place of incorporation | Nature of business | Date of dissolution | Means of dissolution  |
|------------------------|------------------------|--------------------|---------------------|---|
| Alppa Holdings Limited | New Zealand            | Dormant            | 20 February 2008    | Removal of the company from the Companies Register by the Registrar of Companies in New Zealand |

Each of our Directors above confirm that (i) the relevant companies were not dissolved by means of creditors' or members' winding up; (ii) the relevant companies were solvent prior to and at the time of the dissolutions; (iii) there is no wrongful act on his or her part leading to the above dissolutions of the companies; and (iv) he or she is not aware of any actual or potential claim that has been or will be made against him or her as a result of the dissolutions of the companies.

Save as disclosed above, each of our Directors has not been involved in any of the events described under Rule 13.51(2)(h) to (v) of the Listing Rules. Save as disclosed above, none of our Directors has been a director of other listed entities for the three years immediately preceding the date of this prospectus.

### SENIOR MANAGEMENT

The table below shows certain information in respect of members of our senior management:

| Name                            | Age | Position                | Responsibility  | Date of joining our Group | Relationship with other Directors and other senior management |
|---------------------------------|-----|-------------------------|---|---------------------------|---|
| Mr. Lau Wing Yui Felix<br>(劉穎睿) | 41  | Chief operating officer | Overall strategic and operation management of our Group | 10 April 2017             | Nil   |
| Mr. Ng Ho Fung Jason<br>(吳浩鋒)   | 41  | Chief marketing officer | Overall sales and marketing management of our Group     | 1 April 2013              | Nil   |

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## DIRECTORS AND SENIOR MANAGEMENT

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**Mr. Lau Wing Yui Felix (劉穎睿)**, aged 41, is our chief operating officer. Mr. Lau joined the Group in April 2017 and is responsible for overall strategic and operation management of our Group. Mr. Lau obtained a Bachelor's degree in Business Studies from Massey University in New Zealand in April 2001 and a Master of Commerce degree in Marketing from University of New South Wales in Australia in June 2002. Mr. Lau has over 10 years of experience in merchandising, sales and marketing disciplines. Prior to joining our Group, Mr. Lau worked in a number of firms including Training Master Limited, a company engaging in corporate training, from February 2002 to September 2003, Asia Master Limited, a company engaging in ceramic manufacturing, from September 2003 to August 2006, Homeasy Enterprise Limited, a company engaging in the trading of houseware products, as Marketing Manager, from September 2006 to December 2007, Heritage Mint (Asia) Ltd, a company engaging in the importing and wholesaling of household products, as Vice President from January 2008 to August 2015, Homeasy Enterprise Limited as Marketing Director from October 2015 to March 2017. Mr. Lau was the Leadership Development Officer in 2002, Leadership Development Director in 2003 and Vice President of Leadership Development and Youth Affairs in 2004 of the Junior Chamber International Victoria (Hong Kong) Ltd., a charitable organization aiming to provide development opportunities for young people.

**Mr. Ng Ho Fung Jason (吳浩鋒)**, aged 41, has been our chief marketing officer since April 2013 and is responsible for overall sales and marketing management of our Group. Mr. Ng obtained a Bachelor of Commerce (Honours Business Administration) degree, majoring in Marketing, from University of Windsor in Canada in June 2002.

Mr. Ng has over 10 years of working experience in the merchandising, sourcing, and retail field. Before joining our Group on 1 April 2013, he was in various merchandising and sourcing roles in Coles Group Asia Pty Ltd from June 2006 to June 2011, a company engaging in the sourcing and procurement services, with his last position as Regional Merchandise Manager. He later worked as a Divisional Merchandise Manager in Myer Sourcing Asia Limited, a company engaging in the sourcing and procurement services, from June 2011 to March 2013.

### COMPANY SECRETARY

**Mr. Chan Kam Hon Ivan (陳錦漢)**, aged 35, is our company secretary. Mr. Chan is also our chief financial officer and executive Director. Please refer to the paragraph headed "Directors" of this section for his biographic details.

### BOARD COMMITTEES

#### Audit Committee

We established the Audit Committee on 16 August 2018 with written terms of reference in compliance with the Listing Rules. The Audit Committee consists of three independent non-executive Directors, namely Mr. Cheung Ting Kin, Mr. Yuen Chi Ping and Mr. Leung Leslie Yau Chak. The Audit Committee is chaired by Mr. Cheung Ting Kin. The primary duties of the Audit Committee are to assist our Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the audit process, to develop and review our policies and to perform other duties and responsibilities as assigned by our Board.

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## DIRECTORS AND SENIOR MANAGEMENT

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### **Remuneration Committee**

We established the Remuneration Committee on 16 August 2018 with written terms of reference in compliance with the Listing Rules. The Remuneration Committee consists of three independent non-executive Directors, namely Mr. Yuen Chi Ping, Mr. Cheung Ting Kin and Mr. Leung Leslie Yau Chak and one executive Director, Mr. Chan Kam Hon Ivan. The Remuneration Committee is chaired by Mr. Leung Leslie Yau Chak. The primary duties of the Remuneration Committee include making recommendations to the Directors regarding our policy and structure for the remuneration of all of our Directors and senior management.

### **Nomination Committee**

We established the Nomination Committee on 16 August 2018 with written terms of reference. The Nomination Committee consists of three independent non-executive Directors, namely Mr. Yuen Chi Ping, Mr. Cheung Ting Kin and Mr. Leung Leslie Yau Chak and one executive Director, Mr. Tong Bak Nam Billy. The Nomination Committee is chaired by Mr. Yuen Chi Ping. The primary function of the Nomination Committee is to make recommendations to our Board on the appointment of members of our Board.

### **Risk Management Committee**

We have established the Risk Management Committee on 16 August 2018 to review the general goals and fundamental policies of our risk and compliance management, internal control and risk management, internal audit functions and make recommendations to our Board on the same. The Risk Management Committee comprises four executive Directors, namely Mr. Tong Ying Chiu, Ms. Ng Siu Kuen Sylvia, Mr. Tong Bak Nam Billy and Mr. Chan Kam Hon Ivan and one independent non-executive Director, Mr. Leung Leslie Yau Chak. Mr. Tong Ying Chiu is the chairman of the Risk Management Committee.

### ***Compensation of employees***

For the four years ended 31 December 2017 and the six months ended 30 June 2018, we incurred employee costs (including Directors remuneration) of approximately HK\$42.3 million, HK\$43.3 million, HK\$43.2 million, HK\$43.2 million and HK\$22.0 million, respectively.

As required by PRC regulations as well as compulsory rules of the PRC local governments, we participate in various social welfare schemes including pension, medical, maternity, work-related injury insurances, unemployment insurance and housing provident fund contributions. We are required under PRC law to make contributions to these schemes based on certain percentages of the salaries, bonuses and certain allowances of our employees in accordance with the respective regulatory requirements, up to a minimum amount specified by the relevant local governments from time to time.

### ***Compensation of Directors and senior management***

Our executive Directors, who are also our employees, receive, in their capacity as our employees, compensation in the form of salary and cash bonus.



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## DIRECTORS AND SENIOR MANAGEMENT

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The aggregate amount of remuneration including fees, salaries, contributions to pension schemes, allowances and benefits in kind and discretionary bonuses which were paid to our Directors for the four years ended 31 December 2017 and the six months ended 30 June 2018 was approximately HK\$1.0 million, HK\$1.0 million, HK\$4.0 million, HK\$4.0 million and HK\$1.0 million, respectively.

The aggregate amount of remuneration including fees, salaries, contributions to pension schemes, allowances and benefits in kind and discretionary bonuses which were paid by our Group to our five highest paid individuals for the four years ended 31 December 2017 and the six months ended 30 June 2018 was approximately HK\$2.7 million, HK\$2.7 million, HK\$4.7 million, HK\$4.9 million and HK\$2.2 million, respectively.

No remuneration was paid by our Group to the Directors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office in respect of the four years ended 31 December 2017 and the six months ended 30 June 2018. Further, none of our Directors waived any remuneration during the same periods.

Under our arrangements currently in force, the aggregate remuneration (including fees, salaries, contributions to pension schemes, allowances and benefits in kind) of our Directors for the year ending 31 December 2018 is HK\$2.7 million.

### *Share Option Scheme*

We have conditionally adopted the Share Option Scheme. For details of the Share Option Scheme, see the paragraph headed “Share Option Scheme” in Appendix IV to this prospectus.

### **Pension Scheme**

All of our employees in Hong Kong have joined a mandatory provident fund scheme (the “**MPF Scheme**”). The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong. Our Group has complied with the relevant laws and regulations, and that relevant contributions have been paid by our Group in accordance with the aforesaid laws and regulations.

### **COMPLIANCE ADVISER**

We have appointed Giraffe Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. The compliance adviser will advise us in the following circumstances:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (iii) if we propose to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or if the business activities, developments or results of our Group deviate from any forecast, estimate or other information in this prospectus; and

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## DIRECTORS AND SENIOR MANAGEMENT

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- (iv) if the Stock Exchange makes an inquiry of our Group under the Listing Rules regarding unusual movements in the price or trading volume of the Shares.

The term of appointment of the compliance adviser shall commence on the Listing Date and end on the date on which we comply 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 and such appointment may be subject to extension by mutual agreement.

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## SHARE CAPITAL

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The following is a description of the authorised and issued share capital of our Company immediately before and following the completion of the Share Offer and the Capitalisation Issue (assuming no Shares are to be issued upon the exercise of any options which may be granted under the Share Option Scheme):

|   | <i>HK\$</i>       |
|---|-------------------|
| <i>Authorised share capital:</i>                                      |                   |
| <u>2,000,000,000</u> shares of HK\$0.01 each                          | <u>20,000,000</u> |
| <i>Issued and to be issued, fully paid or credited as fully paid:</i> |                   |
| 10,000 Shares in issue as at the date of this prospectus              | 100               |
| 404,990,000 Shares to be issued pursuant to the Capitalisation Issue  | 4,049,900         |
| <u>135,000,000</u> Shares to be issued pursuant to the Share Offer    | <u>1,350,000</u>  |
| <u>540,000,000</u> Shares   | <u>5,400,000</u>  |

### ASSUMPTIONS

The above table assumes that the Share Offer becomes unconditional and the issue of Shares pursuant to the Share Offer and Capitalisation Issue are made. It takes no account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by us pursuant to the general mandate granted to our Directors to issue or repurchase Shares as described below.

### RANKINGS

The Offer Shares will carry the same rights as all Shares in issue or to be issued as mentioned in this prospectus and, in particular, will qualify for all dividends or other distributions declared, paid or made on the Shares after the date of this prospectus.

### CAPITALISATION ISSUE

Conditional on the share premium account of our Company being credited as a result of the Share Offer, the Directors are authorised to capitalise the amount of HK\$4,049,900 from such account and to apply such sum in paying up in full at par a total of 404,990,000 Shares for allotment and issuance to its then shareholders.

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## SHARE CAPITAL

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### GENERAL MANDATE TO ISSUE SHARES

Subject to the Share Offer becoming unconditional, our Directors have been granted a general mandate to allot, issue and deal with Shares with an aggregate number not more than the sum of:

- (a) 20% of the total number of Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue (excluding Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme); and
- (b) the total number of Shares repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares granted to our Directors referred to below.

Our Directors may, in addition to the Shares which they are authorised to issue under this general mandate, allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement, or on the exercise of any option granted or which may be granted under the Share Option Scheme.

This mandate will expire:

- at the conclusion of our Company's next annual general meeting; or
- at the expiry of the period within which our Company is required by any applicable laws or its articles of association to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

Further information on this general mandate is set out in the paragraph headed "Statutory and general information – A. Further information about our Company and its subsidiaries – 3. Resolutions in writing of all our Shareholders passed on 16 August 2018" in Appendix IV to this prospectus.

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## SHARE CAPITAL

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### GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Share Offer becoming unconditional, our Directors have been granted a general mandate to exercise all the powers of our Company to repurchase Shares with a total number of not more than 10% of the total number of Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue (excluding Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed “Statutory and general information – A. Further information about our Company and its subsidiaries – 6. Repurchase of Shares by our Company” in Appendix IV to this prospectus.

This mandate will expire:

- at the conclusion of our Company’s next annual general meeting; or
- at the expiry of the period within which our Company is required by any applicable laws or its articles of association to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is earliest.

Further information on this general mandate is set out in the section headed “Statutory and general information – A. Further information about our Company and its subsidiaries – 3. Resolutions in writing of all our Shareholders passed on 16 August 2018” in Appendix IV to this prospectus.

### SHARE OPTION SCHEME

Pursuant to the written resolutions of our Shareholders dated 16 August 2018, we conditionally adopted the Share Option Scheme. Summary of the principal terms of the Share Option Scheme are set out in the section headed “Statutory and general information – D. Other information – 1. Share Option Scheme” in Appendix IV to this prospectus.

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## SHARE CAPITAL

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### **CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED**

Pursuant to the Companies Law and the terms of the Memorandum and the Articles of Association, the Company may from time to time by ordinary resolution of shareholders (i) increase its capital; (ii) consolidate into Shares of larger amount; (iii) divide its Shares into several classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, the Company may, subject to the provisions of the Companies Law, reduce its share capital or capital redemption reserve by its shareholders passing a special resolution. For details, see the paragraph headed “2. Articles of Association – (a) Shares – (iii) Alteration of capital” in Appendix III to this prospectus.

Pursuant to the Companies Law and the terms of the Memorandum and the Articles of Association, all or any of the special rights attached to the Share or any class of Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class. For details, see the paragraph headed “2. Articles of Association – (a) Shares – (ii) Variation of rights of existing shares or classes of shares” in Appendix III to this prospectus.

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## FINANCIAL INFORMATION

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*The following discussion and analysis should be read in conjunction with the audited financial information of our Group for the four years ended 31 December 2017 and the six months ended 30 June 2018, in each case with the related notes thereto, included in Appendix I to this prospectus. The financial information and the consolidated financial statements of our Group have been prepared in accordance with the HKFRSs, which differ in certain significant respects from generally accepted accounting principles in certain other countries. For further information, see “Appendix I – Accountants’ report” included in this prospectus. Potential investors should read the whole of the Accountants’ report set out in Appendix I of this prospectus and should not rely merely on the information set up in this section.*

*The discussion and analysis set out in this section contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from those projected. Factors that might cause our future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this prospectus, particularly in the section headed “Risk factors”.*

*Discrepancies between totals and sums of amounts listed herein in any table or elsewhere in this prospectus may due to rounding.*

### OVERVIEW

We primarily design, develop, manufacture and sell plastic household products with our headquarters in Hong Kong for more than 30 years.

Our products are sold to Australia, the UK, the United States, New Zealand and Germany, etc. through (i) direct sales to renowned chain supermarkets, department stores and chain household product retailers; and (ii) importers/exporters. Our products are sold in retailers such as Volume Distributors and Japan Home Centre (日本城).

We sell our products under our brand “clipfresh” and on an ODM basis.

Our revenue was approximately HK\$302.0 million, HK\$315.5 million, HK\$300.6 million, HK\$325.8 million and HK\$159.8 million for the four years ended 31 December 2017 and the six months ended 30 June 2018, respectively. Our total comprehensive income for the year attributable to owners of the Company was approximately HK\$16.2 million, HK\$28.9 million, HK\$25.7 million, HK\$28.1 million and HK\$17.7 million for the four years ended 31 December 2017 and the six months ended 30 June 2018, respectively.

### BASIS OF PREPARATION

Our Company and its subsidiaries have been under the common control of the Controlling Shareholders throughout the Track Record Period (or since their respective dates of incorporation) prior to and after the Reorganisation. Accordingly, the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity

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## FINANCIAL INFORMATION

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and consolidated statements of cash flows for the Track Record Period have been prepared using the principles of merger accounting in accordance with Accounting Guideline 5 “Merger Accounting for Common Control Combination” issued by the HKICPA to present the results, change in equity and cash flows of the companies now comprising our Group, as if the group structure upon the completion of the Reorganisation had been in existence throughout the Track Record Period, or since the respective dates of incorporation/establishment, where it is a shorter period. The consolidated statements of financial position of our Group as at 31 December 2014 and 2015 have been prepared to present the assets and liabilities of the companies now comprising our Group as if the current group structure had been in existence at those dates, taken into account the respective dates of incorporation.

The functional currency of our Company is US dollars, as the sales activities of the Group are mainly denominated in US dollars. The presentation currency of our Group is HK dollars, as our Directors consider HK dollars can provide more meaningful information to our Company’s investors.

### **SIGNIFICANT FACTORS AFFECTING OUR OPERATING RESULTS**

Our Directors consider our operating results are most significantly affected by the following factors:

#### **Product mix and pricing**

The products we offer cover a wide variety of plastic household products ranging from storage boxes, laundry and bathroom wares, food storage, rubbish bins, outdoor, gardenware and furniture, kitchenwares, and others including office solutions, tool boxes, pet accessories, aircraft meal trays and seasonal goods. At as 30 June 2018, we offered approximately 1,070 types of products. These products are sold either under our brand “*clipfresh*” and on an ODM basis. As such, our Directors believe that our diverse product offerings enable us to capitalise on changing market trends and consumer preferences. Different products have different gross profit margins depending on factors such as raw material costs, production costs, product pricing and in relation to products of our own brand, our marketing and branding strategies. The ability to offer a diversified range of plastic household products to satisfy the requirements and standards of our customers and end-users is one of the essential factors for plastic household product manufacturers to compete against other market participants and also to enhance the overall profit margins for their products.

As a result, our overall gross profit margin and our competitiveness in the plastic household products industry will vary depending on product mix across segments, which in turn, depends on our ability to expand our product offerings and diversify our product mix.

We intend to continue optimising our product portfolio in response to the changes in market conditions, rising awareness of healthy life and food safety standards to maximise sales and profits. The ability to offer a wide variety of products meeting requirements and standards in various countries enables us to reach end-consumers of different groups and territories and therefore widen our customer base.



## FINANCIAL INFORMATION

### Our ability to maintain our competitive advantages that differentiate us from our competitors

We compete with other large PRC manufacturers and certain global brands of plastic household products. We also face competition when we expand into other markets, and when new entrants enter into our existing markets. While there were more than 1,500 plastic household product manufacturers in the PRC by the end of 2017, according to the Ipsos Report, the five largest plastic household product manufacturers in the PRC, in aggregate, accounted for approximately 1.0% of the total market share in terms of revenue in 2017. We believe that we are able to remain competitive in the plastic household products market as (i) we have product design and development capabilities; (ii) we offer a large product range and mixtures; (iii) we strictly comply with standards for food contact substances and other safety standards and quality control; (iv) we have in-house mould design, creation and production capacities; (v) we have long-term businesses with our major customers; and (vi) we have an experienced and stable management team with extensive industry experience. New market entrants to the plastic household products marketed in locations such as Australia, Hong Kong, the United States and the UK, etc. are expected to be confronted with increasing entry barriers such as industry experience and consumers' recognition, brand building, product quality, ability to produce diversified varieties of products and high capital investment and sustainability costs.

### Sensitivity analysis

The following sensitivity analysis table sets out the impacts of the hypothetical changes of the profit before tax in relation to the percentage changes to (i) selling price, (ii) cost of polypropylene resins, and (iii) direct labour cost, assuming all other factors remained unchanged, based on the historical fluctuations during the Track Record Period:

|  | Corresponding change in profit before tax |                        |                 |                 | Six months      |
|--|---|------------------------|-----------------|-----------------|-----------------|
|  | 2014                                      | Year ended 31 December |                 | 2017            | ended 30 June   |
|  | HK\$'000                                  | 2015                   | 2016            | HK\$'000        | 2018            |
|  |   | HK\$'000               | HK\$'000        |                 | HK\$'000        |
| <b>Percentage change in selling price</b>                |   |                        |                 |                 |                 |
| 15%/(15%)  | 45,298/(45,298)                           | 47,329/(47,329)        | 45,095/(45,095) | 48,872/(48,872) | 23,967/(23,967) |
| 10%/(10%)  | 30,199/(30,199)                           | 31,553/(31,553)        | 30,063/(30,063) | 32,581/(32,581) | 15,978/(15,978) |
| 5%/(5%)  | 15,099/(15,099)                           | 15,776/(15,776)        | 15,032/(15,032) | 16,291/(16,291) | 7,989/(7,989)   |
| <b>Percentage change in cost of polypropylene resins</b> |   |                        |                 |                 |                 |
| 20%/(20%)  | (25,999)/25,999                           | (25,626)/25,626        | (19,212)/19,212 | (22,234)/22,234 | (10,033)/10,033 |
| 10%/(10%)  | (13,000)/13,000                           | (12,813)/12,813        | (9,606)/9,606   | (11,117)/11,117 | (5,017)/5,017   |
| 5%/(5%)  | (6,500)/6,500                             | (6,407)/6,407          | (4,803)/4,803   | (5,559)/5,559   | (2,508)/2,508   |
| <b>Percentage change in direct labour cost</b>           |   |                        |                 |                 |                 |
| 15%/(15%)  | (4,143)/4,143                             | (4,380)/4,380          | (3,971)/3,971   | (3,853)/3,853   | (1,944)/1,944   |
| 10%/(10%)  | (2,762)/2,762                             | (2,920)/2,920          | (2,648)/2,648   | (2,569)/2,569   | (1,296)/1,296   |
| 5%/(5%)  | (1,381)/1,381                             | (1,460)/1,460          | (1,324)/1,324   | (1,284)/1,284   | (648)/648       |

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## FINANCIAL INFORMATION

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### **Consumer demand and macroeconomic conditions**

A substantial amount of our products are sold to our customers in Australia, Hong Kong, the UK, the United States, New Zealand and Germany. As such, our operating results and profitability are more correlated to the demand and macroeconomic conditions in those places. There are many factors affecting the level of consumer spending beyond our control, including but not limited to, disposable income, birth rate, per child annual expenditure on household products, etc. Any decline in general economic conditions in Australia, Hong Kong, the UK, the United States, New Zealand and Germany may result in a decrease in orders from our customers in such markets, potential delay and/or default in payment, and the withdrawal and/or reduction in our banking facilities. We cannot guarantee that we can continue to expand our customer base in Australia, Hong Kong, the UK, the United States, New Zealand and Germany and generate higher revenue from such markets. There is a possibility that we cannot maintain the existing level of purchase orders from our customers in those places. Any or a combination of such factors could materially and adversely affect our business, financial condition, operating results, prospects and profitability.

### **Our ability to enhance existing products and design and develop new products to keep up with the changes in consumer preferences and tastes**

The plastic household product manufacturing industry is rapidly evolving and undergoing continuous development. Our Directors believe that our success to date is largely attributable to our ability to design and develop new plastic household products and enhance our existing products. If we fail to design and develop products with acceptable quality or lag behind our competitors in improving our product quality or product range, our operating results and financial condition may be adversely affected.

Our growth is strengthened by the expansion of our product offerings which depends on consumers' demand and market preferences in Australia, Hong Kong, the UK, the United States, New Zealand and Germany for plastic household products. The level of consumer demand is dependent on the economic environment of these markets, the level of household disposable income and the consumption preferences of our target customers. Plastic household products are consumer products which are affected by consumers' preferences and tastes. We need to keep up with changes in consumer preferences and tastes in order to maintain our market share and profitability. Our ability to assess and react to changes in consumer demand, preferences and taste will directly affect our business and operating results.

### **Safety standard and certification requirements of our products**

Our products have to meet pre-requisite safety standards and/or requirements pursuant to certain certifications for certain products before they are allowed to be imported by our destination countries or sold in the domestic markets. The safety standards and certification requirements are subject to the changes by the government and relevant certification organisation/institution and more stringent requirements may be imposed. Any changes in the relevant product standard and certification requirements or failure to renew the relevant

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## FINANCIAL INFORMATION

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certifications will affect our sales if our products do not meet these new standards or requirements. Additional costs may be incurred to comply with the new standards and certification requirements and this will have an impact on the selling price and thus our competitive advantages and our operating result. Significant or unforeseeable defects may damage our reputation and result in loss of customers and future sales and expose our Group to claims by affected customers.

### **Application of HKFRS 9**

For the purpose of preparing and presenting the historical financial information for the Track Record Period, our Group has consistently adopted the Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”), amendments and interpretations (“HK(IFRIC)”) issued by the HKICPA which are effective for the accounting periods beginning on 1 January 2018 throughout the Track Record Period except that our Group adopted HKFRS 9 “Financial Instruments” on 1 January 2018 and adopted HKAS 39 “Financial Instruments: Recognition and Measurement” for the four years ended 31 December 2017. The accounting policies for financial instruments under HKFRS 9 are set out in note 3 in the Accountants’ Report in Appendix I to this prospectus.

During the six months ended 30 June 2018, our Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for financial assets and financial guarantee contracts and 3) general hedge accounting.

Our Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39.

## FINANCIAL INFORMATION

The table below illustrates the classification and measurement of financial assets and financial liabilities under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

|    |                             | Original<br>measurement<br>category under<br>HKAS 39 | New measurement<br>category under<br>HKFRS 9 | Original<br>carrying<br>amount under<br>HKAS 39<br>HK\$'000 | Additional<br>loss allowance<br>recognised<br>under HKFRS 9<br>HK\$'000 | New carrying<br>amount under<br>HKFRS 9<br>HK\$'000 |
|----|-----------------------------|--|--|---|---|---|
| 1. | Trade and other receivables | Loans and receivables                                | Financial assets at amortised cost           | 54,078  | (66)  | 54,012  |
| 2. | Amount due from a director  | Loans and receivables                                | Financial assets at amortised cost           | 22,052  | (23)  | 22,029  |
| 3. | Restricted bank deposits    | Loans and receivables                                | Financial assets at amortised cost           | 92,262  | (973)   | 91,289  |
| 4. | Bank balances and cash      | Loans and receivables                                | Financial assets at amortised cost           | 124,705   | (1,561)   | 123,144   |
| 5. | Trade and other payables    | Loans and receivables                                | Financial liabilities at amortised cost      | (62,755)  | –   | (62,755)  |
| 6. | Bank and other borrowings   | Loans and receivables                                | Financial liabilities at amortised cost      | (179,210)   | –   | (179,210)   |
| 7. | Bank overdrafts             | Loans and receivables                                | Financial liabilities at amortised cost      | (1,937)   | –   | (1,937)   |
|    | <b>Total</b>                |  |  | <u>49,195</u>   | <u>(2,623)</u>  | <u>46,572</u>                                       |

The additional impairment loss allowance upon the initial application of HKFRS 9 as disclosed above resulted entirely from a change in the measurement attribute of the loss allowance relating to each financial asset.

As at 1 January 2018, the additional credit loss allowance of approximately HK\$2.6 million has been recognised against retained profits. The additional loss allowance is charged against the respective asset. None of the respective asset has ending impairment allowances as at 31 December 2017 under HKAS 39.

Based on the assessment by our Directors, the additional loss allowance recognised under HKFRS 9 of approximately HK\$2.6 million would not have any significant impact on the financial position and performance.

### Application of HKFRS 15

Our Group had elected to consistently apply HKFRS 15 throughout the Track Record Period. In the opinion of the directors, based on the historical data, had HKAS 18 been consistently applied throughout the Track Record Period, there was no significant change in the financial position and performance of our Group. The adoption of HKFRS 15 as compared to HKAS 18 had resulted in more disclosures in the historical financial information of our Group throughout the Track Record Period.

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### HKFRS 16 “Leases”

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 “Leases” and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, our Group currently presents operating lease payments as operating cash flows. Under HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, our Group has already recognised an asset and a related finance lease liability for finance lease arrangement where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether our Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by HKFRS 16.

The total operating lease commitment of our Group in respect of rented premises as at 30 June 2018 amounted to approximately HK\$33.0 million, of which approximately HK\$22.0 million were with original lease over 1 year. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Under application of HKFRS 16, our Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short term leases. The combination of straight-line depreciation of the right-to-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to the profit or loss in the initial years of the lease, and decreasing expenses during the latter part of the lease term, but there is no impact on the total expenses recognised over the lease term. Our Directors anticipate that the application of HKFRS 16 will not significantly affect the financial position and performance of our Group upon adoption on 1 January 2019. These estimates are based on accounting policies, assumptions, judgements and estimation techniques that remain subject to change until our Group finalises its financial statements for the year ending 31 December 2019.

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### CRITICAL ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Certain accounting policies are significant to the preparation of our financial information. Those accounting policies and critical accounting judgements and key sources of estimation uncertainty are set forth in note 3 “Significant accounting policies” and note 4 “Critical accounting judgements and key sources of estimation uncertainty” of the Accountants’ Report as set out in Appendix I to this prospectus.

### OPERATING RESULTS OF OUR GROUP

The following table sets forth our consolidated statements of profit or loss and other comprehensive income during the Track Record Period, as derived from the Accountants’ Report of our Company in Appendix I to this prospectus.

|  | Year ended 31 December |                      |                      |                      | Six months ended<br>30 June |                      |
|--|------------------------|----------------------|----------------------|----------------------|-----------------------------|----------------------|
|  | 2014                   | 2015                 | 2016                 | 2017                 | 2017                        | 2018                 |
|  | <i>HK\$'000</i>        | <i>HK\$'000</i>      | <i>HK\$'000</i>      | <i>HK\$'000</i>      | <i>HK\$'000</i>             | <i>HK\$'000</i>      |
|  |                        |                      |                      |                      | <i>(unaudited)</i>          |                      |
| Revenue  | 301,987                | 315,527              | 300,632              | 325,814              | 157,952                     | 159,781              |
| Cost of sales                                  | <u>(228,007)</u>       | <u>(230,656)</u>     | <u>(193,913)</u>     | <u>(212,937)</u>     | <u>(101,232)</u>            | <u>(102,414)</u>     |
| Gross profit                                   | 73,980                 | 84,871               | 106,719              | 112,877              | 56,720                      | 57,367               |
| Other income                                   | 2,104                  | 3,552                | 2,195                | 446                  | 417                         | 204                  |
| Other gains and losses                         | (523)                  | 4,753                | 5,321                | (3,231)              | (2,759)                     | (1,175)              |
| Selling expenses                               | (18,291)               | (19,184)             | (18,780)             | (21,653)             | (10,296)                    | (10,348)             |
| Administrative expenses                        | (25,186)               | (25,702)             | (29,568)             | (31,706)             | (16,144)                    | (15,432)             |
| Listing expenses                               | –                      | –                    | (12,453)             | (10,205)             | (1,968)                     | (2,400)              |
| (Other expenses) Reversal of<br>other expenses | –                      | –                    | (8,647)              | 667                  | 2,097                       | (2,330)              |
| Finance costs                                  | <u>(9,007)</u>         | <u>(10,626)</u>      | <u>(8,278)</u>       | <u>(8,201)</u>       | <u>(4,010)</u>              | <u>(4,512)</u>       |
| Profit before tax                              | 23,077                 | 37,664               | 36,509               | 38,994               | 24,057                      | 21,374               |
| Income tax expense                             | <u>(6,616)</u>         | <u>(8,391)</u>       | <u>(10,174)</u>      | <u>(11,583)</u>      | <u>(5,638)</u>              | <u>(4,828)</u>       |
| Profit for the year/period                     | <u><u>16,461</u></u>   | <u><u>29,273</u></u> | <u><u>26,335</u></u> | <u><u>27,411</u></u> | <u><u>18,419</u></u>        | <u><u>16,546</u></u> |

## FINANCIAL INFORMATION

|   | Year ended 31 December |                   |                   |                   | Six months ended<br>30 June |                   |
|---|------------------------|-------------------|-------------------|-------------------|-----------------------------|-------------------|
|   | 2014                   | 2015              | 2016              | 2017              | 2017                        | 2018              |
|   | <i>HK\$'000</i>        | <i>HK\$'000</i>   | <i>HK\$'000</i>   | <i>HK\$'000</i>   | <i>HK\$'000</i>             | <i>HK\$'000</i>   |
|   |                        |                   |                   |                   | <i>(unaudited)</i>          |                   |
| Other comprehensive<br>(expense)/income for the<br>year/period  |                        |                   |                   |                   |                             |                   |
| – exchange differences<br>arising on translation of<br>foreign operations which<br>may be subsequently<br>reclassified to profit or<br>loss | (377)                  | (671)             | (965)             | 1,062             | 169                         | 1,017             |
|   | <u>          </u>      | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u>           | <u>          </u> |
| Total comprehensive income<br>for the year/period   | <u>16,084</u>          | <u>28,602</u>     | <u>25,370</u>     | <u>28,473</u>     | <u>18,588</u>               | <u>17,563</u>     |
| Profit for the year/period<br>attributable to:  |                        |                   |                   |                   |                             |                   |
| Owners of the Company   | 16,461                 | 29,273            | 26,335            | 27,411            | 18,419                      | 16,546            |
| Non-controlling interests   | –                      | –                 | –                 | –                 | –                           | –                 |
|   | <u>          </u>      | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u>           | <u>          </u> |
| Profit for the year/period  | <u>16,461</u>          | <u>29,273</u>     | <u>26,335</u>     | <u>27,411</u>     | <u>18,419</u>               | <u>16,546</u>     |
| Total comprehensive<br>income/(expense) for the<br>year/period attributable to:   |                        |                   |                   |                   |                             |                   |
| Owners of the Company   | 16,231                 | 28,864            | 25,729            | 28,084            | 18,429                      | 17,691            |
| Non-controlling interests   | (147)                  | (262)             | (359)             | 389               | 159                         | (128)             |
|   | <u>          </u>      | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u>           | <u>          </u> |
| Total comprehensive income<br>for the year/period   | <u>16,084</u>          | <u>28,602</u>     | <u>25,370</u>     | <u>28,473</u>     | <u>18,588</u>               | <u>17,563</u>     |
| Earnings per share for profit<br>attributable to owners of<br>the Company, basic (HK\$<br>cents)  | <u>4.06</u>            | <u>7.23</u>       | <u>6.50</u>       | <u>6.77</u>       | <u>4.55</u>                 | <u>4.09</u>       |

## FINANCIAL INFORMATION

### Principal statement of comprehensive income components

#### Revenue

We derive our revenue principally from sales of plastic household products. During the Track Record Period, we sold our products under our brand “clipfresh” and on an ODM basis.

Our revenue for the four years ended 31 December 2017 and the six months ended 30 June 2017 and 2018 were approximately HK\$302.0 million, HK\$315.5 million, HK\$300.6 million, HK\$325.8 million, HK\$158.0 million and HK\$159.8 million, respectively.

#### Breakdown by product types

The following table sets forth the breakdown of our revenue by product types for the periods indicated:

|   | 2014               |                    | Year ended 31 December |                    |                  |                    | 2017             |                    | Six months ended 30 June |                    |                  |                    |
|---|--------------------|--------------------|------------------------|--------------------|------------------|--------------------|------------------|--------------------|--------------------------|--------------------|------------------|--------------------|
|   | HK\$'000           | % of total revenue | 2015<br>HK\$'000       | % of total revenue | 2016<br>HK\$'000 | % of total revenue | 2017<br>HK\$'000 | % of total revenue | 2017<br>HK\$'000         | % of total revenue | 2018<br>HK\$'000 | % of total revenue |
|   | <i>(unaudited)</i> |                    |                        |                    |                  |                    |                  |                    |                          |                    |                  |                    |
| <b>“clipfresh” brand products</b>               |                    |                    |                        |                    |                  |                    |                  |                    |                          |                    |                  |                    |
| Plastic series                                  | 56,585             | 18.7               | 61,213                 | 19.5               | 67,616           | 22.5               | 75,712           | 23.2               | 37,920                   | 24.0               | 40,315           | 25.2               |
| Glass series                                    | 3,493              | 1.2                | 4,458                  | 1.4                | 5,349            | 1.8                | 7,081            | 2.2                | 4,011                    | 2.5                | 1,222            | 0.8                |
| Ceramic series                                  | 1,808              | 0.6                | 1,090                  | 0.3                | 924              | 0.3                | –                | 0.0                | –                        | 0.0                | –                | 0.0                |
| <b>Sub-total</b>                                | <b>61,886</b>      | <b>20.5</b>        | <b>66,761</b>          | <b>21.2</b>        | <b>73,889</b>    | <b>24.6</b>        | <b>82,793</b>    | <b>25.4</b>        | <b>41,931</b>            | <b>26.5</b>        | <b>41,537</b>    | <b>26.0</b>        |
| <b>ODM products (Note 1)</b>                    |                    |                    |                        |                    |                  |                    |                  |                    |                          |                    |                  |                    |
| Storage boxes                                   | 124,486            | 41.2               | 140,181                | 44.4               | 125,151          | 41.6               | 140,567          | 43.1               | 62,958                   | 39.9               | 66,221           | 41.5               |
| Laundry and bathroom wares                      | 40,617             | 13.5               | 39,181                 | 12.4               | 31,489           | 10.5               | 33,258           | 10.2               | 17,892                   | 11.3               | 15,319           | 9.6                |
| Food storage                                    | 25,462             | 8.4                | 29,846                 | 9.4                | 30,521           | 10.2               | 28,544           | 8.8                | 15,138                   | 9.6                | 11,825           | 7.4                |
| Rubbish bins, outdoor, gardenware and furniture | 16,377             | 5.4                | 18,559                 | 5.9                | 17,535           | 5.8                | 17,564           | 5.4                | 8,272                    | 5.3                | 9,318            | 5.8                |
| Kitchenwares                                    | 28,035             | 9.3                | 16,378                 | 5.2                | 15,343           | 5.1                | 14,560           | 4.5                | 7,751                    | 4.9                | 12,328           | 7.7                |
| Others (Note 2)                                 | 5,124              | 1.7                | 4,621                  | 1.5                | 6,704            | 2.2                | 8,528            | 2.6                | 4,010                    | 2.5                | 3,233            | 2.0                |
| <b>Sub-total</b>                                | <b>240,101</b>     | <b>79.5</b>        | <b>248,766</b>         | <b>78.8</b>        | <b>226,743</b>   | <b>75.4</b>        | <b>243,021</b>   | <b>74.6</b>        | <b>116,021</b>           | <b>73.5</b>        | <b>118,244</b>   | <b>74.0</b>        |
| <b>Total</b>                                    | <b>301,987</b>     | <b>100.0</b>       | <b>315,527</b>         | <b>100.0</b>       | <b>300,632</b>   | <b>100.0</b>       | <b>325,814</b>   | <b>100.0</b>       | <b>157,952</b>           | <b>100.0</b>       | <b>159,781</b>   | <b>100.0</b>       |



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*Notes:*

1. All ODM products are plastic products.
2. Others include office solutions, tool boxes, pet accessories, aircraft meal trays and seasonal goods.

ODM products contributed the largest share of our revenue, which accounted for approximately 79.5%, 78.8%, 75.4%, 74.6%, 73.5% and 74.0% for the four years ended 31 December 2017 and the six months ended 30 June 2017 and 2018, respectively. Sales of “clipfresh” brand products made up the remaining 20.5%, 21.2%, 24.6%, 25.4%, 26.5% and 26.0% of our revenue for the four years ended 31 December 2017 and the six months ended 30 June 2017 and 2018, respectively. The increase in revenue share from “clipfresh” brand products was mainly due to our effort in enhancing the recognition of the “clipfresh” brand during the Track Record Period.

The table below sets forth the average selling price and sales volume by product type for the periods indicated:

|   | Track Record Period           |                                |                                | Year ended 31 December         |                         |                                |                         |                                |                         | Six months ended 30 June       |                         |                                |                         |       |
|---|-------------------------------|--------------------------------|--------------------------------|--------------------------------|-------------------------|--------------------------------|-------------------------|--------------------------------|-------------------------|--------------------------------|-------------------------|--------------------------------|-------------------------|-------|
|   | 2014                          |                                |                                | 2015                           |                         | 2016                           |                         | 2017                           |                         | 2017                           |                         | 2018                           |                         |       |
|   | Lowest selling price per unit | Highest selling price per unit | Average selling price per unit | Average selling price per unit | Sales volume '000 units | Average selling price per unit | Sales volume '000 units | Average selling price per unit | Sales volume '000 units | Average selling price per unit | Sales volume '000 units | Average selling price per unit | Sales volume '000 units |       |
| <b>“clipfresh” brand products</b>               |                               |                                |                                |                                |                         |                                |                         |                                |                         |                                |                         |                                |                         |       |
| Plastic series                                  | 1.4                           | 186.3                          | 13.8                           | 4,100                          | 14.0                    | 4,388                          | 12.6                    | 5,358                          | 11.7                    | 6,468                          | 13.3                    | 2,846                          | 12.6                    | 3,205 |
| Glass series                                    | 1.4                           | 237.6                          | 20.3                           | 172                            | 20.4                    | 219                            | 18.9                    | 283                            | 18.3                    | 387                            | 18.4                    | 218                            | 24.5                    | 50    |
| Ceramic series (Note 1)                         | 10.5                          | 109.2                          | 46.0                           | 39                             | 40.0                    | 27                             | 74.3                    | 12                             | N/A                     | -                              | N/A                     | -                              | N/A                     | -     |
| <b>ODM products (Note 2)</b>                    |                               |                                |                                |                                |                         |                                |                         |                                |                         |                                |                         |                                |                         |       |
| Storage boxes                                   | 2.8                           | 309.7                          | 27.7                           | 4,501                          | 26.3                    | 5,327                          | 24.8                    | 5,047                          | 25.0                    | 5,623                          | 24.8                    | 2,534                          | 25.3                    | 2,614 |
| Laundry and bathroom wares                      | 0.5                           | 191.3                          | 6.1                            | 6,629                          | 6.2                     | 6,361                          | 6.0                     | 5,265                          | 5.9                     | 5,619                          | 5.9                     | 3,034                          | 6.1                     | 2,514 |
| Food storage                                    | 1.2                           | 248.0                          | 7.1                            | 3,567                          | 7.8                     | 3,826                          | 8.5                     | 3,576                          | 8.6                     | 3,314                          | 9.0                     | 1,683                          | 6.4                     | 1,857 |
| Rubbish bins, outdoor, gardenware and furniture | 3.6                           | 49.5                           | 15.3                           | 1,070                          | 16.5                    | 1,125                          | 15.7                    | 1,117                          | 16.3                    | 1,081                          | 16.3                    | 507                            | 17.8                    | 523   |
| Kitchenwares                                    | 1.3                           | 91.1                           | 5.2                            | 5,388                          | 4.6                     | 3,576                          | 5.7                     | 2,702                          | 5.8                     | 2,497                          | 5.9                     | 1,306                          | 6.4                     | 1,913 |
| Others (Note 3)                                 | 1.4                           | 44.5                           | 5.4                            | 947                            | 5.4                     | 863                            | 9.1                     | 736                            | 10.4                    | 823                            | 10.0                    | 399                            | 8.3                     | 390   |

*Notes:*

1. The fluctuations in the average selling price per unit of the ceramic series during the Track Record Period was due to variations in the product styles and specifications in response to the market demand.
2. All ODM products are plastic products.

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3. Others include office solutions, tool boxes, pet accessories, aircraft meal trays and seasonal goods.
4. We offer a diversified range of products and our selling prices are affected by various factors such as the size and the type of products. As the lowest and highest selling prices per unit of our products fall within a large range, the average selling price per unit of our products is included here for illustration purpose only and may not be an exact representation of the selling price.

During the Track Record Period, we determined the selling price of our products using the cost-plus approach. For details, please refer to the section headed “Business – Our sales and customers – pricing strategy and policy”.

Our sales volume of “clipfresh” brand products increased generally during the Track Record Period mainly due to our effort in enhancing the recognition of the “clipfresh” brand.

### Breakdown by customer types

The following table sets forth the breakdown of our revenue by customer types for the periods indicated:

|   | Year ended 31 December |              |                |              |                |              | Six months ended 30 June |              |                |              |                |              |
|---|------------------------|--------------|----------------|--------------|----------------|--------------|--------------------------|--------------|----------------|--------------|----------------|--------------|
|   | 2014                   |              | 2015           |              | 2016           |              | 2017                     |              | 2017           |              | 2018           |              |
|   | <i>% of</i>            | <i>% of</i>  | <i>% of</i>    | <i>% of</i>  | <i>% of</i>    | <i>% of</i>  | <i>% of</i>              | <i>% of</i>  | <i>% of</i>    | <i>% of</i>  | <i>% of</i>    |              |
|   | <i>total</i>           | <i>total</i> | <i>total</i>   | <i>total</i> | <i>total</i>   | <i>total</i> | <i>total</i>             | <i>total</i> | <i>total</i>   | <i>total</i> | <i>total</i>   |              |
|   | HK\$'000               | revenue      | HK\$'000       | revenue      | HK\$'000       | revenue      | HK\$'000                 | revenue      | HK\$'000       | revenue      | HK\$'000       | revenue      |
|   | <i>(unaudited)</i>     |              |                |              |                |              |                          |              |                |              |                |              |
| Chain supermarkets,<br>department stores<br>and household<br>products retailers | 240,695                | 79.7         | 264,884        | 83.9         | 249,655        | 83.0         | 288,299                  | 88.5         | 139,484        | 88.3         | 143,208        | 89.6         |
| Importers/exporters   | 61,292                 | 20.3         | 50,643         | 16.1         | 50,977         | 17.0         | 37,515                   | 11.5         | 18,468         | 11.7         | 16,573         | 10.4         |
| <b>Total</b>  | <b>301,987</b>         | <b>100.0</b> | <b>315,527</b> | <b>100.0</b> | <b>300,632</b> | <b>100.0</b> | <b>325,814</b>           | <b>100.0</b> | <b>157,952</b> | <b>100.0</b> | <b>159,781</b> | <b>100.0</b> |

For the four years ended 31 December 2017 and the six months ended 30 June 2017 and 2018, approximately 79.7%, 83.9%, 83.0%, 88.5%, 88.3% and 89.6% of our revenue was derived from chain supermarkets, department stores and household product retailers. Our revenue generated from chain supermarkets, department stores and household product retailers increased generally during the Track Record Period primarily due to our strategy to focus more on direct sales to chain supermarkets, department stores and household product retailers, which generally have more stable demand for our products as compared to importers/exporters.

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### Breakdown by geographic regions

The following table sets forth the breakdown of our revenue by geographic regions for the periods indicated:

|                        | Year ended 31 December |              |                |              |                |              |                |              | Six months ended 30 June |              |                |              |
|------------------------|------------------------|--------------|----------------|--------------|----------------|--------------|----------------|--------------|--------------------------|--------------|----------------|--------------|
|                        | 2014                   |              | 2015           |              | 2016           |              | 2017           |              | 2017                     |              | 2018           |              |
|                        | <i>% of</i>            |              | <i>% of</i>    | <i>% of</i>  |                | <i>% of</i>  |                | <i>% of</i>  | <i>% of</i>              |              | <i>% of</i>    |              |
|                        | <i>total</i>           |              | <i>total</i>   | <i>total</i> |                | <i>total</i> |                | <i>total</i> | <i>total</i>             |              | <i>total</i>   |              |
|                        | HK\$'000               | revenue      | HK\$'000       | revenue      | HK\$'000       | revenue      | HK\$'000       | revenue      | HK\$'000                 | revenue      | HK\$'000       | revenue      |
|                        | <i>(unaudited)</i>     |              |                |              |                |              |                |              |                          |              |                |              |
| Australia              | 188,478                | 62.4         | 204,401        | 64.8         | 183,469        | 61.0         | 217,938        | 66.9         | 100,030                  | 63.3         | 113,620        | 71.1         |
| Hong Kong              | 28,669                 | 9.5          | 26,082         | 8.3          | 26,703         | 8.9          | 21,389         | 6.6          | 10,566                   | 6.7          | 10,173         | 6.4          |
| The UK                 | 28,500                 | 9.4          | 21,062         | 6.7          | 14,791         | 4.9          | 12,908         | 4.0          | 8,013                    | 5.1          | 5,062          | 3.2          |
| The United States      | 20,796                 | 6.9          | 15,985         | 5.1          | 13,853         | 4.6          | 4,533          | 1.4          | 1,507                    | 1.0          | 4,370          | 2.7          |
| New Zealand            | 6,713                  | 2.2          | 9,467          | 3.0          | 10,884         | 3.6          | 17,523         | 5.4          | 7,603                    | 4.8          | 7,345          | 4.6          |
| Germany                | 356                    | 0.1          | 6,877          | 2.2          | 15,809         | 5.3          | 18,114         | 5.5          | 12,888                   | 8.2          | 7,317          | 4.6          |
| Others ( <i>Note</i> ) | 28,475                 | 9.5          | 31,653         | 9.9          | 35,123         | 11.7         | 33,409         | 10.2         | 17,345                   | 10.9         | 11,894         | 7.4          |
| <b>Total</b>           | <b>301,987</b>         | <b>100.0</b> | <b>315,527</b> | <b>100.0</b> | <b>300,632</b> | <b>100.0</b> | <b>325,814</b> | <b>100.0</b> | <b>157,952</b>           | <b>100.0</b> | <b>159,781</b> | <b>100.0</b> |

*Note:* Others mainly include Singapore, Belgium, Chile, France, Ireland, Italy, Japan, Thailand, the Republic of Panama, the Philippines, Saudi Arabia, South Africa, Switzerland, etc. and each of such regions accounted for a nominal percentage of our total revenue ranging from approximately 0.0% to 1.3%, 0.0% to 1.5%, 0.0% to 1.2%, 0.0% to 1.1% and 0.0% to 1.0% for the four years ended 31 December 2017 and the six months ended 30 June 2018, respectively.

During the Track Record Period, our products were sold to over 50 regions worldwide. Our revenue was mainly derived from Australia, which accounted for approximately 62.4%, 64.8%, 61.0%, 66.9% and 71.1% of our total revenue for the four years ended 31 December 2017 and the six months ended 30 June 2018, respectively.

## FINANCIAL INFORMATION

### *Cost of sales*

The table below sets out a breakdown of our cost of sales by nature for the periods indicated:

|                         | 2014           |              | Year ended 31 December |                |                |              | Six months ended 30 June |              |                |              |                |              |
|-------------------------|----------------|--------------|------------------------|----------------|----------------|--------------|--------------------------|--------------|----------------|--------------|----------------|--------------|
|                         | HK\$'000       | %            | 2015                   | 2016           | 2017           | 2017         | 2018                     | (unaudited)  |                |              |                |              |
|                         | HK\$'000       | %            | HK\$'000               | HK\$'000       | HK\$'000       | HK\$'000     | HK\$'000                 | HK\$'000     | HK\$'000       | HK\$'000     | %              |              |
| Material costs          | 163,655        | 71.8         | 161,259                | 126,192        | 146,007        | 69.9         | 65.1                     | 68.6         | 69,595         | 68.7         | 69,171         | 67.5         |
| Direct labour           | 27,618         | 12.1         | 29,203                 | 26,476         | 25,687         | 12.7         | 13.6                     | 12.1         | 12,199         | 12.1         | 12,959         | 12.7         |
| Sub-contracting charges | 12,454         | 5.5          | 11,480                 | 9,930          | 10,528         | 5.0          | 5.1                      | 4.9          | 5,076          | 5.0          | 786            | 0.8          |
| Utilities               | 12,436         | 5.5          | 12,173                 | 12,775         | 10,348         | 5.3          | 6.6                      | 4.9          | 4,819          | 4.8          | 5,966          | 5.8          |
| Depreciation            | 6,546          | 2.9          | 7,316                  | 9,622          | 9,717          | 3.2          | 5.0                      | 4.5          | 5,213          | 5.1          | 4,566          | 4.5          |
| Rental expenses         | 3,845          | 1.7          | 4,117                  | 3,883          | 4,739          | 1.8          | 2.0                      | 2.2          | 1,850          | 1.8          | 5,247          | 5.1          |
| Others                  | 1,453          | 0.5          | 5,108                  | 5,035          | 5,911          | 2.1          | 2.6                      | 2.8          | 2,480          | 2.5          | 3,719          | 3.6          |
| <b>Total</b>            | <b>228,007</b> | <b>100.0</b> | <b>230,656</b>         | <b>193,913</b> | <b>212,937</b> | <b>100.0</b> | <b>100.0</b>             | <b>100.0</b> | <b>101,232</b> | <b>100.0</b> | <b>102,414</b> | <b>100.0</b> |

### *Material costs*

Material costs represent the largest component of our cost of sales and mainly consist of the cost of polypropylene resins. For the four years ended 31 December 2017 and the six months ended 30 June 2018, material costs amounted to approximately HK\$163.7 million, HK\$161.3 million, HK\$126.2 million, HK\$146.0 million and HK\$69.2 million representing approximately 71.8%, 69.9%, 65.1%, 68.6% and 67.5% of our total cost of sales, respectively.

The following table sets out the breakdown of our total material cost for the periods indicated:

|                      | 2014           |                           | Year ended 31 December |                |                |              | Six months ended 30 June |              |               |              |                           |              |
|----------------------|----------------|---------------------------|------------------------|----------------|----------------|--------------|--------------------------|--------------|---------------|--------------|---------------------------|--------------|
|                      | HK\$'000       | % of total material costs | 2015                   | 2016           | 2017           | 2017         | 2018                     | (unaudited)  |               |              |                           |              |
|                      | HK\$'000       | % of total material costs | HK\$'000               | HK\$'000       | HK\$'000       | HK\$'000     | HK\$'000                 | HK\$'000     | HK\$'000      | HK\$'000     | % of total material costs |              |
| Polypropylene resins | 129,995        | 79.4                      | 128,130                | 96,058         | 111,172        | 79.5         | 76.1                     | 76.1         | 52,989        | 76.1         | 50,167                    | 72.5         |
| Packaging materials  | 14,181         | 8.7                       | 14,215                 | 14,708         | 22,444         | 8.8          | 11.7                     | 15.4         | 10,004        | 14.4         | 11,978                    | 17.3         |
| Others (Note)        | 19,479         | 11.9                      | 18,914                 | 15,426         | 12,391         | 11.7         | 12.2                     | 8.5          | 6,602         | 9.5          | 7,026                     | 10.2         |
| <b>Total</b>         | <b>163,655</b> | <b>100.0</b>              | <b>161,259</b>         | <b>126,192</b> | <b>146,007</b> | <b>100.0</b> | <b>100.0</b>             | <b>100.0</b> | <b>69,595</b> | <b>100.0</b> | <b>69,171</b>             | <b>100.0</b> |

*Note:* Others mainly represent ancillary materials such as silicon rings and other consumable materials.

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## FINANCIAL INFORMATION

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### *Direct labour*

Direct labour costs mainly represent labour costs for the production of our products.

### *Sub-contracting charges*

Sub-contracting charges mainly represent charges and fees paid to sub-contractors to provide labour and machinery to manufacture our products.

### *Utilities*

Utilities mainly represent electricity costs of our production facilities.

### *Depreciation*

Depreciation charges mainly represent depreciation expenses on our moulds, machinery and equipment, motor vehicles, equipment for production and leasehold improvements.

### *Rental expenses*

Rental expenses mainly represent expenses on renting the production facilities, which include staff quarters for direct labour.

### *Other expenses*

Other expenses mainly include (i) repairment and maintenance expenses in relation to our production machinery and equipment; and (ii) value-added tax.

## FINANCIAL INFORMATION

### *Gross profit and gross profit margin*

The table below sets forth our gross profit and gross profit margin by product category for the periods indicated:

|   | Year ended 31 December                |                                |                                       |                                |                                       |                                | Six months ended 30 June              |                                |                                       |                                |                                       |                                |
|---|---------------------------------------|--------------------------------|---------------------------------------|--------------------------------|---------------------------------------|--------------------------------|---------------------------------------|--------------------------------|---------------------------------------|--------------------------------|---------------------------------------|--------------------------------|
|   | 2014                                  |                                | 2015                                  |                                | 2016                                  |                                | 2017                                  |                                | 2017                                  |                                | 2018                                  |                                |
|   | Gross<br>profit<br>margin<br>HK\$'000 | Gross<br>profit<br>margin<br>% | Gross<br>profit<br>margin<br>HK\$'000 | Gross<br>profit<br>margin<br>% | Gross<br>profit<br>margin<br>HK\$'000 | Gross<br>profit<br>margin<br>% | Gross<br>profit<br>margin<br>HK\$'000 | Gross<br>profit<br>margin<br>% | Gross<br>profit<br>margin<br>HK\$'000 | Gross<br>profit<br>margin<br>% | Gross<br>profit<br>margin<br>HK\$'000 | Gross<br>profit<br>margin<br>% |
| Plastic series  | 25,406                                | 44.9                           | 29,979                                | 49.0                           | 34,824                                | 51.5                           | 39,995                                | 52.8                           | 19,474                                | 51.4                           | 21,891                                | 54.3                           |
| Glass series  | 1,667                                 | 47.7                           | 1,961                                 | 44.0                           | 2,834                                 | 53.0                           | 3,593                                 | 50.7                           | 2,039                                 | 50.8                           | 572                                   | 46.8                           |
| Ceramic series  | 469                                   | 25.9                           | 297                                   | 27.3                           | 256                                   | 27.7                           | –                                     | N/A                            | –                                     | N/A                            | –                                     | N/A                            |
| <b>Products under<br/>“clipfresh” brand</b>           | <u>27,542</u>                         | 44.5                           | <u>32,237</u>                         | 48.3                           | <u>37,914</u>                         | 51.3                           | <u>43,588</u>                         | 52.6                           | <u>21,513</u>                         | 51.3                           | <u>22,463</u>                         | 54.1                           |
| Storage boxes   | 12,981                                | 10.4                           | 22,300                                | 15.9                           | 31,045                                | 24.8                           | 31,769                                | 22.6                           | 14,959                                | 23.8                           | 15,410                                | 23.3                           |
| Laundry and bathroom                                  | 7,202                                 | 17.7                           | 6,522                                 | 16.6                           | 6,321                                 | 20.1                           | 5,814                                 | 17.5                           | 3,084                                 | 17.2                           | 3,473                                 | 22.7                           |
| Food storage  | 9,164                                 | 36.0                           | 9,959                                 | 33.4                           | 14,434                                | 47.3                           | 15,429                                | 54.1                           | 8,463                                 | 55.9                           | 6,086                                 | 51.5                           |
| Rubbish bins, outdoor,<br>gardenware and<br>furniture | 4,402                                 | 26.9                           | 5,727                                 | 30.9                           | 7,094                                 | 40.5                           | 6,619                                 | 37.7                           | 3,488                                 | 42.2                           | 3,392                                 | 36.4                           |
| Kitchenwares  | 11,026                                | 39.3                           | 6,611                                 | 40.4                           | 7,325                                 | 47.7                           | 7,096                                 | 48.7                           | 3,813                                 | 49.2                           | 5,246                                 | 42.6                           |
| Others (Note 1)                                       | <u>1,663</u>                          | 32.5                           | <u>1,515</u>                          | 32.8                           | <u>2,586</u>                          | 38.6                           | <u>2,562</u>                          | 30.0                           | <u>1,400</u>                          | 34.9                           | <u>1,297</u>                          | 40.1                           |
| <b>ODM products<br/>(Note 2)</b>                      | <u>46,438</u>                         | 19.3                           | <u>52,634</u>                         | 21.2                           | <u>68,805</u>                         | 30.3                           | <u>69,289</u>                         | 28.5                           | <u>35,207</u>                         | 30.3                           | <u>34,904</u>                         | 29.5                           |
| <b>Total</b>  | <u><u>73,980</u></u>                  | 24.5                           | <u><u>84,871</u></u>                  | 26.9                           | <u><u>106,719</u></u>                 | 35.5                           | <u><u>112,877</u></u>                 | 34.6                           | <u><u>56,720</u></u>                  | 35.9                           | <u><u>57,367</u></u>                  | 35.9                           |

*Notes:*

- Others include office solutions, tool boxes, pet accessories, aircraft meal trays and seasonal goods.
- All ODM products are plastic products.

During the Track Record Period, our products under “clipfresh” brand recorded generally higher gross profit margins of approximately 44.5%, 48.3%, 51.3%, 52.6%, 51.3% and 54.1% compared with our ODM products with gross profit margins of approximately 19.3%, 21.2%, 30.3%, 28.5%, 30.3% and 29.5% for the four years ended 31 December 2017 and the six months ended 30 June 2017 and 2018, respectively. The generally higher gross profit margins of our products under the “clipfresh” brand was mainly due to our “clipfresh” brand products targeting a higher-end market segment and meeting more stringent safety and certification standards, therefore, we can charge a higher premium on our “clipfresh” brand products.

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The increased gross profit margin of both our “clipfresh” brand products and ODM products during the Track Record Period was mainly attributable to the decreasing trend of our average purchase prices of polypropylene resins.

The table below sets forth our gross profit and gross profit margin by customer types for the periods indicated:

|   | Year ended 31 December |                     |               |                     |                |                     | Six months ended 30 June |                     |               |                     |               |                     |
|---|------------------------|---------------------|---------------|---------------------|----------------|---------------------|--------------------------|---------------------|---------------|---------------------|---------------|---------------------|
|   | 2014                   |                     | 2015          |                     | 2016           |                     | 2017                     |                     | 2017          |                     | 2018          |                     |
|   | Gross profit           | Gross profit margin | Gross profit  | Gross profit margin | Gross profit   | Gross profit margin | Gross profit             | Gross profit margin | Gross profit  | Gross profit margin | Gross profit  | Gross profit margin |
|   | HK\$'000               | %                   | HK\$'000      | %                   | HK\$'000       | %                   | HK\$'000                 | %                   | HK\$'000      | %                   | HK\$'000      | %                   |
|   | <i>(unaudited)</i>     |                     |               |                     |                |                     |                          |                     |               |                     |               |                     |
| Chain supermarkets,<br>department stores<br>and household<br>products retailers | 51,550                 | 21.4                | 63,191        | 23.9                | 81,358         | 32.6                | 93,262                   | 32.3                | 46,733        | 33.5                | 48,913        | 34.2                |
| Importers/exporters   | 22,430                 | 36.6                | 21,680        | 42.8                | 25,361         | 49.8                | 19,615                   | 52.3                | 9,987         | 54.1                | 8,454         | 51.0                |
| <b>Total</b>  | <u>73,980</u>          | 24.5                | <u>84,871</u> | 26.9                | <u>106,719</u> | 35.5                | <u>112,877</u>           | 34.6                | <u>56,720</u> | 35.9                | <u>57,367</u> | 35.9                |

During the Track Record Period, a majority of our gross profit was derived from customers which were chain supermarkets, department stores and household products retailers, which accounted for approximately 69.7%, 74.5%, 76.2%, 82.6%, 82.4% and 85.3%, respectively. This is due to our strategy to focus on direct sales to chain supermarkets, department stores and household product retailers in order to create a more stable business environment for our sales.

During the Track Record Period, our gross profit margins of products sold to chain supermarkets, department stores and household products retailers were generally lower than those of products sold to importers/exporters because we generally offer lower prices to chain supermarkets, department stores and household products retailers since they generally have more stable business relationship with us, more stable demand for our products, larger purchase amounts and steadier settlement records.

## FINANCIAL INFORMATION

The table below sets forth our gross profit margin by geographic regions for the periods indicated:

|                      | Year ended 31 December |               |               |               |                |               | Six months ended 30 June |               |               |               |               |               |
|----------------------|------------------------|---------------|---------------|---------------|----------------|---------------|--------------------------|---------------|---------------|---------------|---------------|---------------|
|                      | 2014                   |               | 2015          |               | 2016           |               | 2017                     |               | 2017          |               | 2018          |               |
|                      | Gross                  |               | Gross         |               | Gross          |               | Gross                    |               | Gross         |               | Gross         |               |
|                      | Gross profit           | profit margin | Gross profit  | profit margin | Gross profit   | profit margin | Gross profit             | profit margin | Gross profit  | profit margin | Gross profit  | profit margin |
| HK\$'000             | %                      | HK\$'000      | %             | HK\$'000      | %              | HK\$'000      | %                        | HK\$'000      | %             | HK\$'000      | %             |               |
| <i>(unaudited)</i>   |                        |               |               |               |                |               |                          |               |               |               |               |               |
| Australia            | 34,182                 | 18.1          | 43,542        | 21.3          | 56,305         | 30.7          | 65,128                   | 29.9          | 31,089        | 31.1          | 37,452        | 33.0          |
| Hong Kong            | 8,521                  | 29.7          | 8,641         | 33.1          | 10,419         | 39.0          | 7,086                    | 33.1          | 3,876         | 36.7          | 3,228         | 31.7          |
| The UK               | 10,569                 | 37.0          | 6,258         | 29.7          | 6,520          | 44.1          | 5,627                    | 43.6          | 2,988         | 37.3          | 2,179         | 43.0          |
| The United States    | 6,662                  | 32.0          | 6,616         | 41.4          | 6,596          | 47.6          | 2,010                    | 44.3          | 768           | 50.1          | 2,243         | 51.3          |
| New Zealand          | 1,569                  | 23.4          | 2,660         | 28.1          | 4,168          | 38.3          | 6,897                    | 39.4          | 2,629         | 34.6          | 3,004         | 40.9          |
| Germany              | 194                    | 54.5          | 2,301         | 33.5          | 4,373          | 27.7          | 7,821                    | 43.2          | 5,893         | 45.7          | 3,136         | 42.9          |
| Others <i>(Note)</i> | 12,283                 | 43.1          | 14,853        | 46.9          | 18,338         | 52.2          | 18,308                   | 54.8          | 9,477         | 54.1          | 6,125         | 51.5          |
| <b>Total</b>         | <b>73,980</b>          | <b>24.5</b>   | <b>84,871</b> | <b>26.9</b>   | <b>106,719</b> | <b>35.5</b>   | <b>112,877</b>           | <b>34.6</b>   | <b>56,720</b> | <b>35.9</b>   | <b>57,367</b> | <b>35.9</b>   |

*Note:* Others mainly include Singapore, Belgium, Chile, France, Ireland, Italy, Japan, Thailand, the Republic of Panama, the Philippines, Saudi Arabia, South Africa, Switzerland, etc.

During the Track Record Period, our gross profit attributable to sales to Australia was the largest component of our overall gross profit, which amounted to approximately HK\$34.2 million, HK\$43.5 million, HK\$56.3 million, HK\$65.1 million, HK\$31.1 million and HK\$37.5 million for the four years ended 31 December 2017 and the six months ended 30 June 2017 and 2018, representing approximately 46.2%, 51.3%, 52.8%, 57.7%, 54.8% and 65.3%, respectively, of our total gross profit.

During the Track Record Period, our gross profit margins of products sold to Australia and New Zealand were generally lower compared with other geographic regions because most of our products sold to Australia and New Zealand were sold to chain supermarkets, department stores and household product retailers to whom we generally offer lower prices as these customers, in general, had more stable business relationship and demand for our products.



## FINANCIAL INFORMATION

### *Other income*

The table below sets out the breakdown of our other income for the periods indicated:

|   | Year ended 31 December |              |              |            | Six months ended<br>30 June |            |
|---|------------------------|--------------|--------------|------------|-----------------------------|------------|
|   | 2014                   | 2015         | 2016         | 2017       | 2017                        | 2018       |
|   | HK\$'000               | HK\$'000     | HK\$'000     | HK\$'000   | HK\$'000                    | HK\$'000   |
| Bank interest income  | 181                    | 913          | 430          | 331        | 215                         | 34         |
| Agency services income from related companies ( <i>Note 1</i> ) | 1,742                  | 2,249        | 1,563        | –          | –                           | –          |
| Others ( <i>Note 2</i> )  | 181                    | 390          | 202          | 115        | 202                         | 170        |
|   | <u>2,104</u>           | <u>3,552</u> | <u>2,195</u> | <u>446</u> | <u>417</u>                  | <u>204</u> |

*Notes:*

- The agency services income refers to the agency fee received by us as set out in the section headed “Relationship with our Controlling Shareholders – Agency arrangements with companies controlled by our Controlling Shareholders and close associate of our Director” of this prospectus.
- Others mainly include the SME Export Marketing Fund which is granted by the Hong Kong government and other miscellaneous income such as reimbursement of laboratory testing charges from our customer.

### *Other gains and losses*

The table below sets out the breakdown of our other gains and losses for the periods indicated:

|   | Year ended 31 December |              |              |                | Six months ended<br>30 June |                |
|---|------------------------|--------------|--------------|----------------|-----------------------------|----------------|
|   | 2014                   | 2015         | 2016         | 2017           | 2017                        | 2018           |
|   | HK\$'000               | HK\$'000     | HK\$'000     | HK\$'000       | HK\$'000                    | HK\$'000       |
| Gain/(loss) on foreign exchange   | 916                    | 4,406        | 4,930        | (4,029)        | (4,081)                     | (1,069)        |
| (Loss)/gain on change in fair value of derivative financial liabilities | (1,132)                | 331          | –            | –              | –                           | –              |
| Gain on release of financial guarantee contracts                        | 236                    | –            | 42           | 555            | 555                         | 8              |
| Gain on disposal of property, plant and equipment                       | –                      | 101          | 8            | –              | –                           | –              |
| Government subsidies  | –                      | –            | 311          | 499            | 234                         | –              |
| Trade receivables written off as uncollectible                          | (147)                  | –            | –            | –              | –                           | –              |
| Reversal of credit loss allowance                                       | –                      | –            | –            | –              | –                           | 35             |
| Others ( <i>Note</i> )  | (396)                  | (85)         | 30           | (256)          | 533                         | (149)          |
|   | <u>(523)</u>           | <u>4,753</u> | <u>5,321</u> | <u>(3,231)</u> | <u>(2,759)</u>              | <u>(1,175)</u> |

*Note:* Others mainly include surcharge for tax payment instalment arrangements and other gains or losses.

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Other gains and losses were mainly comprised of gain/loss on foreign exchange, gain/loss on change in fair value of derivative financial liabilities, gain on release of financial guarantee contracts, gain on disposal of property, plant and equipment, government subsidies and trade receivables written off as uncollectible.

The gain/loss on foreign exchange was mainly attributable to the exchange gains/losses on the foreign currency denominated payable balances.

The changes in fair value of derivative financial liabilities was mainly due to appreciation/depreciation in RMB during the year and loss/gain was recognised on the structured foreign currency contracts entered with banks.

The government subsidies were mainly received by us in 2016 for supporting employment creation and in 2017 for improving machinery efficiencies.

### *Selling expenses*

The following table sets out a breakdown of our selling expenses for the periods indicated:

|                            | 2014          |              | Year ended 31 December |              |               |              | 2017          |              | Six months ended 30 June |              |               |              |
|----------------------------|---------------|--------------|------------------------|--------------|---------------|--------------|---------------|--------------|--------------------------|--------------|---------------|--------------|
|                            | HK\$'000      | %            | 2015                   | 2016         | 2017          | 2018         | 2017          | 2018         | 2017                     | 2018         | 2017          | 2018         |
|                            | HK\$'000      | %            | HK\$'000               | %            | HK\$'000      | %            | HK\$'000      | %            | HK\$'000                 | %            | HK\$'000      | %            |
| Transportation             | 12,650        | 69.2         | 14,133                 | 73.7         | 13,095        | 69.7         | 14,053        | 64.9         | 6,643                    | 64.5         | 7,460         | 72.1         |
| Customs                    | 2,697         | 14.7         | 2,222                  | 11.6         | 2,238         | 11.9         | 2,142         | 9.9          | 1,003                    | 9.8          | 885           | 8.6          |
| Exhibition and advertising | 1,499         | 8.2          | 1,474                  | 7.7          | 2,020         | 10.8         | 2,424         | 11.2         | 903                      | 8.8          | 581           | 5.6          |
| Staff costs                | 489           | 2.7          | 581                    | 3.0          | 695           | 3.7          | 1,104         | 5.1          | 497                      | 4.8          | 533           | 5.1          |
| Inspection                 | 323           | 1.8          | 209                    | 1.1          | 386           | 2.1          | 250           | 1.1          | 72                       | 0.7          | 145           | 1.4          |
| Others (Note)              | 633           | 3.4          | 565                    | 2.9          | 346           | 1.8          | 1,680         | 7.8          | 1,178                    | 11.4         | 744           | 7.2          |
| <b>Total</b>               | <b>18,291</b> | <b>100.0</b> | <b>19,184</b>          | <b>100.0</b> | <b>18,780</b> | <b>100.0</b> | <b>21,653</b> | <b>100.0</b> | <b>10,296</b>            | <b>100.0</b> | <b>10,348</b> | <b>100.0</b> |

*Note:* Others mainly include fees related to trademark and patent registration.

Selling expenses mainly include (i) transportation expenses relating to delivery of our products to our customers; (ii) customs; (iii) exhibition and advertising expenses; (iv) staff costs relating to our sales representatives; and (v) inspection expenses incurred during the delivery of our products to our customers. For the four years ended 31 December 2017 and the six months ended 30 June 2017 and 2018, our selling expenses were approximately HK\$18.3 million, HK\$19.2 million, HK\$18.8 million, HK\$21.7 million, HK\$10.3 million and HK\$10.3 million, representing approximately 6.1%, 6.1%, 6.2%, 6.6%, 6.5% and 6.5% of our total revenue for the corresponding year/period, respectively.

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### *Administrative expenses*

The following table sets out a breakdown of our administrative expenses for the periods indicated:

|   | 2014          |              | Year ended 31 December |              |               |              | 2017          |              |               |              | Six months ended 30 June |              |  |  |
|---|---------------|--------------|------------------------|--------------|---------------|--------------|---------------|--------------|---------------|--------------|--------------------------|--------------|--|--|
|   | HK\$'000      | %            | 2015                   | %            | 2016          | %            | 2017          | %            | 2017          | %            | 2018                     | %            |  |  |
|   |               |              | HK\$'000               |              | HK\$'000      |              | HK\$'000      |              | HK\$'000      |              | HK\$'000                 |              |  |  |
|   |               |              | <i>(unaudited)</i>     |              |               |              |               |              |               |              |                          |              |  |  |
| Staff costs   | 13,249        | 52.6         | 14,174                 | 55.2         | 15,442        | 52.2         | 16,056        | 50.6         | 9,090         | 56.3         | 8,065                    | 52.3         |  |  |
| Staff welfare   | 1,029         | 4.1          | 1,216                  | 4.7          | 1,126         | 3.8          | 706           | 2.2          | 359           | 2.2          | 490                      | 3.2          |  |  |
| Depreciation  | 890           | 3.5          | 1,169                  | 4.5          | 1,343         | 4.5          | 1,347         | 4.2          | 671           | 4.2          | 682                      | 4.4          |  |  |
| Bank charges  | 1,147         | 4.5          | 1,668                  | 6.5          | 2,841         | 9.6          | 3,575         | 11.3         | 1,842         | 11.4         | 1,771                    | 11.5         |  |  |
| Office expenses                                       | 1,534         | 6.1          | 1,181                  | 4.6          | 1,501         | 5.1          | 1,179         | 3.7          | 444           | 2.8          | 1,164                    | 7.5          |  |  |
| Motor vehicles expenses                               | 1,411         | 5.6          | 942                    | 3.7          | 1,011         | 3.4          | 1,083         | 3.4          | 577           | 3.6          | 436                      | 2.8          |  |  |
| Travelling, transportation and entertainment expenses | 454           | 1.8          | 1,259                  | 4.9          | 778           | 2.6          | 1,280         | 4.1          | 539           | 3.3          | 667                      | 4.3          |  |  |
| Rental fees   | 290           | 1.2          | 744                    | 2.9          | 846           | 2.9          | 1,195         | 3.8          | 590           | 3.7          | 725                      | 4.7          |  |  |
| Audit fee   | 156           | 0.6          | 135                    | 0.5          | 154           | 0.5          | 33            | 0.1          | 33            | 0.2          | 13                       | 0.1          |  |  |
| Professional fees                                     | 551           | 2.2          | 262                    | 1.0          | 1,355         | 4.6          | 1,993         | 6.3          | 843           | 5.2          | 628                      | 4.1          |  |  |
| Others ( <i>Note</i> )                                | 4,475         | 17.8         | 2,952                  | 11.5         | 3,171         | 10.8         | 3,259         | 10.3         | 1,156         | 7.1          | 791                      | 5.1          |  |  |
| <b>Total</b>  | <b>25,186</b> | <b>100.0</b> | <b>25,702</b>          | <b>100.0</b> | <b>29,568</b> | <b>100.0</b> | <b>31,706</b> | <b>100.0</b> | <b>16,144</b> | <b>100.0</b> | <b>15,432</b>            | <b>100.0</b> |  |  |

*Note:* Others mainly include travelling expenses, utilities and insurance expenses.

Administrative expenses mainly include staff costs relating to our staff other than direct labour, staff welfare, depreciation, bank charges, office expenses, motor vehicles expenses, travelling, transportation and entertainment expenses, rental fees for our Hong Kong office and liaison offices in the PRC, audit fee, and professional fees. For the four years ended 31 December 2017 and the six months ended 30 June 2017 and 2018, our administrative expenses were approximately HK\$25.2 million, HK\$25.7 million, HK\$29.6 million, HK\$31.7 million, HK\$16.1 million and HK\$15.4 million, representing approximately 8.3%, 8.1%, 9.8%, 9.7%, 10.2% and 9.7% of our total revenue for the corresponding year/period, respectively.

### *Other expenses*

Other expenses of approximately HK\$8.6 million for the year ended 31 December 2016 mainly represented the provision for the estimated compound penalty payable according to the settlement proposal under negotiation with the IRD during the material time. A reversal of other expenses of approximately HK\$2.1 million was recognised for the year ended 31 December 2017 after a compromised settlement with a sum of approximately HK\$6.6 million as compound penalty was agreed with the IRD in July 2017. Please refer to the section headed “Business – Major non-compliance incidents” for details.

Other expenses of approximately HK\$2.3 million for the six months ended 30 June 2018 mainly represented the surcharge levied on tax payment by instalments.

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### *Finance costs*

The following table sets out a breakdown of our finance costs for the periods indicated:

|  | Year ended 31 December |               |              |              | Six months<br>ended 30 June |              |
|--|------------------------|---------------|--------------|--------------|-----------------------------|--------------|
|  | 2014                   | 2015          | 2016         | 2017         | 2017                        | 2018         |
|  | HK\$'000               | HK\$'000      | HK\$'000     | HK\$'000     | HK\$'000                    | HK\$'000     |
|  |                        |               |              |              | <i>(unaudited)</i>          |              |
| Interest expenses on:                      |                        |               |              |              |                             |              |
| – bank and other borrowings and overdrafts | 8,272                  | 10,232        | 8,117        | 8,100        | 3,967                       | 4,467        |
| – finance leases                           | 735                    | 394           | 161          | 101          | 43                          | 45           |
|  | <u>9,007</u>           | <u>10,626</u> | <u>8,278</u> | <u>8,201</u> | <u>4,010</u>                | <u>4,512</u> |

Finance costs were primarily comprised of interest expenses on bank and other borrowings and overdrafts and finance leases. For the four years ended 31 December 2017 and the six months ended 30 June 2017 and 2018, our finance costs were approximately HK\$9.0 million, HK\$10.6 million, HK\$8.3 million, HK\$8.2 million, HK\$4.0 million and HK\$4.5 million, representing approximately 3.0%, 3.4%, 2.8%, 2.5%, 2.5% and 2.8% of our revenue for the corresponding period, respectively.

### *Income tax expense*

Income tax expenses consist of current tax, underprovision of Hong Kong profits tax and PRC enterprise income tax (the “EIT”) in prior years and deferred tax. The following table sets out a breakdown of our income tax expenses for the periods indicated:

|  | Year ended 31 December |              |               |               | Six months<br>ended 30 June |              |
|--|------------------------|--------------|---------------|---------------|-----------------------------|--------------|
|  | 2014                   | 2015         | 2016          | 2017          | 2017                        | 2018         |
|  | HK\$'000               | HK\$'000     | HK\$'000      | HK\$'000      | HK\$'000                    | HK\$'000     |
|  |                        |              |               |               | <i>(unaudited)</i>          |              |
| Current tax:                           |                        |              |               |               |                             |              |
| – Hong Kong profits tax                | 3,186                  | 5,188        | 8,119         | 6,587         | 3,173                       | 3,027        |
| – PRC EIT                              | 2,183                  | 4,311        | 2,971         | 2,453         | 769                         | 1,557        |
| Underprovision in prior years/periods: |                        |              |               |               |                             |              |
| – Hong Kong profits tax                | –                      | –            | –             | 1,911         | 1,037                       | –            |
| – PRC EIT                              | 322                    | 5            | –             | –             | –                           | –            |
| Deferred tax                           | 5,691                  | 9,504        | 11,090        | 10,951        | 4,979                       | 4,584        |
|  | 925                    | (1,113)      | (916)         | 632           | 659                         | 244          |
|  | <u>6,616</u>           | <u>8,391</u> | <u>10,174</u> | <u>11,583</u> | <u>5,638</u>                | <u>4,828</u> |

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Current tax was primarily comprised of (i) Hong Kong profits tax payable by Chase On for sales in Hong Kong and export sales to other countries; and (ii) the PRC tax payable by our PRC subsidiaries.

Under Hong Kong law, Chase On is subject to Hong Kong income tax at the statutory Hong Kong corporate income tax rate of 16.5%.

Under the PRC EIT Law, the tax rate of our PRC subsidiaries is 25%.

Our income tax expenses for the four years ended 31 December 2017 and the six months ended 30 June 2017 and 2018, were approximately HK\$6.6 million, HK\$8.4 million, HK\$10.2 million, HK\$11.6 million, HK\$5.6 million and HK\$4.8 million, respectively. Our effective tax rates for the four years ended 31 December 2017 and the six months ended 30 June 2017 and 2018 were approximately 28.7%, 22.3%, 27.9%, 29.7%, 23.4% and 22.6%, respectively.

Chase On was subject to a tax audit conducted by the IRD in respect of the offshore claim in relation to certain of its profits generated from overseas customers and deduction claims of certain expenses for the years of assessment from 2011/12 to 2015/16. Our Group had been in the process of negotiation with the IRD and has provided various information and supporting documents to address enquiries raised by the IRD and to defend its tax position. In July 2017, the IRD accepted the settlement proposal pursuant to which the additional tax liabilities and tax penalty of Chase On amounted to approximately HK\$14.7 million and HK\$6.6 million, respectively. Please refer to section headed “Business – Major non-compliance incidents” of this prospectus for details of the tax audit. Other than the aforesaid tax audit, we have no other unresolved tax issues with the relevant tax authorities.

### PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

#### Six months ended 30 June 2018 compared to six months ended 30 June 2017

##### *Revenue*

Our revenue increased from approximately HK\$158.0 million for the six months ended 30 June 2017 to approximately HK\$159.8 million for the six months ended 30 June 2018, representing an increase of approximately HK\$1.8 million or 1.1%.

##### *By geographical region*

The increase in revenue was primarily due to the increase in sales to Australia and the United States, partially offset by the decrease in sales to the United Kingdom and Germany. The increase in sales to Australia was mainly due to the increase in sales to one of our top five customers in Australia. The increase in sales to the United States was mainly due to the increase in sales to a customer in the United States by approximately HK\$2.9 million. The decrease in sales to the United Kingdom and Germany was mainly due to the decrease in sales to two of our top five customers in these regions.

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### *By product types*

Our revenue generated from “clipfresh” brand products decreased by approximately HK\$0.4 million from approximately HK\$41.9 million for the six months ended 30 June 2017 to approximately HK\$41.5 million for the six months ended 30 June 2018. The decrease in revenue of our “clipfresh” brand products was mainly due to the decrease in sales volume of our glass series products.

Our revenue generated from ODM products increased by approximately HK\$2.2 million from approximately HK\$116.0 million for the six months ended 30 June 2017 to approximately HK\$118.2 million for the six months ended 30 June 2018. The increase in revenue of ODM products was mainly due to the combined effect of (i) increase in sales of kitchenwares products, storage boxes products and rubbish bins, outdoor, gardenware and furniture due to an increase in average selling price and sales volume; (ii) decrease in sales of laundry and bathroom wares products due to the decrease in sales volume; and (iii) the decrease in sales of food storage products due to the decrease in average selling price.

### *Cost of sales*

Our cost of sales increased from approximately HK\$101.2 million for the six months ended 30 June 2017 to approximately HK\$102.4 million for the six months ended 30 June 2018, representing an increase of approximately HK\$1.2 million or 1.2%. The increase was in line with the overall increase in sales.

### *Gross profit and gross profit margin*

Our overall gross profit increased from approximately HK\$56.7 million for the six months ended 30 June 2017 to approximately HK\$57.4 million for the six months ended 30 June 2018, representing an increase of approximately HK\$0.7 million or 1.2%.

Our overall gross profit margin remained stable at approximately 35.9% for the six months ended 30 June 2017 and 2018.

### *By geographic region*

The gross profit of Australia increased by approximately HK\$6.4 million or 20.6% from approximately HK\$31.1 million for the six months ended 30 June 2017 to approximately HK\$37.5 million for the six months ended 30 June 2018. Such increase was in line with the increase in sales to Australia. The gross profit of the United States increased by approximately HK\$1.4 million or 175.0% from approximately HK\$0.8 million for the six months ended 30 June 2017 to approximately HK\$2.2 million for the six months ended 30 June 2018. Such increase was mainly due to the increase in sales to a customer in the United States. The gross profit of Germany decreased by approximately HK\$2.8 million or 47.5% from approximately HK\$5.9 million for the six months ended 30 June 2017 to approximately HK\$3.1 million for the six months ended 30 June 2018. Such decrease was in line with the decrease in sales to Germany.

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The gross profit margin of the United Kingdom and New Zealand increased from approximately 37.3% and 34.6% for the six months ended 30 June 2017 to approximately 43.0% and 40.9% for the six months ended 30 June 2018 mainly due to increase in sales of our “clipfresh” brand products to certain customers, which had a relatively higher gross profit margin.

### *By product types*

The gross profit of our “clipfresh” brand products increased by approximately HK\$1.0 million or 4.7% from approximately HK\$21.5 million for the six months ended 30 June 2017 to approximately HK\$22.5 million for the six months ended 30 June 2018. The increase in gross profit of our “clipfresh” brand products was mainly due to the increase in gross profit in our plastic series products, partially offset by the decrease in gross profit in our glass series products. The gross profit for ODM products remained stable at approximately HK\$35.2 million for the six months ended 30 June 2017 and approximately HK\$34.9 million for the six months ended 30 June 2018.

The gross profit margin for our “clipfresh” brand products increased from 51.3% for the six months ended 30 June 2017 to 54.1% for the six months ended 30 June 2018. Such increase was mainly due to the increase in gross profit margin of our plastic series products. The gross profit margin of ODM products remained relatively stable at 30.3% for the six months ended 30 June 2017 and 29.5% for the six months ended 30 June 2018.

### *Other income*

Our other income decreased from approximately HK\$0.4 million for the six months ended 30 June 2017 to approximately HK\$0.2 million for the six months ended 30 June 2018, representing a decrease of approximately HK\$0.2 million or 50.0%. The decrease was primarily due to the decrease of bank interest income.

### *Other gains and losses*

We recorded other net losses of approximately HK\$2.8 million and approximately HK\$1.2 million for the six months ended 30 June 2017 and 2018, respectively, mainly due to the foreign exchange losses as a result of the appreciation of Renminbi denominated payable balance for the same periods.

### *Selling expenses*

Our selling expenses remained relatively stable at approximately HK\$10.3 million for the six months ended 30 June 2017 and 2018.

### *Administrative expenses*

Our administrative expenses decreased from approximately HK\$16.1 million for the six months ended 30 June 2017 to approximately HK\$15.4 million for the six months ended 30 June 2018, representing a decrease of approximately HK\$0.7 million or 4.3%. The decrease was primarily due to the decrease in staff costs as a result of absence of directors' quarter rental for the six months ended 30 June 2018.

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### *Other expenses*

We recorded approximately HK\$2.1 million as reversal of other expenses for the six months ended 30 June 2017 after a compromised settlement with a sum of approximately HK\$6.6 million as compound penalty was agreed with the IRD in July 2017. We recorded other expenses of approximately HK\$2.3 million for the six months ended 30 June 2018, which represented the surcharge levied on tax payment by instalments.

### *Finance costs*

Our finance costs increased from approximately HK\$4.0 million for the six months ended 30 June 2017 to approximately HK\$4.5 million for the six months ended 30 June 2018, representing an increase of approximately HK\$0.5 million or 12.5%. Such increase was primarily due to the increase in interest expenses on bank and other borrowings and overdrafts.

### **Income tax expense**

Our income tax expense decreased from approximately HK\$5.6 million for the six months ended 30 June 2017 to approximately HK\$4.8 million for the six months ended 30 June 2018, representing a decrease of approximately HK\$0.8 million or 14.3%. Such decrease was primarily due to the decrease in profit before tax for the six months ended 30 June 2018. Our effective tax rate remained relatively stable at approximately 23.4% for the six months ended 30 June 2017 and approximately 22.6% for the six months ended 30 June 2018.

### *Profit for the period*

As a result of the foregoing factors, our profit for the period decreased from approximately HK\$18.4 million for the six months ended 30 June 2017 to approximately HK\$16.5 million for the six months ended 30 June 2018, representing a decrease of approximately HK\$1.9 million or 10.3%. Our net profit margin decreased from approximately 11.7% for the six months ended 30 June 2017 to approximately 10.4% for the six months ended 30 June 2018.

## **YEAR TO YEAR COMPARISON OF RESULTS OF OPERATIONS**

### **Year ended 31 December 2017 compared to year ended 31 December 2016**

#### *Revenue*

Our overall revenue increased by approximately HK\$25.2 million or 8.4% from approximately HK\$300.6 million for the year ended 31 December 2016 to approximately HK\$325.8 million for the year ended 31 December 2017.



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### *By geographic region*

The increase in revenue was primarily due to the increase in sales to Australia, New Zealand and Germany, and partially offset by the decrease in sales to Hong Kong and the United States. The decrease in sales to Hong Kong was mainly due to the decrease in sales to one of our top five customers in Hong Kong. The decrease in sales to the United States was mainly due to the cessation of business relationship with a customer in the United States in March 2017. The increase in sales to Australia and New Zealand was mainly due to the increase in sales with one of our top five customers which had presence in these regions. The increase in sales to Germany was mainly due to the establishment of business relationship with certain new customers in Germany.

### *By product types*

Our revenue generated from “clipfresh” brand products and ODM products increased by approximately HK\$8.9 million and approximately HK\$16.3 million from approximately HK\$73.9 million and approximately HK\$226.7 million for the year ended 31 December 2016 to approximately HK\$82.8 million and approximately HK\$243.0 million for the year ended 31 December 2017, respectively. The increase in revenue of our “clipfresh” brand products was mainly due to the increase in sales volume of our plastic and glass series products. The increase in revenue of ODM products was mainly due to the combined effects of (i) increase in sales of laundry and bathroom wares product due to an increase in sales volume; (ii) increase in sales of storage boxes products due to an increase in average selling price and sales volume; and (iii) the decrease in sales of products of food storage and kitchenwares due to the decrease in sales volume.

### *Cost of sales*

Our cost of sales increased from approximately HK\$193.9 million for the year ended 31 December 2016 to approximately HK\$212.9 million for the year ended 31 December 2017, representing an increase of approximately HK\$19.0 million or 9.8%. The increase was in line with the overall increase in sales.

### *Gross profit and gross profit margin*

Our overall gross profit increased by approximately HK\$6.2 million or 5.8% from approximately HK\$106.7 million for the year ended 31 December 2016 to approximately HK\$112.9 million for the year ended 31 December 2017.

Our overall gross profit margin decreased by 0.9 percentage points from 35.5% for the year ended 31 December 2016 to 34.6% for the year ended 31 December 2017.

### *By geographic region*

The gross profit of Australia increased by approximately HK\$8.8 million or 15.6% from approximately HK\$56.3 million for the year ended 31 December 2016 to approximately HK\$65.1 million for the year ended 31 December 2017. Such increase was in line with the

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increase in sales to Australia. The gross profit of Hong Kong decreased by approximately HK\$3.3 million or 31.7% from approximately HK\$10.4 million for the year ended 31 December 2016 to approximately HK\$7.1 million for the year ended 31 December 2017. Such decrease was mainly due to the decrease in sales to a major customer in Hong Kong. The gross profit of the United States decreased by approximately HK\$4.6 million or 69.7% from approximately HK\$6.6 million for the year ended 31 December 2016 to approximately HK\$2.0 million for the year ended 31 December 2017. Such decrease was mainly due to the cessation of business relationship with a customer in the United States in March 2017.

The gross profit margin of Germany increased from approximately 27.7% for the year ended 31 December 2016 to approximately 43.2% for the year ended 31 December 2017 mainly due to the increase in sales of our “*clipfresh*” brand products, which had a relatively high gross profit margin, to ALDI Sourcing Asia Limited, one of our top five customers in Germany.

### *By product types*

The gross profit of our “*clipfresh*” brand products increased by approximately HK\$5.7 million or 15.0% from approximately HK\$37.9 million for the year ended 31 December 2016 to approximately HK\$43.6 million for the year ended 31 December 2017. The increase in gross profit of our “*clipfresh*” brand products was mainly due to the increase in gross profit of the plastic series and glass series products. The gross profit for ODM products remained stable at approximately HK\$68.8 million for the year ended 31 December 2016 to approximately HK\$69.3 million for the year ended 31 December 2017.

The gross profit margin for our “*clipfresh*” brand products increased from 51.3% for the year ended 31 December 2016 to 52.6% for the year ended 31 December 2017. Such increase was mainly due to the increase in gross profit margin of our plastic series products. The gross profit margin of ODM products decreased from 30.3% for the year ended 31 December 2016 to 28.5% for the year ended 31 December 2017. Such decrease was mainly due to the increase in the material costs for production.

### *Other income*

Our other income decreased from approximately HK\$2.2 million for the year ended 31 December 2016 to approximately HK\$0.4 million for the year ended 31 December 2017, representing a decrease of approximately HK\$1.8 million or 81.8%. The decrease was primarily due to the decrease of agency services income from related companies from approximately HK\$1.6 million for the year ended 31 December 2016 to nil for the year ended 31 December 2017 following the termination of the agency arrangements with the related companies in August 2016.

### *Other gains and losses*

We recorded other net gains of approximately HK\$5.3 million for the year ended 31 December 2016, while we recorded other net losses of approximately HK\$3.2 million for the year ended 31 December 2017 mainly due to the foreign exchange losses as a result of the appreciation of Renminbi denominated payable balance for the year ended 31 December 2017.

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### *Selling expenses*

Our selling expenses increased from approximately HK\$18.8 million for the year ended 31 December 2016 to approximately HK\$21.7 million for the year ended 31 December 2017, representing an increase of approximately HK\$2.9 million or 15.4%. The increase was mainly due to the increase in exhibition and advertising expenses and was in line with the increase in our revenue.

### *Administrative expenses*

Our administrative expenses increased from approximately HK\$29.6 million for the year ended 31 December 2016 to approximately HK\$31.7 million for the year ended 31 December 2017, representing an increase of approximately HK\$2.1 million or 7.1%. The increase was primarily due to the increase in staff costs as a result of the increase in directors' remuneration for the year ended 31 December 2017.

### *Other expenses*

Our other expenses of approximately HK\$8.6 million for the year ended 31 December 2016 represented the provision for the estimated compound penalty to be paid according to the settlement proposal under negotiation with the IRD during the material time. An amount of approximately HK\$2.1 million was recognised as reversal of other expenses for the year ended 31 December 2017 after a compromised settlement with a sum of approximately HK\$6.6 million as compound penalty was agreed with the IRD in July 2017. Please refer to the section headed "Business – Major non-compliance incidents" for details.

### *Finance costs*

Our finance costs decreased from approximately HK\$8.3 million for the year ended 31 December 2016 to approximately HK\$8.2 million for the year ended 31 December 2017, representing a decrease of approximately HK\$0.1 million or 1.2%. The decrease was primarily due to the decrease in interest expenses on finance lease.

### *Income tax expense*

Our income tax expense increased from approximately HK\$10.2 million for the year ended 31 December 2016 to approximately HK\$11.6 million for the year ended 31 December 2017, representing an increase of approximately HK\$1.4 million or 13.7%. Such increase was primarily due to the increase in profit before tax for the year ended 31 December 2017. Our effective tax rate increased from approximately 27.9% for the year ended 31 December 2016 to approximately 29.7% for the year ended 31 December 2017 mainly due to the underprovision in respect of prior year and non-tax deductible expenses such as Listing expenses and surcharge levied on tax payment by instalments.

### *Profit for the year*

As a result of the foregoing factors, our profit for the year increased from approximately HK\$26.3 million for the year ended 31 December 2016 to approximately HK\$27.4 million for the year ended 31 December 2017, representing an increase of approximately HK\$1.1 million or 4.2%. Our net profit margin for the year ended 31 December 2016 and 2017 were relatively stable at approximately 8.8% and 8.4% respectively.

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### Year ended 31 December 2016 compared to year ended 31 December 2015

#### *Revenue*

Our overall revenue decreased by approximately HK\$14.9 million or 4.7% from approximately HK\$315.5 million for the year ended 31 December 2015 to approximately HK\$300.6 million for the year ended 31 December 2016.

#### *By geographic region*

The decrease in our overall revenue was mainly due to (i) the decrease in sales to Australia and the UK mainly due to general decrease in average selling price of our products as a result of the decrease in our purchase cost of polypropylene resins, a key raw material in production; and (ii) the decrease in sales to the United States mainly due to a drop in sales to a major customer in the United States, partially offset by the increase in sales to Germany, primarily attributable to the increase in sales to ALDI Sourcing Asia Limited, one of our top five customers in Germany.

#### *By product types*

Our revenue from our “clipfresh” brand products increased by approximately HK\$7.1 million from approximately HK\$66.8 million for the year ended 31 December 2015 to approximately HK\$73.9 million for the year ended 31 December 2016. Such increase was mainly attributable to the increase in sales volume of the plastic series products.

Our revenue from ODM products decreased by approximately HK\$22.1 million from approximately HK\$248.8 million for the year ended 31 December 2015 to approximately HK\$226.7 million for the year ended 31 December 2016. Such decrease was mainly due to the decrease in sales of storage boxes and laundry and bathroom wares due to the overall decrease in our sales volume and average selling price.

#### *Cost of sales*

Our cost of sales decreased from approximately HK\$230.7 million for the year ended 31 December 2015 to approximately HK\$193.9 million for the year ended 31 December 2016, representing a decrease of approximately HK\$36.8 million or 16.0%. Such decrease was mainly due to lower material prices as our average purchase price of polypropylene resins decreased from HK\$10,333 per tonne to HK\$8,583 per tonne, which reduced our cost of production.

#### *Gross profit and gross profit margin*

Our overall gross profit increased by approximately HK\$21.8 million or 25.7% from approximately HK\$84.9 million for the year ended 31 December 2015 to approximately HK\$106.7 million for the year ended 31 December 2016.

Our overall gross profit margin increased by 8.6 percentage points from 26.9% for the year ended 31 December 2015 to 35.5% for the year ended 31 December 2016.

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### *By geographic region*

The increase in the overall gross profit was mainly due to the increase in gross profit in Australia by approximately HK\$12.8 million or 29.4%, from approximately HK\$43.5 million for the year ended 31 December 2015 to approximately HK\$56.3 million for the year ended 31 December 2016. Such increase was mainly due to the decrease in our production cost mainly due to the decrease in our purchase cost of polypropylene resins, a key raw material in production.

As a result of the decrease of our overall production cost, our gross profit margins of Australia, Hong Kong, the UK and New Zealand also increased.

### *By product types*

The gross profit of our “clipfresh” brand products and ODM products increased by approximately HK\$5.7 million or 17.7% and approximately HK\$16.2 million or 30.8%, from approximately HK\$32.2 million and approximately HK\$52.6 million for the year ended 31 December 2015 to approximately HK\$37.9 million and approximately HK\$68.8 million for the year ended 31 December 2016, respectively. The increase in gross profit of our “clipfresh” brand products was mainly due to the increase in gross profit in our plastic series and glass series products. The increase in gross profit of ODM products was mainly due to the decrease in the material costs for production.

The increase in gross profit margins for our “clipfresh” products and ODM products were in line with the decrease in the material costs for production.

### *Other income*

Our other income decreased from approximately HK\$3.6 million for the year ended 31 December 2015 to approximately HK\$2.2 million for the year ended 31 December 2016, representing a decrease of approximately HK\$1.4 million or 38.9%. Such decrease was primarily due to (i) the decrease in agency services income from related companies from approximately HK\$2.2 million for the year ended 31 December 2015 to approximately HK\$1.6 million for the year ended 31 December 2016 as the Group has terminated the agency arrangements in August 2016; and (ii) the decrease in bank interest income from approximately HK\$0.9 million for the year ended 31 December 2015 to approximately HK\$0.4 million for the year ended 31 December 2016 as more deposits were placed in Hong Kong dollar during the year ended 31 December 2016 which bears a lower interest rate as compared with Renminbi.

### *Other gains and losses*

Our other gains increased from approximately HK\$4.8 million for the year ended 31 December 2015 to approximately HK\$5.3 million for the year ended 31 December 2016, representing an increase of approximately HK\$0.5 million or 10.4%. Such increase was mainly due to (i) increase in gains on foreign exchange as a result of the decrease in exchange rate between the foreign currencies and the functional currency led to gains on foreign currency denominated payable balances; and (ii) the government subsidy received by us for supporting employment creation for the year ended 31 December 2016.

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### *Selling expenses*

Our selling expenses decreased from approximately HK\$19.2 million for the year ended 31 December 2015 to approximately HK\$18.8 million for the year ended 31 December 2016, representing a decrease of approximately HK\$0.4 million or 2.1%. The decrease was in line with the decrease in our revenue.

### *Administrative expenses*

Our administrative expenses increased from approximately HK\$25.7 million for the year ended 31 December 2015 to approximately HK\$29.6 million for the year ended 31 December 2016, representing an increase of approximately HK\$3.9 million or 15.2%. Such increase was primarily due to the increase of bank charges of approximately HK\$1.2 million due to increased utilisation of trade receivable financing and the increase of professional fees of approximately HK\$1.1 million due to the engagement of a tax consultant to handle the tax audit on Chase On and an expert to conduct valuations for financial reporting purposes.

### *Other expenses*

Our other expenses increased from nil for the year ended 31 December 2015 to approximately HK\$8.6 million for the year ended 31 December 2016. The expenses were related to the estimated compound penalty payable according to the settlement proposal under negotiation with the IRD during the material time.

### *Finance costs*

Our finance costs decreased from approximately HK\$10.6 million for the year ended 31 December 2015 to approximately HK\$8.3 million for the year ended 31 December 2016, representing a decrease of approximately HK\$2.3 million or 21.7%. Such decrease was primarily due to the decrease in interest expenses on bank and other borrowings and overdrafts, which was in line with the decrease in our bank and other borrowings and overdrafts, from approximately HK\$252.1 million as at 31 December 2015 to approximately HK\$207.9 million as at 31 December 2016.

### *Income tax expense*

Our income tax expense increased from approximately HK\$8.4 million for the year ended 31 December 2015 to approximately HK\$10.2 million for the year ended 31 December 2016, representing an increase of approximately HK\$1.8 million or 21.4%. Such increase was primarily due to the increase in profit before tax excluding Listing expenses and other expenses which were non-tax deductible. Our effective tax rate increased from approximately 22.3% for the year ended 31 December 2015 to approximately 27.9% for the year ended 31 December 2016 mainly due to the effect of non-tax deductible expenses as mentioned above.

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### *Profit for the year*

As a result of the foregoing factors, our profit for the year decreased from approximately HK\$29.3 million for the year ended 31 December 2015 to approximately HK\$26.3 million for the year ended 31 December 2016, representing a decrease of approximately HK\$3.0 million or 10.2%. Our net profit margin decreased from approximately 9.3% for the year ended 31 December 2015 to approximately 8.8% for the year ended 31 December 2016.

### **Year ended 31 December 2015 compared to year ended 31 December 2014**

#### *Revenue*

Our overall revenue increased by approximately HK\$13.5 million or 4.5% from approximately HK\$302.0 million for the year ended 31 December 2014 to approximately HK\$315.5 million for the year ended 31 December 2015.

#### *By geographic region*

The increase in revenue was mainly due to (i) the increase in sales to Australia mainly due to the increase in sales to three of our top five customers; (ii) the increase in sales to Germany, as we commenced business relationship with ALDI Sourcing Asia Limited in 2015, partially offset by (i) the decrease in sales to the United Kingdom primarily attributable to the decrease in sales to a major customer from approximately HK\$8.5 million to approximately HK\$2.5 million, from the year ended 31 December 2014 to 2015, respectively; and (ii) the decrease in sales to the United States mainly due to the drop in sales to a major customer at the material time from approximately HK\$17.3 million to approximately HK\$11.9 million from the year ended 31 December 2014 to 2015, respectively.

#### *By product types*

Our revenue from our “clipfresh” brand products and ODM products increased by approximately HK\$4.9 million and approximately HK\$8.7 million from approximately HK\$61.9 million and approximately HK\$240.1 million for the year ended 31 December 2014 to approximately HK\$66.8 million and approximately HK\$248.8 million for the year ended 31 December 2015, respectively. Such increase in revenue from our “clipfresh” brand products was mainly due to the increase in revenue from the plastic series products as a result of the increase in sales volume. Such increase in revenue from ODM products was mainly due to the increase in sales of storage box and food storage products, partially offset by the decrease in sales of kitchenwares.

#### *Cost of sales*

Our cost of sales increased from approximately HK\$228.0 million for the year ended 31 December 2014 to approximately HK\$230.7 million for the year ended 31 December 2015, representing an increase of approximately HK\$2.7 million or 1.2%. Such increase was mainly due to the increase in direct labour cost as a result of increase in sales, partially offset by the decrease in material costs as our average unit purchase prices of polypropylene resins decreased from approximately HK\$12,393 per tonne in 2014 to approximately HK\$10,333 per tonne in 2015.

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## FINANCIAL INFORMATION

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### *Gross profit and gross profit margin*

Our overall gross profit increased by approximately HK\$10.9 million from approximately HK\$74.0 million for the year ended 31 December 2014 to approximately HK\$84.9 million for the year ended 31 December 2015.

Our overall gross profit margin increased by 2.4 percentage points from 24.5% for the year ended 31 December 2014 to 26.9% for the year ended 31 December 2015.

### *By geographic region*

The increase in our overall gross profit was mainly due to (i) the increase in gross profit of Australia mainly due to the increase in sales to three of our top five customers in Australia; and (ii) the increase in gross profit of Germany as we commenced business relationship with ALDI Sourcing Asia Limited in 2015, partially offset by the decrease in gross profit in the UK which was in line with the decrease in sales to the UK.

The increase in the overall gross profit margin was mainly due to (i) the general increase in gross profit margins of Australia, Hong Kong, the United States and New Zealand mainly due to the decrease in our cost of production as the average purchase price of polypropylene resins decreased, partially offset by (i) the decrease in gross profit margin of the UK mainly due to a decrease in sales to a major customer at the material time to which we sold relatively high gross profit margin products; and (ii) the decrease in gross profit margin of Germany due to the lower average selling price we offer for larger sales volume.

### *By product types*

The gross profit of our “clipfresh” brand products and ODM products increased by approximately HK\$4.7 million or 17.1% and approximately HK\$6.2 million or 13.4%, from approximately HK\$27.5 million and approximately HK\$46.4 million for the year ended 31 December 2014 to approximately HK\$32.2 million and approximately HK\$52.6 million for the year ended 31 December 2015. The increase in gross profit of our “clipfresh” brand products was mainly due to the increased sales of plastic series products. The increase in gross profit of ODM products was mainly due to the increase in sales of storage boxes products, partially offset by the decrease in sales of kitchenwares.

The overall increase in the gross profit margin of our “clipfresh” brand products and ODM products were in line with the decrease in the material costs for production.



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### *Other income*

Our other income increased from approximately HK\$2.1 million for the year ended 31 December 2014 to approximately HK\$3.6 million for the year ended 31 December 2015, representing an increase of approximately HK\$1.5 million or 71.4%. Such increase was primarily due to (i) the increase of bank interest income from approximately HK\$0.2 million for the year ended 31 December 2014 to approximately HK\$0.9 million for the year ended 31 December 2015 as our bank deposits increased during the year ended 31 December 2015; and (ii) the increase of agency services fee income from related companies from approximately HK\$1.7 million for the year ended 31 December 2014 to approximately HK\$2.2 million for the year ended 31 December 2015.

### *Other gains and losses*

We recorded other net losses of approximately HK\$0.5 million for the year ended 31 December 2014, while we recorded other net gains of approximately HK\$4.8 million for the year ended 31 December 2015. The other net losses for the year ended 31 December 2014 was mainly due to loss on change in fair value of derivative financial liabilities of approximately HK\$1.1 million which was caused by the increase in fair value of the derivative financial liabilities since the exchange rate between the Renminbi and US dollars fluctuated. The other gains for the year ended 31 December 2015 was mainly attributable to foreign exchange gains of approximately HK\$4.4 million which was due to gains from foreign currency denominated payable balances as the exchange rate between the foreign currency and the functional currency decreased during the year.

### *Selling expenses*

Our selling expenses increased from approximately HK\$18.3 million for the year ended 31 December 2014 to approximately HK\$19.2 million for the year ended 31 December 2015, representing an increase of approximately HK\$0.9 million or 4.9%. Such increase was primarily attributable to the increase in transportation expenses, which was in line with the increase in our overall sales volume that resulted in the increase in our delivery cost of our products to our customers during the year ended 31 December 2015.

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### *Administrative expenses*

Our administrative expenses increased from approximately HK\$25.2 million for the year ended 31 December 2014 to approximately HK\$25.7 million for the year ended 31 December 2015, representing an increase of approximately HK\$0.5 million or 2.0%. Such increase was primarily due to the increase in staff costs due to the increase in the average salary of our administrative staff in the PRC during the year ended 31 December 2015.

### *Finance costs*

Our finance costs increased from approximately HK\$9.0 million for the year ended 31 December 2014 to approximately HK\$10.6 million for the year ended 31 December 2015, representing an increase of approximately HK\$1.6 million or 17.8%. Such increase was primarily due to the increase in interest expenses on bank and other borrowings as a result of the increase in our bank and other borrowings during the year ended 31 December 2015.

### *Income tax expense*

Our income tax expense increased from approximately HK\$6.6 million for the year ended 31 December 2014 to approximately HK\$8.4 million for the year ended 31 December 2015, representing an increase of approximately HK\$1.8 million or 27.3%. Such increase was primarily due to the increase in our profit before tax. Our effective tax rate decreased from approximately 28.7% for the year ended 31 December 2014 to approximately 22.3% for the year ended 31 December 2015 mainly because higher portions of the income tax expense was attributed to Hong Kong profits tax, which had a tax rate of 16.5%, for the year ended 31 December 2015.

### *Profit for the year*

As a result of the foregoing factors, our profit for the year increased from approximately HK\$16.5 million for the year ended 31 December 2014 to approximately HK\$29.3 million for the year ended 31 December 2015, representing an increase of approximately HK\$12.8 million or 77.6%. Our net profit margin improved from approximately 5.5% for the year ended 31 December 2014 to approximately 9.3% for the year ended 31 December 2015.

## FINANCIAL INFORMATION

### NET CURRENT ASSETS AND ANALYSIS OF VARIOUS ITEMS IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

#### Net current assets

The table below sets forth our current assets, current liabilities and net current assets as at the indicated dates:

|                                    | At 31 December  |                 |                 |                 | At<br>30 June   | At<br>31 July      |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|--------------------|
|                                    | 2014            | 2015            | 2016            | 2017            | 2018            | 2018               |
|                                    | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i>    |
|                                    |                 |                 |                 |                 |                 | <i>(unaudited)</i> |
| <b>Current assets</b>              |                 |                 |                 |                 |                 |                    |
| Inventories                        | 26,437          | 25,894          | 22,533          | 18,277          | 17,912          | 18,799             |
| Trade and other receivables        | 22,262          | 18,573          | 45,903          | 54,078          | 55,149          | 55,429             |
| Amounts due from related companies | 186,801         | 206,519         | –               | –               | –               | –                  |
| Amount due from a director         | 16,229          | –               | 21,840          | 22,052          | 42,873          | 42,798             |
| Restricted bank deposits           | 55,708          | 62,544          | 102,480         | 92,262          | 94,659          | 94,662             |
| Bank balances and cash             | 8,008           | 40,545          | 108,145         | 124,705         | 84,613          | 92,375             |
|                                    | <u>315,445</u>  | <u>354,075</u>  | <u>300,901</u>  | <u>311,374</u>  | <u>295,206</u>  | <u>304,063</u>     |
| <b>Current liabilities</b>         |                 |                 |                 |                 |                 |                    |
| Trade and other payables           | 44,013          | 34,223          | 52,715          | 62,755          | 73,534          | 61,452             |
| Amount due to a director           | –               | 31,258          | –               | –               | –               | –                  |
| Tax payable                        | 16,128          | 22,000          | 23,280          | 29,736          | 28,158          | 27,068             |
| Bank and other borrowings          | 242,664         | 248,797         | 205,260         | 177,999         | 184,850         | 205,124            |
| Bank overdrafts                    | 3,387           | 53              | 1,853           | 1,937           | 1,981           | 1,989              |
| Derivative financial liabilities   | 1,211           | –               | –               | –               | –               | –                  |
| Obligations under finance leases   | 4,718           | 1,884           | 927             | 566             | 2,729           | 2,649              |
|                                    | <u>312,121</u>  | <u>338,215</u>  | <u>284,035</u>  | <u>272,993</u>  | <u>291,252</u>  | <u>298,282</u>     |
| <b>Net current assets</b>          | <u>3,324</u>    | <u>15,860</u>   | <u>16,866</u>   | <u>38,381</u>   | <u>3,954</u>    | <u>5,781</u>       |

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## FINANCIAL INFORMATION

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We recorded net current assets of approximately HK\$3.3 million as at 31 December 2014 compared to that of approximately HK\$15.9 million as at 31 December 2015. Such increase in net current assets was mainly due to (i) the increase in amounts due from related companies; (ii) the increase in restricted bank deposits, bank balances and cash as a result of the increase in our revenue; and (iii) decrease in trade payables as certain large payables outstanding as at 31 December 2014 was subsequently settled; partially offset by the change of amount due from a director to amount due to a director.

We recorded net current assets of approximately HK\$15.9 million as at 31 December 2015 compared to that of approximately HK\$16.9 million as at 31 December 2016. Such increase in net current assets was mainly due to (i) the increase in prepayments to certain suppliers for securing supply of polypropylene resins with priority; (ii) the increase in amount due from a director; (iii) the increase in restricted bank deposits, bank balances and cash which were mainly generated from our business operations; and (iv) the decrease in amount due to a director and bank borrowings, partially offset by (i) the increase in trade and other payables mainly due to the provision for the estimated compound penalty to be paid according to the settlement proposal under negotiation with the IRD; and (ii) the decrease in amounts due from related companies.

We recorded net current assets of approximately HK\$16.9 million as at 31 December 2016 compared to that of approximately HK\$38.4 million as at 31 December 2017. Such increase in net current assets was mainly due to (i) the increase in trade and other receivables; and (ii) the increase in bank balances and cash which were mainly generated from our business operations.

We recorded net current assets of approximately HK\$38.4 million as at 31 December 2017 compared to that of approximately HK\$4.0 million as at 30 June 2018. Such decrease in net current assets was mainly due to (i) the decrease in bank balances and cash, (ii) the increase in bank and other borrowings; and (iii) the increase in obligations under finance leases.

We recorded net current assets of approximately HK\$4.0 million as at 30 June 2018 compared to that of approximately HK\$5.8 million as at 31 July 2018. Such increase in net current assets was mainly due to (i) the increase in bank balances and cash; and (ii) the decrease in trade and other payables, partially offset by the increase in bank and other borrowings.

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### Property, plant and equipment

The following table sets out the respective carrying values of our Group's property, plant and equipment as at the indicated dates:

|                  | Moulds<br><i>HK\$'000</i> | Plant and<br>machinery<br><i>HK\$'000</i> | Furniture,<br>fixtures<br>and<br>equipment<br><i>HK\$'000</i> | Motor<br>vehicles<br><i>HK\$'000</i> | Leasehold<br>improvements<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|------------------|---------------------------|---|---|--------------------------------------|--|--------------------------|
| As at            |                           |   |   |                                      |  |                          |
| 31 December 2014 | 24,474                    | 12,922                                    | 573   | 2,728                                | 1,722  | 42,419                   |
| 31 December 2015 | 29,251                    | 16,805                                    | 655   | 2,413                                | 2,036  | 51,160                   |
| 31 December 2016 | 34,467                    | 16,733                                    | 578   | 2,592                                | 1,960  | 56,330                   |
| 31 December 2017 | 32,533                    | 15,562                                    | 578   | 1,711                                | 1,718  | 52,102                   |
| 30 June 2018     | 48,984                    | 19,546                                    | 490   | 1,274                                | 1,597  | 71,891                   |

As shown in the table above, our Group's property, plant and equipment consists primarily of moulds and plant and machinery.

Moulds are primarily plastic injection moulds for the production of our plastic household products. The carrying amount of our moulds increased from approximately HK\$24.5 million as at 31 December 2014 to approximately HK\$29.3 million as at 31 December 2015 and further increased to approximately HK\$34.5 million as at 31 December 2016 primarily due to the addition of moulds which was partially offset by depreciation charges. The carrying amount of our moulds slightly decreased to approximately HK\$32.5 million as at 31 December 2017 mainly due to the depreciation charges which were partially offset by the additions of moulds. The carrying amount of our moulds increased to approximately HK\$49.0 million as at 30 June 2018 due to addition of moulds which was partially offset by depreciation charges.

Plant and machinery are mainly injection moulding machines, manipulators and cranes. The carrying amount of our plant and machinery was approximately HK\$12.9 million as at 31 December 2014, which increased to approximately HK\$16.8 million as at 31 December 2015 due to the additions of certain plant and machinery during the respective period. The carrying amount of our plant and machinery was relatively stable at approximately HK\$16.8 million, HK\$16.7 million and HK\$15.6 million as at 31 December 2015, 2016 and 2017. The carrying amount of our plant and machinery increased to approximately HK\$19.5 million as at 30 June 2018 due to the additions of certain plant and machinery which was partially offset by (i) the disposals and (ii) depreciation charges.

Some of our plant and machinery and motor vehicles were purchased by entering into finance lease arrangements during the Track Record Period. As at 31 December 2014, 2015, 2016 and 2017 and 30 June 2018, our plant and machinery and motor vehicles with the net book value of approximately HK\$11.4 million, HK\$7.3 million, HK\$3.2 million, HK\$1.2 million and HK\$6.2 million, respectively, were held under finance leases.

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## FINANCIAL INFORMATION

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### Inventories

Our raw materials primarily consist of polypropylene resins, packaging materials and other ancillary materials. Our work in progress inventories comprise mainly semi-finished products. Finished goods represent our products ready to be sold. We adopt inventory control policy to ensure adequate inventory levels and our inventory control policy is formulated mainly according to our confirmed purchase orders, delivery time and price of raw materials. We continuously monitor our inventory level by conducting regular checks on quality and quantity. The following table sets out a breakdown of our inventories as at the indicated dates:

|                  | At 31 December  |                 |                 |                 | At 30 June      |
|------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                  | 2014            | 2015            | 2016            | 2017            | 2018            |
|                  | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Raw materials    | 2,665           | 8,302           | 9,916           | 5,865           | 6,206           |
| Work in progress | 13,037          | 10,905          | 7,344           | 8,251           | 7,075           |
| Finished goods   | <u>10,735</u>   | <u>6,687</u>    | <u>5,273</u>    | <u>4,161</u>    | <u>4,631</u>    |
|                  | <u>26,437</u>   | <u>25,894</u>   | <u>22,533</u>   | <u>18,277</u>   | <u>17,912</u>   |

Our inventories decreased by approximately HK\$0.5 million, or 1.9%, from approximately HK\$26.4 million as at 31 December 2014 to approximately HK\$25.9 million as at 31 December 2015. The decrease was primarily due to (i) the decrease in work in progress mainly due to the decrease in the purchase cost of polypropylene resins, a key raw material; and (ii) the decrease in finished goods due to the increased delivery of our products driven by the increase in sales volume, partially offset by the increase in raw material as a result of the intention of our management to accumulate the stock level of polypropylene resins as its purchase cost decreased.

Our inventories decreased by approximately HK\$3.4 million, or 13.1%, from approximately HK\$25.9 million as at 31 December 2015 to approximately HK\$22.5 million as at 31 December 2016. The decrease was primarily due to (i) the decrease in work in progress inventories mainly due to the decrease in the purchase cost of polypropylene resins, a key raw material; and (ii) the decrease in finished goods due to the overall decrease in cost of raw materials, partially offset by the increase in raw materials primarily due to the intention of our management to accumulate the stock level of polypropylene resins as its purchase cost decreased.

Our inventories decreased by approximately HK\$4.2 million, or 18.7% from approximately HK\$22.5 million as at 31 December 2016 to approximately HK\$18.3 million as at 31 December 2017. The decrease was primarily due to (i) the decrease in raw materials mainly due to the increased use of raw materials in our production to cope with the increase in sales volume for the year; and (ii) the decrease in finished goods due to the increased delivery of our products driven by the increase in sales volume, partially offset by the increase in work in progress as more products were being manufactured to cope with our expected increase in the sales of our products.

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Our inventories decreased by approximately HK\$0.4 million or 2.2% from approximately HK\$18.3 million as at 31 December 2017 to approximately HK\$17.9 million as at 30 June 2018. The decrease was mainly due to (i) the decrease in work in progress due to the lower level of work in progress inventories resulting from the relocation to the New Production Facilities during the period, partially offset by (ii) the increase in raw materials mainly due to the intention of our management to accumulate the stock level of polypropylene resins; and (iii) the increase in finished goods to cope with the expected increase in the sales of our products.

As at 27 July 2018, we subsequently used/sold approximately HK\$9.8 million, or 54.8%, of our inventories as at 30 June 2018.

The following table sets out our inventory turnover days for the periods indicated:

|  | <b>Year ended 31 December</b> |             |             |             | <b>Six months<br/>ended<br/>30 June</b> |
|--|-------------------------------|-------------|-------------|-------------|---|
|  | <b>2014</b>                   | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b>                             |
|  | <i>days</i>                   | <i>days</i> | <i>days</i> | <i>days</i> | <i>days</i>                             |
| Inventory turnover<br>days ( <i>Note</i> ) | 31.7                          | 41.4        | 45.7        | 35.0        | 32.0                                    |

*Note:* Inventory turnover days equal to the average of inventories as at the respective year/period end divided by the cost of sales for the year/period and multiplied by the number of days in the year/period.

The inventory turnover days increased from approximately 31.7 days for the year ended 31 December 2014 to approximately 41.4 days for the year ended 31 December 2015 and increased to 45.7 days for the year ended 31 December 2016. The increase was primarily due to the accumulation of polypropylene resins as the price decreased during the year.

The inventory turnover days decreased from approximately 45.7 days for the year ended 31 December 2016 to approximately 35.0 days for the year ended 31 December 2017 primarily due to the increase in consumption of raw materials and the delivery of finished goods resulting from the increase in sales.

The inventory turnover days further decreased from approximately 35.0 days for the year ended 31 December 2017 to approximately 32.0 days for the six months ended 30 June 2018 primarily due to the decrease in work in progress inventories.

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### Trade and other receivables

The following table sets out a breakdown of our trade and other receivables as at the indicated dates:

|                                 | At 31 December       |                      |                      | At 30 June           |                      |
|---------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
|                                 | 2014                 | 2015                 | 2016                 | 2017                 | 2018                 |
|                                 | <i>HK\$'000</i>      | <i>HK\$'000</i>      | <i>HK\$'000</i>      | <i>HK\$'000</i>      | <i>HK\$'000</i>      |
| Trade receivables               | 13,832               | 15,126               | 10,962               | 15,478               | 9,371                |
| Prepayments to suppliers        | 2,099                | 995                  | 28,954               | 30,910               | 37,662               |
| Other tax recoverable           | 3,788                | 49                   | –                    | 967                  | 380                  |
| Other receivables               | 2,543                | 2,403                | 2,244                | 1,799                | 2,079                |
| Deferred issue costs            | –                    | –                    | 3,743                | 4,924                | 5,697                |
|                                 | <u>22,262</u>        | <u>18,573</u>        | <u>45,903</u>        | <u>54,078</u>        | <u>55,189</u>        |
| Less: Impairment loss allowance | <u>–</u>             | <u>–</u>             | <u>–</u>             | <u>–</u>             | <u>(40)</u>          |
|                                 | <u><u>22,262</u></u> | <u><u>18,573</u></u> | <u><u>45,903</u></u> | <u><u>54,078</u></u> | <u><u>55,149</u></u> |

We recognised our trade receivables when we have delivered the goods to the customers and when the title had passed. In general, we offer a general credit period from cash on delivery to 90 days to our customers based on factors such as their business relationship with us and their historical repayment records.

Our trade and other receivables decreased by approximately HK\$3.7 million, or 16.6%, from approximately HK\$22.3 million as at 31 December 2014 to approximately HK\$18.6 million as at 31 December 2015. The decrease was primarily attributable to (i) the larger other tax recoverable balance as at 31 December 2014 since the tax authority in the PRC was in the process of approving our export VAT refund for the year ended 31 December 2014 which was subsequently refunded to us during 2015; and (ii) the decrease in prepayments to suppliers of approximately HK\$1.1 million primarily due to less purchase made from those suppliers who required advance payments in December 2015 as compared to that in December 2014.

Our trade and other receivables increased by approximately HK\$27.3 million, or 146.8%, from approximately HK\$18.6 million as at 31 December 2015 to approximately HK\$45.9 million as at 31 December 2016. The increase was primarily attributable to (i) the increase in prepayments to suppliers of approximately HK\$28.0 million as we made more prepayments to certain of our suppliers for securing supply of polypropylene resins with the increase in quantity ordered from approximately 156 tonnes as at 31 December 2015 to approximately 3,180 tonnes as at 31 December 2016 as our Directors expected the average market price of polypropylene resins would rebound in early 2017 following the previous decreasing trend from 2014 to 2016, and to prepare for a higher level of raw materials for production use to cope with the expected increase in sales in 2017; and (ii) the incurrence of deferred issue costs of approximately HK\$3.7 million.



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Our trade and other receivables increased by approximately HK\$8.2 million, or 17.9%, from approximately HK\$45.9 million as at 31 December 2016 to approximately HK\$54.1 million as at 31 December 2017. Such increase was mainly due to (i) the increase in trade receivables attributable to the increase in sales; (ii) the increase in prepayments to suppliers for the supply of polypropylene resins as a result of the increase in average price of polypropylene resins from approximately USD1,160 per tonne as at 31 December 2016 to approximately USD1,286 per tonne as at 31 December 2017; and (iii) the increase in other tax recoverable, in relation to our export VAT refund.

Our trade and other receivables increased by approximately HK\$1.0 million, or 1.8% from approximately HK\$54.1 million as at 31 December 2017 to approximately HK\$55.1 million as at 30 June 2018. Such increase was primarily attributable to (i) the increase in prepayments to suppliers of approximately HK\$6.8 million for securing a higher quantity of supply of polypropylene resins from approximately 3,039 tonnes as at 31 December 2017 to approximately 3,527 tonnes as at 30 June 2018, in view of the increasing trend of the average price of polypropylene resins since 2017; (ii) the increase in deferred issue costs of approximately HK\$0.8 million during the six months ended 30 June 2018, partially offset by (iii) the decrease in trade receivables of approximately HK\$6.1 million.

The following is an aged analysis of trade receivables presented based on the invoice date as at the respective dates indicated.

|                 | <b>At 31 December</b> |                 |                 |                 | <b>At 30 June</b> |
|-----------------|-----------------------|-----------------|-----------------|-----------------|-------------------|
|                 | <b>2014</b>           | <b>2015</b>     | <b>2016</b>     | <b>2017</b>     | <b>2018</b>       |
|                 | <i>HK\$'000</i>       | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i>   |
| 1 to 30 days    | 9,765                 | 11,464          | 8,961           | 11,270          | 7,002             |
| 31 to 60 days   | 3,001                 | 3,286           | 1,292           | 3,418           | 1,957             |
| 61 to 90 days   | 220                   | 323             | 318             | 550             | 346               |
| 91 to 180 days  | 654                   | 53              | 391             | 195             | 19                |
| 181 to 365 days | 192                   | –               | –               | 45              | 3                 |
| Over 1 year     | –                     | –               | –               | –               | 44                |
|                 | <u>13,832</u>         | <u>15,126</u>   | <u>10,962</u>   | <u>15,478</u>   | <u>9,371</u>      |

We adopted certain measures to monitor the recoverability of our trade receivables including reviewing the credit terms and credit limits granted to customers, their financial performance and historical payment records and keeping regular communications with customers to gain up to date understanding of changes in customers' business and financial condition.

The trade receivables balance include debtors with aggregate carrying amount of approximately HK\$3.2 million, HK\$2.2 million, HK\$0.9 million, HK\$3.3 million and HK\$0.7 million as at 31 December 2014, 2015, 2016 and 2017 and 30 June 2018, respectively, which were past due at the end of the reporting period for which our Group has not provided for impairment loss as we considered such balances could be recovered based on historical experience. We do not hold any collateral over these balances.

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The following is an aged analysis of trade receivables which are past due but not impaired as at the respective dates indicated:

|                 | <b>At 31 December</b> |                 |                 |                 | <b>At 30 June</b> |
|-----------------|-----------------------|-----------------|-----------------|-----------------|-------------------|
|                 | <b>2014</b>           | <b>2015</b>     | <b>2016</b>     | <b>2017</b>     | <b>2018</b>       |
|                 | <i>HK\$'000</i>       | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i>   |
| 1 to 30 days    | 2,043                 | 1,948           | 402             | 2,099           | 610               |
| 31 to 60 days   | 138                   | 149             | 26              | 751             | –                 |
| 61 to 90 days   | 192                   | 67              | 78              | 195             | –                 |
| 91 to 180 days  | 628                   | 53              | 391             | 195             | 2                 |
| 181 to 365 days | 192                   | –               | –               | 45              | 1                 |
| Over 1 year     | –                     | –               | –               | –               | 44                |
|                 | <u>3,193</u>          | <u>2,217</u>    | <u>897</u>      | <u>3,285</u>    | <u>657</u>        |

As at 27 July 2018, approximately HK\$5.6 million, or 59.8%, of our trade receivables as at 30 June 2018 has been collected.

The following table sets out our debtors' turnover days for the periods indicated:

|   | <b>Year ended 31 December</b> |             |             |             | <b>At 30 June</b> |
|---|-------------------------------|-------------|-------------|-------------|-------------------|
|   | <b>2014</b>                   | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b>       |
|   | <i>days</i>                   | <i>days</i> | <i>days</i> | <i>days</i> | <i>days</i>       |
| Debtors' turnover<br>days ( <i>Note</i> ) | 15.1                          | 16.7        | 15.9        | 14.8        | 14.1              |

*Note:* Debtors' turnover days equal to the average of trade receivables as at the respective year/period end, divided by the revenue for the year/period and multiplied by the number of days in the year/period.

The debtors' turnover days for the year ended 31 December 2014, 2015, 2016 remained relatively stable.

The debtors' turnover days decreased from approximately 15.9 days for the year ended 31 December 2016 to approximately 14.8 days for the year ended 31 December 2017. The decrease is mainly attributable to decrease in trade receivables as certain large receivables outstanding as at 31 December 2016 was subsequently settled during the year ended 31 December 2017.

The debtors' turnover days for the six months ended 30 June 2018 remained relatively stable.

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### Amounts due from related companies

As at 31 December 2014, 2015, 2016 and 2017 and 30 June 2018, the amounts due from related companies were approximately HK\$186.8 million, HK\$206.5 million, nil, nil and nil, respectively. All of these amounts are interest-free, unsecured and repayable on demand. Pursuant to the settlement agreement signed between Mr. Tong Ying Chiu and related companies on 31 December 2016, the amounts due from related companies were set off with the amount due to a director.

### Amount due from a director

As at 31 December 2014, 2015, 2016 and 2017 and 30 June 2018, the amount due from a director was approximately HK\$16.2 million, nil, HK\$21.8 million, HK\$22.1 million and HK\$42.9 million, respectively. The amount represented the net accumulated sum of advances offset by the repayments from the director and were non-trade in nature, interest-free, unsecured and repayable on demand and was settled in August 2018 using the personal wealth of the director. These advances were provided by our Group to the director upon the director's request and were repayable by the director on demand. As confirmed by our Directors, the advances were mainly utilised to fund the director's business in the trading of materials. Our Directors further confirmed that, save and except for the agency arrangement, as set out in the section headed "Relationship with our Controlling Shareholders – Agency arrangements with companies controlled by our Controlling Shareholders and close associate of our Director", the source of money to finance the advances to the related companies and the director during the Track Record Period was only from our internal resources generated from our operation, each of these advances was repayable on demand and was intended to be repaid by the director within a short period of time after drawn-down.

### Trade and other payables

The following table sets out a breakdown of our trade and other payables as at the indicated dates:

|  | At 31 December |               |               |               | At 30 June    |
|--|----------------|---------------|---------------|---------------|---------------|
|  | 2014           | 2015          | 2016          | 2017          | 2018          |
|  | HK\$'000       | HK\$'000      | HK\$'000      | HK\$'000      | HK\$'000      |
| Trade payables   | 26,986         | 17,583        | 19,318        | 35,471        | 34,410        |
| Contract liability   | 1,109          | 1,446         | 998           | 1,603         | 2,183         |
| Payroll payable  | 5,927          | 3,116         | 4,353         | 6,529         | 6,591         |
| Accrued penalty  | –              | –             | 8,647         | –             | –             |
| Accrued surcharge<br>levied on tax payment<br>by instalments | –              | –             | –             | 1,188         | 2,701         |
| Financial guarantee<br>obligations (Note 1)                  | –              | 518           | 1,119         | 564           | 556           |
| Accrued issue<br>costs/Listing expenses                      | –              | –             | 5,713         | 4,495         | 6,716         |
| Other accrued expenses<br>(Note 2)                           | 4,450          | 5,877         | 4,707         | 4,293         | 3,064         |
| Dividend payable   | –              | –             | –             | –             | 4,779         |
| Other payables (Note 2)                                      | 5,541          | 5,683         | 7,860         | 8,612         | 12,534        |
|  | <u>44,013</u>  | <u>34,223</u> | <u>52,715</u> | <u>62,755</u> | <u>73,534</u> |

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*Notes:*

1. The amount represented financial guarantee contracts provided by us to our related companies.
2. Other accrued expenses mainly comprise accrued housing fund and transportation costs. Other payables mainly comprise payable for moulds acquisition and transportation fees payable.

Our trade and other payables decreased from approximately HK\$44.0 million as at 31 December 2014 to approximately HK\$34.2 million as at 31 December 2015 which was primarily attributable to (i) the decrease in trade payables of approximately HK\$9.4 million as certain large payables outstanding as at 31 December 2014 was subsequently settled during the year ended 31 December 2015; and (ii) the decrease in payroll payable of approximately HK\$2.8 million as a result of the earlier settlement of payroll payable as at 31 December 2015 compared to that as at 31 December 2014.

Our trade and other payables increased from approximately HK\$34.2 million as at 31 December 2015 to approximately HK\$52.7 million as at 31 December 2016 which was primarily attributable to (i) the incurrence of accrued penalty of approximately HK\$8.6 million being the provision for the estimated compound penalty to be paid according to the settlement proposal under negotiation with the IRD; and (ii) the increase in accrued Listing expenses.

Our trade and other payables increased from approximately HK\$52.7 million as at 31 December 2016 to approximately HK\$62.8 million as at 31 December 2017 mainly due to (i) the increase in trade payable as a result of purchases of raw materials, partially offset by (ii) the decrease in accrued penalty due to the reversal of the provision which was previously over-provided of approximately HK\$2.1 million upon acceptance of settlement proposal by the IRD. Our trade and other payables increased from approximately HK\$62.8 million as at 31 December 2017 to approximately HK\$73.5 million as at 30 June 2018. The increase was primarily attributable to (i) the incurrence of dividend payable of approximately HK\$4.8 million which was settled by August 2018, (ii) the increase in accrued Listing expenses; and (iii) the increase in other payables mainly due to the increase in payables to suppliers of mould parts.

As at 27 July 2018, approximately HK\$5.8 million, or 16.9%, of our trade payables as at 30 June 2018 has been settled.

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We normally receive credit terms ranging from cash on delivery to 90 days from our suppliers. The following is an aged analysis of trade payables based on the goods receipt date as at the respective dates indicated:

|                 | <b>At 31 December</b> |                 |                 |                 | <b>At 30 June</b> |
|-----------------|-----------------------|-----------------|-----------------|-----------------|-------------------|
|                 | <b>2014</b>           | <b>2015</b>     | <b>2016</b>     | <b>2017</b>     | <b>2018</b>       |
|                 | <i>HK\$'000</i>       | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i>   |
| 1 to 30 days    | 7,090                 | 4,423           | 5,922           | 9,473           | 10,306            |
| 31 to 60 days   | 3,287                 | 4,908           | 4,069           | 10,904          | 4,985             |
| 61 to 90 days   | 2,712                 | 2,003           | 933             | 4,342           | 3,546             |
| 91 to 180 days  | 7,782                 | 4,766           | 5,901           | 8,129           | 8,691             |
| 181 to 365 days | 4,454                 | 1,030           | 2,035           | 2,305           | 6,141             |
| Over 1 year     | 1,661                 | 453             | 458             | 318             | 741               |
|                 | <u>26,986</u>         | <u>17,583</u>   | <u>19,318</u>   | <u>35,471</u>   | <u>34,410</u>     |

The following table sets out our creditors' turnover days for the periods indicated:

|                      | <b>Year ended 31 December</b> |             |             |             | <b>As at</b>   |
|----------------------|-------------------------------|-------------|-------------|-------------|----------------|
|                      | <b>2014</b>                   | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>30 June</b> |
|                      | <i>days</i>                   | <i>days</i> | <i>days</i> | <i>days</i> | <i>days</i>    |
| Creditors' turnover  |                               |             |             |             |                |
| days ( <i>Note</i> ) | 41.6                          | 35.3        | 34.8        | 47.0        | 61.8           |

*Note:*

Creditors' turnover days equal to the average of trade payables as at the respective year/period end divided by cost of sales for the year/period and multiplied by the number of days in the year/period.

The creditors' turnover days decreased from approximately 41.6 days for the year ended 31 December 2014 to approximately 35.3 days for the year ended 31 December 2015. The decrease is mainly attributable to the lower trade payables balance as at 31 December 2015 as certain large payables outstanding as at 31 December 2014 was subsequently settled during the year ended 31 December 2015.

The creditors' turnover days for the year ended 31 December 2015 and 2016 were relatively stable.

The creditors' turnover days increased from approximately 34.8 days for the year ended 31 December 2016 to approximately 47.0 days for the year ended 31 December 2017 and further increased to approximately 61.8 days for the six months ended 30 June 2018, mainly attributable to the increase in trade payables as at 31 December 2017 and 30 June 2018 since we generally had more raw material purchase during the said periods for production use.

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### Derivative financial liabilities

The following table sets out the balance of derivative financial liabilities as at the indicated dates:

|  |                 | <b>At 31 December</b> |                 |                 | <b>At<br/>30 June</b> |
|--|-----------------|-----------------------|-----------------|-----------------|-----------------------|
|  | <b>2014</b>     | <b>2015</b>           | <b>2016</b>     | <b>2017</b>     | <b>2018</b>           |
|  | <i>HK\$'000</i> | <i>HK\$'000</i>       | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i>       |
| Structured foreign<br>currency contracts | 1,211           | –                     | –               | –               | –                     |

As at 31 December 2014, the fair value of our Group's derivative financial liabilities was approximately HK\$1.2 million. The change in fair value of the derivative financial liabilities amounting to loss of approximately HK\$1.1 million, gain of approximately HK\$0.3 million had been recognised in profit or loss for the years ended 31 December 2014 and 2015, respectively. The instruments purchased were settled in full on a net basis. Details of the derivative financial liabilities are stated in the below table.

#### *As at 31 December 2014*

|            | <b>Contract durations</b>  | <b>Terms of exchange rates</b>  |
|------------|--|---|
| Contract A | From 21 August 2014 to 25 August 2015 with monthly net settlement on notional amount of US\$2,500,000 upon maturity  | If market rate on each delivery date is above the contract rate of RMB6.4 to US\$1, our Group will pay US\$2,500,000* (1-6.4/market rate) while no settlement will be made if market rate is at or below the contract rate of RMB6.4 to US\$1 |
| Contract B | From 21 February 2014 to 27 February 2015 with monthly net settlement on notional amount of US\$500,000 or US\$1,000,000 when certain terms were satisfied | Receiving US\$500,000* (6.135/market rate-1) if market rate at or below RMB6.135 to US\$1 or paying US\$1,000,000* (1-6.135/market rate) if market rate above RMB6.22 to US\$1  |

Our Group does not plan to enter into similar derivative financial instruments after the Listing.

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### LIQUIDITY AND CAPITAL RESOURCES

Our primary use of cash is to fund our working capital requirements, property, plant and equipment and to repay loans and related interest expenses. We have funded our business primarily using proceeds from cash generating from our operating activities and bank borrowings. Upon Listing, our sources of liquidity will be satisfied using a combination of cash generated from operating activities, bank loans and the net proceeds from the Share Offer and other funds raised from the capital markets from time to time.

#### Cash flows

As at 31 December 2014, 2015, 2016 and 2017 and 30 June 2017 and 2018, we had cash and cash equivalents of approximately HK\$4.6 million, HK\$40.5 million, HK\$106.3 million, HK\$122.8 million, HK\$121.8 million and HK\$82.6 million, respectively. The following table sets out a summary of our cash flows during the Track Record Period:

|   | Year ended 31 December |                  |                  |                  | Six months ended 30 June               |                  |
|---|------------------------|------------------|------------------|------------------|--|------------------|
|   | 2014<br>HK\$'000       | 2015<br>HK\$'000 | 2016<br>HK\$'000 | 2017<br>HK\$'000 | 2017<br>HK\$'000<br><i>(unaudited)</i> | 2018<br>HK\$'000 |
| Operating cash flow before movements in working capital       | 40,382                 | 55,430           | 55,030           | 57,801           | 34,100                                 | 31,421           |
| Net cash from operating activities                            | 26,605                 | 45,745           | 42,526           | 59,857           | 36,498                                 | 30,944           |
| Net cash (used in) from investing activities                  | (174,082)              | (26,935)         | 1,134            | (4,131)          | (14,753)                               | (62,560)         |
| Net cash from (used in) financing activities                  | 151,550                | 17,061           | 22,140           | (39,250)         | (6,252)                                | (7,005)          |
| Net increase (decrease) in cash and cash equivalents          | 4,073                  | 35,871           | 65,800           | 16,476           | 15,493                                 | (38,621)         |
| Effect of impairment allowance on cash and cash equivalents   | -                      | -                | -                | -                | -                                      | (1,515)          |
| Cash and cash equivalents at the beginning of the year/period | 548                    | 4,621            | 40,492           | 106,292          | 106,292                                | 122,768          |
| Cash and cash equivalents at the end of the year/period       | 4,621                  | 40,492           | 106,292          | 122,768          | 121,785                                | 82,632           |

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### Cash flows from operating activities

For the year ended 31 December 2014, we recorded net cash generated from operating activities of approximately HK\$26.6 million, mainly due to (i) our profit before tax of approximately HK\$23.1 million; (ii) adjustments for gain on release of financial guarantee contracts of approximately HK\$0.2 million, depreciation of property, plant and equipment of approximately HK\$7.4 million, trade receivables written off as uncollectible of approximately HK\$0.1 million, interest income of approximately HK\$0.2 million, interest expense of approximately HK\$9.0 million, loss on change in fair value of derivative financial liabilities of approximately HK\$1.1 million; (iii) increase in trade and other payables of approximately HK\$3.9 million due to the increase in trade payables balance resulting from the increase in the purchase of raw material, partially offset by (i) the increase in inventories of approximately HK\$13.3 million as a result of the accumulation of raw materials due to the decrease in cost of raw material; (ii) the increase in trade and other receivables of approximately HK\$1.2 million due to increase in sales which led to increase in trade receivables; (iii) Hong Kong profits tax paid of approximately HK\$2.4 million; and (iv) PRC EIT paid of approximately HK\$0.8 million.

For the year ended 31 December 2015, we recorded net cash generated from operating activities of approximately HK\$45.7 million, mainly due to (i) our profit before tax of approximately HK\$37.7 million; (ii) adjustments for depreciation of property, plant and equipment of approximately HK\$8.5 million, interest income of approximately HK\$0.9 million, interest expense of approximately HK\$10.6 million, gain on disposal of property, plant and equipment of approximately HK\$0.1 million, gain on change in fair value of derivative financial liabilities of approximately HK\$0.3 million; (iii) the decrease in inventories of approximately HK\$0.5 million due to the decrease in finished goods from the increase in sales; (iv) the decrease in trade and other receivables of approximately HK\$3.7 million due to the decrease in other tax recoverable, partially offset by (i) the decrease in trade and other payable of approximately HK\$10.3 million due to a certain large payables outstanding as at 31 December 2014 was subsequently settled during the year; (ii) Hong Kong profits tax paid of approximately HK\$2.7 million; and (iii) PRC EIT paid of approximately HK\$0.9 million.

For the year ended 31 December 2016, we recorded net cash generated from operating activities of approximately HK\$42.5 million, mainly due to (i) our profit before tax of approximately HK\$36.5 million; (ii) adjustments for gain on release of financial guarantee contracts of approximately HK\$42,000, depreciation of property, plant and equipment of approximately HK\$10.7 million, interest income of approximately HK\$0.4 million, interest expense of approximately HK\$8.3 million, gain on disposal of property, plant and equipment of approximately HK\$8,000; (iii) the decrease in inventories of approximately HK\$3.4 million due to the decrease in work in progress inventories and finished goods; (iv) the increase in trade and other payable of approximately HK\$21.6 million, partially offset by (i) the increase in trade and other receivables of approximately HK\$27.7 million due to the deferred issue costs incurred of approximately HK\$3.7 million; (ii) Hong Kong profits tax paid of approximately HK\$7.6 million; and (iii) PRC EIT paid of approximately HK\$2.2 million.

For the year ended 31 December 2017, we recorded net cash generated from operating activities of approximately HK\$59.9 million, mainly due to (i) our profit before tax of approximately HK\$39.0 million; (ii) adjustments for gain on release of financial guarantee



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contracts of approximately HK\$0.6 million, depreciation of property, plant and equipment of approximately HK\$11.5 million, interest income of approximately HK\$0.3 million, interest expense of approximately HK\$8.2 million; (iii) the increase in trade and other payables of approximately HK\$11.8 million; (iv) the decrease in inventories of approximately HK\$4.3 million due to the decrease in raw materials and finished goods, partially offset by (i) the increase in trade and other receivables of approximately HK\$9.5 million; (ii) Hong Kong profit tax paid of approximately HK\$3.8 million; and (iii) PRC EIT paid of approximately HK\$0.7 million.

For the six months ended 30 June 2018, we recorded net cash generated from operating activities of approximately HK\$30.9 million, mainly due to (i) our profit before tax of approximately HK\$21.4 million; (ii) adjustments for depreciation of property, plant and equipment of approximately HK\$5.6 million, interest expense of approximately HK\$4.5 million; (iii) increase in trade and other payables of approximately HK\$6.9 million; (iv) decrease in inventories of approximately HK\$0.4 million, partially offset by (i) increase in trade and other receivables of approximately HK\$1.4 million; (ii) Hong Kong profit tax paid of approximately HK\$5.3 million; and (iii) PRC EIT paid of approximately HK\$1.0 million.

### **Cash flows from investing activities**

For the year ended 31 December 2014, we recorded a net cash used in investing activities of approximately HK\$174.1 million. The cash outflows was primarily due to the advance to a director of approximately HK\$450.2 million and advance to related companies of approximately HK\$231.2 million, which was partially offset by repayment from a director of approximately HK\$527.6 million.

For the year ended 31 December 2015, we recorded a net cash used in investing activities of approximately HK\$26.9 million. The cash outflows was primarily due to the advance to related companies of approximately HK\$373.6 million, placement of restricted bank deposits of approximately HK\$75.2 million and purchase of property, plant and equipment of approximately HK\$16.7 million, partially offset by the withdrawal of restricted bank deposits of approximately HK\$68.4 million and repayment from related companies of approximately HK\$353.9 million.

For the year ended 31 December 2016, we recorded a net cash from investing activities of approximately HK\$1.1 million. The net cash inflow was primarily due to repayment from related companies of approximately HK\$327.8 million and withdrawal of restricted bank deposits of approximately HK\$9.8 million, which was partially offset by advance to related companies of approximately HK\$271.4 million, placement of restricted bank deposits of approximately HK\$49.8 million and purchase of property, plant and equipment of approximately HK\$16.0 million.

For the year ended 31 December 2017, we recorded net cash used in investing activities of approximately HK\$4.1 million, mainly due to (i) advance to related companies of approximately HK\$230.4 million; (ii) placement of restricted bank deposits of approximately HK\$62.1 million; (iii) purchase of property, plant and equipment of approximately HK\$7.4

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million; (iv) advance to a director of approximately HK\$253.9 million, partially offset by (i) repayment from related companies of approximately HK\$162.4 million; (ii) withdrawal of restricted bank deposits of approximately HK\$72.3 million; and (iii) repayment from a director of approximately HK\$314.5 million.

For the six months ended 30 June 2018, we recorded net cash used in investing activities of approximately HK\$62.6 million, mainly due to (i) advance to related companies of approximately HK\$47.3 million; (ii) placement of restricted bank deposits of approximately HK\$10.7 million; (iii) purchase of property, plant and equipment of approximately HK\$19.4 million; (iv) advance to a director of approximately HK\$110.0 million, partially offset by (i) repayment from related companies of approximately HK\$20.4 million; (ii) withdrawal of restricted bank deposits of approximately HK\$7.3 million; and (iii) repayment from a director of approximately HK\$97.1 million.

### **Cash flows from financing activities**

For the year ended 31 December 2014, we recorded a net cash from financing activities of approximately HK\$151.6 million. The cash inflows was primarily due to new bank and other borrowings raised of approximately HK\$482.6 million, partially offset by (i) repayment of bank and other borrowings of approximately HK\$316.7 million; (ii) payment of interest of approximately HK\$9.0 million; and (iii) repayment of obligations under finance leases of approximately HK\$5.4 million.

For the year ended 31 December 2015, we recorded a net cash from financing activities of approximately HK\$17.1 million. The cash inflows was primarily due to (i) new bank and other borrowings of approximately HK\$697.3 million raised; (ii) advance from a director of approximately HK\$353.4 million, partially offset by (i) repayment of bank and other borrowings of approximately HK\$690.4 million; and (ii) repayment to a director of approximately HK\$327.8 million.

For the year ended 31 December 2016, we recorded a net cash from financing activities of approximately HK\$22.1 million. The cash inflows was primarily due to (i) new bank and other borrowings of approximately HK\$488.7 million raised; (ii) advance from a director of approximately HK\$383.0 million, partially offset by (i) repayment of bank and other borrowings of approximately HK\$534.7 million, (ii) payment of interest of approximately HK\$8.3 million, transaction costs paid for issuance of shares of approximately HK\$3.7 million; and (iii) repayment to a director of approximately HK\$299.8 million.

For the year ended 31 December 2017, we recorded net cash used in financing activities of approximately HK\$39.3 million, mainly due to (i) repayment of bank and other borrowings of approximately HK\$465.9 million; (ii) interest paid and dividend paid of approximately HK\$8.2 million and approximately HK\$1.7 million, respectively; and (iii) transaction costs paid for issuance of shares of approximately HK\$1.2 million, partially offset by the new bank and other borrowings raised of approximately HK\$439.0 million.

For the six months ended 30 June 2018, we recorded net cash used in financing activities of approximately HK\$7.0 million, mainly due to (i) repayment of bank and other borrowings of approximately HK\$169.3 million; (ii) interest paid of approximately HK\$4.5 million; (iii)

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repayment of obligations under finance leases of approximately HK\$2.3 million; (iv) dividend paid of approximately HK\$5.2 million; (v) transaction costs paid for issuance of shares of approximately HK\$0.9 million, partially offset by new bank and other borrowings raised of approximately HK\$175.2 million.

### Analysis of cash flows to and from the related companies and the director

For the presentation of the consolidated statements of cash flows during the Track Record Period, the cash flow movements with a director are presented under (i) investing activities for a year/period when such cash flow movements would result in a receivable balance, i.e. amounts due from a director, at the end of each corresponding year/period, and (ii) financing activities for a year/period when such cash flow movements would result in a payable balance, i.e. amounts due to a director, at the end of each corresponding year/period. The above cash flow classification basis excludes the effect of the assignment of outstanding balance by settlement agreements between the director and the related companies, which are of non-cash nature, as set out in note 37 in the Accountants' Report in Appendix I to this prospectus. The table below sets forth the accumulated cash inflows from/outflows to the related companies and the director for the periods as indicated:

|  | For the year ended 31 December |                           |                           |                           | For the<br>six months<br>ended       |
|--|--------------------------------|---------------------------|---------------------------|---------------------------|--------------------------------------|
|  | 2014<br>HK\$<br>(million)      | 2015<br>HK\$<br>(million) | 2016<br>HK\$<br>(million) | 2017<br>HK\$<br>(million) | 30 June<br>2018<br>HK\$<br>(million) |
| <b>Accumulated cash inflows</b><br>(Note 1)  |                                |                           |                           |                           |                                      |
| <i>from related companies</i>                |                                |                           |                           |                           |                                      |
| – under investing activities                 | 44.4                           | 353.9                     | 327.8                     | 162.4                     | 20.4                                 |
| <i>from a director</i>                       |                                |                           |                           |                           |                                      |
| – under investing activities                 | 527.6                          | 16.2                      | –                         | 314.5                     | 97.1                                 |
| – under financing activities                 | –                              | 353.4                     | 383.0                     | –                         | –                                    |
|  | 527.6                          | 369.6                     | 383.0                     | 314.5                     | 97.1                                 |
| <b>Total</b>                                 | 572.0                          | 723.5                     | 710.8                     | 476.9                     | 117.5                                |
| <b>Accumulated cash outflows</b><br>(Note 1) |                                |                           |                           |                           |                                      |
| <i>to related companies</i>                  |                                |                           |                           |                           |                                      |
| – under investing activities                 |                                |                           |                           |                           |                                      |
| • under agency arrangement (Note 2)          | 223.1                          | 347.0                     | 156.6                     | –                         | –                                    |
| • not under agency arrangement (Note 2)      | 8.1                            | 26.6                      | 114.8                     | 230.4                     | 47.3                                 |
|  | 231.2                          | 373.6                     | 271.4                     | 230.4                     | 47.3                                 |
| <i>to a director</i>                         |                                |                           |                           |                           |                                      |
| – under investing activities                 | 450.2                          | –                         | –                         | 253.9                     | 110.0                                |
| – under financing activities                 | –                              | 327.8                     | 299.8                     | –                         | –                                    |
|  | 450.2                          | 327.8                     | 299.8                     | 253.9                     | 110.0                                |
| <b>Total</b>                                 | 681.4                          | 701.4                     | 571.2                     | 484.3                     | 157.3                                |
| <b>Net cash (outflows)/inflows</b>           | (109.4)                        | 22.1                      | 139.6                     | (7.4)                     | (39.8)                               |

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The following table sets out our advances' turnover days for the periods indicated:

|                                     | Year ended 31 December |              |              | Six months ended |                         |
|-------------------------------------|------------------------|--------------|--------------|------------------|-------------------------|
|                                     | 2014<br>days           | 2015<br>days | 2016<br>days | 2017<br>days     | 30 June<br>2018<br>days |
| Advances' turnover days<br>(Note 3) | 80.9                   | 106.6        | 73.2         | 16.5             | 37.4                    |

Notes:

1. *During the Track Record Period, we had advanced to the related companies and a director, and the related companies and the director made repayments of such advances to us. These accumulated cash inflows (and accumulated cash outflows) represent the accumulated amounts of all cash receipts from the related companies and the director without offsetting the payments to the related companies and the director (and vice versa).*
2. *Our Directors confirmed that, save and except for the agency arrangement which was terminated in August 2016, the source of money to finance the advances to the related companies was only from our internal resources generated from our operation.*
3. *Advances' turnover days equal to the average of aggregated amounts due from related companies and a director as at the respective year/period end, divided by the accumulated cash outflows to the related companies and the director for the year/period and multiplied by the number of days in the year/period.*

For the four years ended 31 December 2017 and the six months ended 30 June 2018, the accumulated cash outflows to the related companies and the director amounted to approximately HK\$681.4 million, HK\$701.4 million, HK\$571.2 million, HK\$484.3 million and HK\$157.3 million, respectively. These cash outflows were offset by the cash inflows from the related companies and the director to our Group by approximately HK\$572.0 million, HK\$723.5 million, HK\$710.8 million, HK\$476.9 million and HK\$117.5 million, respectively for the four years ended 31 December 2017 and the six months ended 30 June 2018. The net cash (outflows)/inflows during the Track Record Period in relation to the related companies and the director would be approximately HK\$(109.4) million, HK\$22.1 million, HK\$139.6 million, HK\$(7.4) million and HK\$(39.8) million, respectively.

The accumulated cash outflows to the related companies and the director during the Track Record Period were significant in the context of our Group's corresponding net cash flow from operating activities, net assets and cash position for the corresponding year/period. The majority of such accumulated cash outflows to the related companies and the director were of individual amounts of less than HK\$6.0 million, representing less than 5% of the cash balance of approximately HK\$124.7 million as at 31 December 2017, save and except for (i) three, seven, five, one and nil short-term advances to related companies that were of an average amount of approximately HK\$6.4 million, HK\$7.0 million, HK\$7.8 million, HK\$19.9 million and nil; and (ii) ten, nil, nil, seven and three short-term advances to the director with an average amount of approximately HK\$11.1 million, nil, nil, HK\$16.2 million and HK\$14.9 million for the four years ended 31 December 2017 and the six months ended 30 June 2018, respectively.

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### *Cash outflows to the related companies*

#### *Nature of cash outflows to the related companies*

The advances to the related companies, namely, Fifteen International Limited and Sky Market Limited, during the Track Record Period were for their business of trading of materials. During the subsistence of the agency arrangement as set out in the section headed “Relationship with our Controlling Shareholders – Agency arrangements with companies controlled by our Controlling Shareholders and close associate of our Director” of this prospectus, the advances to the related companies did not involve any direct cash outflows from the Group to the related parties but was in fact the result of the usage of relevant banking facilities by Chase On to pay for the materials purchased by the related companies and the advances were directly paid by the relevant lending banks to settle the suppliers’ invoices of the related companies. The finance costs incurred by Chase On under the agency arrangements were fully reimbursed by the related companies. The Directors confirmed that these banking facilities under the agency arrangement were of the nature of invoice financing and did not involve loans from the banking facilities under SME Loan Guarantee Scheme or SME Financing Guarantee Scheme.

#### *Source of advance to the related companies*

Our Directors confirmed that, save and except for the agency arrangement as set out in the section headed “Relationship with our Controlling Shareholders – Agency arrangements with companies controlled by our Controlling Shareholders and close associate of our Director” of this prospectus, which was terminated in August 2016, the source of money to finance the advances to the related companies was only from our internal resources generated from our operation. Since our internal resources generated from our operation did not give rise to any pledge requirement or borrowing costs, we did not charge the related companies any interest nor request for security.

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### *Cash outflows to the director*

#### *Nature of cash outflows to the director*

The cash outflows to the director during the Track Record Period were mainly used for the purpose of (i) trading of materials; (ii) current account nature, which includes deposits made by the director to our Group for our working capital use and repayments of such by our Group from time to time; (iii) the director's own expenses such as travelling and accommodation expenses; and (iv) tax payments for Farm Chalk HK and Farm Chalk BVI. The summary of amounts of cash outflows to the director utilised for each purpose is set out as follows:

|   | <b>For the year ended 31 December</b> |                  |                  | <b>For the six months ended</b> |                     |
|---|---------------------------------------|------------------|------------------|---------------------------------|---------------------|
|   | <b>2014</b>                           | <b>2015</b>      | <b>2016</b>      | <b>2017</b>                     | <b>30 June 2018</b> |
|   | <i>HK\$</i>                           | <i>HK\$</i>      | <i>HK\$</i>      | <i>HK\$</i>                     | <i>HK\$</i>         |
|   | <i>(million)</i>                      | <i>(million)</i> | <i>(million)</i> | <i>(million)</i>                | <i>(million)</i>    |
| <b>Usage of cash outflows to the director</b> |                                       |                  |                  |                                 |                     |
| Trading of materials <i>(Note)</i>            | 320.6                                 | 178.7            | 212.3            | 234.8                           | 106.1               |
| Current account nature                        | 109.2                                 | 133.5            | 78.2             | 13.9                            | 1.6                 |
| Director's own expenses                       | 12.6                                  | 11.7             | 5.8              | 5.2                             | 2.3                 |
| Tax payments                                  | 7.8                                   | 3.9              | 3.5              | –                               | –                   |
|   | <hr/>                                 | <hr/>            | <hr/>            | <hr/>                           | <hr/>               |
| <b>Total</b>                                  | <b>450.2</b>                          | <b>327.8</b>     | <b>299.8</b>     | <b>253.9</b>                    | <b>110.0</b>        |
|   | <hr/> <hr/>                           | <hr/> <hr/>      | <hr/> <hr/>      | <hr/> <hr/>                     | <hr/> <hr/>         |

*Note: Our Directors confirmed that the trading of materials were conducted by the related companies, namely Fifteen International Limited and Sky Market Limited.*

#### *Source of advances to the directors*

Our Directors confirmed that all the advances to the director during the Track Record Period were sourced from our Group's internal resources generated from our operation. In view of the low market interest rate on deposit during the Track Record Period, the potential interest income derived from the internal resources used for advances to the related companies and the director for trading of materials purpose was minimal and did not have any material adverse impact on our general working capital during the Track Record Period.

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### **Measures in relation to advances to the related companies and the director**

#### *Measures our Company has taken in relation to advances to the related companies and the director:*

1. Mr. Chan Kam Hon Ivan, who is experienced in the finance and accounting functions, was entrusted by our Group to closely monitor cash movements and financial position of our Group by reviewing monthly management accounts and bank statements, supervising the finance department to ensure that he is kept informed and is aware of any change in financial position of our Group in a timely manner;
2. Mr. Chan Kam Hon Ivan is also assigned by our Company to conduct reconciliation of the outstanding balances with the related parties and the director at least once per half year, and to closely monitor the subsequent repayment of advances to the related companies and the director; and
3. the intended usage of banking facilities of our Company must be strictly adhered to the usage set out in the facilities letters. Save and except for the agency arrangement with the related companies, which was terminated in August 2016, no other banking facilities of our Company are to be used to finance the advances to the related companies or the director. Mr. Chan Kam Hon Ivan is responsible for monitoring the usage of the banking facilities by our Group.

#### *Measures our Company has further adopted to enhance the corporate governance of our Company upon Listing:*

1. obtain undertakings from our executive Directors to our Company that (a) he/she would not by himself/herself seek any advance from our Group; and (b) he/she would procure his/her associate(s) and related companies not to seek any advance from our Group for all purposes after Listing unless the advances are approved by our independent non-executive Directors and are in compliance with all relevant laws and regulations including the Listing Rules;
2. Mr. Chan Kam Hon Ivan together with the audit committee will be responsible to review the current accounts with our Directors on at least monthly basis upon Listing;
3. as our independent non-executive Directors are independent of other members of the Board including the director to whom the advances were made during the Track Record Period, they can help uphold their independence and implement our Company's supervision and monitoring mechanism to consider our Company's proposed advances, if any, to be made to any related parties or directors;
4. our independent non-executive Directors will review the advance to or from the related companies and the directors, if any, to ensure that such advance must be duly

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authorised and properly approved, pursuant to the requirements under the Companies Ordinance and the Listing Rules as well as the articles of association and the internal policies of our Company at all time; and would not cause any adverse impact on our Group's operations and financial position. Furthermore, our independent non-executive Directors will confirm their views in our annual report, whether the advances have been entered into are on normal commercial terms or better and would not violate both the laws and regulations in Hong Kong. Therefore, we consider that the presence of our independent non-executive Directors would effectively avoid excessive concentration of power in any executive Director and/or Controlling Shareholder, which could adversely affect the interests of minority Shareholders;

5. arrange our Directors to attend courses organised by our Company or external institutions to further enhance their knowledge and understanding on corporate governance;
6. seek advice from our legal advisers when there is any possible transaction between our Group and our Directors/Shareholders before entering into such transaction;
7. engage a compliance adviser to oversee our compliance with the Listing Rules and relevant rules and regulations; and
8. retain an independent internal control advisor to review the internal control system of our Group to ensure that, among others, our Group has adequate and effective internal control measures to monitor transactions and advances to ensure compliance of all laws and regulations.

### **Views of our Directors and the Sole Sponsor in relation to advances to related companies and a director**

Having considered the above internal control measures and the circumstances related to the advances to the related companies and the director during the Track Record Period, the Sole Sponsor concurs with our Directors' view that despite the significance of the accumulated amounts, these advances would not reflect negatively on the corporate governance of our Company due to the following reasons:

1. given our Company and our subsidiaries were private companies before Listing, insofar as the advances were duly approved or ratified by the then board of directors and shareholders according to the articles of association, it is legitimate for us to provide advances to the related companies and the director;
2. advances were repaid by the related companies and the director from time to time and such cash outflows had not caused any material disruption to our operation;
3. all advances made to the related companies and the director have been duly repaid at as the Latest Practicable Date; and



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4. our Directors confirmed that, save and except for the agency arrangement, as set out in the section headed “Relationship with our Controlling Shareholders – Agency arrangements with companies controlled by our Controlling Shareholders and close associate of our Director”, the source of money to finance the advances to the related companies and the director during the Track Record Period was only from our internal resources generated from our operation.

As such, the Sole Sponsor has (i) reviewed and discussed with the management of our Company and the independent internal control reviewer, in order to ascertain that our Company has implemented relevant internal control measures as stated above; and (ii) examined the schedule of cash flow movements prepared by our Company in relation to the comparison of the maximum amounts of our advances to the related companies and the director during the year/period against the corresponding cash inflows from operation during the same year/period (the “**Schedule**”).

Our reporting accountants have reviewed the Schedule and recalculated the amount in arriving at the aggregate balance of advances as the respective dates at which the respective balance of advance to either of the related companies and the director reached the maximum during the year/period and the net increase in amount of advance by our Group during the year/period and found them to be authentically accurate.

On the basis of the above, the Sole Sponsor further concurs with our Directors’ view that our Company has sufficient internal resources generated from our operation to finance such advances to the related companies and the director.

### CAPITAL EXPENDITURE

#### Historical capital expenditures

For the four years ended 31 December 2017 and the six months ended 30 June 2018, we incurred capital expenditures in the amount of approximately HK\$17.2 million, HK\$17.2 million, HK\$16.2 million, HK\$7.4 million and HK\$25.4 million, respectively. The following table sets out our financial capital expenditures for the periods indicated:

|                                      | Year ended 31 December |                 |                 |                 | Six months<br>ended<br>30 June |
|--------------------------------------|------------------------|-----------------|-----------------|-----------------|--------------------------------|
|                                      | 2014                   | 2015            | 2016            | 2017            | 2018                           |
|                                      | <i>HK\$’000</i>        | <i>HK\$’000</i> | <i>HK\$’000</i> | <i>HK\$’000</i> | <i>HK\$’000</i>                |
| Moulds                               | 7,560                  | 10,189          | 11,933          | 5,273           | 19,817                         |
| Plant and<br>machinery               | 4,945                  | 5,794           | 2,639           | 1,914           | 5,584                          |
| Furniture, fixtures<br>and equipment | 636                    | 248             | 115             | 243             | –                              |
| Motor vehicles                       | 2,354                  | 489             | 1,302           | –               | –                              |
| Leasehold<br>improvements            | 1,748                  | 506             | 166             | –               | –                              |
|                                      | <u>17,243</u>          | <u>17,226</u>   | <u>16,155</u>   | <u>7,430</u>    | <u>25,401</u>                  |

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Our capital expenditures were funded out of internally generated resources, bank borrowings and finance lease arrangements.

### Planned capital expenditures

Our planned capital expenditures in the coming years will include the purchasing of advanced production machinery and equipment as disclosed in the section headed “Future plans and use of proceeds” of this prospectus and capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements as disclosed in the paragraph headed “Capital commitment” in this section. Our Directors expect that the planned capital expenditures will be principally funded by the net proceeds from the Share Offer and cash generated from our operations, as well as other possible equity and debt financings as and when appropriate. There is no guarantee that any of the planned capital expenditures will proceed as planned. As we continue to expand, we may incur additional capital expenditures. In the future, we may consider debt or equity financings, depending on market conditions, our financial performance, our capital needs and other relevant factors.

### OPERATING LEASES COMMITMENT

The table below sets out our future minimum lease payment under non-cancellable operating leases which fall due as follows:

|                                       | At 31 December  |                 |                 |                 | At 30 June      |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                                       | 2014            | 2015            | 2016            | 2017            | 2018            |
|                                       | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within one year                       | 4,030           | 4,086           | 6,681           | 9,429           | 10,985          |
| In the second to fifth year inclusive | 16,371          | 12,379          | 9,659           | 22,765          | 21,966          |
| Over five years                       | 682             | –               | –               | –               | –               |
|                                       | <u>21,083</u>   | <u>16,465</u>   | <u>16,340</u>   | <u>32,194</u>   | <u>32,951</u>   |

Our minimum lease payments paid/payable under operating leases in respect of rented premises amounted to approximately HK\$4.1 million, HK\$4.9 million, HK\$5.2 million, HK\$7.1 million and HK\$5.8 million for the four years ended 31 December 2017 and the six months ended 30 June 2018, respectively.

On 30 October 2017, we have entered into a lease agreement with an Independent Third Party as landlord, pursuant to which Shenzhen Sun Cheong agrees to lease the premise at the New Production Facilities for a term of about five years at an estimated total lease payment of approximately RMB24.8 million (equivalent to approximately HK\$28.5 million).

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### CAPITAL COMMITMENT

As at 31 December 2014, 2015, 2016, 2017 and 30 June 2018, our Group had the following capital commitments:

|  | At 31 December |          |          |          | At 30 June |
|--|----------------|----------|----------|----------|------------|
|  | 2014           | 2015     | 2016     | 2017     | 2018       |
|  | HK\$'000       | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000   |
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the historical financial information | –              | 2,904    | 2,081    | 8,042    | 6,310      |

Our Group's capital commitments which were contracted but not provided mainly represented the expected capital expenditure in respect of acquisition of property, plant and equipment.

### RELATED PARTY TRANSACTIONS AND BALANCES

Please refer to notes 19, 23 and 31 in the Accountants' Report in Appendix I to this prospectus for details of the related parties transactions and balances with related parties. Our Directors are of the view that these transactions were conducted on an arm's length basis, and would not distort our operating results during the Track Record Period or make our historical results during the Track Record Period not reflective of our expectations of our future performance. Our Directors confirm that all other personal guarantees provided for our Group will be released or replaced by corporate guarantees before Listing, and the amount due from a director was settled in August 2018.

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### INDEBTEDNESS

The following table sets out our Group's indebtedness as at the indicated dates:

|                                  | At 31 December        |                       |                       |                       | At<br>30 June<br>2018 | At<br>31 July<br>2018 |
|----------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                  | 2014                  | 2015                  | 2016                  | 2017                  | 2018                  | 2018                  |
|                                  | <i>HK\$'000</i>       | <i>HK\$'000</i>       | <i>HK\$'000</i>       | <i>HK\$'000</i>       | <i>HK\$'000</i>       | <i>HK\$'000</i>       |
|                                  |                       |                       |                       |                       |                       | <i>(unaudited)</i>    |
| <b>Current liabilities</b>       |                       |                       |                       |                       |                       |                       |
| Amount due to a director         | –                     | 31,258                | –                     | –                     | –                     | –                     |
| Bank and other borrowings        | 242,664               | 248,797               | 205,260               | 177,999               | 184,850               | 205,124               |
| Bank overdrafts                  | 3,387                 | 53                    | 1,853                 | 1,937                 | 1,981                 | 1,989                 |
| Obligations under finance leases | 4,718                 | 1,884                 | 927                   | 566                   | 2,729                 | 2,649                 |
|                                  | <u>250,769</u>        | <u>281,992</u>        | <u>208,040</u>        | <u>180,502</u>        | <u>189,560</u>        | <u>209,762</u>        |
| <b>Non-current liabilities</b>   |                       |                       |                       |                       |                       |                       |
| Bank and other borrowings        | 2,544                 | 3,280                 | 835                   | 1,211                 | 263                   | 100                   |
| Obligations under finance leases | 3,135                 | 1,682                 | 1,501                 | 613                   | 1,513                 | 1,271                 |
|                                  | <u>5,679</u>          | <u>4,962</u>          | <u>2,336</u>          | <u>1,824</u>          | <u>1,776</u>          | <u>1,371</u>          |
|                                  | <u><u>256,448</u></u> | <u><u>286,954</u></u> | <u><u>210,376</u></u> | <u><u>182,326</u></u> | <u><u>191,336</u></u> | <u><u>211,133</u></u> |

### Amount due to a director

As at 31 December 2014, 2015, 2016, 2017, 30 June 2018 and 31 July 2018, the amount due to a director were approximately nil, HK\$31.3 million, nil, nil, nil and nil, respectively. All of these amounts are non-trade in nature, unsecured, repayable on demand and interest-free. Pursuant to the settlement agreement signed between Mr. Tong Ying Chiu and related companies on 31 December 2016, the amount due to a director has been offset against the amounts due from related companies.

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### Bank and other borrowings and bank overdrafts

The following table sets out the breakdown of bank and other borrowings and bank overdrafts as at the indicated dates:

|  | At 31 December  |                 |                 |                 | At<br>30 June   | At<br>31 July      |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|--------------------|
|  | 2014            | 2015            | 2016            | 2017            | 2018            | 2018               |
|  | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i>    |
|  |                 |                 |                 |                 |                 | <i>(unaudited)</i> |
| Bank and other loans   | 243,590         | 251,390         | 206,035         | 178,660         | 185,113         | 205,224            |
| Bank borrowings from factoring of trade receivables with full recourse | 1,618           | 687             | 60              | 550             | –               | –                  |
| Bank overdrafts  | 3,387           | 53              | 1,853           | 1,937           | 1,981           | 1,989              |
|  | <u>248,595</u>  | <u>252,130</u>  | <u>207,948</u>  | <u>181,147</u>  | <u>187,094</u>  | <u>207,213</u>     |
| Analysed as:   |                 |                 |                 |                 |                 |                    |
| Secured  | 116,426         | 161,969         | 203,551         | 174,871         | 184,867         | 205,428            |
| Unsecured  | 132,169         | 90,161          | 4,397           | 6,276           | 2,227           | 1,785              |
|  | <u>248,595</u>  | <u>252,130</u>  | <u>207,948</u>  | <u>181,147</u>  | <u>187,094</u>  | <u>207,213</u>     |

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The following table sets out the bank and other borrowings and bank overdrafts break down by the repayment schedule as at the indicated dates:

|   | At 31 December          |                         |                         | At 30 June              |                         |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|   | 2014<br><i>HK\$'000</i> | 2015<br><i>HK\$'000</i> | 2016<br><i>HK\$'000</i> | 2017<br><i>HK\$'000</i> | 2018<br><i>HK\$'000</i> |
| The carrying amounts of the bank and other borrowings and bank overdrafts are repayable <sup>(Note)</sup> :   |                         |                         |                         |                         |                         |
| – within one year   | 225,279                 | 223,222                 | 207,113                 | 179,936                 | 186,831                 |
| – within a period of more than one year but not exceeding two years   | 1,290                   | 2,445                   | 835                     | 985                     | 263                     |
| – within a period of more than two years but not exceeding five years   | 1,254                   | 835                     | –                       | 226                     | –                       |
|   | <u>227,823</u>          | <u>226,502</u>          | <u>207,948</u>          | <u>181,147</u>          | <u>187,094</u>          |
| Carrying amounts of bank loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities) | <u>20,772</u>           | <u>25,628</u>           | <u>–</u>                | <u>–</u>                | <u>–</u>                |
|   | <u><u>248,595</u></u>   | <u><u>252,130</u></u>   | <u><u>207,948</u></u>   | <u><u>181,147</u></u>   | <u><u>187,094</u></u>   |

*Note:* The amounts due are based on scheduled repayment dates set out in the loan agreements.

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The ranges of effective interest rates on our Group's bank and other borrowings and bank overdrafts are as follows:

|                           | 2014           | At 31 December |                | 2017            | At 30 June      |
|---------------------------|----------------|----------------|----------------|-----------------|-----------------|
|                           |                | 2015           | 2016           |                 | 2018            |
| Effective interest rates: |                |                |                |                 |                 |
| Fixed-rate                |                |                |                |                 |                 |
| borrowings                | 1.71% to 8.00% | 2.88% to 8.00% | 2.88% to 8.40% | 4.79% to 15.55% | 3.98% to 15.55% |
| Variable-rate             |                |                |                |                 |                 |
| borrowings                | 1.72% to 6.60% | 2.12% to 5.75% | 2.24% to 5.75% | 3.25% to 5.67%  | 3.25% to 5.01%  |
| Variable-rate             |                |                |                |                 |                 |
| bank overdraft            | 3.74% to 6.00% | 3.88% to 6.50% | 3.50% to 5.50% | 3.50%           | 3.50%           |

Our bank and other borrowings and bank overdrafts that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

|      | 2014            | At 31 December  |                 | 2017            | At 30 June      |
|------|-----------------|-----------------|-----------------|-----------------|-----------------|
|      | 2014            | 2015            | 2016            | 2017            | 2018            |
|      | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| HK\$ | 56,521          | 65,329          | 83,522          | 68,393          | 57,420          |
| RMB  | 38,229          | 45,322          | 29,748          | 15,849          | 16,237          |
|      | <u>94,750</u>   | <u>110,651</u>  | <u>113,270</u>  | <u>84,242</u>   | <u>73,657</u>   |

As at 31 December 2014, 2015, 2016, 2017, 30 June 2018 and 31 July 2018, the bank borrowings and general banking facilities were secured and/or guaranteed by:

- guarantees provided by Independent Third Parties, which were finance guarantee companies for the bank borrowings in the PRC at the request of the relevant banks;
- personal guarantees provided by Mr. Tong Ying Chiu, Ms. Ng Siu Kuen Sylvia, Mr. Tong Bak Nam Billy and his spouse, and Mr. Lam Hon Kwong, who was a member of our senior management;
- guarantees provided by our related companies;
- guarantees granted by the Government of the Hong Kong Special Administrative Region under the SME Loan Guarantee Scheme and the Hong Kong Mortgage Corporation Limited under the SME Financing Guarantee Scheme;
- corporate guarantees provided by certain subsidiaries of our Company;
- secured by certain trade receivables of our Group and our related companies;

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- secured by the properties held by companies controlled by the Controlling Shareholders, Mr. Tong Ying Chiu, Ms. Ng Siu Kuen Sylvia, Mr. Tong Bak Nam Billy and his spouse;
- secured by certain of our plant and machinery; and
- secured by certain of our fixed time deposits.

Our Directors confirm that all of the above guarantees and assets pledged by the Controlling Shareholders and their associates will be released upon the Listing.

In addition, as at 31 December 2014, 2015, 2016, 2017, 30 June 2018 and 31 July 2018, we were granted bank term loans (the “**SME Loans**”) of approximately HK\$15.0 million, HK\$13.9 million, HK\$3.3 million, HK\$0.8 million, HK\$0.2 million and nil, respectively, pursuant to the SME Financing Guarantee Scheme and the SME Loan Guarantee Scheme. Pursuant to terms of the SME Loans, we, as the borrower of the SME Loans, shall not have our shares listed on the Main Board or the GEM of the Stock Exchange or any similar exchanges in or outside Hong Kong. As at the Latest Practicable Date, the SME Loans have been fully repaid.

As at 31 July 2018, being the Latest Practicable Date for the purpose of the indebtedness statement in this prospectus, we had approximately HK\$279.8 million of banking facility available, out of which approximately HK\$207.2 million were utilised. Our Directors confirm that our Group did not experience any difficulty in obtaining and renewing our facilities, default in payment of bank loans or breach of covenants during the Track Record Period and up to the Latest Practicable Date.

As at 31 July 2018, being the Latest Practicable Date for the purpose of the indebtedness statement in this prospectus, the total amounts of bank and other borrowings and bank overdrafts of approximately HK\$207.2 million were guaranteed by our Controlling Shareholders. Such guarantee will be fully released upon the Listing.

Our Directors confirmed that we had not experienced difficulties in meeting obligations during the Track Record Period and we did not experience any withdrawal of facility, default in payment of bank borrowing or breach of financial covenants up to the Latest Practicable Date.



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### Obligations under finance leases

The table below sets out the breakdown of our obligations under finance leases as at the indicated dates:

|  | Minimum lease payments |                     |                     |                     |                     | Present value of minimum lease payments |                     |                     |                     |                     |
|--|------------------------|---------------------|---------------------|---------------------|---------------------|---|---------------------|---------------------|---------------------|---------------------|
|  | As at 31 December      |                     |                     |                     | As at               | As at 31 December                       |                     |                     |                     | As at               |
|  | 2014                   | 2015                | 2016                | 2017                | 30 June             | 2014                                    | 2015                | 2016                | 2017                | 30 June             |
| HK\$'000   | HK\$'000               | HK\$'000            | HK\$'000            | HK\$'000            | HK\$'000            | HK\$'000                                | HK\$'000            | HK\$'000            | HK\$'000            | HK\$'000            |
| <b>Obligations under finance leases payable:</b>                                   |                        |                     |                     |                     |                     |   |                     |                     |                     |                     |
| Within one year  | 5,100                  | 2,009               | 1,012               | 603                 | 3,008               | 4,718                                   | 1,884               | 927                 | 566                 | 2,729               |
| Within a period of more than one year but not more than two years                  | 1,902                  | 868                 | 789                 | 480                 | 1,570               | 1,794                                   | 1,023               | 741                 | 466                 | 1,492               |
| Within a period of more than two years but not more than five years                | 1,411                  | 908                 | 781                 | 149                 | 21                  | 1,341                                   | 659                 | 760                 | 147                 | 21                  |
|  | <u>8,413</u>           | <u>3,785</u>        | <u>2,582</u>        | <u>1,232</u>        | <u>4,599</u>        | <u>7,853</u>                            | <u>3,566</u>        | <u>2,428</u>        | <u>1,179</u>        | <u>4,242</u>        |
| Less: Future finance charges   | <u>(560)</u>           | <u>(219)</u>        | <u>(154)</u>        | <u>(53)</u>         | <u>(357)</u>        | <u>N/A</u>                              | <u>N/A</u>          | <u>N/A</u>          | <u>N/A</u>          | <u>N/A</u>          |
| Present value of lease obligations   | <u><u>7,853</u></u>    | <u><u>3,566</u></u> | <u><u>2,428</u></u> | <u><u>1,179</u></u> | <u><u>4,242</u></u> | <u><u>7,853</u></u>                     | <u><u>3,566</u></u> | <u><u>2,428</u></u> | <u><u>1,179</u></u> | <u><u>4,242</u></u> |
| Less: Amount due for settlement within 12 months (shown under current liabilities) |                        |                     |                     |                     |                     | <u>(4,718)</u>                          | <u>(1,884)</u>      | <u>(927)</u>        | <u>(566)</u>        | <u>(2,729)</u>      |
| Amount due for settlement after 12 months  |                        |                     |                     |                     |                     | <u><u>3,135</u></u>                     | <u><u>1,682</u></u> | <u><u>1,501</u></u> | <u><u>613</u></u>   | <u><u>1,513</u></u> |

Our Group has leased certain plant and machineries and motor vehicles under finance leases. As at 31 December 2014, 2015, 2016, 2017, 30 June 2018 and 31 July 2018, our present value of lease obligations is approximately HK\$7.9 million, HK\$3.6 million, HK\$2.4 million, HK\$1.2 million, HK\$4.2 million and HK\$3.9 million, respectively. The lease terms range from approximately 3 years to 5 years for the year ended 31 December 2014, 2015, 2016 and 2017 and the six months ended 30 June 2018, respectively. Interest rate underlying all obligations under finance leases are fixed at respective contract dates ranging from 3.63% to 8.88% per annum, 3.63% to 8.88% per annum, 3.63% to 7.22% per annum, 3.63% to 7.25% per annum and 3.78% to 8.61% per annum for the four years ended 31 December 2017 and the six months ended 30 June 2018, respectively. All leases have purchase options.

Our obligations under finance leases amounted to approximately HK\$3.9 million as at 31 July 2018 are secured by the lessor's charge over the leased assets of our Group. All of our finance leases are unguaranteed.

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## FINANCIAL INFORMATION

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### CONTINGENT LIABILITY

The following table sets out our Group's contingent liabilities as at the respective dates indicated:

|                                     | At 31 December    |                   |                   |                   | At<br>30 June     | At<br>31 July     |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|                                     | 2014              | 2015              | 2016              | 2017              | 2018              | 2018              |
|                                     | <i>HK\$'000</i>   | <i>HK\$'000</i>   | <i>HK\$'000</i>   | <i>HK\$'000</i>   | <i>HK\$'000</i>   | <i>HK\$'000</i>   |
| Financial guarantees given to banks | –                 | 125,938           | 151,573           | 34,000            | 34,000            | 34,000            |
|                                     | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |

*(unaudited)*

As at 31 December 2014, 2015, 2016, 2017, 30 June 2018 and 31 July 2018, our Group issued financial guarantees to banks in respect of banking facilities granted to related parties of an aggregate amount of nil, approximately HK\$125.9 million, HK\$151.6 million, HK\$34.0 million, HK\$34.0 million and HK\$34.0 million, respectively. The amount disclosed above represents the aggregate amounts that could be required to be paid if the guarantees were called upon in entirety, of which nil, approximately HK\$71.5 million, HK\$151.4 million, HK\$34.0 million, HK\$33.9 million and HK\$33.9 million has been utilised by the related parties respectively. As at 31 December 2014, 2015, 2016, 2017, 30 June 2018 and 31 July 2018, nil, approximately HK\$0.5 million, HK\$1.1 million, HK\$0.6 million, HK\$0.6 million and HK\$0.6 million have been recognised as financial guarantee obligations in the consolidated statements of financial position.

Our Directors confirm that the above financial guarantees will be released upon the Listing.

Our Directors confirm that we did not have, as at 31 July 2018, save as disclosed above and apart from intra-group liabilities, any outstanding borrowings and indebtedness, any loan capital issued and outstanding or agreed to be issued, bank overdraft, loans or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, guarantees or other material contingent liabilities.

Our Directors have confirmed that there has not been any material change in the contingent liabilities of our Group up to the Latest Practicable Date.

Our Directors confirm that there has not been any material change in our indebtedness up to the Latest Practicable Date.

### OFF-BALANCE SHEET ARRANGEMENTS

As at the Latest Practicable Date, our Directors confirm that our Company did not have any off-balance sheet arrangements.

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## FINANCIAL INFORMATION

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### IMPACT OF EXPENSES RELATING TO LISTING TO THE PROFITS AND LOSS ACCOUNT OF OUR GROUP AFTER LISTING

Our Directors estimate that the total amount of expenses in relation to the Listing is approximately HK\$46.4 million, assuming an Offer Price of HK\$1.10 per Offer Share (being the mid-point of the indicative Offer Price range). The Listing expenses are non-recurring in nature and mainly consisted of professional fees, underwriting commission and other fees and expenses in connection with the Listing. No significant Listing expenses were incurred by our Group during the year ended 31 December 2014 and 2015. Of the aggregate Listing expenses of approximately HK\$46.4 million, approximately HK\$12.5 million, approximately HK\$10.2 million and HK\$2.4 million were charged to profit or loss for the year ended 31 December 2016 and 2017 and the six months ended 30 June 2018, respectively, and approximately HK\$10.0 million are expected to be charged to our profit or loss for the year ending 31 December 2018, while approximately HK\$13.7 million is expected to be directly attributable to the issuance of Shares and accounted for as a deduction from equity upon successful Listing under the relevant accounting standards. The amount of Listing expenses is a current estimate for reference only and the final amount to be recognised to the consolidated statement of comprehensive income of our Group for the year ending 31 December 2018 or to be capitalized are subject to audit and the actual changes in variables and assumptions.

We expect our Group's financial performance for the year ending 31 December 2018 will be significantly affected by the Listing expenses.

### SUFFICIENCY OF WORKING CAPITAL

Our Directors confirm that, after due and careful enquiry and taking into consideration the financial resources presently available to us, including internally generated funds, available facilities and the estimate net proceeds of the Share Offer, our Group has sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this prospectus.

## FINANCIAL INFORMATION

### KEY FINANCIAL RATIOS

The following table sets out certain financial ratios as at the dates or for the periods/dates indicated:

|   | Year ended 31 December |      |                   |                   | Six months ended |
|---|------------------------|------|-------------------|-------------------|------------------|
|   | 2014                   | 2015 | 2016              | 2017              | 30 June 2018     |
| Return on equity (%) <sup>(1)</sup>             | 49.6                   | 51.8 | 38.8              | 31.9              | 47.0             |
| Return on total assets (%) <sup>(2)</sup>       | 4.6                    | 7.2  | 7.3               | 7.5               | 9.0              |
| Interest coverage ratio (times) <sup>(3)</sup>  | 3.6                    | 4.5  | 5.4               | 5.8               | 5.7              |
|   |                        |      |                   |                   | As at            |
|   |                        |      |                   |                   | 30 June          |
|   | 2014                   | 2015 | 2016              | 2017              | 2018             |
| Gearing ratio (times) <sup>(4)</sup>            | 6.6                    | 4.6  | 2.9               | 2.0               | 2.5              |
| Net debt to equity ratio (times) <sup>(5)</sup> | 5.0                    | 3.0  | Net cash position | Net cash position | 0.2              |
| Current ratio (times) <sup>(6)</sup>            | 1.0                    | 1.0  | 1.1               | 1.1               | 1.0              |
| Quick ratio (times) <sup>(7)</sup>              | 0.9                    | 1.0  | 1.0               | 1.1               | 1.0              |

*Notes:*

1. Return on equity equals net profit for the year/period divided by the total equity attributable to owners of the Company at the end of the respective year/period multiplied by 100%. Return on equity for the six months ended 30 June 2018 is calculated on an annualised basis.
2. Return on total assets equals net profit for the year/period divided by the total assets at the end of the respective year/period multiplied by 100%. Return on total assets for the six months ended 30 June 2018 is calculated on an annualised basis.
3. Interest coverage ratio is calculated by profit before interest and tax divided by the finance cost for the corresponding year/period.
4. Gearing ratio equals total debts divided by total equity as of the end of respective year/period. Total debts are calculated by aggregating our bank and other borrowings, obligations under finance leases, amount due to a director, bank overdrafts and derivative financial liabilities as of the end of the respective year/period.
5. Net debt to equity ratio equals net debt (namely total debts net of restricted bank deposits and bank balances and cash) divided by the total equity as of the end of the respective year/period.
6. Current ratio equals total current assets divided by total current liabilities.
7. Quick ratio equals total current assets less inventories divided by total current liabilities.

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## FINANCIAL INFORMATION

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### **Return on equity**

Our return on equity increased from approximately 49.6% for the year ended 31 December 2014 to approximately 51.8% for the year ended 31 December 2015 primarily due to the increase in our profit for the year ended 31 December 2015.

Our return on equity decreased from approximately 51.8% for the year ended 31 December 2015 to approximately 38.8% for the year ended 31 December 2016 primarily due to the decrease in our net profit for the year ended 31 December 2016 as a result of the incurring of Listing expenses and other expenses during the year ended 31 December 2016.

Our return on equity decreased to approximately 31.9% for the year ended 31 December 2017, mainly due to the increase in equity resulting from the increase in our profit for the year.

Our adjusted return on equity increased to approximately 47.0% for the six months ended 30 June 2018, mainly due to the increase in our adjusted net profit for the six months ended 30 June 2018 as a result of (i) less Listing expenses were incurred; and (ii) less loss on foreign exchange incurred.

### **Return on total assets**

Our return on total assets increased from approximately 4.6% for the year ended 31 December 2014 to approximately 7.2% for the year ended 31 December 2015, primarily due to the increase in our profit for the year ended 31 December 2015.

Our return on total assets remained relatively stable at approximately 7.2% for the year ended 31 December 2015 and approximately 7.3% for the year ended 31 December 2016.

Our return on total assets remained relatively stable at approximately 7.5% for the year ended 31 December 2017.

Our adjusted return on total assets increased to approximately 9.0% for the six months ended 30 June 2018, primarily due to the increase in our adjusted net profit for the six months ended 30 June 2018.

### **Interest coverage ratio**

Our interest coverage ratio increased from approximately 3.6 times for the year ended 31 December 2014 to approximately 4.5 times for the year ended 31 December 2015, primarily attributable to the increase in our operating profit as a result of decrease in material costs. Our interest coverage ratio increased from approximately 4.5 times for the year ended 31 December 2015 to approximately 5.4 times for the year ended 31 December 2016, primarily attributable to the decrease in finance costs. Our interest coverage ratio increased to approximately 5.8 times for the year ended 31 December 2017 mainly due to the increase in our operating profit and the decrease in finance cost for the year. Our interest coverage ratio remained stable at approximately 5.7 times for the six months ended 30 June 2018.

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## FINANCIAL INFORMATION

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### **Gearing ratio**

Our gearing ratio decreased from approximately 6.6 times as at 31 December 2014 to approximately 4.6 times as at 31 December 2015, primarily due to the increase in equity attributable to owners of the Company as a result of our profit for the year.

Our gearing ratio decreased from approximately 4.6 times as at 31 December 2015 to approximately 2.9 times as at 31 December 2016, primarily due to the decrease in bank and other borrowings.

Our gearing ratio decreased from approximately 2.9 times as at 31 December 2016 to approximately 2.0 times as at 31 December 2017, primarily due to the increase in our total equity as a result of our profit for the year.

Our gearing ratio increased to approximately 2.5 times during the six months ended 30 June 2018 due to the decrease in our total equity as a result of the interim dividend recognised as distribution during the six months ended 30 June 2018.

### **Net debt to equity ratio**

Our net debt to equity ratio decreased from approximately 5.0 times as at 31 December 2014 to approximately 3.0 times as at 31 December 2015 is mainly due to the increase in equity base as a result of our profit for the year and the increase in bank balances and cash as our Group continued to generate cash from operations.

We recorded net cash position as at 31 December 2016 and 31 December 2017.

Our net debt to equity ratio was approximately 0.2 times as at 30 June 2018, mainly due to the increase in bank and other borrowings.

### **Current ratio**

Our current ratio remained steady at approximately 1.0 time, 1.0 time, 1.1 times, 1.1 times and 1.0 time as at 31 December 2014, 2015, 2016 and 2017 and 30 June 2018, respectively.

### **Quick ratio**

Our quick ratio remained steady at approximately 0.9 time, 1.0 time, 1.0 time, 1.1 times and 1.0 time as at 31 December 2014, 2015, 2016, 2017 and 30 June 2018, respectively.

## **PROPERTY INTERESTS AND PROPERTY VALUATION**

During the Track Record Period, we leased certain properties from Independent Third Parties and connected persons. Please refer to the section headed “Business – Properties leased by us” of this prospectus for details of these leases.

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## FINANCIAL INFORMATION

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### FINANCIAL RISKS MANAGEMENT OBJECTIVES AND POLICY

#### Currency risk

The functional currency of most of the entities comprising our Group is US dollars and the functional currency of one of our subsidiaries is RMB, while most of our transactions are denominated in US dollars and RMB. We currently have no foreign currency hedging policy and we monitor the foreign exchange exposure by closely monitoring the movement of foreign currency rates.

Our Group is exposed to foreign currency risk on fluctuations of RMB and HK dollars during the Track Record Period. The management of the Group considers that the exposure of HK dollars against US dollars is limited as HK dollars is pegged to US dollars and the Group is mainly exposed to the currency risk of RMB against US dollars during the Track Record Period. The following table details our Group's sensitivity to a 5% increase and decrease in RMB against US dollars. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis adjusts their translation at the year/period end for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit where RMB weakened 5% against US dollars. For a 5% strengthening of RMB against US dollars, there would be an equal and opposite impact on the profit or loss.

|     | Year ended 31 December |              |              |            | Six months ended |
|-----|------------------------|--------------|--------------|------------|------------------|
|     | 2014                   | 2015         | 2016         | 2017       | 30 June          |
|     | HK\$'000               | HK\$'000     | HK\$'000     | HK\$'000   | 2018             |
|     |                        |              |              |            | HK\$'000         |
| RMB | <u>2,266</u>           | <u>3,658</u> | <u>(359)</u> | <u>351</u> | <u>2,184</u>     |

#### Interest rate risk

Our Group is exposed to cash flow interest rate risk in relation to the restricted bank deposits, bank balances and floating-rate bank and other borrowings due to fluctuations of the prevailing market interest rate. Our Group currently does not have a policy on hedging interest rate risk. However, our management keeps monitoring the interest rate exposure and will consider hedging significant interest rate risk should the need arises. Our Group is also exposed to fair value interest rate risk in relation to the fixed-rate bank and other borrowings.

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## FINANCIAL INFORMATION

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The following table demonstrates the sensitivity to the exposure to interest rates for variable-rate bank borrowings at the end of the reporting period:

|                                      | <b>Change in<br/>interest rate<br/><i>basis points</i></b> | <b>Increase/<br/>(decrease) in<br/>profit after<br/>tax<br/><i>HK\$'000</i></b> |
|--------------------------------------|--|---|
| <b>Year ended 31 December 2014</b>   |  |   |
| If interest rate increased by        | 50   | (695)   |
| If interest rate decreased by        | 50   | 695   |
| <b>Year ended 31 December 2015</b>   |  |   |
| If interest rate increased by        | 50   | (762)   |
| If interest rate decreased by        | 50   | 762   |
| <b>Year ended 31 December 2016</b>   |  |   |
| If interest rate increased by        | 50   | (730)   |
| If interest rate decreased by        | 50   | 730   |
| <b>Year ended 31 December 2017</b>   |  |   |
| If interest rate increased by        | 50   | (671)   |
| If interest rate decreased by        | 50   | 671   |
| <b>Six months ended 30 June 2018</b> |  |   |
| If interest rate increased by        | 50   | (698)   |
| If interest rate decreased by        | 50   | 698   |

The sensitivity analysis is prepared assuming the amount of liability outstanding at the end of each year was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represent management's assessment of the reasonably possible change in interest rates.

### Credit risk

As at 31 December 2014, 2015, 2016, 2017 and 30 June 2018, our maximum exposure to credit risk which will cause a financial loss to our Group due to a failure to discharge obligations by the counterparties at the end of each year during the Track Record Period arise from the carrying amounts of the respective recognised financial assets as stated in the consolidated statements of financial position and the amount of contingent liabilities in relation to financial guarantee issued by our Group.

Our Group's credit risk is primarily attributable to its trade and other receivables, amounts due from related parties, amount due from a director and financial guarantees issued to the related companies.

In order to minimise the credit risk, the management of our Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the management of our Group continuously monitors the level of exposure by reviewing the credit qualities and financial condition of its customers and related parties regularly to ensure that prompt actions will be taken to mitigate exposure. Our Group also reviews the recoverable amount of significant receivables at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our Directors consider that our Group's credit risk is significantly reduced.



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## FINANCIAL INFORMATION

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The credit risk on liquid funds is limited because the counterparties are banks with good reputations.

Our Group's concentration of credit risk by geographical locations is mainly in Australia, the United States and the UK, which accounted for approximately 63%, 45%, 44%, 58% and 75%; 14%, 27%, 11%, 4% and nil; and nil, 6%, 14%, 9% and 5% of the total trade receivables as at 31 December 2014, 2015, 2016 and 2017 and 30 June 2018, respectively.

As at 31 December 2014, 2015, 2016 and 2017 and 30 June 2018, our Group has a concentration of credit risk from trade receivables at 79%, 75%, 68%, 69% and 80% respectively, of the total balances due from our Group's five largest customers. We consider the credit risk of amounts due from these customers as insignificant after considering their historical settlement record, credit quality and financial positions.

As at 31 December 2014, 2015, 2016 and 2017 and 30 June 2018, our Group also has a concentration of credit risk from amounts due from a director and/or two related parties. We consider the credit risk of the amounts due from these related parties is limited because we continuously monitor the quality and financial condition of the directors and related parties.

Other than the concentrations of credit risk on trade receivables, bank balances, restricted bank deposits, amounts due from related companies and amount due from a director, we do not have any other significant concentrations of credit risk.

### **Liquidity risk**

In management of the liquidity risk, we monitor and maintain a level of cash and cash equivalents which we believe is adequate to finance our operations and mitigate the effects of fluctuations in cash flows. We rely on borrowings as a significant source of liquidity. Our management monitors the utilisation of bank and other borrowings and ensures compliance with loan covenants.

We are exposed to the liquidity risk of being unable to finance our future working capital and financial requirements when they fall due. Our net current assets as at 31 December 2014, 2015, 2016 and 2017 and 30 June 2018 were approximately HK\$3.3 million, HK\$15.9 million, HK\$16.9 million, HK\$38.4 million and HK\$4.0 million. In view of this, our Directors have given careful consideration to our future liquidity and have been taking steps to improve our liquidity such as renewing of banking facility from various banks in full upon their maturity and rearranging the term of the bank borrowings from short term to long term loans.

The table below sets out our remaining contractual maturity for our financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date, on which our Group can be required to pay.

## FINANCIAL INFORMATION

### As at 31 December 2014

|   | Weighted<br>average<br>effective<br>interest rate<br>% | On demand<br>or less than<br>1 month<br>HK\$'000 | 1 – 3<br>months<br>HK\$'000 | 4 months to<br>1 year<br>HK\$'000 | 1 year to<br>5 years<br>HK\$'000 | Total<br>undiscounted<br>cash flows<br>HK\$'000 | Carrying<br>amount at<br>31 December<br>2014<br>HK\$'000 |
|---|--|--|-----------------------------|-----------------------------------|----------------------------------|---|--|
| <b>Non-derivative financial liabilities</b> |  |  |                             |                                   |                                  |   |  |
| Trade and other payables                    | –  | 25,877   | 6,650                       | –                                 | –                                | 32,527  | 32,527   |
| Bank overdrafts                             | 5.74   | 3,387  | –                           | –                                 | –                                | 3,387   | 3,387  |
| Bank and other borrowings                   |  |  |                             |                                   |                                  |   |  |
| – fixed rate                                | 5.02   | 60,162   | 2,697                       | 17,359                            | 2,700                            | 82,918  | 82,045   |
| – variable rate                             | 4.27   | 155,212  | 6,032                       | 2,038                             | –                                | 163,282   | 163,163  |
| Obligation under finance leases             | 7.25   | 549  | 1,099                       | 3,452                             | 3,313                            | 8,413   | 7,853  |
|   |  | <u>245,187</u>                                   | <u>16,478</u>               | <u>22,849</u>                     | <u>6,013</u>                     | <u>290,527</u>                                  | <u>288,975</u>   |
| <b>Derivatives – net settlement</b>         |  |  |                             |                                   |                                  |   |  |
| Derivative financial liabilities            |  | <u>1,211</u>                                     | <u>–</u>                    | <u>–</u>                          | <u>–</u>                         | <u>1,211</u>                                    | <u>1,211</u>   |

### As at 31 December 2015

|   | Weighted<br>average<br>effective<br>interest rate<br>% | On demand<br>or less than<br>1 month<br>HK\$'000 | 1 – 3<br>months<br>HK\$'000 | 4 months to<br>1 year<br>HK\$'000 | 1 year to<br>5 years<br>HK\$'000 | Total<br>undiscounted<br>cash flows<br>HK\$'000 | Carrying<br>amount at<br>31 December<br>2015<br>HK\$'000 |
|---|--|--|-----------------------------|-----------------------------------|----------------------------------|---|--|
| <b>Non-derivative financial liabilities</b> |  |  |                             |                                   |                                  |   |  |
| Trade and other payables                    | –  | 16,344   | 6,922                       | –                                 | –                                | 23,266  | 23,266   |
| Financial guarantee contracts               | –  | 71,487   | –                           | –                                 | –                                | 71,487  | 518  |
| Amount due to a director                    | –  | 31,258   | –                           | –                                 | –                                | 31,258  | 31,258   |
| Bank overdrafts                             | 5.50   | 53   | –                           | –                                 | –                                | 53  | 53   |
| Bank and other borrowings                   |  |  |                             |                                   |                                  |   |  |
| – fixed rate                                | 5.55   | 49,902   | 1,511                       | 15,599                            | 3,425                            | 70,437  | 69,598   |
| – variable rate                             | 3.09   | 170,685  | 6,046                       | 5,920                             | –                                | 182,651   | 182,479  |
| Obligation under finance leases             | 5.77   | 359  | 620                         | 1,030                             | 1,776                            | 3,785   | 3,566  |
|   |  | <u>340,088</u>                                   | <u>15,099</u>               | <u>22,549</u>                     | <u>5,201</u>                     | <u>382,937</u>                                  | <u>310,738</u>   |

## FINANCIAL INFORMATION

### As at 31 December 2016

|   | Weighted<br>average<br>effective<br>interest rate<br>% | On demand<br>or less than<br>1 month<br>HK\$'000 | 1 – 3<br>months<br>HK\$'000 | 4 months to<br>1 year<br>HK\$'000 | 1 year to<br>5 years<br>HK\$'000 | Total<br>undiscounted<br>cash flows<br>HK\$'000 | Carrying<br>amount at<br>31 December<br>2016<br>HK\$'000 |
|---|--|--|-----------------------------|-----------------------------------|----------------------------------|---|--|
| <b>Non-derivative financial liabilities</b> |  |  |                             |                                   |                                  |   |  |
| Trade and other payables                    | –  | 18,221   | 8,957                       | –                                 | –                                | 27,178  | 27,178   |
| Financial guarantee contracts               | –  | 151,426  | –                           | –                                 | –                                | 151,426   | 1,119  |
| Bank overdrafts                             | 6.00   | 1,853  | –                           | –                                 | –                                | 1,853   | 1,853  |
| Bank and other borrowings                   |  |  |                             |                                   |                                  |   |  |
| – fixed rate                                | 5.55   | 29,972   | 448                         | 1,899                             | 854                              | 33,173  | 33,028   |
| – variable rate                             | 3.44   | 158,900  | 12,517                      | 3,723                             | –                                | 175,140   | 173,067  |
| Obligation under finance leases             | 4.36   | 108  | 195                         | 709                               | 1,570                            | 2,582   | 2,428  |
|   |  | <u>360,480</u>                                   | <u>22,117</u>               | <u>6,331</u>                      | <u>2,424</u>                     | <u>391,352</u>                                  | <u>238,673</u>   |

### As at 31 December 2017

|   | Weighted<br>average<br>effective<br>interest rate<br>% | On demand<br>or less than<br>1 month<br>HK\$'000 | 1 – 3<br>months<br>HK\$'000 | 4 months to<br>1 year<br>HK\$'000 | 1 year to<br>5 years<br>HK\$'000 | Total<br>undiscounted<br>cash flows<br>HK\$'000 | Carrying<br>amount at<br>31 December<br>2017<br>HK\$'000 |
|---|--|--|-----------------------------|-----------------------------------|----------------------------------|---|--|
| <b>Non-derivative financial liabilities</b> |  |  |                             |                                   |                                  |   |  |
| Trade and other payables                    | –  | 30,673   | 13,410                      | –                                 | –                                | 44,083  | 44,083   |
| Financial guarantee contracts               | –  | 34,000   | –                           | –                                 | –                                | 34,000  | 564  |
| Bank overdrafts                             | 3.50   | 1,937  | –                           | –                                 | –                                | 1,937   | 1,937  |
| Bank and other borrowings                   |  |  |                             |                                   |                                  |   |  |
| – fixed rate                                | 6.09   | 16,979   | 551                         | 2,054                             | 1,304                            | 20,888  | 20,516   |
| – variable rate                             | 4.45   | 140,963  | 10,392                      | 7,500                             | –                                | 158,855   | 158,694  |
| Obligation under finance leases             | 4.15   | 50   | 101                         | 452                               | 629                              | 1,232   | 1,179  |
|   |  | <u>224,602</u>                                   | <u>24,454</u>               | <u>10,006</u>                     | <u>1,933</u>                     | <u>260,995</u>                                  | <u>226,973</u>   |

## FINANCIAL INFORMATION

*As at 30 June 2018*

|   | Weighted<br>average<br>effective<br>interest rate<br>% | On demand<br>or less than<br>1 month<br>HK\$'000 | 1 – 3<br>months<br>HK\$'000 | 4 months to<br>1 year<br>HK\$'000 | 1 year to<br>5 years<br>HK\$'000 | Total<br>undiscounted<br>cash flows<br>HK\$'000 | Carrying<br>amount at<br>30 June 2018<br>HK\$'000 |
|---|--|--|-----------------------------|-----------------------------------|----------------------------------|---|---|
| <b>Non-derivative financial liabilities</b> |  |  |                             |                                   |                                  |   |   |
| Trade and other payables                    | –  | 40,188   | 11,535                      | –                                 | –                                | 51,723  | 51,723  |
| Financial guarantee contracts               | –  | 34,000   | –                           | –                                 | –                                | 34,000  | 556   |
| Bank overdrafts                             | 3.50   | 1,981  | –                           | –                                 | –                                | 1,981   | 1,981   |
| Bank and other borrowings                   |  |  |                             |                                   |                                  |   |   |
| – fixed rate                                | 6.12   | 16,750   | 542                         | 2,648                             | 282                              | 20,222  | 19,958  |
| – variable rate                             | 4.48   | 69,715   | 54,468                      | 41,813                            | –                                | 165,996   | 165,155   |
| Obligation under finance leases             | 7.66   | 263  | 527                         | 2,218                             | 1,591                            | 4,599   | 4,242   |
|   |  | <u>162,897</u>                                   | <u>67,072</u>               | <u>46,679</u>                     | <u>1,873</u>                     | <u>278,521</u>                                  | <u>243,615</u>                                    |

### DIVIDEND

During each of the years ended 31 December 2014 and 2015, interim dividends of HK\$5.0 million and HK\$5.0 million were recognised as distribution by Chase On to its then shareholders, respectively. During each of the years ended 31 December 2016 and 2017 and the six months ended 30 June 2018, interim dividends of HK\$5.0 million, HK\$10.0 million and HK\$30.0 million were recognised as distribution by our Company to our then shareholders, respectively. Save as disclosed above, no dividend is paid or proposed during the Track Record Period and up to the Latest Practicable Date.

There is no expected dividend payout ratio after the Listing. The payment and the amount of any future dividends will be at the discretion of our Directors and will depend upon our Group's future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors which our Directors deem relevant. Any final dividend for a financial year will be subject to Shareholders' approval. Holders of the Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. Dividends may be paid only out of our Company's distributable profits as permitted under the relevant laws. There can be no assurance that our Company will be able to declare or distribute in the amount set out in any plan of our Board or at all. The past dividend distribution record may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Company in the future.

### DISTRIBUTABLE RESERVES

As at 31 December 2014, 2015, 2016 and 2017 and 30 June 2018, we had reserves of approximately HK\$26.2 million, HK\$49.5 million, HK\$67.9 million, HK\$85.9 million and HK\$71.0 million respectively.

## FINANCIAL INFORMATION

### SUBSEQUENT EVENTS

Please refer to note 41 of the Accountants' Report in Appendix I to this prospectus for events of our Group which took place subsequent to 30 June 2018.

### RECENT DEVELOPMENTS

We continue to develop and expand our customer base while diversifying and enhancing the products we offer. In July of 2018, our revenue is higher compared to the same period in 2017, primarily due to the increase in sales to certain customers in Australia, with a gross profit margin remaining stable.

Our profit for the year ending 31 December 2018 is likely to be lower than that of 2017 primarily due to, (i) the Listing expenses as disclosed in the section headed "Financial information – Impact of expenses relating to Listing to the profits and loss account of our Group after Listing" of this prospectus; and (ii) the one-off relocation costs to the New Production Facilities, which was completed in August 2018 as disclosed in the section headed "Business – Relocation to the New Production Facilities" of this prospectus.

Our Directors confirmed that, since 30 June 2018 and up to the date of this prospectus, save for the Listing expenses as disclosed in the paragraph headed "Impact of expenses relating to Listing to the profits and loss account of our Group after Listing" in this section, there has been no adverse change in our financial or trading position or prospects and no event has occurred that would materially affect the information shown in the Accountants' Report set forth in Appendix I to this prospectus.

### DISCLOSURE REQUIRED UNDER THE LISTING RULES

During Track Record Period, we made the following advances to entities:

#### Amounts due from related companies

|                               | At 31 December |                |          |          |          | At 30 June |          |          |          |          | Assets ratio during the year/period <sup>(Note)</sup> |       |       |       |      |
|-------------------------------|----------------|----------------|----------|----------|----------|------------|----------|----------|----------|----------|---|-------|-------|-------|------|
|                               | 2014           | 2015           | 2016     | 2017     | 2018     | 2014       | 2015     | 2016     | 2017     | 2018     | 2014  | 2015  | 2016  | 2017  | 2018 |
|                               | HK\$'000       | HK\$'000       | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000   | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |   |       |       |       |      |
| Fifteen International Limited |                |                |          |          |          |            |          |          |          |          |   |       |       |       |      |
| – Non-trade                   | 15             | 1,814          | –        | –        | –        | 15         | 1,818    | 22,459   | 130,038  | 19,677   | 0.0%  | 0.4%  | 6.2%  | 35.5% | 5.3% |
| – Agency service related      | 184,475        | 181,023        | –        | –        | –        | 185,083    | 242,463  | 181,023  | –        | –        | 51.6%   | 59.8% | 50.3% | 0.0%  | 0.0% |
| Sky Market Limited            |                |                |          |          |          |            |          |          |          |          |   |       |       |       |      |
| – Non-trade                   | 2,311          | 23,682         | –        | –        | –        | 19,295     | 23,682   | 23,682   | 3,967    | 7,205    | 5.4%  | 5.8%  | 6.6%  | 1.1%  | 1.9% |
|                               | <u>186,801</u> | <u>206,519</u> | <u>–</u> | <u>–</u> | <u>–</u> |            |          |          |          |          |   |       |       |       |      |

*Note:* Assets ratio is calculated as the maximum amount outstanding during the year/period divided by the total assets of our Group as at the end of each reporting period.

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## FINANCIAL INFORMATION

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The aforesaid amounts are interest-free, unsecured and repayable on demand. The amounts were settled before Listing.

Our Directors have confirmed that as at the Latest Practicable Date, save as disclosed above, they were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

### **MATERIAL ADVERSE CHANGE**

The impact of the Listing expenses on the profit and loss accounts has posted a material adverse change in the financial or trading position or prospect of our Group since 30 June 2018 (being the date of the latest audited consolidated financial statements were made up). Prospective investors should be aware of the impact of the Listing expenses on the financial performance of our Group for the year ending 31 December 2018.

Save as disclosed above, our Directors have confirmed that, up to the date of this prospectus, there had been no material adverse change in the financial or trading positions or prospect of our Company or its subsidiaries since 30 June 2018 (being the date of which our Group's latest audited consolidated financial statements were made up as set out in the Accountants' Report in Appendix I to this prospectus) and there had been no event since 30 June 2018 which would materially affect the information shown in the Accountants' Report in Appendix I to this prospectus.

### **UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS**

The following is an illustrative and unaudited pro forma statement of our adjusted consolidated net tangible assets which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Share Offer as if the Share Offer had taken place on 30 June 2018.

The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the consolidated financial position of our Group had the Share Offer been completed as at 30 June 2018 or any future date.

## FINANCIAL INFORMATION

|   | <b>Audited consolidated net tangible assets of our Group attributable to owners of our Company as at 30 June 2018</b><br><i>HK\$'000</i><br><i>(Note 1)</i> | <b>Estimated net proceeds from the Share Offer</b><br><i>HK\$'000</i><br><i>(Note 2)</i> | <b>Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company as at 30 June 2018</b><br><i>HK\$'000</i> | <b>Unaudited pro forma adjusted net tangible assets of our Group attributable to owners of our Company as at 30 June 2018</b><br><i>HK\$</i><br><i>(Note 3)</i> |
|---|---|--|---|---|
| Based on the Offer Price of HK\$1.0 per Offer Share | 71,016  | 114,181  | 185,197   | 0.34  |
| Based on the Offer Price of HK\$1.2 per Offer Share | 71,016  | 140,234  | 211,250   | 0.39  |

*Notes:*

1. The audited consolidated net tangible assets of our Group attributable to owners of our Company as at 30 June 2018 are based on the audited consolidated net assets of our Group attributable to owners of our Company as extracted from the Accountants' Report set out in Appendix I to this prospectus.
2. The estimated net proceeds from the Share Offer are based on 135,000,000 new Shares at the indicative Offer Price of HK\$1.0 and HK\$1.2 per Offer Share, respectively, being the low-end and high-end of the indicative Offer Price range, respectively, after deduction of the underwriting fees and commissions and other listing related expenses paid or payable by our Group, other than those expenses which had been recognised in profit or loss in the period up to 30 June 2018. It does not take into account any Shares (i) which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or (ii) any Shares which may be issued or repurchased by our Company pursuant to the general mandate to issue or repurchase Shares granted to the Directors of our Company.
3. The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company per Share is arrived at on the basis that 540,000,000 Shares comprise the issued Shares assuming that the Share Offer and the Capitalisation Issue had been completed on 30 June 2018. It does not take into account of any Shares (i) which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme or (ii) any Shares which may be issued or repurchased by our Company pursuant to the general mandate to issue or repurchase Shares granted to the Directors of our Company.
4. The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to the owners of our Company does not take into account the effect of any trading result and other transactions of our Group entered into subsequent to 30 June 2018.

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## FUTURE PLANS AND USE OF PROCEEDS

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### REASONS FOR THE SHARE OFFER AND THE LISTING

#### 1. Reduce finance costs and strengthen our financial position

During the Track Record Period, despite that we were able to fund our operations with positive cash flows and bank borrowings, the aggregate cash balance and unutilised banking facility of approximately HK\$155.9 million as at 30 June 2018 only provided us a limited amount of funds for our expansion and business development plan.

Referring to our major costs of operations, including payments made to suppliers, sub-contractors, direct labour and staff costs, utilities, transportation and rental expenses for the latest year ended 31 December 2017, we required to make a theoretical average monthly costs of approximately HK\$19.7 million. As such, our Directors consider that the current financial resources available to our Group is only sufficient for the present scale of the business turnover and there are imminent funding needs for our expected business growth to support the forecasted sales growth. Our Group has to explore ways other than bank borrowings to satisfy our funding needs.

As a private company, we primarily utilised bank borrowings in financing our business operation during the Track Record Period. As at 30 June 2018, the bank and other borrowings of our Group were approximately HK\$185.1 million and were secured by pledged deposits of approximately HK\$94.7 million, representing approximately 51.2% of the bank and other borrowings and approximately 52.8% of our Group's total bank balances and cash and pledged deposits as at 30 June 2018. In other words, our Group would not fully utilise our bank borrowings and a substantial amount of the bank borrowings were required to be deposited in the bank accounts as pledge. The interest income from the pledged deposits was immaterial, while our Group incurred finance cost for the whole portion of bank borrowings. Despite our Group recording cash balance and unutilised banking facility of HK\$84.6 million and HK\$71.3 million respectively as at 30 June 2018, and recording operating cash inflows during the Track Record Period, our Directors consider that the utilisation of bank borrowings is less effective prior to the Listing due to the requirement of a substantial amount of pledged deposits. Our Directors are of the view that as a result of the Listing, our Group can strengthen our financial resources as requirement for pledged deposits would be relaxed and the pledged deposits would be released and such amount would then be used to finance the further expansion of our Group.

Although our business generated net operating cash inflow, we believe it is only sufficient for our current scale of operations before implementation of our business strategies and future plans. Taking into account the fact that (i) our Group only had cash and cash equivalents of approximately HK\$82.6 million as at 30 June 2018; (ii) our trade and other payables were approximately HK\$73.5 million as at 30 June 2018; and (iii) the amount of bank and other borrowings and bank overdrafts repayable within one year as at 30 June 2018 was approximately HK\$186.8 million, our Directors believe our Group may not have sufficient internal generated funds to finance our expansion plan while at the same time maintaining sufficient working capital for our Group's operation.



## FUTURE PLANS AND USE OF PROCEEDS

Though our Directors consider that the utilisation of bank borrowings is less effective as they will increase our gearing ratio, restrict the usage of our available cash under the pledged deposit requirements and increase our finance cost, our Company has little alternative financing methods due to its nature of being a private company prior to the Listing. Our Directors have been reconsidering the capital structure of our Group due to the high gearing ratio of approximately 250% as at 30 June 2018 and the annual finance costs incurred of approximately HK\$8.2 million to HK\$10.6 million during the Track Record Period. In view of the high gearing ratio of our Group, our Group's financial performance and liquidity may be negatively affected if market uncertainty suddenly arose, e.g. rise in interest rate in the United States and any sudden unexpected deterioration in the prevailing market conditions leading to the imposition of further requirements on debt financing in addition to regular repayment of interest and principal by our Group regardless of the performance of the business of our Group. In view of the high gearing ratio of our Group as at 30 June 2018, our Group will utilise part of the Listing proceeds to repay certain bank loans.

The rising interest rate trend is also one of the factors which may affect the effectiveness of debt financing. During the Track Record Period, the ranges of effective interest rates on our Group's bank and other borrowings and bank overdrafts are as follows:

|                           | 2014           | As at 31 December |                | 2017            | As at<br>30 June<br>2018 |
|---------------------------|----------------|-------------------|----------------|-----------------|--------------------------|
|                           |                | 2015              | 2016           |                 |                          |
| Effective interest rates: |                |                   |                |                 |                          |
| Fixed-rate                |                |                   |                |                 |                          |
| borrowings                | 1.71% to 8.00% | 2.88% to 8.00%    | 2.88% to 8.40% | 4.79% to 15.55% | 3.98% to 15.55%          |
| Variable-rate             |                |                   |                |                 |                          |
| borrowings                | 1.72% to 6.60% | 2.12% to 5.75%    | 2.24% to 5.75% | 3.25% to 5.67%  | 3.25% to 5.01%           |
| Variable-rate             |                |                   |                |                 |                          |
| bank overdraft            | 3.74% to 6.00% | 3.88% to 6.50%    | 3.50% to 5.50% | 3.50%           | 3.50%                    |

Despite the current low interest rate environment, there is no assurance that the low interest rate environment will be prolonged in the future. In case of any tightening of credit control in Hong Kong and/or in the United States, the interest rates for bank borrowings may be raised, further increasing our Group's finance costs. Our Group's finance costs on bank and other borrowings and bank overdrafts for the four years ended 31 December 2017 and the six months ended 30 June 2018 amounted to approximately HK\$8.3 million, HK\$10.2 million, HK\$8.1 million, HK\$8.1 million and HK\$4.5 million, representing approximately 50.3%, 35.0%, 30.8%, 29.6% and 27.0% of our Company's profit for the respective periods, respectively.

Moreover, with high gearing ratios, in case of economic downturn and an increase in the interest rates for bank borrowings, our Group will be more vulnerable if we could not to obtain sufficient capital from bank borrowings. Our Directors are of the view that it is not in the interest of our Group to rely substantially on bank borrowings to finance our Group's development and expansion plans. Our Directors are also of the view that it will be less attractive to equity investors if our Group relies substantially on debt financing and maintains a high gearing ratio.

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## FUTURE PLANS AND USE OF PROCEEDS

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Further, servicing debt obligations could also be burdensome to our Group's operation. If our Group fails to service such debt obligations on time or unable to comply with any of the covenants, our Group could be in default of such debt obligations and our Group's liquidity, financial credibility and financial condition could be materially and adversely affected. In contrast, through equity financing, our Group could broaden the Shareholders' base and no additional financial liability will be incurred.

Our Directors consider that our Company, without a listing status, would have difficulties obtaining bank borrowings at a more commercially favourable term without personal guarantees or other collateral to be provided by the Controlling Shareholders. The listing status of our Company may also facilitate our Group in obtaining bank borrowings with more favourable terms in the long run. This is supported by the fact that the lending banks were willing to release the personal guarantees provided by the Controlling Shareholders, subject to, among other things, our Company being successfully listed on the Stock Exchange.

### **2. The listing status provides an equity fund-raising platform for our Group**

With the listing status of our Company, our Directors believe that it will enhance the flexibility of our Group in seeking alternative financing as our Group is able to seek equity fund raising instead of continuously using the bank borrowings. The Listing will provide us with access to the capital market for fund raising which will assist our future business development and strengthen our competitiveness. Subsequent to the Listing, we will also have access to secondary market fund raising for our future expansion plans through the issuance of equity and/or debt securities. Our Group is able to gradually adjust to an optimal capital structure, which can consist of a mixture of debt and equity-financing, to minimise the overall costs of capital on loans, and therefore minimise the costs of capital. Despite the total estimated amount of Listing expenses of approximately HK\$46.4 million represents a significant proportion of the gross proceeds from the Listing, it is non-recurring and would not increase our gearing ratio or impose additional restrictions on our future fund-raising capability.

Our Directors are also of the view that the Listing will provide our Group with the platform to access the Hong Kong equity market both at the time of Listing with an one-off Listing expense and at later stages after Listing for further expansion plans and business strategies as and when necessary through the issuance of equity and/or debt securities, with relatively lower financing cost as compared with banking financing as can be obtained by a private company. Our Directors believe that the potential benefits of Listing would ultimately outweigh the Listing costs as well as the cost of debt financing in the long run as (i) the Listing expense is one-off in nature as opposed to the repetitive finance cost of the bank borrowings; and (ii) it provides access to the capital market for future secondary fund raising opportunities via interest-saving equity issuance through our listed entity as opposed to obtaining other interest-bearing banking facilities from financial institutions had it not been listed.

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## FUTURE PLANS AND USE OF PROCEEDS

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### **3. Enhance the brand awareness and market reputation**

As at 30 June 2018, our Group has sold our products in more than 40 countries. Being a global market player in plastic household products, our Directors consider that the public awareness and market reputation of our Group is crucial for our business expansion in the overseas market. The increased level of information transparency after Listing would give our existing and prospective customers and suppliers public access to our Group's corporate and financial information, which could further enhance their confidence in our Group. The listing status would also raise our Group's brand awareness and market reputation amongst the competitors, in particular to the overseas potential customers, which would help with implementing our business strategies and expanding our customer base and market share in the industry.

With more confidence placed from the customers and suppliers on our Group, our Directors believe that our Group is able to negotiate more favourable terms than when it was a private company, which in turn will bring benefit to the profitability of our Group. For example, our Group has been actively seeking for supplying quotas of polypropylene resins with better terms and better quality. For certain suppliers, they normally grant more supplying quotas of polypropylene resins to a listed company rather than a private company. It is evidenced in that our Group has received a positive indication from one of the major suppliers of polypropylene resins that it is willing to grant more supplying quota of polypropylene resins with better quality to the Group if the Company is successfully listed. Our Directors believe that the listing status of our Company will enhance the competitiveness of our Group in the market, which will in turn improve the profitability of our Group in the long run.

### **4. Retain our experienced staff and attract new staff**

Our Directors are of the view that our Group will be in a better position to retain the experienced staff and attract other potential candidates if our Group obtains the listing status. For example, after Listing, our Group can award our experienced staff through the granting of share options or adoption of other incentive schemes which would be crucial to the maintenance of the current status and continuing development of our Group. Our Directors are also of the view that such share options and schemes will provide incentives to existing staff to continue contributing to our Group and also provide attractive and competitive advantages in recruiting new staff.

### **5. Reasons for purchasing additional machinery**

Our Group experienced a high effective utilisation rate of our production facilities for the four years ended 31 December 2017 and the six months ended 30 June 2018 of approximately 84.8%, 86.4%, 86.7%, 81.1% and 89.8% of our effective designed capacity, respectively. Our Directors consider that such high effective utilisation rate will only be able to meet the purchase orders of existing customers but may not be able to meet the purchase orders of new customers in the future, therefore it will limit the business development of our Group to explore customer base which in turn will limit the market share in the plastic household

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## FUTURE PLANS AND USE OF PROCEEDS

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products industry. In addition, as at 30 June 2018, the average age of our Group's injection moulding machines and automated robot arm machines were approximately four years and nine years respectively. Our Directors consider that an upgrade of the aged machinery by acquiring new models of machinery with higher processing speed and energy efficiency is necessary to strengthen our competitiveness by producing the new products requested by our customers with new moulds developed, reduce production lead time and improve the overall profitability. Our Directors estimated that the purchase of additional injection moulding machines would increase our designed production capacity by approximately 3,270 tonnes, 7,442 tonnes and 10,033 tonnes for the year ending 31 December 2019, 2020 and 2021, which will enhance the flexibility of our Group to accept more purchase orders. Our Directors are also of the view that the new injection moulding machines will be more advanced and it is expected that the products produced from the new injection moulding machines will have a better quality.

As at 30 June 2018, 343 out of 453 employees were under the production function and took up the majority portion of the staff cost of our Group. The purchase of advanced protection machinery such as automated robot hand machines and the improvement in the centralised material system will enhance automation and thus reduce our staff cost.

Given that (i) the effective utilisation rate of the production facilities is relatively high; and (ii) it is crucial for our Group to attract more new customers and expand the market share in the industry, our Directors consider the reasons for purchasing additional machinery are justified.

### **6. Reasons for purchasing additional moulds**

As disclosed in the paragraph headed "Business – Our competitive strengths" of this prospectus, our Group's competitive strengths comprise (i) product design and development capabilities; and (ii) diverse product portfolio. Our Group is normally capable of delivering 20 to 30 types of products with newly designed features each year. To maintain our competitive strengths and in order to expand our market share, it is important for our Group to continue to acquire and/or develop new moulds to be responsive to the new product trends. Our Directors are of the view that the addition of moulds would enhance our competitiveness in the market by allowing our Group to provide a larger variety of types of products to our customers.

## FUTURE PLANS AND USE OF PROCEEDS

Based on the requests for new products of our customers and our previous experiences in purchasing and developing moulds for new products, set out below is a breakdown of the net proceeds from the Share Offer to be applied for purchasing or developing moulds.

|  | Use of Proceeds  |   |                                 |                              |                              |                               |   |   |
|--|--|---|---------------------------------|------------------------------|------------------------------|-------------------------------|---|---|
|  | Intended<br>capital<br>expenditure<br>for moulds<br><i>HK\$' million</i> | From the Latest<br>Practicable Date<br>to 31 December<br>2018<br><i>HK\$' million</i> | For the year ending 31 December |                              |                              |                               | Approximate<br>% of net<br>proceeds<br><i>HK\$' million</i> | From<br>internal<br>resources<br><i>HK\$' million</i> |
|  |  |   | 2019<br><i>HK\$' million</i>    | 2020<br><i>HK\$' million</i> | 2021<br><i>HK\$' million</i> | Total<br><i>HK\$' million</i> |   |   |
| Moulds for products under<br>“clipfresh” brand | 27.3   | 2.1   | 8.4                             | 8.4                          | 1.5                          | 20.4                          | 20.0%   | 6.9   |
| Moulds for ODM products                        | 11.7   | 0.9   | 3.6                             | 3.6                          | 0.6                          | 8.7                           | 8.5%  | 3.0   |
| <b>Total</b>                                   | <b>39.0</b>  | <b>3.0</b>  | <b>12.0</b>                     | <b>12.0</b>                  | <b>2.1</b>                   | <b>29.1</b>                   | <b>28.5%</b>  | <b>9.9</b>  |

### 7. Reasons for enhancing and upgrading the ERP system

In 2017, our Group had implemented the ERP system in our Group.

As disclosed in the paragraph headed “Business – Our business strategies” of this prospectus, the establishment of a customised and centralised ERP system will support our procurement, inventory, sales and logistics in an efficient manner, allowing our Group to collect and monitor real time procurement, production and sales information to facilitate the formulation of production plan, procurement decision making, inventory analysis, and sale and logistics analysis. With such ERP system, our Group will manage our business operation in an effective and timely manner under one integrated system. The implementation of the ERP system will enhance the internal control system in terms of the sales cycle, purchase cycle and inventory cycle of our Group.

Based on the foregoing, our Directors consider that the implementation of the ERP system will facilitate the management as well as the daily operation of our Group.

### 8. Facilitate the implementation of our business strategies

Our Directors believe that there will be a steady growth of the plastic household products industry. According to the Ipsos Report, the total forecasted retail sales of plastic household goods in Australia and Hong Kong is estimated to reach from approximately US\$1,397.8 million and HK\$478.6 million in 2018 to approximately US\$1,583.5 million and HK\$531.6 million in 2021, representing a CAGR of approximately 4.2% and 3.6% respectively. In view of the overall industry growth and in order to capture the market opportunities, our Directors recognise the need for further capital to expand our business in order to maintain our position in the competitive plastic household products industry in the respective regions and capture more market share.

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## FUTURE PLANS AND USE OF PROCEEDS

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### 9. Diversify our shareholder base and enhance liquidity in trading of Shares

Our Directors take the view that the Listing will enhance the liquidity of the Shares which will be freely traded in the Stock Exchange when compared to the limited liquidity of shares that are privately held before the Listing. Hence, our Directors consider that the Share Offer will enlarge and diversify our shareholder base and potentially lead to a more liquid market in the trading of the Shares.

Our Directors believe that the Share Offer and the Listing will bring the following benefits to us:

- the Listing will provide our Company with the platform to access the Hong Kong equity market and further raise funds in the future to support and finance our expansion and development;
- we will maintain a low gearing ratio by raising funds and minimising our exposure to interest and finance cost risks through the Share Offer to support the growth and expansion of our Group instead of debt financing;
- since our experienced staff are crucial to the maintenance of the current status and continuing development of our Group, our Company, after Listing, can award its staff through the grant of share options or the adoption of other incentive schemes. Such share options and schemes will provide incentives to our existing staff to continue to contribute to our Group. They will also provide attractive and competitive advantages in recruiting new staff;
- with a listing status, our Company's profile, brand awareness and reputation in the industry will be enhanced and raised, which in turn will increase our competitiveness among its competitors and the confidence of potential customers on us; and
- our internal control, risk management and corporate governance systems will be enhanced, raising our general corporate image.

### USE OF PROCEEDS

We estimate that the net proceeds from the Share Offer (after the deduction of underwriting fees and estimated expenses payable by us in relation to the Share Offer, and assuming an Offer Price of HK\$1.1 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$1.0 to HK\$1.2) are approximately HK\$102.1 million. Our Directors intend to apply the net proceeds from the Share Offer for the following purposes:

- approximately HK\$29.1 million (representing approximately 28.5% of the net proceeds from the Share Offer) will be used to purchase or develop moulds and related parts of moulds to increase new products launch to gain market share. Our Directors believe that the addition of moulds would enhance our competitiveness in the market by allowing us to provide a larger variety of types of products to our customers;

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## FUTURE PLANS AND USE OF PROCEEDS

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- approximately HK\$24.3 million (representing approximately 23.8% of the net proceeds from the Share Offer) will be used for the acquisition and replacement of production machinery and equipment, of which approximately HK\$21.3 million (representing approximately 20.8% of the net proceeds from the Share Offer) will be used to purchase new plastic injection machinery, HK\$1.8 million (representing approximately 1.8% of the net proceeds from the Share Offer) will be used for acquiring automated robot hand machines and HK\$1.2 million (representing approximately 1.2% of the net proceeds from the Share Offer) will be used for enhancing and upgrading the centralised material system. Our Directors estimated that the purchase of additional injection moulding machines would increase our designed production capacity by approximately 3,270 tonnes, 7,442 tonnes and 10,033 tonnes for the year ending 31 December 2019, 2020 and 2021, which will enhance the flexibility of our Group to accept more purchase orders;
- approximately HK\$5.8 million (representing approximately 5.7% of the net proceeds from the Share Offer) will be used for enhancing and upgrading the ERP system, of which approximately HK\$2.9 million (representing approximately 2.8% of the net proceeds from the Share Offer) and HK\$2.9 million (representing 2.8% of the net proceeds from the Share Offer) will be used for technical expert’s training and continuous support;
- approximately HK\$15.1 million (representing approximately 14.8% of the net proceeds from the Share Offer) will be used for the repayment of interest-bearing bank loan. As at 30 June 2018, the amount of our Group’s bank and other borrowings and bank overdrafts was approximately HK\$187.1 million, with the range of effective interest rates of 3.25% to 15.55% per annum. The purpose of those bank borrowings to be repaid was to supplement our general working capital;
- approximately HK\$9.7 million (representing approximately 9.5% of the net proceeds from the Share Offer) will be used for strengthening our product design and development capabilities and increasing our product offerings;
- approximately HK\$8.4 million (representing approximately 8.2% of the net proceeds from the Share Offer) will be used for enhancing our brand recognition and awareness and promoting our corporate reputation, of which approximately HK\$3.0 million (representing approximately 2.9% of the net proceeds from the Share Offer) will be used for online media advertising and HK\$5.4 million (representing approximately 5.3% of the net proceeds from the Share Offer) will be used for promotion events in Hong Kong, such as gift offers to customers; and
- approximately HK\$9.7 million (representing approximately 9.5% of the net proceeds from the Share Offer) will be used as general working capital of our Group.

If the Offer Price is fixed at HK\$1.2, being the high-end of the stated Offer Price range, our net proceeds will be increased by approximately HK\$13.0 million. Our Directors currently intend to use such additional proceeds for the above uses in the proportions stated above.

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## **FUTURE PLANS AND USE OF PROCEEDS**

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If the Offer Price is fixed at HK\$1.0, being the low-end of the stated Offer Price range, our net proceeds will instead be decreased by approximately HK\$13.0 million. Our Directors currently intend to reduce our use of proceeds proportionately as earmarked.

To the extent that the net proceeds to us from the Share Offer are not immediately applied to the above purposes, we will deposit the net proceeds into short-term demand deposits and/or money market instruments.



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## UNDERWRITING

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### **PUBLIC OFFER UNDERWRITERS, JOINT BOOKRUNNERS AND JOINT LEAD MANAGERS**

Giraffe Capital Limited  
South China Securities Limited  
Future Land Resources Securities Limited

### **CO-MANAGER**

Yuzhou Financial Holdings Limited

### **PUBLIC OFFER UNDERWRITING ARRANGEMENTS AND EXPENSES**

#### **Public Offer Underwriting Agreement**

Pursuant to the Public Offer Underwriting Agreement, our Company has agreed to offer the Public Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to, among other conditions, the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus by the Listing Committee and to certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriters have agreed to subscribe or procure subscribers for their respective applicable proportions of the Public Offer Shares now being offered which are not taken up under the Public Offer on the terms and conditions of this prospectus, the Application Forms and the Public Offer Underwriting Agreement.

The Public Offer Underwriting Agreement is conditional on and subject to the Placing Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

#### ***Grounds for termination***

The obligations of the Public Offer Underwriters to subscribe for, or procure subscribers for the Public Offer Shares are subject to termination. The Joint Bookrunners (for themselves and on behalf of the Co-Manager and the Public Offer Underwriters) shall have the absolute right by notice in writing to our Company to terminate the Public Offer Underwriting Agreement with immediate effect at any time prior to 8:00 a.m. on the Listing Date (the “**Termination Time**”) if any of the following events shall occur prior to the Termination Time:

1. There comes to the notice of the Joint Bookrunners:
  - (a) any matter or event showing any of the representations, warranties, agreements and undertakings given to the Public Offer Underwriters under the Public Offer Underwriting Agreement (the “**Warranties**”) to be untrue, inaccurate or misleading when given or repeated or there has been a breach of any of the Warranties or any other provisions of the Public Offer Underwriting Agreement by any party to the Public Offer Underwriting Agreement other than the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager and the Public Offer Underwriters which, in any such cases, is considered, in the reasonable opinion of the Joint Bookrunners, to be material in the context of the Public Offer; or

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## UNDERWRITING

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- (b) any statement contained in this prospectus has become or been discovered to be untrue, incorrect or misleading in any material respect which is considered, in the reasonable opinion of the Joint Bookrunners, to be material in the context of the Public Offer; or
  - (c) any event, series of events, matters or circumstances occurs or arises on or after the date of the Public Offer Underwriting Agreement and before the Termination Time, being events, matters or circumstances which, if it had occurred before the date of the Public Offer Underwriting Agreement, would have rendered any of the Warranties untrue, incorrect or misleading in any material respect, and which is considered, in the reasonable opinion of the Joint Bookrunners to be material in the context of the Public Offer; or
  - (d) any matter which, had it arisen or been discovered immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted, in the reasonable opinion of the Joint Bookrunners, a material omission in the context of the Public Offer; or
  - (e) any event, act or omission which gives or is likely to give rise to any liability of a material nature of our Company and any of the executive Directors and the Controlling Shareholders arising out of or in connection with the breach of any of the Warranties;
2. there shall have developed, occurred, existed, or come into effect any event or series of events, matters or circumstances whether occurring or continuing before, on and/or after the date of the Public Offer Underwriting Agreement and including an event or change in relation to or a development of an existing state of affairs concerning or relating to any of the following:
- (a) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the PRC, BVI, the Cayman Islands or any of the jurisdictions in which our Group operates or has or is deemed by any applicable law to have a presence (by whatever name called) or any other jurisdiction relevant to the business of our Group; or
  - (b) any change in, or any event or series of events or development resulting or likely to result in any change in Hong Kong, the PRC, BVI, the Cayman Islands or any of the jurisdictions relevant to the business of our Group, the local, regional or international financial, currency, political, military, industrial, economic, stock market or other market conditions or prospects; or

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## UNDERWRITING

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- (c) any adverse change in the conditions of Hong Kong, the PRC or international equity securities or other financial markets; or
- (d) the imposition of any moratorium, suspension or material restriction on trading in securities generally on any of the markets operated by the Stock Exchange due to exceptional financial circumstances or otherwise; or
- (e) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the PRC, BVI, the Cayman Islands or any of the jurisdictions in which our Group operates or has or is deemed by any applicable law to have a presence (by whatever name called) or other jurisdiction relevant to our Group's business; or
- (f) any adverse change or prospective adverse change in the business or in the financial or trading position or prospects of any member of our Group; or
- (g) the imposition of economic sanction or withdrawal of trading privileges, in whatever form, by the US or by the EU (or any member thereof) on Hong Kong or the PRC; or
- (h) a general moratorium on commercial banking activities in the PRC or Hong Kong declared by the relevant authorities; or
- (i) any event of force majeure including, without limiting the generality thereof, any act of God, military action, riot, public disorder, civil commotion, fire, flood, tsunami, explosion, epidemic, terrorism, strike or lock-out;

which in the reasonable opinion of the Joint Bookrunners acting in good faith:

- (a) is or will be, or is likely to be, adverse, in any material respect, to the business, financial or other condition or prospects of our Group taken as a whole; or
- (b) has or will have or is reasonably likely to have a material adverse effect on the success of the Share Offer or the level of the Offer Shares being applied for or accepted, or the distribution of the Offer Shares; or
- (c) makes it impracticable, inadvisable or inexpedient for the Public Offer Underwriters to proceed with the Public Offer as a whole.

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## UNDERWRITING

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For the above purpose:

- (a) a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the US or a material devaluation of the Renminbi against any foreign currencies shall be taken as an event resulting in a change in currency conditions; and
- (b) any normal market fluctuations shall not be construed as events or series of events affecting market conditions referred to above.

### *Undertakings pursuant to the Public Offer Underwriting Agreement*

#### *Undertakings by our Company*

Pursuant to the Public Offer Underwriting Agreement, our Company had undertaken to each of the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager and the Public Offer Underwriters that, except pursuant to the Share Offer, the Capitalisation Issue, the grant of options under the Share Option Scheme and the issue of Shares upon exercise of any such options or as otherwise permitted under the Listing Rules, our Company will not, and our Company, the Controlling Shareholders and each of our executive Directors will procure that our subsidiaries will not, unless with the prior written consent of the Joint Bookrunners (for themselves and on behalf of the Co-Manager and the Public Offer Underwriters), such consent not to be unreasonably withheld or delayed, and in compliance with the requirements of the Listing Rules:

- (i) allot or issue, or agree to allot or issue, Shares or other securities of our Company (including warrants or other convertible or exchangeable securities) or grant or agree to grant any options, warrants, or other rights to subscribe for or convertible or exchangeable into Shares or other securities of our Company; or
- (ii) repurchase Shares or other securities of our Company or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequence of ownership of any Shares or offer to or agree to do any of the foregoing or announce any intention to do so,

during the six months immediately following the Listing Date (the “**First Six-month Period**”).

In the event of our Company doing any of the foregoing by virtue of the aforesaid exceptions or during the period of six months immediately following the expiry of the First Six-month Period (the “**Second Six-month Period**”), it will take all reasonable steps to ensure that any such act will not create a disorderly or false market for any Shares or other securities of our Company.

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## UNDERWRITING

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### *Undertakings by our Controlling Shareholders*

Each of the Controlling Shareholders has jointly and severally undertaken to each of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager and the Public Offer Underwriters that during the 24 months immediately following the Listing Date, he/she/it shall not, and shall procure that the relevant registered holder(s) and his/her/its associates and companies controlled by him/her/it and any nominee or trustee holding in trust for he/she/it shall not:

- (i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, any of the Shares in respect of which it or he is shown in this prospectus to be directly or indirectly interested in (the “**Relevant Securities**”); or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Relevant Securities, whether any of the foregoing transactions is to be settled by delivery of the Relevant Securities or such other securities, in cash or otherwise; or
- (iii) enter or agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (i) or (ii) above; or
- (iv) agree or contract to, or publicly announce any intention to enter into or effect any of the transactions referred to in paragraphs (i), (ii) or (iii) above.

The above voluntary undertakings are irrevocable and cannot be waived by the consent (whether written or not) of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager or the Public Offer Underwriters.

### *Lock-up undertakings to the Stock Exchange pursuant to the Listing Rules*

#### *Undertaking by our Company*

Pursuant to Rule 10.08 of the Listing Rules, our Company has undertaken to the Stock Exchange that no further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued or form the subject of any agreement or arrangement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except pursuant to the Share Offer and the Capitalisation Issue or in certain circumstances prescribed by Rule 10.08 of the Listing Rules which includes the grant of options and the issue of Shares pursuant to the Share Option Scheme.

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## UNDERWRITING

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### *Undertakings by our Controlling Shareholders and Mr. Chan Kam Hon Ivan*

In accordance with Rule 10.07(1) of the Listing Rules, our Controlling Shareholders, namely Mr. Tong Ying Chiu and Ms. Ng Siu Kuen Sylvia (collectively as a group of Controlling Shareholders), Sun Cheong Creative, Uni-Pro and Mr. Chan Kam Hon Ivan have undertaken to the Stock Exchange and our Company that except pursuant to the Share Offer or unless in compliance with the requirements of the Listing Rules, he or she or it shall not, and shall procure that the relevant registered holder(s) shall not, (i) at any time during the period commencing on the date by reference to which disclosure of his or her or its shareholding in our Company is made in the prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or other securities of the Company in respect of which he or she or it is shown by this prospectus to be the beneficial owner; and (ii) at any time during the period of six months from the date on which the period referred to in paragraph (i) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or she or it would cease to be our Controlling Shareholder.

Pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, our Controlling Shareholders, namely Mr. Tong Ying Chiu and Ms. Ng Siu Kuen Sylvia (collectively as a group of Controlling Shareholders), Sun Cheong Creative and Uni-Pro, have further undertaken to us and the Stock Exchange that he or she or it will, within a period of commencing on the date by reference to which disclosure of his or her or its shareholding is made in this prospectus and ending on the date which is 12 months from the Listing Date, immediately inform us of:

- (a) pledges or charges of any Shares or other securities of our Company beneficially owned by any of our Controlling Shareholders in favor of any authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform the Company in writing of such pledge or charge together with the number of such Shares or other securities of our Company so pledged or charged; and
- (b) when he or she or it receives indication, either verbal or written, from any pledgee or chargee of any of the pledged or charged Shares or other securities of our Company pledged or charged that any of such securities will be disposed of, immediately inform our Company of such indications.

Our Company will inform the Stock Exchange as soon as it is informed of the above matters by any of our Controlling Shareholders and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Listing Rules as soon as possible after being so informed by any of our Controlling Shareholders.

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## UNDERWRITING

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### **Placing**

#### ***Placing Underwriting Agreement***

In connection with the Placing, it is expected that our Company will enter into the Placing Underwriting Agreement with, among others, the Placing Underwriter(s), on terms and conditions that are substantially similar to the Public Offer Underwriting Agreement as described above and on the additional terms described below. Under the Placing Underwriting Agreement, the Placing Underwriter(s) will severally agree to subscribe or procure subscribers for the Placing Shares being offered pursuant to the Placing.

It is expected that, pursuant to the Placing Underwriting Agreement, our Company, our executive Directors and our Controlling Shareholders will give undertakings similar to those given pursuant to the Public Offer Underwriting Agreement, as described in the paragraph headed “Public Offer Underwriting Arrangements and Expenses – Public Offer Underwriting Agreement – Undertakings pursuant to the Public Offer Underwriting Agreement” in this section.

It is expected that each of our Controlling Shareholders will undertake to the Placing Underwriter(s) not to dispose of, or enter into any agreement to dispose of, or otherwise create any options, rights, interest or encumbrances in respect of any of our Shares held by him/her/it in our Company for a period similar to that given by them pursuant to the Public Offer Underwriting Agreement as described in the paragraph “Public Offer Underwriting Arrangements and Expenses – Public Offer Underwriting Agreement – Undertakings pursuant to the Public Offer Underwriting Agreement” in this section.

#### **Commission and expenses**

According to the Public Offer Underwriting Agreement, the Public Offer Underwriters will receive underwriting commissions of 4% of the aggregate Offer Price payable for the Public Offer Shares initially offered under the Public Offer out of which the Public Offer Underwriters may pay any sub-underwriting commission in connection with the Public Offer. The Placing Underwriters are expected to receive an underwriting commission on the aggregate Offer Price payable for the Placing Shares initially offered under the Placing.

Based on the Offer Price of HK\$1.1 per Offer Share (being the mid-point of the indicative range of the Offer Price), the aggregate commission and fees payable to the Underwriters, together with Stock Exchange listing fees, SFC transaction levy, Stock Exchange trading fees, legal and other professional fees and printing and other expenses relating to the Share Offer, are estimated to amount to approximately HK\$46.4 million in total.

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## UNDERWRITING

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### SOLE SPONSOR'S AND UNDERWRITERS' INTEREST IN OUR COMPANY

Giraffe Capital Limited will receive an advisory and documentation fee as the Sole Sponsor to the Share Offer. The Joint Bookrunners and the Underwriters will receive an underwriting commission. Particulars of these underwriting commission and expenses are set forth under the section headed "Commission and expenses" above.

We have appointed Giraffe Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules for the period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the full financial year commencing after the Listing Date.

As at the Latest Practicable Date and save as disclosed above, none of the Sole Sponsor and the Underwriters is interested legally or beneficially in shares of any members of our Group 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 members of our Group or has any interest in the Share Offer.

The Sole Sponsor satisfies the independence criteria applicable to sponsor set out in Rule 3A.07 of the Listing Rules.

### RESTRICTIONS ON THE OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares other than in Public Offer, or the distribution of this prospectus in any jurisdiction other than Hong Kong.

Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. In particular, the Offer Shares have not been offered or sold, and will not be offered or sold, directly or indirectly, in the PRC.

### MINIMUM PUBLIC FLOAT

Our Directors will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Share Offer.



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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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### THE SHARE OFFER

This prospectus is published in connection with the Public Offer as part of the Share Offer. Giraffe Capital Limited is the Sole Sponsor. Giraffe Capital, South China and Future Land are the Joint Bookrunners and the Joint Lead Managers.

The Share Offer consists of (subject to reallocation):

- the Public Offer of 13,500,000 Shares (subject to reallocation as mentioned below) in Hong Kong as described under the paragraph headed “The Public Offer” in this section; and
- the Placing of 121,500,000 Shares (subject to reallocation as mentioned below) in Hong Kong as described under the paragraph headed “The Placing” in this section.

Investors may apply for the Offer Shares under the Public Offer or indicate an interest, if qualified to do so, for the Offer Shares under the Placing, but may not do both. The Public Offer is open to members of the public in Hong Kong as well as to institutional, professional and other investors in Hong Kong. The Placing will involve selective marketing of the Offer Shares to institutional and professional investors. The Placing Underwriters are soliciting from prospective investors indications of interest in acquiring the Offer Shares in the Placing. Prospective investors will be required to specify the number of Offer Shares under the Placing they would be prepared to acquire either at different prices or at a particular price.

The Offer Shares will represent 25% of the enlarged issued share capital of our Company immediately after completion of the Share Offer and the Capitalisation Issue (but without taking into account any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme). The number of Offer Shares to be offered under the Public Offer and the Placing respectively may be subject to reallocation as described in the paragraph headed “Reallocation” in this section.

### PRICING AND ALLOCATION

#### Offer Price

The Offer Price will be not more than HK\$1.2 per Offer Share and is expected to be not less than HK\$1.0 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Public Offer, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

#### Price payable on application

Applicants under the Public Offer must pay, on application, the maximum indicative Offer Price of HK\$1.2 per Public Offer Share plus 1% brokerage, a 0.0027% SFC transaction levy and a 0.005% Stock Exchange trading fee, amounting to a total of HK\$2,424.18 for one board lot of 2,000 Shares. Each Application Form includes a table showing the exact amounts payable

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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on certain numbers of Offer Shares. If the Offer Price as finally determined in the manner described below, is less than HK\$1.2 per Public Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants without interest.

### **Determining the Offer Price**

The Placing Underwriters will be soliciting from prospective investors indications of interest in acquiring the Shares in the Placing. Prospective professional, institution and other investors will be required to specify the number of Offer Shares under the Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or about Friday, 28 September 2018.

The Offer Price is expected to be fixed by agreement between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Friday, 28 September 2018 and in any event, no later than Saturday, 29 September 2018.

**If, for any reason, our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) are unable to reach agreement on the Offer Price by Saturday, 29 September 2018, the Share Offer will not proceed and will lapse.**

### **Reduction in Offer Price range and/or number of Offer Shares**

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Joint Bookrunners (for themselves and on behalf of the Underwriters) considers it appropriate and together with our consent, the indicative Offer Price range and/or the number of Offer Shares may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer.

In such a case, our Company will, as soon as practicable following the decision to make any such reduction, and in any event not later than the morning of the last day for lodging applications under the Public Offer, cause to be published by our Company in The Standard (in English) and Hong Kong Economic Times (in Chinese) and on the websites of our Company and the Stock Exchange at [www.clip-fresh.com](http://www.clip-fresh.com) and [www.hkexnews.hk](http://www.hkexnews.hk), respectively, notice of the reduction in the indicative Offer Price range and/or number of Offer Shares. Such notice will also include confirmation or revision, as appropriate, of the offering statistics as currently set out in the section headed “Summary” of this prospectus and any other financial information which may change as a result of such reduction. The Offer Price, if agreed upon, will be fixed within such revised Offer Price range. In the absence of the publication of any such notice, the Offer Price shall under no circumstances be set outside the Offer Price range indicated in this prospectus.

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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**Before submitting applications for Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range and/or number of Offer Shares may not be made until the day which is the last day for lodging applications under the Public Offer.**

### **Announcement of final Offer Price and basis of allocations**

The final Offer Price, the level of indications of interest in the Placing and the level of applications in the Public Offer and the basis of allocations of the Public Offer Shares are expected to be published on Wednesday, 3 October 2018 in The Standard (in English) and Hong Kong Economic Times (in Chinese), our Company's website at [www.clip-fresh.com](http://www.clip-fresh.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

Results of allocations in the Public Offer, including the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants (where applicable) and the number of Public Offer Shares successfully applied for under **WHITE** and **YELLOW** application forms, or by giving **electronic application instructions** to HKSCC will be made available through a variety of channels as described in the section headed "How to Apply for Public Offer Shares – 10. Publication of Results" of this prospectus.

### **CONDITIONS OF THE SHARE OFFER**

Acceptance of all applications for the Offer Shares will be conditional upon, among other things:

- the Listing Committee granting the approval of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer (including the Shares to be issued pursuant to the Capitalisation Issue and any Shares which may fall to be issued upon the exercise of the options which may be granted under the Share Option Scheme);
- the Offer Price having been duly agreed on or before the Price Determination Date;
- the execution and delivery of the Placing Underwriting Agreement on or around the Price Determination Date; and
- the obligations of the Underwriters under each of the Placing Underwriting Agreement and the Public Offer Underwriting Agreement having become unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in such Underwriting Agreements (unless and to the extent such conditions are waived on or before such dates and times) and in any event not beyond the 30th day after the date of this prospectus.

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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If the above conditions are not fulfilled or waived, prior to the dates and times specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Share Offer will cause to be published by our Company in The Standard (in English) and Hong Kong Economic Times (in Chinese) and on the websites of our Company and the Stock Exchange at [www.clip-fresh.com](http://www.clip-fresh.com) and [www.hkexnews.hk](http://www.hkexnews.hk), respectively, on the next day following such lapse.

**Share certificates for the Offer Shares are expected to be issued on Wednesday, 3 October 2018 but will only become valid certificates of title at 8:00 a.m. on Thursday, 4 October 2018, provided that (i) the Share Offer has become unconditional in all respects and (ii) the right of termination as described in the paragraph headed “Underwriting – Public Offer Underwriting Arrangements and Expenses – Grounds for termination” of this prospectus has not been exercised.**

### THE PUBLIC OFFER

#### Number of Shares initially offered

Our Company is initially offering 13,500,000 Shares at the Offer Price, representing 10% of the 135,000,000 Shares initially available under the Share Offer, for subscription by the public in Hong Kong. Subject to reallocation as mentioned below, the number of Shares offered under the Public Offer will represent 2.5% of the total issued share capital of our Company immediately after completion of the Share Offer and Capitalisation Issue (without taking into account any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme). The Public Offer is open to members of the public in Hong Kong as well as to institutional, professional and other 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. Completion of the Public Offer is subject to the conditions as set out in the paragraph headed “Conditions of the Share Offer” above.

#### Allocation

Allocation of Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

The total number of Public Offer Shares initially being offered for subscription under the Public Offer (after taking into account any reallocation in the number of Offer Shares allocated between the Public Offer and the Placing) will be divided equally into two pools: Pool A and Pool B, both of which are available on a fair basis to successful applicants. All valid

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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applications that have been received for Public Offer Shares with a total amount (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee) of HK\$5 million or below will fall into Pool A and all valid applications that have been received for Public Offer Shares with a total amount (excluding brokerage, SFC transaction levy and Stock Exchange trading fee) of over HK\$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Public Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Public Offer Shares from either Pool A or Pool B but not from both pools and may only apply for Public Offer Shares in either Pool A or Pool B. In addition, multiple or suspected multiple applications within either pool or between pools will be rejected. No application will be accepted from applicants for more than 6,750,000 Public Offer Shares.

### **Reallocation**

Allocation of the Offer Shares between the Public Offer and the Placing is subject to reallocation on the following basis:

- (a) Where the Placing Shares are fully subscribed or oversubscribed:
  - (i) if the Public Offer Shares are not fully subscribed, the Joint Bookrunners (for themselves and on behalf of the Underwriters) will have the discretion (but shall not be under any obligation) to reallocate all or any unsubscribed Public Offer Shares to the Placing in such amount as the Joint Bookrunners (for themselves and on behalf of the Underwriters) deems appropriate;
  - (ii) if the Public Offer Shares are not undersubscribed but the number of Offer Shares validly applied for under the Public Offer represents less than 15 times of the number of Offer Shares initially available under the Public Offer, then 13,500,000 Offer Shares may be reallocated to the Public Offer from the Placing, increasing the total number of Offer Shares available under the Public Offer to 27,000,000, representing 20% of the total number of Offer Shares initially available under the Share Offer;
  - (iii) if the number of Offer Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times of the number of Offer Shares initially available under the Public Offer, then 27,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, increasing the total number of Offer Shares available under the Public Offer to 40,500,000, representing 30% of the total number of Offer Shares initially available under the Share Offer;

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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- (iv) if the number of Offer Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times of the number of Offer Shares initially available under the Public Offer, then 40,500,000 Offer Shares will be reallocated to the Public Offer from the Placing, increasing the total number of Offer Shares available under the Public Offer to 54,000,000, representing 40% of the total number of Offer Shares initially available under the Share Offer; and
  - (v) if the number of Offer Shares validly applied for under the Public Offer represents 100 times or more of the number of Offer Shares initially available under the Public Offer, then 54,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, increasing the total number of Offer Shares available under the Public Offer to 67,500,000, representing 50% of the total number of Offer Shares initially available under the Share Offer.
- (b) Where the Placing Shares are not fully subscribed:
- (i) if the Public Offer Shares are not fully subscribed, the Share Offer will not proceed unless the Underwriters would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Share Offer on the terms and conditions of this prospectus, the Application Forms and Underwriting Agreements; and
  - (ii) if the Public Offer Shares are fully subscribed irrespective of the number of times the number of Offer Shares initially available under the Public Offer, then up to 13,500,000 Offer Shares will be reallocated to the Public Offer from the Placing, increasing the total number of Offer Shares available under the Public Offer to 27,000,000, representing 20% of the total number of Offer Shares initially available under the Share Offer.

In addition, the Joint Bookrunners may reallocate Offer Shares from the Placing to the Public Offer to satisfy valid applications under the Public Offer. In accordance with Guidance Letter HKEx-GL91-18 issued by the Stock Exchange, if such reallocation is done other than pursuant to Practice Note 18 of the Listing Rules, the maximum total number of Offer Shares that may be reallocated to the Public Offer following such reallocation shall be not more than double the initial allocation to the Public Offer (i.e. 27,000,000 Offer Shares) and the final Offer Price shall be fixed at the low-end of the indicative Offer Price range (i.e. HK\$1.00 per Offer Share) stated in this prospectus.

For reallocation of Offer Shares from the Placing to the Public Offer, the number of Offer Shares allocated to the Placing will correspondingly be reduced, and such additional Public Offer Shares will be reallocated to Pool A and Pool B in the Public Offer in such manner as the Joint Bookrunners deem appropriate.

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## **STRUCTURE AND CONDITIONS OF THE SHARE OFFER**

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If the Public Offer is not fully subscribed, the Joint Bookrunners will have the discretion (but shall not be under any obligation) to reallocate all or any unsubscribed Public Offer Shares in such amount as the Joint Bookrunners deem appropriate.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Public Offer.

### **THE PLACING**

#### **Number of Offer Shares offered**

Subject to the reallocation as described above, the number of Offer Shares to be initially offered under the Placing will be 121,500,000 Shares, representing 90% of the total number of the Offer Shares initially available under the Share Offer. Subject to the reallocation of the Offer Shares between the Placing and the Public Offer, the number of Shares initially offered under the Placing will represent approximately 22.5% of our Company's enlarged issue share capital immediately after the completion of the Share Offer and the Capitalisation Issue, but without taking into account any Shares which may be allotted and issued upon exercise of any options granted under the Share Option Scheme.

#### **Allocation**

The Placing Underwriters are soliciting from prospective professional, institutional and other investors, indications of interest in subscribing for the Placing Shares. Prospective professional, institutional and other investors will be required to specify the number of Placing Shares they would be prepared to subscribe for at the Offer Price. This process is known as "book building". In Hong Kong, retail investors should apply for the Public Offer Shares, as retail investors applying for the Placing Shares, including retail investors applying through banks and other institutions, are unlikely to be allocated any Placing Shares.

Allocation of Placing Shares is based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to buy further and/or hold or sell its Shares after the Listing. Such allocation is generally intended to result in a distribution of Placing Shares on a basis which would lead to the establishment of a broad shareholder base to the benefit of our Company and our Shareholders as a whole.

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may require any investor who has been offered Placing Shares under the Placing, and who has made an application under the Public Offer, to provide sufficient information to the Joint Bookrunners so as to allow them to identify the relevant applications under the Public Offer and to ensure that they are excluded from any application of Offer Shares under the Public Offer.

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## **STRUCTURE AND CONDITIONS OF THE SHARE OFFER**

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### **UNDERWRITING**

The Public Offer is fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement.

The Placing is fully underwritten by the Placing Underwriter(s) under the terms of the Placing Underwriting Agreement.

These underwriting arrangements, and the Underwriting Agreements, are summarized in the section headed “Underwriting” in this prospectus.

### **SHARES WILL BE ELIGIBLE FOR CCASS**

All necessary arrangements have been made enabling the Shares to be admitted into CCASS. If the Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second 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.

### **DEALING ARRANGEMENTS**

Assuming that the Share Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, 4 October 2018, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Thursday, 4 October 2018. The Shares will be traded in board lots of 2,000 Shares. The stock code of the Shares is 1781.



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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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### 1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for Placing Shares.

To apply for Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Bookrunners, the Joint Lead Managers and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the US Securities Act); and
- are not a legal or natural person of the PRC.

If you are a firm, the application must be in the individual members' names. If 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, our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers (or their agents or nominees) may accept or reject it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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Unless permitted by the Listing Rules, you cannot apply for any Public Offer Shares if you:

- are an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- are a Director or chief executive officer of our Company and/or any of its subsidiaries;
- are a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Share Offer;
- are an associate (as defined in the Listing Rules) of any of the above; or
- have been allocated or have applied for any Placing Shares or otherwise participate in the Placing.

### 3. APPLYING FOR PUBLIC OFFER SHARES

#### Which Application Channel to Use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form.

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or give **electronic application instructions** to HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### Where to Collect the Prospectus and the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 21 September 2018 to 12:00 noon on Thursday, 27 September 2018 from:

- (i) the office of the Public Offer Underwriters:

**Giraffe Capital Limited**  
22/F, China Hong Kong Tower  
8-12 Hennessy Road  
Wan Chai  
Hong Kong

**South China Securities Limited**  
28/F  
Bank of China Tower  
No. 1 Garden Road  
Central  
Hong Kong

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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### **Future Land Resources Securities Limited**

Flat B, 20/F  
Guangdong Investment Tower  
148 Connaught Road Central  
Sheung Wan  
Hong Kong

- (ii) the office of the Sole Sponsor:

### **Giraffe Capital Limited**

22/F, China Hong Kong Tower  
8-12 Hennessy Road  
Wan Chai  
Hong Kong

- (iii) any of the following designated branches of DBS Bank (Hong Kong) Limited, the receiving bank for the Public Offer:

| <b>District</b>         | <b>Branch</b>                                  | <b>Address</b>  |
|-------------------------|--|---|
| <b>Hong Kong Island</b> | North Point Branch                             | G/F, 391 King's Road,<br>North Point  |
|                         | Queen's Road East –<br>DBS Treasures<br>Centre | Shop A, G/F, Jonsim Place,<br>228 Queen's Road East, Wanchai                |
| <b>Kowloon</b>          | Nathan Road – SME<br>Banking Centre            | 2/F, Wofoo Commercial Building,<br>574-576 Nathan Road, Mongkok,<br>Kowloon |
| <b>New Territories</b>  | Yuen Long Branch                               | G/F, 1-5 Tai Tong Road,<br>Yuen Long  |

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 21 September 2018 until 12:00 noon on Thursday, 27 September 2018 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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### 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 "TING HONG NOMINEES LIMITED – SUN CHEONG CREATIVE DEVELOPMENT PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the designated branches of the receiving bank listed above, at the following times:

**Friday, 21 September 2018 – 9:00 a.m. to 5:00 p.m.**

**Saturday, 22 September 2018 – 9:00 a.m. to 1:00 p.m.**

**Monday, 24 September 2018 – 9:00 a.m. to 5:00 p.m.**

**Wednesday, 26 September 2018 – 9:00 a.m. to 5:00 p.m.**

**Thursday, 27 September 2018 – 9:00 a.m. to 12:00 noon**

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, 27 September 2018, the last application day or such later time as described in "9. Effect of Bad Weather on the Opening of the Application 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, among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

- (i) undertake to execute all relevant documents and instruct and authorise our Company, the Sole Sponsor, the Joint Bookrunners and/or the Joint Lead Managers (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Law, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Memorandum and 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;

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Share Offer in this prospectus;
- (vi) agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Placing Shares under the Placing nor participated in the Placing;
- (viii) agree to disclose to the Company, our Hong Kong Branch Share Registrar, receiving bank, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the US Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible 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, the Sole Sponsor, the Joint Bookrunners and the Joint Lead Managers will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC by you or by any one 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 BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS**

### **General**

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling (852) 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for you if you go to:

**Hong Kong Securities Clearing Company Limited**  
Customer Service Center  
1/F, One & Two Exchange Square  
8 Connaught Place, Central  
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are **not a CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and our Hong Kong Branch Share Registrar.

### **Giving Electronic Application Instructions to HKSCC via CCASS**

Where you have given **electronic application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Public Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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- (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
- confirm that you understand that our Company, the Directors, the Sole Sponsor, the Joint Bookrunners and the Joint Lead Managers will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their 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



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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Public Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Law, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Memorandum and Articles of Association of the Company; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

### Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

### Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 2,000 Public Offer Shares. Instructions for more than 2,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

### Time for Inputting Electronic Application Instructions<sup>(1)</sup>

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

**Friday, 21 September 2018 – 9:00 a.m. to 8:30 p.m.**

**Saturday, 22 September 2018 – 8:00 a.m. to 1:00 p.m.**

**Monday, 24 September 2018 – 8:00 a.m. to 8:30 p.m.**

**Wednesday, 26 September 2018 – 8:00 a.m. to 8:30 p.m.**

**Thursday, 27 September 2018 – 8:00 a.m. to 12:00 noon**

*Note:*

- (1) The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS/Custodian Participants and/or CCASS Investor Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, 21 September 2018 until 12:00 noon on Thursday, 27 September 2018 (24 hours daily, except on 27 September 2018, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, 27 September 2018, the last application day or such later time as described in “9. Effect of Bad Weather on the Opening of the Application Lists” in this section.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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### No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

### Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving banker, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

## 6. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. 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, the Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Thursday, 27 September 2018.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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### 7. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC, 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).

### 8. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for the Public Offer Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for the Public Offer Shares under the terms set out in the Application Forms.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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You may submit an application using a **WHITE** or **YELLOW** Application Form in respect of a minimum of 2,000 Public Offer Shares. Each application or **electronic application instruction** in respect of more than 2,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure and Conditions of the Share Offer – Determining the Offer Price”.

### 9. 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 Thursday, 27 September 2018. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Thursday, 27 September 2018 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.

### 10. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Wednesday, 3 October 2018 in The Standard (in English) and Hong Kong Economic Times (in Chinese), our Company’s website at [www.clip-fresh.com](http://www.clip-fresh.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company’s website at [www.clip-fresh.com](http://www.clip-fresh.com) and the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 8:00 a.m. on Wednesday, 3 October 2018;

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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- from the designated results of allocations website at [www.unioniporesults.com.hk](http://www.unioniporesults.com.hk) with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Wednesday, 3 October 2018 to 12:00 mid-night on Tuesday, 9 October 2018;
- by telephone enquiry line by calling (852) 2843 6081 between 9:00 a.m. and 6:00 p.m. from Wednesday, 3 October 2018 to Monday, 8 October 2018 on a business day; and
- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, 3 October 2018 to Friday, 5 October 2018 at all the designated receiving bank branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in the section headed “Structure and Conditions of the Share Offer”.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### 11. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

You should note the following situations in which the Public Offer shares will not be allotted to you:

**(i) If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

**(ii) If our Company or its agents exercise their discretion to reject your application:**

Our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(iii) If the allotment of Public Offer Shares is void:**

The allotment of Public Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

**(iv) If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your 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, the Sole Sponsor, the Joint Bookrunners or the Joint Lead Managers believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of Public Offer Shares initially offered under the Public Offer.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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### 12. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$1.2 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with “Structure and Conditions of the Share Offer – Conditions of the Share Offer” of 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 Wednesday, 3 October 2018.

### 13. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Public Offer Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Wednesday, 3 October 2018. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier order(s).



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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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Share certificates will only become valid certificates of title at 8:00 a.m. on Thursday, 4 October 2018 provided that the Share Offer has become unconditional and the right of termination described in the “Underwriting” section of this prospectus has not been exercised. Investors who trade shares prior to the receipt of share certificates or prior to 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 Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Hong Kong Branch Share Registrar, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, 3 October 2018 or such other date as notified by us.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation’s chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Wednesday, 3 October 2018, by ordinary post and at your own risk.

#### ***(ii) If you apply using a YELLOW Application Form***

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above for collection of your refund cheque(s). If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Wednesday, 3 October 2018, 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 Wednesday, 3 October 2018, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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*(iii) If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS participant.

*(iv) If you are applying as a CCASS investor participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in "10. Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 3 October 2018 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

*(v) If you apply via Electronic Application Instructions to HKSCC*

*Allocation of Public Offer Shares*

For the purpose of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

**Deposit of Share Certificates into CCASS and Refund of Application Monies**

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, 3 October 2018, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allocation of the Public Offer Shares in the manner specified in "10. Publication of Results" above on Wednesday, 3 October 2018. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 3 October 2018 or such other date as determined by HKSCC or HKSCC Nominees.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 3 October 2018. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 3 October 2018.

### 14. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

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

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

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

*The following is the text of a report set out on pages I-1 to I-66, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*

**Deloitte.****德勤****ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF SUN CHEONG CREATIVE DEVELOPMENT HOLDINGS LIMITED AND GIRAFFE CAPITAL LIMITED****Introduction**

We report on the historical financial information of Sun Cheong Creative Development Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages I-4 to I-66, which comprises the consolidated statements of financial position of the Group as at 31 December 2014, 2015, 2016 and 2017 and 30 June 2018, the statements of financial position of the Company as at 31 December 2016 and 2017 and 30 June 2018 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the four years ended 31 December 2017 and the six months ended 30 June 2018 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-66 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 21 September 2018 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

**Directors' responsibility for the Historical Financial Information**

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

**Reporting accountants' responsibility**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as at 31 December 2014, 2015, 2016 and 2017 and 30 June 2018, of the Company's financial position as at 31 December 2016 and 2017 and 30 June 2018, and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

### **Review of stub period comparative financial information**

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2017 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 preparation and presentation set out in Note 1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance*****Adjustments***

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

***Dividends***

We refer to note 14 to the Historical Financial Information which contains information about the dividends paid by the Company and its subsidiaries in respect of the Track Record Period.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong  
21 September 2018

**HISTORICAL FINANCIAL INFORMATION OF THE GROUP****Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with the Hong Kong Financial Reporting Standards issued by the HKICPA ("Underlying Financial Statements") by the directors of the Company and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Historical Financial Information is presented in HK dollars and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

|  | NOTES | Year ended 31 December |                  |                  |                  | Six months ended<br>30 June     |                  |
|--|-------|------------------------|------------------|------------------|------------------|---------------------------------|------------------|
|  |       | 2014<br>HK\$'000       | 2015<br>HK\$'000 | 2016<br>HK\$'000 | 2017<br>HK\$'000 | 2017<br>HK\$'000<br>(unaudited) | 2018<br>HK\$'000 |
| Revenue  | 5     | 301,987                | 315,527          | 300,632          | 325,814          | 157,952                         | 159,781          |
| Cost of sales  |       | (228,007)              | (230,656)        | (193,913)        | (212,937)        | (101,232)                       | (102,414)        |
| Gross profit   |       | 73,980                 | 84,871           | 106,719          | 112,877          | 56,720                          | 57,367           |
| Other income   | 6     | 2,104                  | 3,552            | 2,195            | 446              | 417                             | 204              |
| Other gains and losses   | 7     | (523)                  | 4,753            | 5,321            | (3,231)          | (2,759)                         | (1,175)          |
| Selling expenses   |       | (18,291)               | (19,184)         | (18,780)         | (21,653)         | (10,296)                        | (10,348)         |
| Administrative expenses  |       | (25,186)               | (25,702)         | (29,568)         | (31,706)         | (16,144)                        | (15,432)         |
| Listing expenses   |       | -                      | -                | (12,453)         | (10,205)         | (1,968)                         | (2,400)          |
| (Other expenses) reversal of other expenses  | 9     | -                      | -                | (8,647)          | 667              | 2,097                           | (2,330)          |
| Finance costs  | 8     | (9,007)                | (10,626)         | (8,278)          | (8,201)          | (4,010)                         | (4,512)          |
| Profit before tax  |       | 23,077                 | 37,664           | 36,509           | 38,994           | 24,057                          | 21,374           |
| Income tax expense   | 10    | (6,616)                | (8,391)          | (10,174)         | (11,583)         | (5,638)                         | (4,828)          |
| Profit for the year/period   | 11    | <u>16,461</u>          | <u>29,273</u>    | <u>26,335</u>    | <u>27,411</u>    | <u>18,419</u>                   | <u>16,546</u>    |
| Other comprehensive (expense) income for the year/period   |       |                        |                  |                  |                  |                                 |                  |
| - exchange differences arising on translation of foreign operations which may be subsequently reclassified to profit or loss |       | (377)                  | (671)            | (965)            | 1,062            | 169                             | 1,017            |
| Total comprehensive income for the year/period   |       | <u>16,084</u>          | <u>28,602</u>    | <u>25,370</u>    | <u>28,473</u>    | <u>18,588</u>                   | <u>17,563</u>    |
| Profit for the year/period attributable to:  |       |                        |                  |                  |                  |                                 |                  |
| Owners of the Company  |       | 16,461                 | 29,273           | 26,335           | 27,411           | 18,419                          | 16,546           |
| Non-controlling interests  |       | -                      | -                | -                | -                | -                               | -                |
| Profit for the year/period   |       | <u>16,461</u>          | <u>29,273</u>    | <u>26,335</u>    | <u>27,411</u>    | <u>18,419</u>                   | <u>16,546</u>    |
| Total comprehensive income (expense) for the year/period attributable to:  |       |                        |                  |                  |                  |                                 |                  |
| Owners of the Company  |       | 16,231                 | 28,864           | 25,729           | 28,084           | 18,429                          | 17,691           |
| Non-controlling interests  |       | (147)                  | (262)            | (359)            | 389              | 159                             | (128)            |
| Total comprehensive income for the year/period   |       | <u>16,084</u>          | <u>28,602</u>    | <u>25,370</u>    | <u>28,473</u>    | <u>18,588</u>                   | <u>17,563</u>    |
| Earnings per share for profit attributable to owners of the Company, basic (HK\$ cents)                                      | 13    | <u>4.06</u>            | <u>7.23</u>      | <u>6.50</u>      | <u>6.77</u>      | <u>4.55</u>                     | <u>4.09</u>      |



## STATEMENTS OF FINANCIAL POSITION

|  | NOTES    | THE GROUP      |                |                |                |                | THE COMPANY     |                |               |       |
|--|----------|----------------|----------------|----------------|----------------|----------------|-----------------|----------------|---------------|-------|
|  |          | At 31 December |                |                |                |                | At 30           | At 31 December |               | At 30 |
|  |          | 2014           | 2015           | 2016           | 2017           | June 2018      | 2016            | 2017           | June 2018     |       |
|  | HK\$'000 | HK\$'000       | HK\$'000       | HK\$'000       | HK\$'000       | HK\$'000       | HK\$'000        | HK\$'000       |               |       |
| <b>NON-CURRENT ASSETS</b>                                      |          |                |                |                |                |                |                 |                |               |       |
| Property, plant and equipment                                  | 15       | 42,419         | 51,160         | 56,330         | 52,102         | 71,891         | -               | -              | -             |       |
| Rental deposits  | 16       | 500            | 477            | 836            | 2,043          | 2,375          | -               | -              | -             |       |
| Deposits paid for acquisition of property, plant and equipment |          | -              | -              | 898            | 997            | 439            | -               | -              | -             |       |
| Deferred tax assets  | 27       | -              | -              | 707            | 95             | -              | -               | -              | -             |       |
| Interest in a subsidiary                                       | 36(a)    | -              | -              | -              | -              | -              | 13,771          | 13,771         | 13,771        |       |
|  |          | <u>42,919</u>  | <u>51,637</u>  | <u>58,771</u>  | <u>55,237</u>  | <u>74,705</u>  | <u>13,771</u>   | <u>13,771</u>  | <u>13,771</u> |       |
| <b>CURRENT ASSETS</b>  |          |                |                |                |                |                |                 |                |               |       |
| Inventories  | 17       | 26,437         | 25,894         | 22,533         | 18,277         | 17,912         | -               | -              | -             |       |
| Trade and other receivables                                    | 18       | 22,262         | 18,573         | 45,903         | 54,078         | 55,149         | 3,743           | 4,924          | 5,697         |       |
| Amount due from a subsidiary                                   | 36(b)    | -              | -              | -              | -              | -              | -               | 1,667          | 10,345        |       |
| Amounts due from related companies                             | 19       | 186,801        | 206,519        | -              | -              | -              | -               | -              | -             |       |
| Amount due from a director                                     | 19       | 16,229         | -              | 21,840         | 22,052         | 42,873         | -               | -              | -             |       |
| Restricted bank deposits                                       | 20       | 55,708         | 62,544         | 102,480        | 92,262         | 94,659         | -               | -              | -             |       |
| Bank balances and cash   | 21       | 8,008          | 40,545         | 108,145        | 124,705        | 84,613         | 89              | 118            | 115           |       |
|  |          | <u>315,445</u> | <u>354,075</u> | <u>300,901</u> | <u>311,374</u> | <u>295,206</u> | <u>3,832</u>    | <u>6,709</u>   | <u>16,157</u> |       |
| <b>CURRENT LIABILITIES</b>                                     |          |                |                |                |                |                |                 |                |               |       |
| Trade and other payables                                       | 22       | 44,013         | 34,223         | 52,715         | 62,755         | 73,534         | 5,713           | 4,495          | 11,495        |       |
| Amount due to a director                                       | 23       | -              | 31,258         | -              | -              | -              | -               | -              | -             |       |
| Amounts due to subsidiaries                                    | 36(b)    | -              | -              | -              | -              | -              | 10,640          | -              | -             |       |
| Tax payable  |          | 16,128         | 22,000         | 23,280         | 29,736         | 28,158         | -               | -              | -             |       |
| Bank and other borrowings                                      | 24       | 242,664        | 248,797        | 205,260        | 177,999        | 184,850        | -               | -              | -             |       |
| Bank overdrafts  | 24       | 3,387          | 53             | 1,853          | 1,937          | 1,981          | -               | -              | -             |       |
| Derivative financial liabilities                               | 25       | 1,211          | -              | -              | -              | -              | -               | -              | -             |       |
| Obligations under finance leases                               | 26       | 4,718          | 1,884          | 927            | 566            | 2,729          | -               | -              | -             |       |
|  |          | <u>312,121</u> | <u>338,215</u> | <u>284,035</u> | <u>272,993</u> | <u>291,252</u> | <u>16,353</u>   | <u>4,495</u>   | <u>11,495</u> |       |
| <b>NET CURRENT ASSETS (LIABILITIES)</b>                        |          | <u>3,324</u>   | <u>15,860</u>  | <u>16,866</u>  | <u>38,381</u>  | <u>3,954</u>   | <u>(12,521)</u> | <u>2,214</u>   | <u>4,662</u>  |       |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>                   |          | <u>46,243</u>  | <u>67,497</u>  | <u>75,637</u>  | <u>93,618</u>  | <u>78,659</u>  | <u>1,250</u>    | <u>15,985</u>  | <u>18,433</u> |       |
| <b>NON-CURRENT LIABILITIES</b>                                 |          |                |                |                |                |                |                 |                |               |       |
| Bank and other borrowings                                      | 24       | 2,544          | 3,280          | 835            | 1,211          | 263            | -               | -              | -             |       |
| Obligations under finance leases                               | 26       | 3,135          | 1,682          | 1,501          | 613            | 1,513          | -               | -              | -             |       |
| Deferred tax liabilities                                       | 27       | 1,533          | 420            | 211            | 231            | 380            | -               | -              | -             |       |
|  |          | <u>7,212</u>   | <u>5,382</u>   | <u>2,547</u>   | <u>2,055</u>   | <u>2,156</u>   | <u>-</u>        | <u>-</u>       | <u>-</u>      |       |
| <b>NET ASSETS</b>  |          | <u>39,031</u>  | <u>62,115</u>  | <u>73,090</u>  | <u>91,563</u>  | <u>76,503</u>  | <u>1,250</u>    | <u>15,985</u>  | <u>18,433</u> |       |
| <b>CAPITAL AND RESERVES</b>                                    |          |                |                |                |                |                |                 |                |               |       |
| Share capital  | 28       | 7,011          | 7,011          | -              | -              | -              | -               | -              | -             |       |
| Reserves   |          | 26,173         | 49,519         | 67,864         | 85,948         | 71,016         | 1,250           | 15,985         | 18,433        |       |
| Equity attributable to owners of the Company                   |          | 33,184         | 56,530         | 67,864         | 85,948         | 71,016         | 1,250           | 15,985         | 18,433        |       |
| Non-controlling interests                                      |          | 5,847          | 5,585          | 5,226          | 5,615          | 5,487          | -               | -              | -             |       |
| <b>Total equity</b>  |          | <u>39,031</u>  | <u>62,115</u>  | <u>73,090</u>  | <u>91,563</u>  | <u>76,503</u>  | <u>1,250</u>    | <u>15,985</u>  | <u>18,433</u> |       |

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

|  | Attributable to owners of the Company |                           |                             |                                 |                              |                       | Non-controlling interests<br>HK\$'000 | Total<br>HK\$'000 |
|--|---------------------------------------|---------------------------|-----------------------------|---------------------------------|------------------------------|-----------------------|---------------------------------------|-------------------|
|  | Share capital<br>HK\$'000             | Share premium<br>HK\$'000 | Capital reserve<br>HK\$'000 | Translation reserve<br>HK\$'000 | Retained profits<br>HK\$'000 | Sub-total<br>HK\$'000 |                                       |                   |
| At 1 January 2014  | 7,011                                 | -                         | -                           | 391                             | 14,551                       | 21,953                | 5,994                                 | 27,947            |
| Profit for the year  | -                                     | -                         | -                           | -                               | 16,461                       | 16,461                | -                                     | 16,461            |
| Other comprehensive expense for the year                                   | -                                     | -                         | -                           | (230)                           | -                            | (230)                 | (147)                                 | (377)             |
| Total comprehensive (expense) income for the year                          | -                                     | -                         | -                           | (230)                           | 16,461                       | 16,231                | (147)                                 | 16,084            |
| Dividends recognised as distribution (note 14)                             | -                                     | -                         | -                           | -                               | (5,000)                      | (5,000)               | -                                     | (5,000)           |
| At 31 December 2014  | 7,011                                 | -                         | -                           | 161                             | 26,012                       | 33,184                | 5,847                                 | 39,031            |
| Profit for the year  | -                                     | -                         | -                           | -                               | 29,273                       | 29,273                | -                                     | 29,273            |
| Other comprehensive expense for the year                                   | -                                     | -                         | -                           | (409)                           | -                            | (409)                 | (262)                                 | (671)             |
| Total comprehensive (expense) income for the year                          | -                                     | -                         | -                           | (409)                           | 29,273                       | 28,864                | (262)                                 | 28,602            |
| Deemed distribution arising from provision of financial guarantee (Note a) | -                                     | -                         | -                           | -                               | (518)                        | (518)                 | -                                     | (518)             |
| Dividends recognised as distribution (note 14)                             | -                                     | -                         | -                           | -                               | (5,000)                      | (5,000)               | -                                     | (5,000)           |
| At 31 December 2015  | 7,011                                 | -                         | -                           | (248)                           | 49,767                       | 56,530                | 5,585                                 | 62,115            |
| Profit for the year  | -                                     | -                         | -                           | -                               | 26,335                       | 26,335                | -                                     | 26,335            |
| Other comprehensive expense for the year                                   | -                                     | -                         | -                           | (606)                           | -                            | (606)                 | (359)                                 | (965)             |
| Total comprehensive (expense) income for the year                          | -                                     | -                         | -                           | (606)                           | 26,335                       | 25,729                | (359)                                 | 25,370            |
| Deemed distribution arising from provision of financial guarantee (Note a) | -                                     | -                         | -                           | -                               | (643)                        | (643)                 | -                                     | (643)             |
| Dividends recognised as distribution (note 14)                             | -                                     | -                         | -                           | -                               | (5,000)                      | (5,000)               | -                                     | (5,000)           |
| Effect of reorganisation   | (7,011)                               | 13,771                    | (15,512)                    | -                               | -                            | (8,752)               | -                                     | (8,752)           |

|   | Attributable to owners of the Company |                           |                             |                                 |                              |                       | Non-controlling interests<br>HK\$'000 | Total<br>HK\$'000 |
|---|---------------------------------------|---------------------------|-----------------------------|---------------------------------|------------------------------|-----------------------|---------------------------------------|-------------------|
|   | Share capital<br>HK\$'000             | Share premium<br>HK\$'000 | Capital reserve<br>HK\$'000 | Translation reserve<br>HK\$'000 | Retained profits<br>HK\$'000 | Sub-total<br>HK\$'000 |                                       |                   |
| At 31 December 2016                                     | -                                     | 13,771                    | (15,512)                    | (854)                           | 70,459                       | 67,864                | 5,226                                 | 73,090            |
| Profit for the year                                     | -                                     | -                         | -                           | -                               | 27,411                       | 27,411                | -                                     | 27,411            |
| Other comprehensive income for the year                 | -                                     | -                         | -                           | 673                             | -                            | 673                   | 389                                   | 1,062             |
| Total comprehensive income for the year                 | -                                     | -                         | -                           | 673                             | 27,411                       | 28,084                | 389                                   | 28,473            |
| Dividends recognised as distribution ( <i>note 14</i> ) | -                                     | -                         | -                           | -                               | (10,000)                     | (10,000)              | -                                     | (10,000)          |
| At 31 December 2017                                     | -                                     | 13,771                    | (15,512)                    | (181)                           | 87,870                       | 85,948                | 5,615                                 | 91,563            |
| Adoption of HKFRS 9 ( <i>Note b</i> )                   | -                                     | -                         | -                           | -                               | (2,623)                      | (2,623)               | -                                     | (2,623)           |
| Adjusted balance at 1 January 2018                      | -                                     | 13,771                    | (15,512)                    | (181)                           | 85,247                       | 83,325                | 5,615                                 | 88,940            |
| Profit for the period                                   | -                                     | -                         | -                           | -                               | 16,546                       | 16,546                | -                                     | 16,546            |
| Other comprehensive income (expense) for the period     | -                                     | -                         | -                           | 1,145                           | -                            | 1,145                 | (128)                                 | 1,017             |
| Total comprehensive income (expense) for the period     | -                                     | -                         | -                           | 1,145                           | 16,546                       | 17,691                | (128)                                 | 17,563            |
| Dividend recognised as distribution ( <i>note 14</i> )  | -                                     | -                         | -                           | -                               | (30,000)                     | (30,000)              | -                                     | (30,000)          |
| At 30 June 2018   | -                                     | 13,771                    | (15,512)                    | 964                             | 71,793                       | 71,016                | 5,487                                 | 76,503            |

For the six months ended 30 June 2017

|  | Attributable to owners of the Company |                           |                             |                                 |                              |                       | Non-controlling interests<br>HK\$'000 | Total<br>HK\$'000 |
|--|---------------------------------------|---------------------------|-----------------------------|---------------------------------|------------------------------|-----------------------|---------------------------------------|-------------------|
|  | Share capital<br>HK\$'000             | Share premium<br>HK\$'000 | Capital reserve<br>HK\$'000 | Translation reserve<br>HK\$'000 | Retained profits<br>HK\$'000 | Sub-total<br>HK\$'000 |                                       |                   |
| At 1 January 2017                                      | -                                     | 13,771                    | (15,512)                    | (854)                           | 70,459                       | 67,864                | 5,226                                 | 73,090            |
| Profit for the period                                  | -                                     | -                         | -                           | -                               | 18,419                       | 18,419                | -                                     | 18,419            |
| Other comprehensive income for the period              | -                                     | -                         | -                           | 10                              | -                            | 10                    | 159                                   | 169               |
| Total comprehensive income for the period              | -                                     | -                         | -                           | 10                              | 18,419                       | 18,429                | 159                                   | 18,588            |
| Dividend recognised as distribution ( <i>Note 14</i> ) | -                                     | -                         | -                           | -                               | (10,000)                     | (10,000)              | -                                     | (10,000)          |
| At 30 June 2017  | -                                     | 13,771                    | (15,512)                    | (844)                           | 78,878                       | 76,293                | 5,385                                 | 81,678            |

*Notes:*

- a. As set out in note 34, Chase On Development Limited (“Chase On”) had provided financial guarantees to related parties, which were controlled by the Controlling Shareholders (as defined in note 1) of the Group and/or their family members, which exposes the Group to credit risk amounted to nil, HK\$125,938,000, HK\$151,573,000, HK\$34,000,000 and HK\$34,000,000 as at 31 December 2014, 2015, 2016 and 2017 and 30 June 2018, respectively, which are the maximum amount that the Group could be required to settle under those financial guarantee arrangements if that amount is claimed by the counterparties to the guarantees. Fair value of the financial guarantee contracts granted are considered as deemed distribution to its then shareholders and recorded in retained profits.
  
- b. Upon the adoption of HKFRS 9 “Financial Instruments” on 1 January 2018, the accumulated impact of HK\$2,623,000 was recorded as an adjustment to the retained profits as at 1 January 2018, which represents impairment loss allowance.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Year ended 31 December |                  |                  |                  | Six months ended 30 June |                  |
|---|------------------------|------------------|------------------|------------------|--------------------------|------------------|
|   | 2014<br>HK\$'000       | 2015<br>HK\$'000 | 2016<br>HK\$'000 | 2017<br>HK\$'000 | 2017<br>HK\$'000         | 2018<br>HK\$'000 |
| <b>OPERATING ACTIVITIES</b>   |                        |                  |                  |                  |                          |                  |
| Profit before tax   | 23,077                 | 37,664           | 36,509           | 38,994           | 24,057                   | 21,374           |
| Adjustments for:  |                        |                  |                  |                  |                          |                  |
| Gain on release of financial guarantee contracts                        | (236)                  | –                | (42)             | (555)            | (555)                    | (8)              |
| Depreciation of property, plant and equipment                           | 7,436                  | 8,485            | 10,723           | 11,492           | 6,803                    | 5,612            |
| Trade receivables written off as uncollectible                          | 147                    | –                | –                | –                | –                        | –                |
| Interest income   | (181)                  | (913)            | (430)            | (331)            | (215)                    | (34)             |
| Interest expense  | 9,007                  | 10,626           | 8,278            | 8,201            | 4,010                    | 4,512            |
| Reversal of credit loss allowance                                       | –                      | –                | –                | –                | –                        | (35)             |
| Gain on disposal of property, plant and equipment                       | –                      | (101)            | (8)              | –                | –                        | –                |
| Loss (gain) on change in fair value of derivative financial liabilities | 1,132                  | (331)            | –                | –                | –                        | –                |
| Operating cash flows before movements in working capital                | 40,382                 | 55,430           | 55,030           | 57,801           | 34,100                   | 31,421           |
| (Increase) decrease in inventories                                      | (13,285)               | 543              | 3,361            | 4,256            | (970)                    | 365              |
| (Increase) decrease in trade and other receivables                      | (1,212)                | 3,712            | (27,689)         | (9,480)          | (2,950)                  | (1,443)          |
| Increase (decrease) in trade and other payables                         | 3,931                  | (10,308)         | 21,634           | 11,775           | 6,727                    | 6,862            |
| Cash generated from operations  | 29,816                 | 49,377           | 52,336           | 64,352           | 36,907                   | 37,205           |
| Hong Kong Profits Tax paid  | (2,429)                | (2,698)          | (7,592)          | (3,800)          | –                        | (5,288)          |
| PRC Enterprise Income Tax (“EIT”) paid                                  | (782)                  | (934)            | (2,218)          | (695)            | (409)                    | (973)            |
| <b>NET CASH FROM OPERATING ACTIVITIES</b>                               | <b>26,605</b>          | <b>45,745</b>    | <b>42,526</b>    | <b>59,857</b>    | <b>36,498</b>            | <b>30,944</b>    |
| <b>INVESTING ACTIVITIES</b>   |                        |                  |                  |                  |                          |                  |
| Repayment from related companies  | 44,407                 | 353,877          | 327,795          | 162,426          | 84,219                   | 20,442           |
| Advance to related companies  | (231,208)              | (373,595)        | (271,423)        | (230,440)        | (126,076)                | (47,324)         |
| Placement of restricted bank deposits                                   | (58,775)               | (75,221)         | (49,780)         | (62,055)         | (19,000)                 | (10,684)         |
| Withdrawal of restricted bank deposits                                  | 7,956                  | 68,385           | 9,844            | 72,273           | 9,543                    | 7,300            |
| Proceeds from disposal of property, plant and equipment                 | –                      | 101              | 270              | 166              | 166                      | –                |
| Purchase of property, plant and equipment                               | (14,003)               | (16,744)         | (16,002)         | (7,430)          | (4,379)                  | (19,440)         |
| Interest received   | 181                    | 913              | 430              | 331              | 215                      | 34               |
| Payments on settlement of derivative financial liabilities              | (2)                    | (880)            | –                | –                | –                        | –                |
| Repayment from a director   | 527,601                | 16,229           | –                | 314,495          | 108,016                  | 97,108           |
| Advance to a director   | (450,239)              | –                | –                | (253,897)        | (67,457)                 | (109,996)        |
| <b>NET CASH (USED IN) FROM INVESTING ACTIVITIES</b>                     | <b>(174,082)</b>       | <b>(26,935)</b>  | <b>1,134</b>     | <b>(4,131)</b>   | <b>(14,753)</b>          | <b>(62,560)</b>  |

|  | Year ended 31 December |               |                |                 | Six months ended |                 |
|--|------------------------|---------------|----------------|-----------------|------------------|-----------------|
|  | 2014                   | 2015          | 2016           | 2017            | 30 June          |                 |
|  | HK\$'000               | HK\$'000      | HK\$'000       | HK\$'000        | 2017             | 2018            |
|  | HK\$'000               | HK\$'000      | HK\$'000       | HK\$'000        | HK\$'000         | HK\$'000        |
| <b>FINANCING ACTIVITIES</b>  |                        |               |                |                 |                  |                 |
| New bank and other borrowings raised                               | 482,600                | 697,256       | 488,679        | 438,992         | 171,573          | 175,225         |
| Repayment of bank and other borrowings                             | (316,689)              | (690,387)     | (534,661)      | (465,877)       | (171,141)        | (169,322)       |
| Interest paid  | (9,007)                | (10,626)      | (8,278)        | (8,201)         | (4,010)          | (4,512)         |
| Repayment of obligations under finance leases                      | (5,354)                | (4,769)       | (2,189)        | (1,249)         | (940)            | (2,340)         |
| Dividend paid  | –                      | –             | (867)          | (1,734)         | (1,734)          | (5,202)         |
| Advance from a director  | –                      | 353,410       | 383,014        | –               | –                | –               |
| Repayment to a director  | –                      | (327,823)     | (299,815)      | –               | –                | –               |
| Transaction costs paid for issuance of shares                      | –                      | –             | (3,743)        | (1,181)         | –                | (854)           |
| <b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>                | <b>151,550</b>         | <b>17,061</b> | <b>22,140</b>  | <b>(39,250)</b> | <b>(6,252)</b>   | <b>(7,005)</b>  |
| <b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>        | <b>4,073</b>           | <b>35,871</b> | <b>65,800</b>  | <b>16,476</b>   | <b>15,493</b>    | <b>(38,621)</b> |
| <b>EFFECT OF IMPAIRMENT ALLOWANCE ON CASH AND CASH EQUIVALENTS</b> | <b>–</b>               | <b>–</b>      | <b>–</b>       | <b>–</b>        | <b>–</b>         | <b>(1,515)</b>  |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD</b>   | <b>548</b>             | <b>4,621</b>  | <b>40,492</b>  | <b>106,292</b>  | <b>106,292</b>   | <b>122,768</b>  |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD</b>         | <b>4,621</b>           | <b>40,492</b> | <b>106,292</b> | <b>122,768</b>  | <b>121,785</b>   | <b>82,632</b>   |
| <b>Analysis of balances of cash and cash equivalents</b>           |                        |               |                |                 |                  |                 |
| Bank balances and cash   | 8,008                  | 40,545        | 108,145        | 124,705         | 123,678          | 84,613          |
| Bank overdrafts  | (3,387)                | (53)          | (1,853)        | (1,937)         | (1,893)          | (1,981)         |
|  | <b>4,621</b>           | <b>40,492</b> | <b>106,292</b> | <b>122,768</b>  | <b>121,785</b>   | <b>82,632</b>   |

**NOTES TO THE HISTORICAL FINANCIAL INFORMATION****1. GROUP REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 22 March 2016 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The addresses of the Company's registered office and the principal places of business are disclosed in the section "Corporate Information" of the Prospectus. Upon its incorporation, one subscriber share was allocated and issued to the subscriber, which was then transferred on the same day, to Sun Cheong Creative Development Limited ("Sun Cheong Creative"), a company incorporated in Hong Kong and directly controlled by two individuals, namely Mr. Tong Ying Chiu ("Mr. Tong") and Ms. Ng Siu Kuen Sylvia ("Ms. Ng"), spouse of Mr. Tong (collectively referred to as the "Controlling Shareholders"). Sun Cheong Creative is considered to be the ultimate holding company of the Company.

On 30 May 2016, Top Leader International Ltd. ("Top Leader"), a then shell company issued and allotted 1 share to the Company, pursuant to which Top Leader became a direct wholly owned subsidiary of the Company.

Throughout the financial year 2014, 2015 and up to 3 June 2016, Chase On was wholly and directly owned by the Controlling Shareholders. On 3 June 2016, the Company acquired 100% equity interest of Chase On from the Controlling Shareholders for a consideration of newly allotted and issued 9,999 shares to Sun Cheong Creative and directed Top Leader as the transferee of such transfer. Chase On remained to be wholly owned by the Controlling Shareholders after the transfer of interests on 3 June 2016.

As part of the reorganisation, on 4 June 2016, Mr. Chan Kam Hon Ivan, a senior management of the Company, and Billion Leading Limited ("Billion Leading"), an independent third party, acquired 13.34% and 10.00% equity interest in the Company from Sun Cheong Creative at a consideration of HK\$16,000,000 and HK\$12,000,000 respectively. On 5 June 2016, Uni-Pro Ltd ("Uni-Pro"), a company incorporated in British Virgin Islands ("BVI") on 19 May 2016 and wholly owned by Sun Cheong Creative, acquired 76.66% equity interest in the Company from Sun Cheong Creative at a consideration at par for cash.

Throughout the financial year 2014, 2015 and up to 23 June 2016, Shenzhen Xincang Plastic Article Co., Ltd. ("Shenzhen Xincang") was wholly owned by the Controlling Shareholders. Pursuant to an equity transfer agreement dated 23 June 2016, Chase On acquired 100% equity interest in Shenzhen Xincang at a consideration of Renminbi ("RMB") 7,500,000 (equivalent to HK\$8,752,000 which was settled through amount due from a director) and Shenzhen Xincang became a wholly owned subsidiary of Chase On. The transfer of the equity interest in Shenzhen Xincang was completed on 23 June 2016 (together with the preceding paragraphs are collectively referred to as the "Reorganisation").

On 30 June 2016, Billion Leading failed to pay the consideration and transferred the 6% and 4% equity interests in the Company to Uni-Pro and Mr. Chan Kam Hon Ivan at consideration of HK\$1 and HK\$4,820,000 respectively. Sun Cheong Creative has not received any consideration from Billion Leading and therefore the 6% equity interest was transferred at a nominal consideration. The consideration of transfer of 4% equity interest to Mr. Chan Kam Hon Ivan was determined with reference to the basis of the consideration under the aforesaid sale and purchase agreement with Mr. Chan Kam Hon Ivan.

After the transfer of interests in the above, Chase On and Shenzhen Xincang remained to be wholly owned subsidiaries of the Company.

Pursuant to the Reorganisation detailed above, the Company became the holding company of the companies now comprising the Group on 23 June 2016. The Company and its subsidiaries have been under the common control of the Controlling Shareholders throughout the Track Record Period (or since their respective date of incorporation) prior to and after the Reorganisation. Accordingly, the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended 31 December 2014, 2015 and 2016 have been prepared using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combination" issued by the HKICPA to present the results, change in equity and cash flows of the companies now comprising the Group, as if the group structure upon the completion of the Reorganisation had been in existence throughout the years ended 31 December 2014, 2015 and 2016, or since the respective dates of incorporation/establishment, where it is a shorter period. The consolidated statement of financial position of the Group as at 31 December 2014 and 2015 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at that date, taken into account the respective dates of incorporation.

The functional currency of the Company is United States Dollar (“US\$”), as the sales activities of the Group are mainly denominated in US\$ and the presentation currency of the Group is Hong Kong Dollar (“HK\$”), as the directors of the Company consider HK\$ can provide more meaningful information to the Company’s investors.

## 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently adopted the Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”), amendments and interpretations (“HK(IFRIC)”) issued by the HKICPA which are effective for the accounting periods beginning on 1 January 2018 throughout the Track Record Period except that the Group adopted HKFRS 9 “Financial Instruments” on 1 January 2018 and adopted HKAS 39 for the four years ended 31 December 2017. The accounting policies for financial instruments under HKFRS 9 are set out in note 3 below.

During the six months ended 30 June 2018, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for financial assets and financial guarantee contracts and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39.

The table below illustrates the classification and measurement of financial assets and financial liabilities under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

|    |   | Original<br>measurement<br>category under<br>HKAS 39 | New measurement<br>category under<br>HKFRS 9 | Original<br>carrying<br>amount under<br>HKAS 39<br>HK\$'000 | Additional<br>loss allowance<br>recognised<br>under HKFRS 9<br>HK\$'000 | New carrying<br>amount under<br>HKFRS 9<br>HK\$'000 |
|----|---|--|--|---|---|---|
| 1. | Trade and other<br>receivables<br>(note 18) | Loans and<br>receivables                             | Financial assets at<br>amortised cost        | 54,078  | (66)  | 54,012  |
| 2. | Amount due from a<br>director (note 19)     | Loans and<br>receivables                             | Financial assets at<br>amortised cost        | 22,052  | (23)  | 22,029  |
| 3. | Restricted bank deposits<br>(note 20)       | Loans and<br>receivables                             | Financial assets at<br>amortised cost        | 92,262  | (973)   | 91,289  |
| 4. | Bank balances and cash<br>(note 21)         | Loans and<br>receivables                             | Financial assets at<br>amortised cost        | 124,705   | (1,561)   | 123,144   |
| 5. | Trade and other<br>payables (note 22)       | Loans and<br>receivables                             | Financial liabilities<br>at amortised cost   | (62,755)  | –   | (62,755)  |
| 6. | Bank and other<br>borrowings (note 24)      | Loans and<br>receivables                             | Financial liabilities<br>at amortised cost   | (179,210)   | –   | (179,210)   |
| 7. | Bank overdrafts<br>(note 24)                | Loans and<br>receivables                             | Financial liabilities<br>at amortised cost   | (1,937)   | –   | (1,937)   |
|    | Total                                       |  |  | 49,195  | (2,623)   | 46,572  |

The additional impairment loss allowance upon the initial application of HKFRS 9 as disclosed above resulted entirely from a change in the measurement attribute of the loss allowance relating to each financial asset.

As at 1 January 2018, the additional credit loss allowance of HK\$2,623,000 has been recognised against retained profits. The additional loss allowance is charged against the respective asset. None of the respective asset has ending impairment allowances as at 31 December 2017 under HKAS 39 “Financial Instruments: Recognition and Measurement”.



The Group had elected to consistently apply HKFRS 15 throughout the Track Record Period. In the opinion of the directors of the Company, had HKAS 18 been consistently applied throughout the Track Record Period, there was no significant change in the financial position and performance of the Group. The adoption of HKFRS 15 as compared to HKAS 18 had resulted in more disclosures in the historical financial information of the Group throughout the Track Record Period.

At the date of this report, HKICPA has issued the following new standards, amendments and interpretations that are not yet effective. The Group has not early adopted these standards and amendments.

|                                    |  |
|------------------------------------|--|
| HKFRS 16                           | Leases <sup>1</sup>  |
| HKFRS 17                           | Insurance Contracts <sup>3</sup>   |
| HK (IFRIC) – Int 23                | Uncertainty over Income Tax Treatments <sup>1</sup>  |
| Amendments to HKFRS 9              | Prepayment Features with Negative Compensation <sup>1</sup>  |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>2</sup> |
| Amendments to HKAS 19              | Plan Amendment, Curtailment or Settlement <sup>1</sup>   |
| Amendments to HKAS 28              | Long-term Interests in Associates and Joint Ventures <sup>1</sup>                                  |
| Amendments to HKFRSs               | Annual Improvements to HKFRSs 2015 – 2017 Cycle <sup>1</sup>                                       |

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2019.

<sup>2</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2021.

Except as described below, the directors of the Company anticipate that the application of these new standards and amendments will have no material impact on the Group's consolidated financial statements in the future.

#### HKFRS 16 “Leases”

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 “Leases” and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Under HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by HKFRS 16.

As set out in note 29, the total operating lease commitment of the Group in respect of rented premises as at 30 June 2018 amounted to HK\$32,951,000, in which HK\$21,966,000 were with original lease term over 1 year. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Under application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases

unless they qualify for low value or short term leases. The combination of straight-line depreciation of the right-to-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to the profit or loss in the initial years of the lease, and decreasing expenses during the latter part of the lease term, but there is no impact on the total expenses recognised over the lease term. The directors of the Company anticipate that the application of HKFRS 16 will not significantly affect the financial position and performance of the Group upon adoption on 1 January 2019. These estimates are based on accounting policies, assumptions, judgements and estimation techniques that remain subject to change until the Group finalises its financial statements for the year ending 31 December 2019.

In addition, the Group currently considers refundable rental deposits paid of HK\$2,586,000 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with accounting policies which conform with HKFRSs issued by the HKICPA. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical Financial Information is determined on such a basis, except for leasing transactions that are within the scope of HKAS 17 “Leases”, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of Assets”.

A fair value measurement of a non-financial asset takes into account a market participants ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are as follows:

**Basis of consolidation**

The Historical Financial Information incorporates the financial statements of the entities comprising the Group. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the Track Record Period are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributable to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

**Merger accounting for business combination involving entities under common control**

The Historical Financial Information incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling parties.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling parties' interests.

The consolidated statements of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

**Interest in a subsidiary**

Investment in a subsidiary included in the Company's statements of financial position is stated at cost less any identified impairment loss. The results of subsidiary are accounted for by the Company on the basis of dividends received or receivable during the Track Record Period.

**Revenue recognition**

Revenue is recognised to depict the transfer of promised goods to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer

- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to customers.

A performance obligation represents a good or service (or a bundle of services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the entity’s performance as the entity performs;
- the Group’s performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point of time when the customer obtains control of the distinct good or service.

A contract asset represents the Group’s right to consideration in exchange for services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group’s unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Specifically, revenue is recognised in profit or loss as follows:

Revenue from the sale of goods is recognised at a point in time the control of the goods has transferred, i.e. when the goods have been delivered to customers. The Group does not give any right of return or warranties to its customers throughout the Track Record Period. The period between payment and transfer of associated goods in all sales contracts are less than one year and therefore the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

### **Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### ***The Group as lessee***

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group’s policy on borrowing costs.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### **Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Historical Financial Information, the assets and liabilities of the Group's entities are translated into the presentation currency of the Group (i.e. HK\$) using exchange rate prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year/period, unless exchange rates fluctuate significantly during the year/period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

#### **Research and development expenses**

Research and development expenses are expensed in the period in which they are incurred.

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised as and included in finance costs in the profit or loss in the period in which they are incurred.

#### **Government grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the years/periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the year/period in which they become receivable.

#### **Retirement benefit costs**

Payments to the defined contribution retirement benefit plans, including government-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered services entitling them to the contributions.

#### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from "profit before tax" as reported in the consolidated statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years/periods and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset is realised or the liability is settled, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

### **Property, plant and equipment**

Property, plant and equipment are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The estimated useful lives, and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### **Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

### **Impairment losses**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each assets in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero.

The amount of impairment loss that would otherwise have been allocated to the asset is allocated pro rata to other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years/periods. A reversal of an impairment loss is recognised immediately in profit or loss.

#### **Financial instruments (before the adoption of HKFRS 9 as at 1 January 2018)**

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss (“FVTPL”)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

#### ***Financial assets***

The Group’s financial assets are classified as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. The management determines the classification of its financial assets at initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

#### ***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

#### ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related companies, amount due from a subsidiary, amount due from a director, restricted bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

#### ***Impairment of financial assets***

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, 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, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### ***Financial liabilities and equity instruments***

Financial liabilities and equity instruments issued by a group entity are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

#### ***Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct issue costs.

#### ***Financial liabilities at fair value through profit or loss***

Financial liabilities are classified as at FVTPL when the financial liabilities are held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities. Fair value is determined in the manner described in note 33.

#### ***Other financial liabilities***

Other financial liabilities (including trade and other payables, amount due to a director, amounts due to subsidiaries, bank and other borrowings and bank overdrafts) are subsequently measured at amortised cost, using the effective interest method.



*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis other than those financial liabilities classified as at FVTPL, of which the interest expense is included in net gains or losses.

*Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair value and, if not designated as at FVTPL, are subsequently measured at the higher of:

- (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and
- (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised over the guarantee period.

*Derecognition of financial assets and financial liabilities*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the assets expire or, when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liabilities derecognised and the consideration paid and payable is recognised in profit or loss.

**Financial instruments (under HKFRS 9)**

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributed to the acquirer of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

*Financial assets*

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

*Classification and measurement of financial assets*

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

*Amortised cost and effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial instruments other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding ECL, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the “other income” line item.

*Impairment of financial assets*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 and financial guarantee contract. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on whether there is significant increases in credit risk since initial recognition.

*Significant increase in credit risk*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definition.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

*Definition of default*

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 30 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

*Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

*Write-off policy*

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

*Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

*Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

***Financial liabilities and equity instruments****Classification as debt or equity*

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group are recognised at the proceeds received, net of direct issue costs.

*Financial liabilities subsequently measured at amortised cost*

All of the Group's financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

#### *Financial guarantee contract*

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially recognised within “trade and other payables” at fair value.

Subsequent to initial recognition, the amount initially recognised as financial guarantee obligations is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

The group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECL on the financial guarantees is determined to be higher than the amount carried in “trade and other payables” in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECL, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in above apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

#### *Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

## **4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group’s accounting policies, which are described in note 3, the management of the Group is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the following twelve months.

### **Estimated useful lives of property, plant and equipment**

In applying the accounting policy on property, plant and equipment with respect to depreciation, the management of the Group estimates the useful lives of various categories of property, plant and equipment according to the experiences over the usage of them and also by reference to the relevant industrial norm. If the actual useful lives of them are less than the original estimated useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charge for the remaining useful life.

As at 31 December 2014, 2015, 2016 and 2017 and 30 June 2018, the carrying amount of property, plant and equipment was HK\$42,419,000, HK\$51,160,000, HK\$56,330,000, HK\$52,102,000 and HK\$71,891,000, respectively.

#### **Estimated allowance for doubtful debts**

Before the adoption of HKFRS 9, trade receivables, amounts due from related companies and a director, restricted bank deposits and bank balances are carried at amortised cost using the effective interest method, less any identified impairment losses. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade receivables, amounts due from related companies a director restricted bank deposits and bank balances. Allowances are applied where events or changes in circumstances indicate that the balances may not be collectible. The amount of the allowance 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 (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. Allowance for these receivables is made based on evaluation of collectability by reference to the estimation of the future cash flows discounted at an effective interest rate to calculate the present value. If the actual future cash flows were less than expected and where events or changes in circumstances indicate the balances may not be collectible, an allowance may be required.

As at 31 December 2014, 2015, 2016 and 2017, the carrying amount of trade receivables, without allowance for doubtful debt, was HK\$13,832,000, HK\$15,126,000, HK\$10,962,000, HK\$15,478,000, respectively.

As at 31 December 2014, 2015, 2016 and 2017, the carrying amount of amounts due from related companies, without allowance for doubtful debt, was HK\$186,801,000, HK\$206,519,000, nil and nil, respectively.

As at 31 December 2014, 2015, 2016 and 2017, the carrying amount of amount due from a director, without allowance for doubtful debt, was HK\$16,229,000, nil, HK\$21,840,000 and HK\$22,052,000, respectively.

As at 31 December 2014, 2015, 2016 and 2017, the carrying amount of restricted bank deposits, without allowance for doubtful debt, was HK\$55,708,000, HK\$62,544,000, HK\$102,480,000 and HK\$92,262,000, respectively.

As at 31 December 2014, 2015, 2016 and 2017, the carrying amount of bank balance and cash, without allowance for doubtful debt, was HK\$8,008,000, HK\$40,545,000, HK\$108,145,000 and HK\$124,705,000, respectively.

Since the adoption of HKFRS 9 on 1 January, 2018, management estimates the amount of loss allowance for ECL on debt instruments (including trade receivables, amount due from a director, restricted bank deposits and bank balances and cash) that are measured at amortised cost based on the credit risk and other factors that are specific to the respective financial instruments. The loss allowance amount is measured as the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit loss of the respective financial instrument. The assessment of the credit risk of the respective financial instrument involves high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

As at 1 January 2018 and 30 June 2018, the carrying amount of financial assets (including trade and other receivables, amount due from a director, restricted bank deposits, and bank balances) measured at amortised cost amounted to HK\$256,296,000 (net of loss allowance of HK\$2,623,000), and 233,555,000 (net of loss allowance of HK\$2,586,000), respectively.

#### **Estimated allowance for inventories**

The Group regularly reviews whether there are any indications of write-down of inventories if the carrying amount of an inventory is lower than its net realisable value. The Group tests semi-annually for the write-down of inventories. The net realisable value have been determined based on the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. The Group also assessed the net realisable value by taking into account whether the cost of inventories may be recoverable by assessing if those inventories are damaged, wholly or partially obsolete, or if their selling prices have declined.

As at 31 December 2014, 2015, 2016 and 2017 and 30 June 2018, the carrying amount of inventories, without allowance for write-down, was HK\$26,437,000, HK\$25,894,000, HK\$22,533,000, HK\$18,277,000 and HK\$17,912,000, respectively.

#### **Fair value of the financial guarantee contracts**

For the fair value of the financial guarantee contracts provided to the counterparties, assumptions are made by the management of the Group at date of initial recognition, based on the guaranteed amount, the credit spread of the guaranteed counterparties and the estimated default probability with reference to their credit ratings. The credit spread and risk of default were, therefore, of significant estimation uncertainty. If the risk of default was significantly different from the estimated default probability, the fair value of the financial guarantee contracts at the date of initial recognition would be significantly changed.

Before the adoption of HKFRS 9, the financial guarantee contracts are subsequently measured at the higher of the amount of obligation under the contract as determined in accordance with HKAS 37 and the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Since the adoption of HKFRS 9, financial guarantee contract shall subsequently measure at the higher of the amount of loss allowance determined based on the measurement of ECL and the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

As at 31 December 2014, 2015, 2016 and 2017 and 30 June 2018, the carrying amount of financial guarantee obligations amounted to nil, HK\$518,000, HK\$1,119,000, HK\$564,000 and HK\$556,000, respectively.

#### **Fair value measurements and valuation of derivative financial instruments**

The Group's derivative financial liabilities are measured at fair value at the end of each reporting period. The Group's financial guarantee contracts provided to certain related parties are measured at fair value at the date of initial recognition. The management of the Group has set up a task force, which is headed up by the chief financial officer ("CFO"), to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of a liability, the Group uses market-observable data to the extent it is available. In addition, the Group engages GW Financial Advisory Services Limited ("GW"), an independent qualified professional valuer, to perform the valuation. The office of GW is Room 2504, 25/F, Lippo Centre Tower One, 89 Queensway, Hong Kong SAR.

The CFO works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the models. The CFO reports the valuation findings to the management of the Group at the end of each reporting period to explain the cause of fluctuations in the fair value of the assets and liabilities.

As at 31 December 2014, the fair value of the derivative financial liabilities was estimated at the fair value of HK\$1,211,000. The Group has no outstanding derivative financial liabilities as at 31 December 2015, 2016, 2017 and 30 June 2018.

#### **Estimated provision for the income tax and related obligations**

The Hong Kong Inland Revenue Department ("IRD") has initiated a tax audit on a subsidiary of the Company. The tax audit covers the years of assessment from 2011/12 to 2015/16. The tax audit is mainly related to the offshore claim in relation to certain of its profits generated from overseas customers as fully explained in note 10. The subsidiary has engaged a tax consulting firm to handle the tax audit of this subsidiary and the management of the Group are of the opinion that the Group has made the best estimate of the provisions for Hong Kong Profits Tax and related potential penalty estimated to be incurred due to the unsuccessful offshore claim as a result of IRD's extensive documentation and information requirement for the tax audit. Provision for potential penalty of HK\$8,647,000 is recognised in other expenses in the consolidated statements of profit or loss and other comprehensive income for the year ended 31 December 2016 and included in other payables in the consolidated statements of financial position as at 31 December 2016.

On 17 July 2017, a compromised settlement was reached with the IRD and a sum of HK\$6,550,000 as compound penalty was agreed for the case. An amount of HK\$2,097,000, representing the overprovision of compound penalty, was recognised as reversal of other expenses in the consolidated statements of profit or loss and other comprehensive income for the year ended 31 December 2017.

## 5. REVENUE AND SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, being the Controlling Shareholders (the "CODM"), in order to allocate resources to segments and to assess their performance. During the Track Record Period, the CODM assesses the operating performance and allocates the resources of the Group as a whole as the Group is primarily engaged in trading and processing of plastic household products. Therefore, the management considers that the Group only has one operating segment. The Group mainly operates in Hong Kong and the PRC and the Group's non-current assets are mainly located in the PRC.

The CODM reviews the overall results and financial position of the Group as a whole based on the same accounting policies set out in note 3 and no further segment information is presented.

### Revenue from major products

An analysis of the Group's revenue during the Track Record Period is as follows:

|                                    | Year ended 31 December |                  |                  |                  | Six months ended 30 June |                  |
|------------------------------------|------------------------|------------------|------------------|------------------|--------------------------|------------------|
|                                    | 2014<br>HK\$'000       | 2015<br>HK\$'000 | 2016<br>HK\$'000 | 2017<br>HK\$'000 | 2017<br>HK\$'000         | 2018<br>HK\$'000 |
| Sale of plastic household products | 301,987                | 315,527          | 300,632          | 325,814          | 157,952                  | 159,781          |

### Geographical information

The Group's revenue is mainly derived from customers located in Australia, Hong Kong, the United Kingdom ("UK"), the United States of America ("USA"), New Zealand and Germany. The Group's revenue by the geographical locations of the customers, determined based on the destination of good delivered, irrespective of the origin of goods, is detailed below:

|             | Year ended 31 December |                  |                  |                  | Six months ended 30 June |                  |
|-------------|------------------------|------------------|------------------|------------------|--------------------------|------------------|
|             | 2014<br>HK\$'000       | 2015<br>HK\$'000 | 2016<br>HK\$'000 | 2017<br>HK\$'000 | 2017<br>HK\$'000         | 2018<br>HK\$'000 |
| Australia   | 188,478                | 204,401          | 183,469          | 217,938          | 100,030                  | 113,620          |
| Hong Kong   | 28,669                 | 26,082           | 26,703           | 21,389           | 10,566                   | 10,173           |
| UK          | 28,500                 | 21,062           | 14,791           | 12,908           | 8,013                    | 5,062            |
| USA         | 20,796                 | 15,985           | 13,853           | 4,533            | 1,507                    | 4,370            |
| New Zealand | 6,713                  | 9,467            | 10,884           | 17,523           | 7,603                    | 7,345            |
| Germany     | 356                    | 6,877            | 15,809           | 18,114           | 12,888                   | 7,317            |
| Others      | 28,475                 | 31,653           | 35,123           | 33,409           | 17,345                   | 11,894           |
|             | 301,987                | 315,527          | 300,632          | 325,814          | 157,952                  | 159,781          |

### Information about major customers

Revenue from customers of corresponding years/periods contributing over 10% of the total sales of the Group are as follows:

|            | Year ended 31 December |                  |                  |                  | Six months ended 30 June |                  |
|------------|------------------------|------------------|------------------|------------------|--------------------------|------------------|
|            | 2014<br>HK\$'000       | 2015<br>HK\$'000 | 2016<br>HK\$'000 | 2017<br>HK\$'000 | 2017<br>HK\$'000         | 2018<br>HK\$'000 |
| Customer A | 114,020                | 128,429          | 124,652          | 157,540          | 74,867                   | 79,296           |
| Customer B | 51,403                 | 58,471           | 49,751           | 59,281           | 23,952                   | 33,580           |



## 6. OTHER INCOME

|   | Year ended 31 December |              |              |            | Six months ended   |            |
|---|------------------------|--------------|--------------|------------|--------------------|------------|
|   | 2014                   | 2015         | 2016         | 2017       | 2017               | 2018       |
|   | HK\$'000               | HK\$'000     | HK\$'000     | HK\$'000   | HK\$'000           | HK\$'000   |
|   |                        |              |              |            | <i>(unaudited)</i> |            |
| Bank interest income                          | 181                    | 913          | 430          | 331        | 215                | 34         |
| Agency services income from related companies | 1,742                  | 2,249        | 1,563        | –          | –                  | –          |
| Others  | 181                    | 390          | 202          | 115        | 202                | 170        |
|   | <u>2,104</u>           | <u>3,552</u> | <u>2,195</u> | <u>446</u> | <u>417</u>         | <u>204</u> |

## 7. OTHER GAINS AND LOSSES

|   | Year ended 31 December |              |              |                | Six months ended   |                |
|---|------------------------|--------------|--------------|----------------|--------------------|----------------|
|   | 2014                   | 2015         | 2016         | 2017           | 2017               | 2018           |
|   | HK\$'000               | HK\$'000     | HK\$'000     | HK\$'000       | HK\$'000           | HK\$'000       |
|   |                        |              |              |                | <i>(unaudited)</i> |                |
| Gain (loss) on foreign exchange   | 916                    | 4,406        | 4,930        | (4,029)        | (4,081)            | (1,069)        |
| (Loss) gain on change in fair value of derivative financial liabilities (note 25) | (1,132)                | 331          | –            | –              | –                  | –              |
| Gain on release of financial guarantee contracts                                  | 236                    | –            | 42           | 555            | 555                | 8              |
| Gain on disposal of property, plant and equipment                                 | –                      | 101          | 8            | –              | –                  | –              |
| Government subsidies  | –                      | –            | 311          | 499            | 234                | –              |
| Trade receivables written off as uncollectible                                    | (147)                  | –            | –            | –              | –                  | –              |
| Reversal of credit loss allowance   | –                      | –            | –            | –              | –                  | 35             |
| Others  | (396)                  | (85)         | 30           | (256)          | 533                | (149)          |
|   | <u>(523)</u>           | <u>4,753</u> | <u>5,321</u> | <u>(3,231)</u> | <u>(2,759)</u>     | <u>(1,175)</u> |

## 8. FINANCE COSTS

|  | Year ended 31 December |               |              |              | Six months ended   |              |
|--|------------------------|---------------|--------------|--------------|--------------------|--------------|
|  | 2014                   | 2015          | 2016         | 2017         | 2017               | 2018         |
|  | HK\$'000               | HK\$'000      | HK\$'000     | HK\$'000     | HK\$'000           | HK\$'000     |
|  |                        |               |              |              | <i>(unaudited)</i> |              |
| Interest expenses on:                      |                        |               |              |              |                    |              |
| – bank and other borrowings and overdrafts | 8,272                  | 10,232        | 8,117        | 8,100        | 3,967              | 4,467        |
| – finance leases                           | 735                    | 394           | 161          | 101          | 43                 | 45           |
|  | <u>9,007</u>           | <u>10,626</u> | <u>8,278</u> | <u>8,201</u> | <u>4,010</u>       | <u>4,512</u> |

## 9. (OTHER EXPENSES) REVERSAL OF OTHER EXPENSES

|   | Year ended 31 December |          |                |            | Six months ended |                |
|---|------------------------|----------|----------------|------------|------------------|----------------|
|   | 2014                   | 2015     | 2016           | 2017       | 2017             | 2018           |
|   | HK\$'000               | HK\$'000 | HK\$'000       | HK\$'000   | HK\$'000         | HK\$'000       |
|   |                        |          |                |            | (unaudited)      |                |
| (Provision) reversal of provision of compound penalty (note 10) | -                      | -        | (8,647)        | 2,097      | 2,097            | -              |
| Surcharge levied on tax payment by instalments                  | -                      | -        | -              | (1,430)    | -                | (2,330)        |
|   | <u>-</u>               | <u>-</u> | <u>(8,647)</u> | <u>667</u> | <u>2,097</u>     | <u>(2,330)</u> |

## 10. INCOME TAX EXPENSE

|  | Year ended 31 December |              |               |               | Six months ended |              |
|--|------------------------|--------------|---------------|---------------|------------------|--------------|
|  | 2014                   | 2015         | 2016          | 2017          | 2017             | 2018         |
|  | HK\$'000               | HK\$'000     | HK\$'000      | HK\$'000      | HK\$'000         | HK\$'000     |
|  |                        |              |               |               | (unaudited)      |              |
| Current tax:                           |                        |              |               |               |                  |              |
| - Hong Kong Profits Tax                | 3,186                  | 5,188        | 8,119         | 6,587         | 3,173            | 3,027        |
| - PRC EIT                              | 2,183                  | 4,311        | 2,971         | 2,453         | 769              | 1,557        |
| Underprovision in prior years/periods: |                        |              |               |               |                  |              |
| - Hong Kong Profits Tax                | -                      | -            | -             | 1,911         | 1,037            | -            |
| - PRC EIT                              | 322                    | 5            | -             | -             | -                | -            |
|  | <u>5,691</u>           | <u>9,504</u> | <u>11,090</u> | <u>10,951</u> | <u>4,979</u>     | <u>4,584</u> |
| Deferred tax (note 27)                 | 925                    | (1,113)      | (916)         | 632           | 659              | 244          |
|  | <u>6,616</u>           | <u>8,391</u> | <u>10,174</u> | <u>11,583</u> | <u>5,638</u>     | <u>4,828</u> |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit during the Track Record Period.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% during the Track Record Period.

During the Track Record Period, the IRD conducted a tax audit on a subsidiary of the Company in respect of its Hong Kong tax affairs, mainly on the source of profits generated from certain overseas customers. The Group has provided various information and supporting documents to address the enquiries raised by the IRD and to defend its tax position.

In the opinion of the directors of the Company, the operations pertaining to the profits in question were undertaken outside Hong Kong and no Hong Kong profits tax should be payable. However, having considered the different opinion of the IRD on such controversial issue, and in order to avoid a further protracted exchange of correspondences, which may not be the best interest from the commercial perspective, the directors of the Company decided to take a compromised settlement approach to resolve the case. Against this background and following a series of subsequent negotiations with the IRD, a compromised settlement was reached with the IRD on 17 July 2017 and a sum of HK\$6,550,000 as compound penalty was agreed for the case. The Group has made provisions of HK\$8,647,000 for the compound penalty (which was presented as other expenses) for the tax audit during the year ended 31 December 2016. An amount of HK\$2,097,000 is recognised as reversal of other expenses in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017.

The income tax expense for the Track Record Period can be reconciled to profit before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

|  | Year ended 31 December |                  |                  |                  | Six months ended<br>30 June     |                  |
|--|------------------------|------------------|------------------|------------------|---------------------------------|------------------|
|  | 2014<br>HK\$'000       | 2015<br>HK\$'000 | 2016<br>HK\$'000 | 2017<br>HK\$'000 | 2017<br>HK\$'000<br>(unaudited) | 2018<br>HK\$'000 |
| Profit before tax  | 23,077                 | 37,664           | 36,509           | 38,994           | 24,057                          | 21,374           |
| Tax at Hong Kong Profits Tax rate of 16.5% (Note)  | 3,808                  | 6,215            | 6,024            | 6,434            | 3,969                           | 3,527            |
| Tax effect of expenses not deductible for tax purposes                                   | 331                    | 317              | 3,450            | 2,817            | 869                             | 847              |
| Tax effect of income not taxable for tax purposes  | (159)                  | (2)              | –                | (424)            | (784)                           | (3)              |
| Underprovision in respect of prior years/periods   | 322                    | 5                | –                | 1,911            | 1,037                           | –                |
| Effect of different tax rates/tax bases of subsidiaries operating in other jurisdictions | 2,314                  | 1,876            | 700              | 845              | 547                             | 622              |
| Others   | –                      | (20)             | –                | –                | –                               | (165)            |
| Income tax expense for the year/period   | <u>6,616</u>           | <u>8,391</u>     | <u>10,174</u>    | <u>11,583</u>    | <u>5,638</u>                    | <u>4,828</u>     |

Note: The domestic tax rate (which is the Hong Kong Profits Tax rate) in the jurisdiction where the sales and purchases of the Group is substantially based is used.

#### 11. PROFIT FOR THE YEAR/PERIOD

|   | Year ended 31 December |                  |                  |                  | Six months ended<br>30 June     |                  |
|---|------------------------|------------------|------------------|------------------|---------------------------------|------------------|
|   | 2014<br>HK\$'000       | 2015<br>HK\$'000 | 2016<br>HK\$'000 | 2017<br>HK\$'000 | 2017<br>HK\$'000<br>(unaudited) | 2018<br>HK\$'000 |
| Profit for the year/period has been arrived at after charging:        |                        |                  |                  |                  |                                 |                  |
| Directors' remuneration:  |                        |                  |                  |                  |                                 |                  |
| – Fees  | –                      | –                | –                | –                | –                               | –                |
| – Other emoluments, salaries and other benefits                       | 893                    | 880              | 3,929            | 3,961            | 3,014                           | 939              |
| – Retirement benefit scheme contributions                             | 68                     | 72               | 67               | 59               | 27                              | 36               |
|   | <u>961</u>             | <u>952</u>       | <u>3,996</u>     | <u>4,020</u>     | <u>3,041</u>                    | <u>975</u>       |
| Other staff salaries and allowances                                   | 38,163                 | 38,782           | 35,951           | 36,123           | 16,111                          | 19,573           |
| Retirement benefit scheme contributions, excluding those of directors | 3,126                  | 3,535            | 3,259            | 3,048            | 1,014                           | 1,499            |
| Total employee benefits expenses                                      | <u>42,250</u>          | <u>43,269</u>    | <u>43,206</u>    | <u>43,191</u>    | <u>20,166</u>                   | <u>22,047</u>    |
| Auditor's remuneration  | 156                    | 135              | 154              | 33               | 33                              | 13               |
| Cost of inventories recognised as an expense                          | 228,007                | 230,656          | 193,913          | 212,937          | 101,232                         | 102,414          |
| Research and development expenses                                     | 1,068                  | 1,309            | 1,358            | 1,440            | 781                             | 642              |
| Depreciation of property, plant and equipment                         | <u>7,436</u>           | <u>8,485</u>     | <u>10,723</u>    | <u>11,492</u>    | <u>6,803</u>                    | <u>5,612</u>     |

## 12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

## (a) Directors' and the chief executive's emoluments

Details of the emoluments paid or payable to the directors and the chief executive of the Company (including emoluments for services as employees/directors of the group entities prior to becoming the directors of the Company) during the Track Record Period are as follows:

*For the year ended 31 December 2014*

| Name of directors                          | Fee<br>HK\$'000 | Salaries and<br>other<br>allowances<br>HK\$'000 | Retirement<br>benefit<br>scheme<br>contributions<br>HK\$'000 | Total<br>HK\$'000 |
|--|-----------------|---|--|-------------------|
| Executive directors:                       |                 |   |  |                   |
| Mr. Tong ( <i>note i</i> )                 | –               | 122   | 17   | 139               |
| Ms. Ng ( <i>note ii</i> )                  | –               | 122   | 17   | 139               |
| Mr. Tong Bak Nam Billy ( <i>note iii</i> ) | –               | 241   | 17   | 258               |
| Mr. Chan Kam Hon Ivan ( <i>note iv</i> )   | –               | 408   | 17   | 425               |
|  | –               | 893   | 68   | 961               |

*For the year ended 31 December 2015*

| Name of directors                          | Fee<br>HK\$'000 | Salaries and<br>other<br>allowances<br>HK\$'000 | Retirement<br>benefit<br>scheme<br>contributions<br>HK\$'000 | Total<br>HK\$'000 |
|--|-----------------|---|--|-------------------|
| Executive directors:                       |                 |   |  |                   |
| Mr. Tong ( <i>note i</i> )                 | –               | 120   | 18   | 138               |
| Ms. Ng ( <i>note ii</i> )                  | –               | 120   | 18   | 138               |
| Mr. Tong Bak Nam Billy ( <i>note iii</i> ) | –               | 240   | 18   | 258               |
| Mr. Chan Kam Hon Ivan ( <i>note iv</i> )   | –               | 400   | 18   | 418               |
|  | –               | 880   | 72   | 952               |

*For the year ended 31 December 2016*

| Name of directors                    | Fee<br>HK\$'000 | Salaries<br>and other<br>allowances<br>HK\$'000 | Retirement<br>benefit<br>scheme<br>contributions<br>HK\$'000 | Other<br>benefits<br>HK\$'000<br>(note v) | Total<br>HK\$'000 |
|--------------------------------------|-----------------|---|--|---|-------------------|
| Executive directors:                 |                 |   |  |   |                   |
| Mr. Tong (note i)                    | –               | 848   | 13   | 153                                       | 1,014             |
| Ms. Ng (note ii)                     | –               | 900   | 18   | 152                                       | 1,070             |
| Mr. Tong Bak Nam Billy<br>(note iii) | –               | 780   | 18   | 237                                       | 1,035             |
| Mr. Chan Kam Hon Ivan<br>(note iv)   | –               | 716   | 18   | 143                                       | 877               |
|                                      | –               | 3,244   | 67   | 685                                       | 3,996             |

*For the year ended 31 December 2017*

| Name of directors                    | Fee<br>HK\$'000 | Salaries<br>and other<br>allowances<br>HK\$'000 | Retirement<br>benefit<br>scheme<br>contributions<br>HK\$'000 | Other<br>benefits<br>HK\$'000<br>(note v) | Total<br>HK\$'000 |
|--------------------------------------|-----------------|---|--|---|-------------------|
| Executive directors:                 |                 |   |  |   |                   |
| Mr. Tong (note i)                    | –               | 557   | 5  | 210                                       | 772               |
| Ms. Ng (note ii)                     | –               | 600   | 18   | 210                                       | 828               |
| Mr. Tong Bak Nam Billy<br>(note iii) | –               | 930   | 18   | 461                                       | 1,409             |
| Mr. Chan Kam Hon Ivan<br>(note iv)   | –               | 708   | 18   | 285                                       | 1,011             |
|                                      | –               | 2,795   | 59   | 1,166                                     | 4,020             |

*For the period ended 30 June 2017 (unaudited)*

| Name of directors                    | Fee<br>HK\$'000 | Salaries<br>and other<br>allowances<br>HK\$'000 | Retirement<br>benefit<br>scheme<br>contributions<br>HK\$'000 | Other<br>benefits<br>HK\$'000<br>(note v) | Total<br>HK\$'000 |
|--------------------------------------|-----------------|---|--|---|-------------------|
| Executive directors:                 |                 |   |  |   |                   |
| Mr. Tong (note i)                    | –               | 429   | –  | 210                                       | 639               |
| Ms. Ng (note ii)                     | –               | 450   | 9  | 210                                       | 669               |
| Mr. Tong Bak Nam Billy<br>(note iii) | –               | 540   | 9  | 461                                       | 1,010             |
| Mr. Chan Kam Hon Ivan<br>(note iv)   | –               | 429   | 9  | 285                                       | 723               |
|                                      | –               | 1,848   | 27   | 1,166                                     | 3,041             |

*For the period ended 30 June 2018*

| Name of directors                             | Fee<br>HK\$'000 | Salaries<br>and other<br>allowances<br>HK\$'000 | Retirement<br>benefit<br>scheme<br>contributions<br>HK\$'000 | Other<br>benefits<br>HK\$'000 | Total<br>HK\$'000 |
|---|-----------------|---|--|-------------------------------|-------------------|
| Executive directors:                          |                 |   |  |                               |                   |
| Mr. Tong ( <i>note i</i> )                    | –               | 120   | 9  | –                             | 129               |
| Ms. Ng ( <i>note ii</i> )                     | –               | 150   | 9  | –                             | 159               |
| Mr. Tong Bak Nam Billy<br>( <i>note iii</i> ) | –               | 390   | 9  | –                             | 399               |
| Mr. Chan Kam Hon Ivan<br>( <i>note iv</i> )   | –               | 279   | 9  | –                             | 288               |
|   | –               | 939   | 36   | –                             | 975               |

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

*Notes:*

- (i) Being appointed as a director of the Company on 22 March 2016.
- (ii) Being appointed as a director of the Company on 22 March 2016.
- (iii) Being chief executive of the Group, son of Mr. Tong and Ms. Ng and appointed as a director of the Company on 28 June 2016.
- (iv) Being appointed as a director of the Company on 28 June 2016.
- (v) Other benefits were the directors' quarters rental and relating expenses.

**(b) Employees' emoluments**

The five highest paid individuals of the Group include one, one, four, three, four and two directors of the Company for the years ended 31 December 2014, 2015, 2016 and 2017 and the six months ended 30 June 2017 (unaudited) and 2018 respectively. The emoluments of the remaining four, four, one, two, one and three individual(s) for the years ended 31 December 2014, 2015, 2016 and 2017 and the six months ended 30 June 2017 (unaudited) and 2018 respectively, are as follows:

|  | Year ended 31 December |                  |                  |                  | Six months ended<br>30 June     |                  |
|--|------------------------|------------------|------------------|------------------|---------------------------------|------------------|
|  | 2014<br>HK\$'000       | 2015<br>HK\$'000 | 2016<br>HK\$'000 | 2017<br>HK\$'000 | 2017<br>HK\$'000<br>(unaudited) | 2018<br>HK\$'000 |
| Salaries and other allowances              | 2,249                  | 2,263            | 720              | 1,638            | 420                             | 1,460            |
| Retirement benefit scheme<br>contributions | 65                     | 66               | 18               | 32               | 9                               | 27               |
|  | 2,314                  | 2,329            | 738              | 1,670            | 429                             | 1,487            |

The emoluments of these employees were within the following band:

|                      | Number of employees    |      |      |      | Six months ended |      |
|----------------------|------------------------|------|------|------|------------------|------|
|                      | Year ended 31 December |      |      |      | 30 June          |      |
|                      | 2014                   | 2015 | 2016 | 2017 | 2017             | 2018 |
|                      |                        |      |      |      | (unaudited)      |      |
| Nil to HK\$1,000,000 | 4                      | 4    | 1    | 2    | 1                | 3    |

During the Track Record Period, no emoluments were paid by the Group to any of the directors of the Company or the chief executive of the Group or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company or the chief executive of the Group waived any emoluments during the Track Record Period.

### 13. EARNINGS PER SHARE

The calculation of the basic earnings per share during the Track Record Period is based on the earnings attributable to owners of the Company and the weighted average number of ordinary shares of 405,000,000, which has been adjusted retrospectively for the effect of shares issued in connection with the Reorganisation as set out in note 1 and the effect of the Capitalisation Issue set out in the section headed "Share Capital" of the Prospectus as if both the Reorganisation and Capitalisation Issue had been effective since 1 January 2014.

No diluted earnings per share is presented for the Track Record Period as the Company did not have any potential dilutive share in issue.

### 14. DIVIDENDS

During the years ended 31 December 2014 and 2015, interim dividends of HK\$5,000,000 and HK\$5,000,000, respectively, was recognised as distribution by Chase On to its then shareholders, namely Mr. Tong and Ms. Ng. No rate of dividend is presented as it is not considered meaningful for the purpose of this report.

During the years ended 31 December 2016 and 2017 and the six months ended 30 June 2017, interim dividends of HK\$500, HK\$1,000 and HK\$1,000 per share amounting to HK\$5,000,000, HK\$10,000,000 and HK\$10,000,000 respectively was recognised as distribution by the Company.

During the six months ended 30 June 2018, an interim dividend of HK\$3,000 per share amounting to HK\$30,000,000 was recognised as distribution by the Company.

## 15. PROPERTY, PLANT AND EQUIPMENT

|                         | Moulds<br>HK\$'000 | Plant and<br>machinery<br>HK\$'000 | Furniture,<br>fixtures and<br>equipment<br>HK\$'000 | Motor<br>vehicles<br>HK\$'000 | Leasehold<br>improvements<br>HK\$'000 | Total<br>HK\$'000 |
|-------------------------|--------------------|------------------------------------|---|-------------------------------|---------------------------------------|-------------------|
| <b>COST</b>             |                    |                                    |   |                               |                                       |                   |
| At 1 January 2014       | 32,636             | 22,016                             | 448   | 2,973                         | –                                     | 58,073            |
| Additions               | 7,560              | 4,945                              | 636   | 2,354                         | 1,748                                 | 17,243            |
| At 31 December 2014     | 40,196             | 26,961                             | 1,084   | 5,327                         | 1,748                                 | 75,316            |
| Additions               | 10,189             | 5,794                              | 248   | 489                           | 506                                   | 17,226            |
| Disposals               | –                  | (360)                              | –   | (699)                         | –                                     | (1,059)           |
| At 31 December 2015     | 50,385             | 32,395                             | 1,332   | 5,117                         | 2,254                                 | 91,483            |
| Additions               | 11,933             | 2,639                              | 115   | 1,302                         | 166                                   | 16,155            |
| Disposals               | –                  | (538)                              | (6)   | (1,942)                       | –                                     | (2,486)           |
| At 31 December 2016     | 62,318             | 34,496                             | 1,441   | 4,477                         | 2,420                                 | 105,152           |
| Additions               | 5,273              | 1,914                              | 243   | –                             | –                                     | 7,430             |
| Disposals               | –                  | (376)                              | –   | –                             | –                                     | (376)             |
| At 31 December 2017     | 67,591             | 36,034                             | 1,684   | 4,477                         | 2,420                                 | 112,206           |
| Additions               | 19,817             | 5,584                              | –   | –                             | –                                     | 25,401            |
| Disposals               | –                  | (5,661)                            | –   | –                             | –                                     | (5,661)           |
| At 30 June 2018         | <u>87,408</u>      | <u>35,957</u>                      | <u>1,684</u>  | <u>4,477</u>                  | <u>2,420</u>                          | <u>131,946</u>    |
| <b>DEPRECIATION</b>     |                    |                                    |   |                               |                                       |                   |
| At 1 January 2014       | 10,897             | 12,310                             | 426   | 1,828                         | –                                     | 25,461            |
| Provided for the year   | 4,825              | 1,729                              | 85  | 771                           | 26                                    | 7,436             |
| At 31 December 2014     | 15,722             | 14,039                             | 511   | 2,599                         | 26                                    | 32,897            |
| Provided for the year   | 5,412              | 1,911                              | 166   | 804                           | 192                                   | 8,485             |
| Eliminated on disposals | –                  | (360)                              | –   | (699)                         | –                                     | (1,059)           |
| At 31 December 2015     | 21,134             | 15,590                             | 677   | 2,704                         | 218                                   | 40,323            |
| Provided for the year   | 6,717              | 2,655                              | 188   | 921                           | 242                                   | 10,723            |
| Eliminated on disposals | –                  | (482)                              | (2)   | (1,740)                       | –                                     | (2,224)           |
| At 31 December 2016     | 27,851             | 17,763                             | 863   | 1,885                         | 460                                   | 48,822            |
| Provided for the year   | 7,207              | 2,919                              | 243   | 881                           | 242                                   | 11,492            |
| Eliminated on disposals | –                  | (210)                              | –   | –                             | –                                     | (210)             |
| At 31 December 2017     | 35,058             | 20,472                             | 1,106   | 2,766                         | 702                                   | 60,104            |
| Provided for the period | 3,366              | 1,600                              | 88  | 437                           | 121                                   | 5,612             |
| Eliminated on disposals | –                  | (5,661)                            | –   | –                             | –                                     | (5,661)           |
| At 30 June 2018         | <u>38,424</u>      | <u>16,411</u>                      | <u>1,194</u>  | <u>3,203</u>                  | <u>823</u>                            | <u>60,055</u>     |
| <b>CARRYING VALUES</b>  |                    |                                    |   |                               |                                       |                   |
| At 31 December 2014     | <u>24,474</u>      | <u>12,922</u>                      | <u>573</u>  | <u>2,728</u>                  | <u>1,722</u>                          | <u>42,419</u>     |
| At 31 December 2015     | <u>29,251</u>      | <u>16,805</u>                      | <u>655</u>  | <u>2,413</u>                  | <u>2,036</u>                          | <u>51,160</u>     |
| At 31 December 2016     | <u>34,467</u>      | <u>16,733</u>                      | <u>578</u>  | <u>2,592</u>                  | <u>1,960</u>                          | <u>56,330</u>     |
| At 31 December 2017     | <u>32,533</u>      | <u>15,562</u>                      | <u>578</u>  | <u>1,711</u>                  | <u>1,718</u>                          | <u>52,102</u>     |
| At 30 June 2018         | <u>48,984</u>      | <u>19,546</u>                      | <u>490</u>  | <u>1,274</u>                  | <u>1,597</u>                          | <u>71,891</u>     |



The above items of property, plant and equipment are depreciated on a straight-line basis as follows:

|                                   |  |
|-----------------------------------|--|
| Moulds                            | 14% per annum  |
| Plant and machinery               | 10%-20% per annum  |
| Furniture, fixtures and equipment | 20% per annum  |
| Motor vehicles                    | 20% per annum  |
| Leasehold improvements            | Over shorter of the lease terms of<br>5 to 10 years and useful lives |

At 31 December 2014, 2015, 2016 and 2017 and 30 June 2018, the net book value of plant and machinery and motor vehicles includes an amount of HK\$11,391,000, HK\$7,311,000, HK\$3,225,000, HK\$1,244,000 and HK\$6,208,000 in respect of assets held under finance leases, respectively.

#### 16. RENTAL DEPOSITS

The balances represent rental deposits placed by the Group in connection with its rented premises. The relevant leases will expire after one year from the end of the respective reporting period. Therefore, the balances are classified as non-current.

#### 17. INVENTORIES

|                  | At 31 December |               |               |               | At 30 June    |
|------------------|----------------|---------------|---------------|---------------|---------------|
|                  | 2014           | 2015          | 2016          | 2017          | 2018          |
|                  | HK\$'000       | HK\$'000      | HK\$'000      | HK\$'000      | HK\$'000      |
| Raw materials    | 2,665          | 8,302         | 9,916         | 5,865         | 6,206         |
| Work in progress | 13,037         | 10,905        | 7,344         | 8,251         | 7,075         |
| Finished goods   | 10,735         | 6,687         | 5,273         | 4,161         | 4,631         |
|                  | <u>26,437</u>  | <u>25,894</u> | <u>22,533</u> | <u>18,277</u> | <u>17,912</u> |

#### 18. TRADE AND OTHER RECEIVABLES

| THE GROUP                       | At 31 December |               |               |               | At 30 June    |
|---------------------------------|----------------|---------------|---------------|---------------|---------------|
|                                 | 2014           | 2015          | 2016          | 2017          | 2018          |
|                                 | HK\$'000       | HK\$'000      | HK\$'000      | HK\$'000      | HK\$'000      |
| Trade receivables               | 13,832         | 15,126        | 10,962        | 15,478        | 9,371         |
| Prepayments to suppliers        | 2,099          | 995           | 28,954        | 30,910        | 37,662        |
| Other tax recoverable           | 3,788          | 49            | –             | 967           | 380           |
| Other receivables               | 2,543          | 2,403         | 2,244         | 1,799         | 2,079         |
| Deferred issue costs            | –              | –             | 3,743         | 4,924         | 5,697         |
|                                 | <u>22,262</u>  | <u>18,573</u> | <u>45,903</u> | <u>54,078</u> | <u>55,189</u> |
| Less: impairment loss allowance | –              | –             | –             | –             | (40)          |
|                                 | <u>22,262</u>  | <u>18,573</u> | <u>45,903</u> | <u>54,078</u> | <u>55,149</u> |

| THE COMPANY          | At 31        | At 31        | At 30 June   |
|----------------------|--------------|--------------|--------------|
|                      | December     | December     | 2018         |
|                      | 2016         | 2017         | 2018         |
|                      | HK\$'000     | HK\$'000     | HK\$'000     |
| Deferred issue costs | <u>3,743</u> | <u>4,924</u> | <u>5,697</u> |

The Group allows credit period mainly ranging from cash on delivery to 90 days to its customers.

The following is an aged analysis of trade receivables presented based on the invoice date at the end of each reporting period.

|                   | At 31 December |               |               |               | At 30 June   |
|-------------------|----------------|---------------|---------------|---------------|--------------|
|                   | 2014           | 2015          | 2016          | 2017          | 2018         |
|                   | HK\$'000       | HK\$'000      | HK\$'000      | HK\$'000      | HK\$'000     |
| Trade receivables |                |               |               |               |              |
| 1 – 30 days       | 9,765          | 11,464        | 8,961         | 11,270        | 7,002        |
| 31 – 60 days      | 3,001          | 3,286         | 1,292         | 3,418         | 1,957        |
| 61 – 90 days      | 220            | 323           | 318           | 550           | 346          |
| 91 – 180 days     | 654            | 53            | 391           | 195           | 19           |
| 181 – 365 days    | 192            | –             | –             | 45            | 3            |
| Over 1 year       | –              | –             | –             | –             | 44           |
|                   | <u>13,832</u>  | <u>15,126</u> | <u>10,962</u> | <u>15,478</u> | <u>9,371</u> |

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits attributed to customers and credit term granted to customers are reviewed regularly. All of the trade receivables that are neither past due nor impaired have no history of default on repayments. The management of the Group considers that these trade receivables are of good quality given the continuous settlement from customers throughout the Track Record Period. During the six months ended 30 June 2018, receivables of HK\$40,000 was impaired, including reversal of impairment loss of HK\$26,000 recorded in the consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2018, and HK\$66,000 recorded as an adjustment to the retained profits as at 1 January 2018.

The following is an aged analysis of trade receivables which are past due but not impaired at the end of each reporting period:

|                | At 31 December |              |            |              | At 30 June |
|----------------|----------------|--------------|------------|--------------|------------|
|                | 2014           | 2015         | 2016       | 2017         | 2018       |
|                | HK\$'000       | HK\$'000     | HK\$'000   | HK\$'000     | HK\$'000   |
| 1 – 30 days    | 2,043          | 1,948        | 402        | 2,099        | 610        |
| 31 – 60 days   | 138            | 149          | 26         | 751          | –          |
| 61 – 90 days   | 192            | 67           | 78         | 195          | –          |
| 91 – 180 days  | 628            | 53           | 391        | 195          | 2          |
| 181 – 365 days | 192            | –            | –          | 45           | 1          |
| Over 1 year    | –              | –            | –          | –            | 44         |
|                | <u>3,193</u>   | <u>2,217</u> | <u>897</u> | <u>3,285</u> | <u>657</u> |

Included in the Group's trade receivables are amounts of HK\$1,618,000, HK\$687,000, HK\$60,000, HK\$550,000 and nil as at 31 December 2014, 2015, 2016 and 2017 and 30 June 2018, respectively, being transferred to certain banks by factoring the relevant trade receivables on a full recourse basis. If the trade receivables are not paid on maturity, the banks have the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to the receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as bank and other borrowings from factoring of trade receivables with full recourse (note 24). The financial asset is carried at amortised cost in the consolidated statements of financial position.

|   | At 31 December   |                  |                  |                  | At 30 June       |
|---|------------------|------------------|------------------|------------------|------------------|
|   | 2014<br>HK\$'000 | 2015<br>HK\$'000 | 2016<br>HK\$'000 | 2017<br>HK\$'000 | 2018<br>HK\$'000 |
| Carrying amount of transferred asset    | 1,618            | 687              | 60               | 550              | –                |
| Carrying amount of associated liability | (1,618)          | (687)            | (60)             | (550)            | –                |
|   | <u>–</u>         | <u>–</u>         | <u>–</u>         | <u>–</u>         | <u>–</u>         |

The Group's trade receivables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

|      | At 31 December   |                  |                  |                  | At 30 June       |
|------|------------------|------------------|------------------|------------------|------------------|
|      | 2014<br>HK\$'000 | 2015<br>HK\$'000 | 2016<br>HK\$'000 | 2017<br>HK\$'000 | 2018<br>HK\$'000 |
| HK\$ | <u>696</u>       | <u>188</u>       | <u>941</u>       | <u>552</u>       | <u>566</u>       |

#### 19. AMOUNTS DUE FROM RELATED COMPANIES/A DIRECTOR

|  | At 31 December   |                  |                  |                  |                  | At 30 June       |                  |                  |                  |                  | Maximum amount outstanding during the year/period |                  |                  |                  |                  |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|---|------------------|------------------|------------------|------------------|
|  | 2014<br>HK\$'000 | 2015<br>HK\$'000 | 2016<br>HK\$'000 | 2017<br>HK\$'000 | 2018<br>HK\$'000 | 2014<br>HK\$'000 | 2015<br>HK\$'000 | 2016<br>HK\$'000 | 2017<br>HK\$'000 | 2018<br>HK\$'000 | 2014<br>HK\$'000                                  | 2015<br>HK\$'000 | 2016<br>HK\$'000 | 2017<br>HK\$'000 | 2018<br>HK\$'000 |
| Fifteen International Limited ("Fifteen")  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |   |                  |                  |                  |                  |
| – Non-trade (Note i)                       | 15               | 1,814            | –                | –                | –                | 15               | 1,818            | 22,459           | 130,038          | 19,677           |   |                  |                  |                  |                  |
| – Agency service related (Note i)          | 184,475          | 181,023          | –                | –                | –                | 185,083          | 242,463          | 181,023          | –                | –                |   |                  |                  |                  |                  |
| Sky Market Limited ("Sky Market")          |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |   |                  |                  |                  |                  |
| – Non-trade (Note i)                       | 2,311            | 23,682           | –                | –                | –                | 19,295           | 23,682           | 23,682           | 3,967            | 7,205            |   |                  |                  |                  |                  |
|  | <u>186,801</u>   | <u>206,519</u>   | <u>–</u>         | <u>–</u>         | <u>–</u>         |                  |                  |                  |                  |                  |   |                  |                  |                  |                  |
| Amount due from a director (Note ii)       | 16,229           | –                | 21,840           | 22,052           | 42,917           | 16,229           | 16,229           | 21,840           | 38,099           | 48,439           |   |                  |                  |                  |                  |
| Less: impairment loss allowance (Note iii) | –                | –                | –                | –                | (44)             | N/A              | N/A              | N/A              | N/A              | N/A              |   |                  |                  |                  |                  |
|  | <u>16,229</u>    | <u>–</u>         | <u>21,840</u>    | <u>22,052</u>    | <u>42,873</u>    | <u>16,229</u>    | <u>16,229</u>    | <u>21,840</u>    | <u>38,099</u>    | <u>48,439</u>    |   |                  |                  |                  |                  |

#### Notes:

- (i) The amounts are non-trade in nature, interest free, unsecured and repayable on demand. Pursuant to the settlement agreements signed between Mr. Tong and related companies on 31 December 2016, 31 December 2017 and 30 June 2018, respectively, the amounts due from/to related companies are set off with the amount due from/to a director.
- (ii) The amount represents balance with Mr. Tong which is non-trade in nature, interest-free, unsecured and repayable on demand. The amount outstanding at 30 June 2018 has been settled on 20 August 2018.

During the six months ended 30 June 2018, amount due from a director of HK\$44,000 was impaired, including impairment loss allowance of HK\$21,000 recorded in the consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2018, and HK\$23,000 recorded as an adjustment to the retained profits as at 1 January 2018.

## 20. RESTRICTED BANK DEPOSITS

|  | At 31 December |               |                |               | At 30 June    |
|--|----------------|---------------|----------------|---------------|---------------|
|  | 2014           | 2015          | 2016           | 2017          | 2018          |
|  | HK\$'000       | HK\$'000      | HK\$'000       | HK\$'000      | HK\$'000      |
| Restricted bank deposits, gross            | 55,708         | 62,544        | 102,480        | 92,262        | 95,646        |
| Less: impairment loss allowance            | —              | —             | —              | —             | (987)         |
| Restricted bank deposits, net of allowance | <u>55,708</u>  | <u>62,544</u> | <u>102,480</u> | <u>92,262</u> | <u>94,659</u> |

Restricted bank deposits, include cash deposits in current account and saving deposits, represents deposits pledged to banks for banking facilities granted to the Group. As at 31 December 2016 and 2017 and 30 June 2018, restricted deposits amounting to HK\$40,000,000, HK\$30,000,000 and HK\$30,000,000, respectively were pledged to banks for banking facilities granted to the related companies. During the six months ended 30 June 2018, restricted bank deposits of HK\$987,000 was impaired, including impairment loss allowance of HK\$14,000 recorded in the consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2018, and HK\$973,000 recorded as an adjustment to the retained profits as at 1 January 2018.

Restricted bank deposits carry interest at market rates which range from 0.00% to 3.30%, 0.00% to 2.80%, 0.00% to 2.10%, 0.00% to 1.55% and 0.00% to 2.10% per annum as at 31 December 2014, 2015, 2016 and 2017 and 30 June 2018 respectively.

Analysis of restricted bank deposits denominated in currencies other than the functional currencies of the relevant group entities is set out below:

|      | At 31 December |               |                |               | At 30 June    |
|------|----------------|---------------|----------------|---------------|---------------|
|      | 2014           | 2015          | 2016           | 2017          | 2018          |
|      | HK\$'000       | HK\$'000      | HK\$'000       | HK\$'000      | HK\$'000      |
| HK\$ | 25,531         | 43,644        | 91,209         | 92,022        | 94,541        |
| RMB  | 27,843         | 16,566        | 8,933          | 240           | 118           |
|      | <u>53,374</u>  | <u>60,210</u> | <u>100,142</u> | <u>92,262</u> | <u>94,659</u> |

## 21. BANK BALANCES AND CASH

|  | At 31 December |               |                |                | At 30 June    |
|--|----------------|---------------|----------------|----------------|---------------|
|  | 2014           | 2015          | 2016           | 2017           | 2018          |
|  | HK\$'000       | HK\$'000      | HK\$'000       | HK\$'000       | HK\$'000      |
| Bank balances and cash, gross            | 8,008          | 40,545        | 108,145        | 124,705        | 86,128        |
| Less: impairment loss allowance          | —              | —             | —              | —              | (1,515)       |
| Bank balances and cash, net of allowance | <u>8,008</u>   | <u>40,545</u> | <u>108,145</u> | <u>124,705</u> | <u>84,613</u> |

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. During the six months ended 30 June 2018, bank balances of HK\$1,515,000 was impaired, including impairment loss reversal of HK\$46,000 recorded in the consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2018, and HK\$1,561,000 recorded as an adjustment to the retained profits as at 1 January 2018.

Bank balances carry interest at market rates which range from 0.00% to 0.35%, 0.00% to 0.35%, 0.00% to 0.35%, 0.00% to 0.35% and 0.00% to 0.35% per annum, respectively as at 31 December 2014, 2015, 2016 and 2017 and 30 June 2018.

Analysis of bank balances and cash denominated in currencies other than the functional currencies of the relevant group entities is set out below:

|      | At 31 December |               |                |                | At 30 June    |
|------|----------------|---------------|----------------|----------------|---------------|
|      | 2014           | 2015          | 2016           | 2017           | 2018          |
|      | HK\$'000       | HK\$'000      | HK\$'000       | HK\$'000       | HK\$'000      |
| HK\$ | 842            | 23,371        | 54,927         | 87,601         | 83,787        |
| RMB  | 4,728          | 12,164        | 50,343         | 36,678         | 256           |
|      | <u>5,570</u>   | <u>35,535</u> | <u>105,270</u> | <u>124,279</u> | <u>84,043</u> |

## 22. TRADE AND OTHER PAYABLES

| THE GROUP  | At 31 December |               |               |               | At 30 June    |
|--|----------------|---------------|---------------|---------------|---------------|
|  | 2014           | 2015          | 2016          | 2017          | 2018          |
|  | HK\$'000       | HK\$'000      | HK\$'000      | HK\$'000      | HK\$'000      |
| Trade payables   | 26,986         | 17,583        | 19,318        | 35,471        | 34,410        |
| Contract liability (Note i)                            | 1,109          | 1,446         | 998           | 1,603         | 2,183         |
| Payroll payable  | 5,927          | 3,116         | 4,353         | 6,529         | 6,591         |
| Accrued penalty (Note ii)                              | –              | –             | 8,647         | –             | –             |
| Accrued surcharge levied on tax payment by instalments | –              | –             | –             | 1,188         | 2,701         |
| Financial guarantee obligations (Note iii)             | –              | 518           | 1,119         | 564           | 556           |
| Accrued issue costs/listing expenses                   | –              | –             | 5,713         | 4,495         | 6,716         |
| Other accrued expenses                                 | 4,450          | 5,877         | 4,707         | 4,293         | 3,064         |
| Dividend payable                                       | –              | –             | –             | –             | 4,779         |
| Other payables   | 5,541          | 5,683         | 7,860         | 8,612         | 12,534        |
|  | <u>44,013</u>  | <u>34,223</u> | <u>52,715</u> | <u>62,755</u> | <u>73,534</u> |

| THE COMPANY              | At 31 December |              | At 30 June    |
|--------------------------|----------------|--------------|---------------|
|                          | 2016           | 2017         | 2018          |
|                          | HK\$'000       | HK\$'000     | HK\$'000      |
| Accrued listing expenses | 5,713          | 4,495        | 6,716         |
| Dividend payable         | –              | –            | 4,779         |
|                          | <u>5,713</u>   | <u>4,495</u> | <u>11,495</u> |

*Notes:*

- (i) Contract liability represents advance payments from customers which were/will be fully recognised as revenue within twelve months after the end of respective reporting dates.
- (ii) The amount represented potential penalty estimated to be incurred due to unsuccessful offshore claim as detailed in note 10.
- (iii) The amount represented financial guarantee contracts provided by Chase On to its related companies. The Controlling Shareholders and/or their family member have control or beneficial interests in these related companies.

The aged analysis of the trade payables presented based on the goods receipt date at the end of each reporting period is as follows:

|                       | At 31 December  |                 |                 |                 | At 30 June      |
|-----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                       | 2014            | 2015            | 2016            | 2017            | 2018            |
|                       | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| <u>Trade payables</u> |                 |                 |                 |                 |                 |
| 1 – 30 days           | 7,090           | 4,423           | 5,922           | 9,473           | 10,306          |
| 31 – 60 days          | 3,287           | 4,908           | 4,069           | 10,904          | 4,985           |
| 61 – 90 days          | 2,712           | 2,003           | 933             | 4,342           | 3,546           |
| 91 – 180 days         | 7,782           | 4,766           | 5,901           | 8,129           | 8,691           |
| 181 – 365 days        | 4,454           | 1,030           | 2,035           | 2,305           | 6,141           |
| Over 1 year           | 1,661           | 453             | 458             | 318             | 741             |
|                       | <u>26,986</u>   | <u>17,583</u>   | <u>19,318</u>   | <u>35,471</u>   | <u>34,410</u>   |

The average credit period on purchases of goods is ranging from cash on delivery to 90 days. The Group has financial risk management policies in place to ensure that the payables are settled in a timely manner.

Included in the Group's trade payables are the following amounts denominated in currencies other than the functional currencies of the relevant group entities:

|      | At 31 December  |                 |                 |                 | At 30 June      |
|------|-----------------|-----------------|-----------------|-----------------|-----------------|
|      | 2014            | 2015            | 2016            | 2017            | 2018            |
|      | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| HK\$ | 4,695           | 4,111           | 4,231           | 3,855           | 3,592           |
| RMB  | <u>18,098</u>   | <u>10,711</u>   | <u>13,251</u>   | <u>20,864</u>   | <u>24,116</u>   |
|      | <u>22,793</u>   | <u>14,822</u>   | <u>17,482</u>   | <u>24,719</u>   | <u>27,708</u>   |

**23. AMOUNT DUE TO A DIRECTOR**

|          | At 31 December  |                 |                 |                 | At 30 June      |
|----------|-----------------|-----------------|-----------------|-----------------|-----------------|
|          | 2014            | 2015            | 2016            | 2017            | 2018            |
|          | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Mr. Tong | <u>–</u>        | <u>31,258</u>   | <u>–</u>        | <u>–</u>        | <u>–</u>        |

The above advances from Mr. Tong are non-trade in nature, unsecured, repayable on demand and interest-free. Pursuant to the settlement agreements signed between Mr. Tong and related companies, the amount due to a director has been offset against the amounts due from related companies totalling HK\$128,307,000 outstanding at 31 December 2016.

## 24. BANK AND OTHER BORROWINGS AND BANK OVERDRAFTS

|   | At 31 December |                |                |                | At 30 June     |
|---|----------------|----------------|----------------|----------------|----------------|
|   | 2014           | 2015           | 2016           | 2017           | 2018           |
|   | HK\$'000       | HK\$'000       | HK\$'000       | HK\$'000       | HK\$'000       |
| Bank and other loans  | 243,590        | 251,390        | 206,035        | 178,660        | 185,113        |
| Bank borrowings from factoring of trade receivables with full recourse (note 18)  | 1,618          | 687            | 60             | 550            | –              |
| Total bank and other borrowings   | 245,208        | 252,077        | 206,095        | 179,210        | 185,113        |
| Bank overdrafts   | 3,387          | 53             | 1,853          | 1,937          | 1,981          |
|   | <u>248,595</u> | <u>252,130</u> | <u>207,948</u> | <u>181,147</u> | <u>187,094</u> |
| Analysed as:  |                |                |                |                |                |
| Secured   | 116,426        | 161,969        | 203,551        | 174,871        | 184,867        |
| Unsecured   | 132,169        | 90,161         | 4,397          | 6,276          | 2,227          |
|   | <u>248,595</u> | <u>252,130</u> | <u>207,948</u> | <u>181,147</u> | <u>187,094</u> |
| The carrying amounts of the above bank and other borrowings and bank overdrafts are repayable*:   |                |                |                |                |                |
| – within one year   | 225,279        | 223,222        | 207,113        | 179,936        | 186,831        |
| – within a period of more than one year but not exceeding two years   | 1,290          | 2,445          | 835            | 985            | 263            |
| – within a period of more than two years but not exceeding five years   | 1,254          | 835            | –              | 226            | –              |
|   | <u>227,823</u> | <u>226,502</u> | <u>207,948</u> | <u>181,147</u> | <u>187,094</u> |
| Carrying amounts of bank loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities) | 20,772         | 25,628         | –              | –              | –              |
|   | <u>248,595</u> | <u>252,130</u> | <u>207,948</u> | <u>181,147</u> | <u>187,094</u> |
| Less: Amounts due within one year shown under current liabilities   | (246,051)      | (248,850)      | (207,113)      | (179,936)      | (186,831)      |
| Amounts shown under non-current liabilities   | <u>2,544</u>   | <u>3,280</u>   | <u>835</u>     | <u>1,211</u>   | <u>263</u>     |

\* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The ranges of effective interest rates on the Group's bank and other borrowings and bank overdrafts are as follows:

|                              | 2014           | At 31 December |                | 2017            | At 30 June      |
|------------------------------|----------------|----------------|----------------|-----------------|-----------------|
|                              |                | 2015           | 2016           |                 | 2018            |
| Effective interest rates:    |                |                |                |                 |                 |
| Fixed-rate borrowings        | 1.71% to 8.00% | 2.88% to 8.00% | 2.88% to 8.40% | 4.79% to 15.55% | 3.98% to 15.55% |
| Variable-rate borrowings     | 1.72% to 6.60% | 2.12% to 5.75% | 2.24% to 5.75% | 3.25% to 5.67%  | 3.25% to 5.01%  |
| Variable-rate bank overdraft | 3.74% to 6.00% | 3.88% to 6.50% | 3.50% to 5.50% | 3.50%           | 3.50%           |

The Group's bank and other borrowings and bank overdrafts that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

|      | 2014          | At 31 December |                | 2017          | At 30 June    |
|------|---------------|----------------|----------------|---------------|---------------|
|      | HK\$'000      | 2015           | 2016           | 2017          | 2018          |
|      | HK\$'000      | HK\$'000       | HK\$'000       | HK\$'000      | HK\$'000      |
| HK\$ | 56,521        | 65,329         | 83,522         | 68,393        | 57,420        |
| RMB  | 38,229        | 45,322         | 29,748         | 15,849        | 16,237        |
|      | <u>94,750</u> | <u>110,651</u> | <u>113,270</u> | <u>84,242</u> | <u>73,657</u> |

The secured portion of the Group's bank and other borrowings and bank overdrafts are secured by certain property, plant and equipment, trade receivables and restricted bank deposits of the Group as set out in notes 15, 18 and 20 and assets held by the management of the Group and/or their family members and the related companies which are controlled by the management of the Group and/or their family members and a key management personnel of the Group. Certain of the Group's bank and other borrowings are also personally guaranteed by the management of the Group and their family members and a key management personnel of the Group. The banks have given consent in writing to the Group or as represented by the directors of the Company where no written consent was given, that those guarantees and securities from the management and/or their family members and the related companies will be released and replaced by the corporate guarantee to be given by the Company upon listing of the shares of the Company on the Stock Exchange.

## 25. DERIVATIVE FINANCIAL LIABILITIES

|                                       | 2014         | At 31 December |          | 2017     | At 30 June |
|---------------------------------------|--------------|----------------|----------|----------|------------|
|                                       | HK\$'000     | 2015           | 2016     | 2017     | 2018       |
|                                       | HK\$'000     | HK\$'000       | HK\$'000 | HK\$'000 | HK\$'000   |
| Structured foreign currency contracts | <u>1,211</u> | <u>–</u>       | <u>–</u> | <u>–</u> | <u>–</u>   |

At 31 December 2014, the fair value of the Group's derivative financial liabilities was HK\$1,211,000. The change in fair value of the derivative financial liabilities amounting to loss of HK\$1,132,000, gain of HK\$331,000 has been recognised in profit or loss for the years ended 31 December 2014 and 2015, respectively. The instruments purchased were settled in full on a net basis. Details of the derivative financial liabilities are stated in the below table.



As at 31 December 2014, the Group had the following derivative financial liabilities:

|            | <b>Contract durations</b>  | <b>Terms of exchange rates</b>  |
|------------|--|---|
| Contract A | From 21 August 2014 to 25 August 2015 with monthly net settlement on notional amount of US\$2,500,000 upon maturity  | If market rate on each delivery date is above the contract rate of RMB6.4 to US\$1, the Group will pay US\$2,500,000* (1-6.4/market rate) while no settlement will be made if market rate is at or below the contract rate of RMB6.4 to US\$1 |
| Contract B | From 21 February 2014 to 27 February 2015 with monthly net settlement on notional amount of US\$500,000 or US\$1,000,000 when certain terms were satisfied | Receiving US\$500,000* (6.135/market rate-1) if market rate at or below RMB6.135 to US\$1 or paying US\$1,000,000* (1-6.135/market rate) if market rate above RMB6.22 to US\$1  |

## 26. OBLIGATIONS UNDER FINANCE LEASES

|                                     | <b>At 31 December</b> |                 |                 |                 | <b>At 30 June</b> |
|-------------------------------------|-----------------------|-----------------|-----------------|-----------------|-------------------|
|                                     | <b>2014</b>           | <b>2015</b>     | <b>2016</b>     | <b>2017</b>     | <b>2018</b>       |
|                                     | <i>HK\$'000</i>       | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i>   |
| Analysed for reporting purposes as: |                       |                 |                 |                 |                   |
| Current liabilities                 | 4,718                 | 1,884           | 927             | 566             | 2,729             |
| Non-current liabilities             | 3,135                 | 1,682           | 1,501           | 613             | 1,513             |
|                                     | <u>7,853</u>          | <u>3,566</u>    | <u>2,428</u>    | <u>1,179</u>    | <u>4,242</u>      |

The Group has leased certain plant and machinery and motor vehicles under finance leases. The lease terms range from approximately 3 years to 5 years. For the years ended 31 December 2014, 2015, 2016 and 2017 and the six months ended 30 June 2018, interest rate underlying all obligations under finance leases are fixed at respective contract dates ranging from 3.63% to 8.88% 3.63% to 8.88%, 3.63% to 7.22%, 3.63% to 7.25% and 3.78% to 8.61% per annum, respectively. These leases have no terms of renewal and escalation clauses. All leases have purchase options.

|   | <b>Minimum lease payments</b> |                 |                 |                 |                      | <b>Present value of minimum lease payments</b> |                 |                 |                 |                      |
|---|-------------------------------|-----------------|-----------------|-----------------|----------------------|--|-----------------|-----------------|-----------------|----------------------|
|   | <b>As at 31 December</b>      |                 |                 |                 | <b>As at 30 June</b> | <b>As at 31 December</b>                       |                 |                 |                 | <b>As at 30 June</b> |
|   | <b>2014</b>                   | <b>2015</b>     | <b>2016</b>     | <b>2017</b>     | <b>2018</b>          | <b>2014</b>                                    | <b>2015</b>     | <b>2016</b>     | <b>2017</b>     | <b>2018</b>          |
|   | <i>HK\$'000</i>               | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i>      | <i>HK\$'000</i>                                | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i>      |
| <b>Obligations under finance leases payable:</b>                    |                               |                 |                 |                 |                      |  |                 |                 |                 |                      |
| Within one year   | 5,100                         | 2,009           | 1,012           | 603             | 3,008                | 4,718  | 1,884           | 927             | 566             | 2,729                |
| Within a period of more than one year but not more than two years   | 1,902                         | 868             | 789             | 480             | 1,570                | 1,794  | 1,023           | 741             | 466             | 1,492                |
| Within a period of more than two years but not more than five years | 1,411                         | 908             | 781             | 149             | 21                   | 1,341  | 659             | 760             | 147             | 21                   |
|   | <u>8,413</u>                  | <u>3,785</u>    | <u>2,582</u>    | <u>1,232</u>    | <u>4,599</u>         | <u>7,853</u>                                   | <u>3,566</u>    | <u>2,428</u>    | <u>1,179</u>    | <u>4,242</u>         |
| Less: Future finance charges  | (560)                         | (219)           | (154)           | (53)            | (357)                | N/A  | N/A             | N/A             | N/A             | N/A                  |
| Present value of lease obligations                                  | <u>7,853</u>                  | <u>3,566</u>    | <u>2,428</u>    | <u>1,179</u>    | <u>4,242</u>         | 7,853  | 3,566           | 2,428           | 1,179           | 4,242                |

|  | Minimum lease payments |          |          |          | Present value of minimum lease payments |          |                   |          |                    |
|--|------------------------|----------|----------|----------|---|----------|-------------------|----------|--------------------|
|  | As at 31 December      |          | 2017     |          | As at 30 June 2018                      |          | As at 31 December |          | As at 30 June 2018 |
|  | 2014                   | 2015     | 2016     | 2017     | 2014                                    | 2015     | 2016              | 2017     | 2018               |
|  | HK\$'000               | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000                                | HK\$'000 | HK\$'000          | HK\$'000 | HK\$'000           |
| Less: Amount due for settlement within 12 months (shown under current liabilities) |                        |          |          |          | (4,718)                                 | (1,884)  | (927)             | (566)    | (2,729)            |
| Amount due for settlement after 12 months  |                        |          |          |          | 3,135                                   | 1,682    | 1,501             | 613      | 1,513              |

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

## 27. DEFERRED TAXATION

The following is the analysis of the deferred tax balances for financial reporting purposes:

|                          | At 31 December |              |            |              | At 30 June   |
|--------------------------|----------------|--------------|------------|--------------|--------------|
|                          | 2014           | 2015         | 2016       | 2017         | 2018         |
|                          | HK\$'000       | HK\$'000     | HK\$'000   | HK\$'000     | HK\$'000     |
| Deferred tax assets      | –              | –            | 707        | 95           | –            |
| Deferred tax liabilities | (1,533)        | (420)        | (211)      | (231)        | (380)        |
|                          | <u>(1,533)</u> | <u>(420)</u> | <u>496</u> | <u>(136)</u> | <u>(380)</u> |

The following are the major deferred tax assets and liabilities recognised and movements thereon during the Track Record Period:

|                                   | Unrealised profit or loss | Accelerated tax depreciation | Total        |
|-----------------------------------|---------------------------|------------------------------|--------------|
|                                   | HK\$'000                  | HK\$'000                     | HK\$'000     |
| At 1 January 2014                 | (531)                     | (77)                         | (608)        |
| Charge to profit or loss          | <u>(822)</u>              | <u>(103)</u>                 | <u>(925)</u> |
| At 31 December 2014               | (1,353)                   | (180)                        | (1,533)      |
| Credit (charge) to profit or loss | <u>1,148</u>              | <u>(35)</u>                  | <u>1,113</u> |
| At 31 December 2015               | (205)                     | (215)                        | (420)        |
| Credit to profit or loss          | <u>912</u>                | <u>4</u>                     | <u>916</u>   |
| At 31 December 2016               | <u>707</u>                | <u>(211)</u>                 | <u>496</u>   |
| Charge to profit or loss          | <u>(612)</u>              | <u>(20)</u>                  | <u>(632)</u> |
| At 31 December 2017               | 95                        | (231)                        | (136)        |
| (Charge) credit to profit or loss | <u>(351)</u>              | <u>107</u>                   | <u>(244)</u> |
| At 30 June 2018                   | <u>(256)</u>              | <u>(124)</u>                 | <u>(380)</u> |

As at 31 December 2016 and 2017 and 30 June 2018, the aggregate amount of temporary differences associated with undistributed earnings of a PRC subsidiary upon completion of the Reorganisation on 23 June 2016 for which deferred tax liabilities have not been recognised was approximately HK\$21,407,000, HK\$32,072,000 and HK\$35,464,193 respectively because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not be reversed in the foreseeable future.

**28. SHARE CAPITAL**

For the purposes of presentation of the consolidated statements of financial position, the balances of share capital as at 1 January 2014, 31 December 2014 and 2015 represent the aggregate of share capital of Chase On and Shenzhen Xincang prior to the completion of the Reorganisation.

As set out in note 1, the Reorganisation has been completed during the year ended 31 December 2016 and the balance of share capital as at 31 December 2016 and 2017 and 30 June 2018 represents the share capital of the Company. Details of movements of share capital of the Company are as follow:

|   | Number of shares | Share capital<br>HK\$'000 |
|---|------------------|---------------------------|
| Ordinary shares of HK\$0.01 each                              |                  |                           |
| <b>Authorised:</b>  |                  |                           |
| At 22 March 2016 (date of incorporation),                     |                  |                           |
| 31 December 2016 and 2017 and 30 June 2018                    | 38,000,000       | 380                       |
| <b>Issued:</b>  |                  |                           |
| Issued on date of incorporation                               | 1                | –                         |
| Issue of shares on 3 June 2016                                | 9,999            | –                         |
| At 31 December 2016 and 2017 and 30 June 2018                 | 10,000           | –                         |
|   |                  | HK\$'000                  |
| Shown in the consolidated statements of financial position at |                  |                           |
| 31 December 2016 and 2017 and 30 June 2018                    |                  | –                         |

Other than the share allotments above, no other share transaction was undertaken by the Company from its date of incorporation to 30 June 2018.

**29. OPERATING LEASES COMMITMENT**

|   | Year ended 31 December |                  |                  |                  | Six months ended<br>30 June |                  |
|---|------------------------|------------------|------------------|------------------|-----------------------------|------------------|
|   | 2014<br>HK\$'000       | 2015<br>HK\$'000 | 2016<br>HK\$'000 | 2017<br>HK\$'000 | 2017<br>HK\$'000            | 2018<br>HK\$'000 |
| Minimum lease payments<br>paid/payable under<br>operating leases during the<br>year/period in respect of<br>rented premises | 4,136                  | 4,861            | 5,248            | 7,063            | 3,599                       | 5,806            |
|   | <u>4,136</u>           | <u>4,861</u>     | <u>5,248</u>     | <u>7,063</u>     | <u>3,599</u>                | <u>5,806</u>     |

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

|  | At 31 December   |                  |                  |                  | At 30 June       |
|--|------------------|------------------|------------------|------------------|------------------|
|  | 2014<br>HK\$'000 | 2015<br>HK\$'000 | 2016<br>HK\$'000 | 2017<br>HK\$'000 | 2018<br>HK\$'000 |
| Within one year                          | 4,030            | 4,086            | 6,681            | 9,429            | 10,985           |
| In the second to fifth year<br>inclusive | 16,371           | 12,379           | 9,659            | 22,765           | 21,966           |
| Over five years                          | 682              | –                | –                | –                | –                |
|  | <u>21,083</u>    | <u>16,465</u>    | <u>16,340</u>    | <u>32,194</u>    | <u>32,951</u>    |

Operating lease payments represent rentals payable by the Group for certain of its office premises, directors' quarters and the production plant. Leases are negotiated for a term of one to ten years.

Certain office premises were leased from related parties of the Group as detailed in note 31.

### 30. RETIREMENT BENEFIT SCHEMES

The Group participates in a defined contribution scheme which is registered under the Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees.

For members of the MPF Scheme, the Group contributes at the lower of HK\$1,500 (HK\$1,250 before 1 June 2014) per month or 5% of relevant payroll costs each month to the MPF Scheme, which contribution is matched by the employee.

The Group also participates in a state-managed defined contribution retirement scheme organised by the relevant local governmental authority in the PRC. PRC employees of the Group eligible to participate in the retirement scheme are entitled to retirement benefits from the scheme. The Group is required to make monthly contributions to the retirement scheme for the eligible employees at specified percentage, ranging from 13% to 14%, of the payroll and the local governmental authority is responsible for the pension liabilities to these employees upon their retirement.

The only obligation of the Group with respect to these retirement benefits schemes is to make the specified contributions. During the Track Record Period, the total amounts contributed by the Group to the schemes and cost charged to the profit or loss represents contributions paid/payable to the schemes by the Group at rates specified in the rules of the schemes. The retirement benefits scheme contribution expense recognised by the Group amounted to HK\$3,194,000, HK\$3,607,000, HK\$3,326,000, HK\$3,107,000, HK\$1,041,000 (unaudited) and HK\$1,535,000 respectively, during the years ended 31 December 2014, 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018.

### 31. RELATED PARTY DISCLOSURES

#### (a) Related party balances

Details of the outstanding balances with related parties are set out in the consolidated statements of financial position and in notes 19 and 23.

#### (b) Related party transactions

During the years ended 31 December 2014, 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, the Group entered into the following transactions with related parties:

| Related party                              | Nature of transactions | Year ended 31 December |          |          |          | Six months ended |          |
|--|------------------------|------------------------|----------|----------|----------|------------------|----------|
|  |                        | 2014                   | 2015     | 2016     | 2017     | 2017             | 2018     |
|  |                        | HK\$'000               | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000         | HK\$'000 |
|  |                        |                        |          |          |          | (unaudited)      |          |
| Ka Lee Plastic Products Limited ("Ka Lee") | Rental expenses        | 88                     | -        | -        | -        | -                | -        |
| Profit Fame Corporation Limited            | Rental expenses        | 88                     | -        | -        | -        | -                | -        |
| Hilston Development Limited                | Rental expenses        | 46                     | 546      | 546      | 546      | 273              | 273      |
| Ms. Ng                                     | Rental expenses        | -                      | 135      | 162      | 162      | 81               | 81       |
| Fifteen (note)                             | Agency service income  | 1,570                  | 2,249    | 1,563    | -        | -                | -        |
| Sky Market (note)                          | Agency service income  | 172                    | -        | -        | -        | -                | -        |

The Controlling Shareholders and/or their family members have control or beneficial interests in the above entities except for Ka Lee, which is wholly owned by Mr. Lam Hon Kwong, a key management personnel of the Group.

Note:

The Group was engaged as an agent in the provision of agency service to Fifteen and Sky Market.

The Group's subsidiary, Chase On, was engaged as an agent ("Agent") of Fifteen and Sky Market (hereinafter collectively referred to as "Principals") for the provision of agency service relating to the procurement of materials purchased from Ka Lee (the "Supplier") under the instruction of the Principals. Pursuant to the agency agreement (the "Agency Agreement"), the Agent is required to obtain necessary financing to fund the purchases, settle outstanding invoices to the Supplier and prepare required documents in procuring the purchases. The Principals shall fully reimburse the costs incurred by the Agent, including the amount being paid to the Supplier for procuring the purchases, and the corresponding finance costs in obtaining the finance to fund the purchases. The gross amount of purchases from the Supplier for resell to the Principals during the Track Record Period are summarised as follows:

|  | Year ended 31 December |          |          |          | Six months ended<br>30 June |          |
|--|------------------------|----------|----------|----------|-----------------------------|----------|
|  | 2014                   | 2015     | 2016     | 2017     | 2017                        | 2018     |
|  | HK\$'000               | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000                    | HK\$'000 |
|  |                        |          |          |          | (unaudited)                 |          |
| Gross amount of purchases from the Supplier: |                        |          |          |          |                             |          |
| Ka Lee                                       | 252,290                | 389,869  | 158,260  | –        | –                           | –        |
| Gross amount of sales to the Principals:     |                        |          |          |          |                             |          |
| Fifteen                                      | 230,166                | 389,869  | 158,260  | –        | –                           | –        |
| Sky market                                   | 22,124                 | –        | –        | –        | –                           | –        |
|  | 252,290                | 389,869  | 158,260  | –        | –                           | –        |

As the Principals are responsible for the acceptability of the goods, and that the inventory risks and determination of prices are all rest with the Principals and the Supplier, as such, the amount of purchases from the Supplier and sales to the Principals were net off for presenting in the consolidated statements of profit or loss and other comprehensive income.

On 31 August 2016, all the parties to the Agency Agreement have mutually agreed to terminate the Agency Agreement.

During the Track Record Period, the Group provided certain financial guarantees to its related companies as detailed in notes 22 and 34. In addition, the Group pledged certain deposits for banking facilities granted to related companies as detailed in note 20.

During the Track Record Period, the Group's bank borrowings are secured by certain assets held by the management of the Group and/or their family members and the related companies which are controlled by the management of the Group and/or their family members and a key management personnel of the Group as detailed in note 24. In addition, certain of the Group's bank borrowings are personally guaranteed by the management of the Group and their family members and a key management personnel of the Group.

(c) Compensation of directors and key management personnel

|   | Year ended 31 December |          |          |          | Six months ended<br>30 June |          |
|---|------------------------|----------|----------|----------|-----------------------------|----------|
|   | 2014                   | 2015     | 2016     | 2017     | 2017                        | 2018     |
|   | HK\$'000               | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000                    | HK\$'000 |
|   |                        |          |          |          | (unaudited)                 |          |
| Salaries and other allowances           | 2,378                  | 2,375    | 3,964    | 4,432    | 2,268                       | 2,099    |
| Retirement benefit scheme contributions | 101                    | 105      | 85       | 90       | 36                          | 54       |
| Other benefit                           | –                      | –        | 685      | 1,168    | 1,166                       | –        |
| Total                                   | 2,479                  | 2,480    | 4,734    | 5,690    | 3,470                       | 2,153    |

The remuneration of directors and key management personnel are determined having regard to the performance of the individuals and contribution to the Group.

**32. CAPITAL RISK MANAGEMENT**

The Group manages its capital to ensure that the group companies will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The overall strategy remains unchanged throughout the Track Record Period.

The capital structure of the Group consists of net debt, which includes bank and other borrowings, net of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

The management of the Group reviews the capital structure regularly. As part of this review, the management of the Group considers the cost and the risks associated with each class of the capital. Based on the recommendations of the management of the Group, the Group will balance its overall capital structure through the payments of dividends, new shares issue as well as issue of new debts and redemption of existing debts.

**33. FINANCIAL INSTRUMENTS****(a) Categories of financial instruments**

|   | <b>2014</b>     | <b>At 31 December</b> |                 |                 | <b>At 30 June</b> |
|---|-----------------|-----------------------|-----------------|-----------------|-------------------|
|   | <i>HK\$'000</i> | <b>2015</b>           | <b>2016</b>     | <b>2017</b>     | <b>2018</b>       |
|   |                 | <i>HK\$'000</i>       | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i>   |
| <b>Financial assets</b>   |                 |                       |                 |                 |                   |
| Loans and receivables<br>(including cash and<br>cash equivalents) | 283,121         | 327,137               | 245,671         | 256,296         | –                 |
| Financial assets at<br>amortised cost                             | –               | –                     | –               | –               | 233,555           |
|   | <u>–</u>        | <u>–</u>              | <u>–</u>        | <u>–</u>        | <u>233,555</u>    |
| <b>Financial liabilities</b>                                      |                 |                       |                 |                 |                   |
| Derivative financial<br>liabilities                               | 1,211           | –                     | –               | –               | –                 |
| Financial guarantee<br>obligations                                | –               | 518                   | 1,119           | 564             | 556               |
| Financial liabilities at<br>amortised cost                        | 281,122         | 306,654               | 235,126         | 225,230         | 238,817           |
| Obligations under finance<br>leases                               | 7,853           | 3,566                 | 2,428           | 1,179           | 4,242             |
|   | <u>7,853</u>    | <u>3,566</u>          | <u>2,428</u>    | <u>1,179</u>    | <u>4,242</u>      |

**(b) Financial risk management objectives and policies**

The Group's major financial instruments include trade and other receivables, amounts due from related companies, amount due from a director, restricted bank deposits, bank balances and cash, trade and other payables, amount due to a director, bank and other borrowings, bank overdrafts, derivative financial liabilities, financial guarantee obligations and obligations under finance leases.

Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risks (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Market risks****(i) Currency risk**

The functional currency of most of the entities comprising the Group is US\$ and one of the subsidiaries is with RMB as its functional currency.

- (a) The Group's exposure to foreign currency risk related primarily to certain bank balances and cash, restricted bank deposits, trade and other receivables, trade and other payables, bank and other borrowings and obligations under finance lease that are denominated in RMB and HK\$. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of each reporting period are as follows:

|                             | At 31 December    |                   |                   |                   | At<br>30 June     |
|-----------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|                             | 2014              | 2015              | 2016              | 2017              | 2018              |
|                             | HK\$'000          | HK\$'000          | HK\$'000          | HK\$'000          | HK\$'000          |
| <b>Monetary assets</b>      |                   |                   |                   |                   |                   |
| RMB                         | 34,033            | 29,444            | 59,453            | 36,917            | 373               |
| HK\$                        | 27,094            | 67,330            | 147,119           | 180,437           | 178,884           |
|                             | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| <b>Monetary liabilities</b> |                   |                   |                   |                   |                   |
| RMB                         | 88,304            | 117,059           | 50,857            | 45,319            | 52,673            |
| HK\$                        | 69,075            | 73,006            | 90,181            | 73,427            | 61,911            |
|                             | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |

The Group also expose to foreign currency risk relating to inter-company balances that are denominated in RMB. The carrying amounts of these RMB denominated inter-company balances are HK\$14,992,000, HK\$14,320,000, HK\$13,394,000, HK\$14,400,000 and HK\$14,214,000 as at 31 December 2014, 2015, 2016 and 2017 and 30 June 2018, respectively.

#### Sensitivity analysis

The management of the Group considers that the exposure of HK\$ against US\$ is limited as HK\$ is pegged to US\$ and the Group is mainly exposed to the currency risk of RMB against US\$ during the Track Record Period. The following table details the Group's sensitivity to a 5% increase and decrease in RMB against US\$. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis adjusts their translation at the year/period end for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit where RMB weakened 5% against US\$. For a 5% strengthening of RMB against US\$, there would be an equal and opposite impact on the profit or loss.

|     | Year ended 31 December |                   |                   |                   | Six<br>months<br>ended<br>30 June |
|-----|------------------------|-------------------|-------------------|-------------------|-----------------------------------|
|     | 2014                   | 2015              | 2016              | 2017              | 2018                              |
|     | HK\$'000               | HK\$'000          | HK\$'000          | HK\$'000          | HK\$'000                          |
| RMB | 2,266                  | 3,658             | (359)             | 351               | 2,184                             |
|     | <u>          </u>      | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u>                 |

No sensitivity analysis is presented for RMB denominated inter-company balances as the management of the Group considers the exposure is insignificant.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year/period end exposure does not reflect the exposure during the year/period.

#### (b) Structured foreign currency contracts

The Group is also exposed to foreign currency risk due to the Group's investment in structured foreign currency contracts.

The Group is required to estimate the fair values of the structured foreign currency contracts at the end of each reporting period, which therefore exposed the Group to currency risk as at 31 December 2014. The fair value adjustments for these contracts will be affected either positively or negatively, amongst others, by the changes in risk-free rate and volatility, spot rate of RMB to US\$, exercise price and forward rate.

Details of the derivative financial liabilities are set out in note 25.

## Sensitivity analysis

As at 31 December 2014, if the spot rate of RMB to US\$ had been 3% higher/lower while all other input variables of the valuation models were held constant, the Group's profit for the year would increase (decrease) as follows:

|                                  | <i>HK\$'000</i> |
|----------------------------------|-----------------|
| Higher by 3%                     |                 |
| Derivative financial liabilities |                 |
| – Contract A                     | (1,954)         |
| – Contract B                     | (1,189)         |
| Lower by 3%                      |                 |
| Derivative financial liabilities |                 |
| – Contract A                     | 583             |
| – Contract B                     | 659             |

In the opinion of the management of the Group, the sensitivity analyses were unrepresentative of the inherent market risk as the pricing model used in the fair value valuation of the derivative financial liabilities involve multiple variables and certain variables were inter-dependent.

*(ii) Interest rate risk*

The Group is exposed to cash flow interest rate risk in relation to the restricted bank deposits (note 20), bank balances (note 21) and floating-rate bank and other borrowings (note 24) due to the fluctuation of the prevailing market interest rate. The Group currently does not have a policy on hedging interest rate risk. However, the management keeps monitoring the interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Group is also exposed to fair value interest rate risk in relation to the fixed-rate bank and other borrowings (note 24).

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR arising from the Group's HK\$ borrowings and LIBOR arising from the Group's US\$ borrowings.

## Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank and other borrowings and bank overdrafts at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of each reporting period were outstanding for the whole year/period. A 50 basis point increase or decrease is used when reporting interest risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates for the each of the years ended 31 December 2014, 2015, 2016 and 2017 and the six months ended 30 June 2018.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the years ended 31 December 2014, 2015, 2016 and 2017 and the six months ended 30 June 2018 would decrease/increase by HK\$695,000 HK\$762,000, HK\$730,000, HK\$671,000 and HK\$698,000, respectively.

No sensitivity analysis for bank balances and restricted bank deposits is presented as the management considers that the exposure of the Group to interest rate risk on its variable-rate bank balances and restricted bank deposit is limited during the years ended 31 December 2014, 2015, 2016 and 2017 and the six months ended 30 June 2018 as the management does not anticipate a material change in interest rate on bank balances.



*Credit risk**Overview of the Group's exposure to credit risk before adoption of HKFRS 9 as at 1 January 2018*

As at 31 December 2014, 2015, 2016 and 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position;
- the amount of contingent liabilities in relation to financial guarantees issued by the Group as disclosed in note 34.

The Group's credit risk is primarily attributable to its trade and other receivables, amounts due from related parties, amount due from a director and financial guarantees issued to the related companies.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the management of the Group continuously monitor the level of exposure by reviewing the credit qualities and financial conditions of its customers and related parties regularly to ensure that prompt actions will be taken to mitigate exposure. The Group also reviews the recoverable amount of significant receivables at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good reputations.

The Group has concentration of credit risk in relation to its trade receivables as follows:

|  | 2014       | At 31 December<br>2015 | 2016       | 2017       |
|--|------------|------------------------|------------|------------|
| Total amounts due from the debtors located in Australia as a percentage to trade receivables | <u>63%</u> | <u>45%</u>             | <u>44%</u> | <u>58%</u> |
| Total amounts due from the debtors located in USA as a percentage to trade receivables       | <u>14%</u> | <u>27%</u>             | <u>11%</u> | <u>4%</u>  |
| Total amount due from debtors located in UK as a percentage to trade receivables             | <u>–</u>   | <u>6%</u>              | <u>14%</u> | <u>9%</u>  |
| Total amounts due from the five largest debtors as a percentage to trade receivables         | <u>79%</u> | <u>75%</u>             | <u>68%</u> | <u>69%</u> |

The Group keeps exploring new customers to diversify and strengthen its customer base to reduce the concentration of credit risk. In order to minimise the credit risk, its management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures over the customers to ensure that follow-up action is taken to recover overdue debts.

As at 31 December 2014, 2015, 2016 and 2017, the Group also has concentration of credit risk from amounts due from a director and/or two related parties. The management of the Group considers the credit risk of the amounts due from these related parties is limited because they continuously monitor the quality and financial conditions of the director and related parties. The outstanding balances due from related companies have been offset the balance with the director as more fully explained in note 19.

Other than the concentration of the credit risk on trade receivables, bank balances, restricted bank deposits, amounts due from related companies and amount due from a director, the Group does not have any other significant concentration of credit risk.

*Overview of the Group's exposure to credit risk after adoption of HKFRS 9 as at 1 January 2018*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. At 1 January 2018 and 30 June 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

In order to minimise credit risk, the Group regularly monitors the external credit ratings on the financial institutions based on available information at each reporting date for its bank balances and restricted bank deposits which are placed in their financial institutions. The credit rating information is supplied by independent rating agencies where available and, if not available, the credit management team uses other publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

For the amount due from a director, the Group has identified multiple economic scenarios to consider the risk or probability that a credit loss occurs by weighting these different scenarios. Different economic scenarios will lead to a different probability of default.

For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items individually by estimation based on historical credit loss experience based on the past default experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

For financial guarantee contracts, the maximum amount that the Group has guaranteed under the respective contracts was HK\$34,000,000 as at 30 June 2018. The carrying amount as at 30 June 2018 and the amount reversed during the six months ended 30 June 2018 in accordance with the Group's accounting policies were HK\$556,000 and HK\$8,000 respectively. Details of the financial guarantee contracts are set out in Note 22. At the end of the reporting period, the directors of the Company has assessed the financial position of the debtors as well as the economic outlook of the industries in which the debtors operate, and concluded that there has been no significant increase in credit risk since initial recognition of the financial guarantee contracts. Accordingly, the loss allowance for financial guarantee contracts issued by the Group is measured at an amount equal to 12m ECL.

***Liquidity risk***

In management of the liquidity risk, the Group monitors and maintains levels of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relies on borrowings as a significant source of liquidity. The management monitors the utilisation of bank and other borrowings and ensures compliance with loan covenants.

As at 31 December 2014, 2015, 2016 and 2017 and 30 June 2018, the Group has available unutilised short and long-term bank loan facilities of approximately HK\$36,877,000 HK\$108,543,000, HK\$64,149,000, HK\$60,628,000 and HK\$71,334,000, respectively.

The following table details the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

*Liquidity tables*

As at 31 December 2014

|   | Weighted<br>average<br>effective<br>interest rate<br>% | On demand<br>or less than<br>1 month<br>HK\$'000 | 1 – 3<br>months<br>HK\$'000 | 4 months to<br>1 year<br>HK\$'000 | 1 year to<br>5 years<br>HK\$'000 | Total<br>undiscounted<br>cash flows<br>HK\$'000 | Carrying<br>amount at<br>31 December<br>2014<br>HK\$'000 |
|---|--|--|-----------------------------|-----------------------------------|----------------------------------|---|--|
| <b>Non-derivative<br/>financial<br/>liabilities</b> |  |  |                             |                                   |                                  |   |  |
| Trade and other<br>payables                         | –  | 25,877   | 6,650                       | –                                 | –                                | 32,527  | 32,527   |
| Bank overdrafts                                     | 5.74   | 3,387  | –                           | –                                 | –                                | 3,387   | 3,387  |
| Bank and other<br>borrowings                        |  |  |                             |                                   |                                  |   |  |
| – fixed rate  | 5.02   | 60,162   | 2,697                       | 17,359                            | 2,700                            | 82,918  | 82,045   |
| – variable rate                                     | 4.27   | 155,212  | 6,032                       | 2,038                             | –                                | 163,282   | 163,163  |
| Obligation under<br>finance leases                  | 7.25   | 549  | 1,099                       | 3,452                             | 3,313                            | 8,413   | 7,853  |
|   |  | <u>245,187</u>                                   | <u>16,478</u>               | <u>22,849</u>                     | <u>6,013</u>                     | <u>290,527</u>                                  | <u>288,975</u>   |
| <b>Derivatives – net<br/>settlement</b>             |  |  |                             |                                   |                                  |   |  |
| Derivative financial<br>liabilities                 |  | <u>1,211</u>                                     | <u>–</u>                    | <u>–</u>                          | <u>–</u>                         | <u>1,211</u>                                    | <u>1,211</u>   |

As at 31 December 2015

|   | Weighted<br>average<br>effective<br>interest rate<br>% | On demand<br>or less than<br>1 month<br>HK\$'000 | 1 – 3<br>months<br>HK\$'000 | 4 months to<br>1 year<br>HK\$'000 | 1 year to<br>5 years<br>HK\$'000 | Total<br>undiscounted<br>cash flows<br>HK\$'000 | Carrying<br>amount at<br>31 December<br>2015<br>HK\$'000 |
|---|--|--|-----------------------------|-----------------------------------|----------------------------------|---|--|
| <b>Non-derivative<br/>financial<br/>liabilities</b> |  |  |                             |                                   |                                  |   |  |
| Trade and other<br>payables                         | –  | 16,344   | 6,922                       | –                                 | –                                | 23,266  | 23,266   |
| Financial guarantee<br>contracts                    | –  | 71,487   | –                           | –                                 | –                                | 71,487  | 518  |
| Amount due to a<br>director                         | –  | 31,258   | –                           | –                                 | –                                | 31,258  | 31,258   |
| Bank overdrafts                                     | 5.50   | 53   | –                           | –                                 | –                                | 53  | 53   |
| Bank and other<br>borrowings                        |  |  |                             |                                   |                                  |   |  |
| – fixed rate  | 5.55   | 49,902   | 1,511                       | 15,599                            | 3,425                            | 70,437  | 69,598   |
| – variable rate                                     | 3.09   | 170,685  | 6,046                       | 5,920                             | –                                | 182,651   | 182,479  |
| Obligation under<br>finance leases                  | 5.77   | 359  | 620                         | 1,030                             | 1,776                            | 3,785   | 3,566  |
|   |  | <u>340,088</u>                                   | <u>15,099</u>               | <u>22,549</u>                     | <u>5,201</u>                     | <u>382,937</u>                                  | <u>310,738</u>   |

As at 31 December 2016

|   | Weighted<br>average<br>effective<br>interest rate<br>% | On demand<br>or less than<br>1 month<br>HK\$'000 | 1 – 3<br>months<br>HK\$'000 | 4 months to<br>1 year<br>HK\$'000 | 1 year to<br>5 years<br>HK\$'000 | Total<br>undiscounted<br>cash flows<br>HK\$'000 | Carrying<br>amount at<br>31 December<br>2016<br>HK\$'000 |
|---|--|--|-----------------------------|-----------------------------------|----------------------------------|---|--|
| <b>Non-derivative<br/>financial<br/>liabilities</b> |  |  |                             |                                   |                                  |   |  |
| Trade and other<br>payables                         | –  | 18,221   | 8,957                       | –                                 | –                                | 27,178  | 27,178   |
| Financial guarantee<br>contracts                    | –  | 151,426  | –                           | –                                 | –                                | 151,426   | 1,119  |
| Bank overdrafts                                     | 6.00   | 1,853  | –                           | –                                 | –                                | 1,853   | 1,853  |
| Bank and other<br>borrowings                        |  |  |                             |                                   |                                  |   |  |
| – fixed rate  | 5.55   | 29,972   | 448                         | 1,899                             | 854                              | 33,173  | 33,028   |
| – variable rate                                     | 3.44   | 158,900  | 12,517                      | 3,723                             | –                                | 175,140   | 173,067  |
| Obligation under<br>finance leases                  | 4.36   | 108  | 195                         | 709                               | 1,570                            | 2,582   | 2,428  |
|   |  | <u>360,480</u>                                   | <u>22,117</u>               | <u>6,331</u>                      | <u>2,424</u>                     | <u>391,352</u>                                  | <u>238,673</u>   |

As at 31 December 2017

|   | Weighted<br>average<br>effective<br>interest rate<br>% | On demand<br>or less than<br>1 month<br>HK\$'000 | 1 – 3<br>months<br>HK\$'000 | 4 months to<br>1 year<br>HK\$'000 | 1 year to<br>5 years<br>HK\$'000 | Total<br>undiscounted<br>cash flows<br>HK\$'000 | Carrying<br>amount at<br>31 December<br>2017<br>HK\$'000 |
|---|--|--|-----------------------------|-----------------------------------|----------------------------------|---|--|
| <b>Non-derivative<br/>financial<br/>liabilities</b> |  |  |                             |                                   |                                  |   |  |
| Trade and other<br>payables                         | –  | 30,673   | 13,410                      | –                                 | –                                | 44,083  | 44,083   |
| Financial guarantee<br>contracts                    | –  | 34,000   | –                           | –                                 | –                                | 34,000  | 564  |
| Bank overdrafts                                     | 3.50   | 1,937  | –                           | –                                 | –                                | 1,937   | 1,937  |
| Bank and other<br>borrowings                        |  |  |                             |                                   |                                  |   |  |
| – fixed rate  | 6.09   | 16,979   | 551                         | 2,054                             | 1,304                            | 20,888  | 20,516   |
| – variable rate                                     | 4.45   | 140,963  | 10,392                      | 7,500                             | –                                | 158,855   | 158,694  |
| Obligation under<br>finance leases                  | 4.15   | 50   | 101                         | 452                               | 629                              | 1,232   | 1,179  |
|   |  | <u>224,602</u>                                   | <u>24,454</u>               | <u>10,006</u>                     | <u>1,933</u>                     | <u>260,995</u>                                  | <u>226,973</u>   |

As at 30 June 2018

|   | Weighted<br>average<br>effective<br>interest rate<br>% | On demand<br>or less than<br>1 month<br>HK\$'000 | 1 – 3<br>months<br>HK\$'000 | 4 months to<br>1 year<br>HK\$'000 | 1 year to<br>5 years<br>HK\$'000 | Total<br>undiscounted<br>cash flows<br>HK\$'000 | Carrying<br>amount at<br>30 June<br>2018<br>HK\$'000 |
|---|--|--|-----------------------------|-----------------------------------|----------------------------------|---|--|
| <b>Non-derivative<br/>financial<br/>liabilities</b> |  |  |                             |                                   |                                  |   |  |
| Trade and other<br>payables                         | –  | 40,188   | 11,535                      | –                                 | –                                | 51,723  | 51,723   |
| Financial guarantee<br>contracts                    | –  | 34,000   | –                           | –                                 | –                                | 34,000  | 556  |
| Bank overdrafts                                     | 3.50   | 1,981  | –                           | –                                 | –                                | 1,981   | 1,981  |
| Bank and other<br>borrowings                        |  |  |                             |                                   |                                  |   |  |
| – fixed rate  | 6.12   | 16,750   | 542                         | 2,648                             | 282                              | 20,222  | 19,958   |
| – variable rate                                     | 4.48   | 69,715   | 54,468                      | 41,813                            | –                                | 165,996   | 165,155  |
| Obligation under<br>finance leases                  | 7.66   | 263  | 527                         | 2,218                             | 1,591                            | 4,599   | 4,242  |
|   |  | <u>162,897</u>                                   | <u>67,072</u>               | <u>46,679</u>                     | <u>1,873</u>                     | <u>278,521</u>                                  | <u>243,615</u>                                       |

Bank and other borrowings with a repayment on demand clause are included in the “on demand or less than 1 month” time band in the above maturity analysis. As at 31 December 2014, 2015, 2016 and 2017 and 30 June 2018, the aggregate undiscounted principal amounts of these bank and other borrowings amounted to HK\$217,402,000, HK\$219,881,000, HK\$188,648,000, HK\$143,423,000 and HK\$135,239,000, respectively. Taking into account the Group’s financial position, the management of the Group does not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The management believes that such bank and other borrowings will be repaid after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

|                  | Less than<br>1 month<br>HK\$'000 | 1 – 3<br>months<br>HK\$'000 | 4 months<br>to 1 year<br>HK\$'000 | Over<br>1 year<br>HK\$'000 | Total<br>undiscounted<br>cash flows<br>HK\$'000 | Carrying<br>amount<br>HK\$'000 |
|------------------|----------------------------------|-----------------------------|-----------------------------------|----------------------------|---|--------------------------------|
| 31 December 2014 | 30,556                           | 61,384                      | 108,847                           | 23,061                     | 223,848   | 217,402                        |
| 31 December 2015 | 59,648                           | 73,536                      | 64,511                            | 27,269                     | 224,964   | 219,881                        |
| 31 December 2016 | 40,091                           | 68,042                      | 85,456                            | –                          | 193,589   | 188,648                        |
| 31 December 2017 | 47,094                           | 54,241                      | 45,304                            | 391                        | 147,030   | 143,423                        |
| 30 June 2018     | 87,849                           | 27,614                      | 21,936                            | 98                         | 137,497   | 135,239                        |

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of each reporting period, the management of the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amounts included above for variable rate instruments for non-derivative financial liabilities are subject to change if changes in variable rates differ to those estimates of interest rates determined at the end of the reporting period.

**(c) Fair value measurements of financial instruments**

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

**(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis**

Some of Group's financial instruments are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial instruments are determined (in particular, the valuation techniques and inputs used).

| Financial liabilities | Fair value as at |                  |                  |                  |              | Fair value Hierarchy | Valuation technique(s) and key input(s)  | Significant unobservable input(s) | Relationship of unobservable inputs to fair value |
|-----------------------|------------------|------------------|------------------|------------------|--------------|----------------------|--|-----------------------------------|---|
|                       | 31 December 2014 | 31 December 2015 | 31 December 2016 | 31 December 2017 | 30 June 2018 |                      |  |                                   |   |
|                       | HK\$'000         | HK\$'000         | HK\$'000         | HK\$'000         | HK\$'000     |                      |  |                                   |   |
| (1) Contract A        | Liabilities: 680 | Nil              | Nil              | Nil              | Nil          | Level 2              | Black-Scholes option pricing model.  | N/A                               | N/A   |
|                       |                  |                  |                  |                  |              |                      | The main inputs to the Black-Scholes option pricing model are spot rate of RMB to US\$, strike rate, risk-free rate, volatility, and time to maturity. |                                   |   |
| (2) Contract B        | Liabilities: 531 | Nil              | Nil              | Nil              | Nil          | Level 2              | Monte-Carlo simulation model.  | N/A                               | N/A   |
|                       |                  |                  |                  |                  |              |                      | The main inputs to the Monte-Carlo simulation model are spot rate of RMB to US\$, forward rate, risk-free rate and volatility.                         |                                   |   |

**(ii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)**

The management of the Group considers that the carrying amounts of other financial assets and financial liabilities of the Group recorded at amortised cost in the Historical Financial Information at the end of each reporting period approximate their fair values as these financial instruments are short term in nature.

## 34. CONTINGENT LIABILITIES

The following table sets out our Group's contingent liabilities at the end of each reporting period:

|   | <b>2014</b><br><i>HK\$'000</i> | <b>At 31 December</b>          |                                |                                | <b>At 30 June</b><br><b>2018</b><br><i>HK\$'000</i> |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|---|
|   |                                | <b>2015</b><br><i>HK\$'000</i> | <b>2016</b><br><i>HK\$'000</i> | <b>2017</b><br><i>HK\$'000</i> |   |
| Financial guarantees given to banks ( <i>Note</i> ) | –                              | 125,938                        | 151,573                        | 34,000                         | 34,000  |

*Note:* As at 31 December 2014, 2015, 2016 and 2017 and 30 June 2018, the Group issued financial guarantees to banks in respect of banking facilities granted to related parties of an aggregate amount of nil, HK\$125,938,000, HK\$151,573,000, HK\$34,000,000 and HK\$34,000,000, respectively. The amount disclosed above represents the aggregate amounts that could be required to be paid if the guarantees were called upon in entirety, of which nil, HK\$71,487,000, HK\$151,426,000, HK\$34,000,000 and HK\$33,890,000 has been utilised by the related parties respectively. Financial guarantees are initially recognised at fair value. The directors of the Company are of the opinion that the fair value of the financial guarantees at initial recognition is not significant. The amounts of initial recognition of the financial guarantees are included in the consolidated statement of changes in equity. At the end of each reporting period, amounts of nil, HK\$518,000, HK\$1,119,000, HK\$564,000 and HK\$556,000, respectively have been recognised as financial guarantee obligations in the consolidated statements of financial position.

## 35. PLEDGE OF ASSETS

Certain of the Group's borrowings are secured by assets of the Group and the carrying amounts of which at the end of each reporting period are stated below:

|                               | <b>2014</b><br><i>HK\$'000</i> | <b>At 31 December</b>          |                                |                                | <b>At 30 June</b><br><b>2018</b><br><i>HK\$'000</i> |
|-------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|---|
|                               |                                | <b>2015</b><br><i>HK\$'000</i> | <b>2016</b><br><i>HK\$'000</i> | <b>2017</b><br><i>HK\$'000</i> |   |
| Property, plant and equipment | 13,954                         | 7,311                          | 3,429                          | 4,938                          | 9,519   |
| Trade receivables             | 1,618                          | 687                            | 60                             | 550                            | –   |
| Restricted bank deposits      | 55,708                         | 62,544                         | 102,480                        | 92,262                         | 94,659  |
|                               | <u>71,280</u>                  | <u>70,542</u>                  | <u>105,969</u>                 | <u>97,750</u>                  | <u>104,178</u>                                      |

Except for pledge of assets disclosed above, as at 31 December 2014, trade receivables amounting to HK\$1,618,000 of a subsidiary was pledged to a bank to secure the Group's bank and other borrowings.

In addition, certain of the Group's bank and other borrowings are secured by assets held by the management of the Group and/or their family members and the related companies which are controlled by the management of the Group and/or their family members and a key management personnel of the Group as detailed in note 24 and the equity interest of one of the Company's subsidiaries. In addition, certain of the Group's bank and other borrowings are personally guaranteed by the management of the Group and their family members and a key management personnel of the Group.

## 36. FINANCIAL INFORMATION OF THE COMPANY

## (a) Interest in a subsidiary of the Company

|                                   | <b>As at</b><br><b>31 December</b><br><b>2016</b><br><i>HK\$'000</i> | <b>As at</b><br><b>31 December</b><br><b>2017</b><br><i>HK\$'000</i> | <b>As at</b><br><b>30 June</b><br><b>2018</b><br><i>HK\$'000</i> |
|-----------------------------------|--|--|--|
| Investment in Top Leader, at cost | <u>13,771</u>  | <u>13,771</u>  | <u>13,771</u>  |

**(b) Amount due from a subsidiary**

|                              | As at<br>31 December<br>2016<br><i>HK\$'000</i> | As at<br>31 December<br>2017<br><i>HK\$'000</i> | As at<br>30 June<br>2018<br><i>HK\$'000</i> |
|------------------------------|---|---|---|
| Amount due from a subsidiary | –   | 1,667   | 10,345                                      |
| Amounts due to subsidiaries  | 10,640  | –   | –   |

The amounts are interest-free, unsecured and repayable on demand.

**(c) The following are the movements of the Company's reserves from 22 March 2016 (date of incorporation) to 30 June 2018.**

|   | Share<br>premium<br><i>HK\$'000</i> | Accumulated<br>losses/retained<br>profits<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|---|-------------------------------------|--|--------------------------|
| At 22 March 2016  | –                                   | –  | –                        |
| Issue of shares upon Reorganisation                     | 13,771                              | –  | 13,771                   |
| Loss and total comprehensive expense<br>for the year    | –                                   | (7,521)  | (7,521)                  |
| Dividend recognised as distribution ( <i>note 14</i> )  | –                                   | (5,000)  | (5,000)                  |
| At 31 December 2016                                     | 13,771                              | (12,521)   | 1,250                    |
| Income and total comprehensive income for<br>the year   | –                                   | 24,735   | 24,735                   |
| Dividend recognised as distribution ( <i>note 14</i> )  | –                                   | (10,000)   | (10,000)                 |
| At 31 December 2017                                     | 13,771                              | 2,214  | 15,985                   |
| Income and total comprehensive income for<br>the period | –                                   | 32,448   | 32,448                   |
| Dividend recognised as distribution ( <i>note 14</i> )  | –                                   | (30,000)   | (30,000)                 |
| At 30 June 2018   | 13,771                              | 4,662  | 18,433                   |

**37. MAJOR NON-CASH TRANSACTIONS**

Saved as disclosed in note 1, the Group has the following non-cash transactions:

During the years ended 31 December 2014, 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK\$3,240,000, HK\$482,000, HK\$1,051,000, nil, nil (unaudited) and HK\$5,403,000 respectively.

During the year ended 31 December 2014 and 2015, the dividend declared to the then shareholders of the companies comprising the Group amounted to, HK\$5,000,000 and HK\$5,000,000, respectively, were settled through the current account with a director.

During the years ended 31 December 2016 and 2017 and the six months ended 30 June 2017 and 2018, amongst the dividends of HK\$5,000,000, HK\$10,000,000, HK\$10,000,000 (unaudited) and HK\$30,000,000 declared to the shareholders of the Company, dividends of HK\$4,133,000, HK\$8,266,000, HK\$8,266,000 (unaudited) and HK\$20,019,000, respectively, were settled through the current account with a director.



Pursuant to an equity transfer agreement dated 23 June 2016, Chase On acquired 100% equity interest in Shenzhen Xincang at a consideration of RMB7,500,000 (equivalent to HK\$8,752,000 which was settled through current account with a director) and Shenzhen Xincang became a wholly owned subsidiary of Chase On.

Pursuant to the settlement agreements signed between Mr. Tong and related companies on 31 December 2016, the amounts due from related companies totalling HK\$150,147,000 outstanding at 31 December 2016 have been offset against amount due to a director of HK\$128,307,000 at 31 December 2016 and the remaining balance of HK\$21,840,000 has been borne by Mr. Tong and accounted for as amount due from a director as at 31 December 2016.

On 31 December 2017 and 30 June 2018, Mr. Tong and related companies had entered into settlement agreements pursuant to which the amounts due from related companies of HK\$68,014,000 outstanding at 31 December 2017 and HK\$26,882,000 at 30 June 2018 were transferred to and borne by Mr. Tong.

### 38. CAPITAL COMMITMENT

|  | At 31 December |          |          |          | At 30 June |
|--|----------------|----------|----------|----------|------------|
|  | 2014           | 2015     | 2016     | 2017     | 2018       |
|  | HK\$'000       | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000   |
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the Historical Financial Information | –              | 2,904    | 2,081    | 8,042    | 6,310      |

### 39. INTERESTS IN SUBSIDIARIES

As at the date of this report, the Company has equity interests in the following subsidiaries:

| Name of subsidiary  | Place and date of incorporation/ establishment                 | Place of operation | Issued and fully paid share capital/ registered capital | Equity interest attributable to the Company as at |      |         |      |                     | Principal activities |  |
|---|--|--------------------|---|---|------|---------|------|---------------------|----------------------|--|
|   |  |                    |   | 31 December                                       |      | 30 June |      | Date of this report |                      |  |
|   |  |                    |   | 2014  | 2015 | 2016    | 2017 |                     |                      | 2018   |
| Top Leader*   | BVI<br>19 May 2016   | Hong Kong          | US\$1   | N/A   | N/A  | 100%    | 100% | 100%                | 100%                 | Investment holding   |
| Chase On  | Hong Kong<br>16 June 1989                                      | Hong Kong          | HK\$10,000  | 100%  | 100% | 100%    | 100% | 100%                | 100%                 | Design and trading of plastic household products           |
| Shenzhen Xincang<br>深圳新昌  | The People's Republic of China (The "PRC")<br>20 November 1992 | The PRC            | RMB7,500,000  | 100%  | 100% | 100%    | 100% | 100%                | 100%                 | Manufacturing and processing of plastic household products |
| Foshan Haichang New Materials Technology Co., Ltd.**<br>佛山市海昌新材料科技有限公司<br>("Foshan Haichang") | The PRC<br>28 May 2012   | The PRC            | RMB12,000,000   | 61%   | 61%  | 61%     | 61%  | 61%                 | 61%                  | No operation   |

\* Directly held by the Company

\*\* The English name is for identification only. The official name of the entity is in Chinese.

All companies comprising the Group have adopted 31 December as their financial year end date.

No audited financial statements have been prepared for the Company and the subsidiary incorporated in the BVI since their respective dates of incorporation as they were incorporated in jurisdictions where there are no statutory audit requirements.

The statutory financial statements of the following subsidiaries for the Track Record Period were prepared in accordance with the relevant accounting principles and financial regulations applicable to the respective jurisdictions and were audited by the following Certified Public Accountants.

| Name             | Financial year ended                                    | Name of auditor  |
|------------------|---|--|
| Chase on         | 31 December 2014<br>31 December, 2015,<br>2016 and 2017 | Bles & Partners CPA Limited<br>World Smart, Certified Public Accountants           |
| Shenzhen Xincang | 31 December 2014,<br>2015, 2016 and 2017                | 中聯會計師事務所有限公司深圳分所 (Zhonglian Certified Public Accountant Co., Ltd. Shenzhen Branch) |
| Foshan Haichang  | 31 December 2014,<br>2015, 2016 and 2017                | 中聯會計師事務所有限公司深圳分所 (Zhonglian Certified Public Accountant Co., Ltd. Shenzhen Branch) |

#### 40. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statements of cash flows as cash flows from financing activities.

|   | At<br>1 January<br>2014<br>HK\$'000 | Financing<br>cash flows<br>HK\$'000 | Non-cash<br>changes<br>(note i)<br>HK\$'000 | Other<br>changes<br>(note ii)<br>HK\$'000 | At<br>31 December<br>2014<br>HK\$'000 |
|---|-------------------------------------|-------------------------------------|---|---|---------------------------------------|
| Obligations under<br>finance leases<br>(note iii) | 9,967                               | (6,089)                             | –   | 3,975                                     | 7,853                                 |
| Bank and other<br>borrowings (note iv)            | 79,297                              | 157,639                             | –   | 8,272                                     | 245,208                               |
| Dividend payable<br>(note v)                      | –                                   | –                                   | (5,000)                                     | 5,000                                     | –                                     |
|   | <u>89,264</u>                       | <u>151,550</u>                      | <u>(5,000)</u>                              | <u>17,247</u>                             | <u>253,061</u>                        |

## APPENDIX I

## ACCOUNTANTS' REPORT

|   | <b>At<br/>1 January<br/>2015</b> | <b>Financing<br/>cash flows</b> | <b>Non-cash<br/>changes<br/>(note i)</b> | <b>Other<br/>changes<br/>(note ii)</b> | <b>At<br/>31 December<br/>2015</b> |
|---|----------------------------------|---------------------------------|--|--|------------------------------------|
|   | <i>HK\$'000</i>                  | <i>HK\$'000</i>                 | <i>HK\$'000</i>                          | <i>HK\$'000</i>                        | <i>HK\$'000</i>                    |
| Amount due to a director                    | –                                | 25,587                          | 5,000                                    | 671                                    | 31,258                             |
| Obligations under finance leases (note iii) | 7,853                            | (5,163)                         | –  | 876                                    | 3,566                              |
| Bank and other borrowings (note iv)         | 245,208                          | (3,363)                         | –  | 10,232                                 | 252,077                            |
| Dividend payable (note v)                   | –                                | –                               | (5,000)                                  | 5,000                                  | –                                  |
|   | <u>253,061</u>                   | <u>17,061</u>                   | <u>–</u>                                 | <u>16,779</u>                          | <u>286,901</u>                     |
|   | <b>At<br/>1 January<br/>2016</b> | <b>Financing<br/>cash flows</b> | <b>Non-cash<br/>changes<br/>(note i)</b> | <b>Other<br/>changes<br/>(note ii)</b> | <b>At<br/>31 December<br/>2016</b> |
|   | <i>HK\$'000</i>                  | <i>HK\$'000</i>                 | <i>HK\$'000</i>                          | <i>HK\$'000</i>                        | <i>HK\$'000</i>                    |
| Amount due to a director                    | 31,258                           | 83,199                          | (115,422)                                | 965                                    | –                                  |
| Obligations under finance leases (note iii) | 3,566                            | (2,350)                         | –  | 1,212                                  | 2,428                              |
| Bank and other borrowings (note iv)         | 252,077                          | (54,099)                        | –  | 8,117                                  | 206,095                            |
| Dividend payable (note v)                   | –                                | (867)                           | (4,133)                                  | 5,000                                  | –                                  |
| Accrued issue costs                         | –                                | (3,743)                         | –  | 5,171                                  | 1,428                              |
|   | <u>286,901</u>                   | <u>22,140</u>                   | <u>(119,555)</u>                         | <u>20,465</u>                          | <u>209,951</u>                     |
|   | <b>At<br/>1 January<br/>2017</b> | <b>Financing<br/>cash flows</b> | <b>Non-cash<br/>changes<br/>(note i)</b> | <b>Other<br/>changes<br/>(note ii)</b> | <b>At<br/>31 December<br/>2017</b> |
|   | <i>HK\$'000</i>                  | <i>HK\$'000</i>                 | <i>HK\$'000</i>                          | <i>HK\$'000</i>                        | <i>HK\$'000</i>                    |
| Obligations under finance leases (note iii) | 2,428                            | (1,350)                         | –  | 101                                    | 1,179                              |
| Bank and other borrowings (note iv)         | 206,095                          | (34,985)                        | –  | 8,100                                  | 179,210                            |
| Dividend payable (note v)                   | –                                | (1,734)                         | (8,266)                                  | 10,000                                 | –                                  |
| Accrued issue costs                         | 1,428                            | (1,181)                         | –  | 877                                    | 1,124                              |
|   | <u>209,951</u>                   | <u>(39,250)</u>                 | <u>(8,266)</u>                           | <u>19,078</u>                          | <u>181,513</u>                     |

|  | <b>At<br/>1 January<br/>2017<br/>HK\$'000</b> | <b>Financing<br/>cash flows<br/>HK\$'000</b> | <b>Non-cash<br/>changes<br/>(note i)<br/>HK\$'000</b> | <b>Other<br/>changes<br/>(note ii)<br/>HK\$'000</b> | <b>At<br/>30 June<br/>2017<br/>HK\$'000</b> |
|--|---|--|---|---|---|
| (unaudited)                                      |   |  |   |   |   |
| Obligation under<br>finance leases<br>(note iii) | 2,428   | (983)  | –   | 43  | 1,488                                       |
| Bank and other<br>borrowings (note iv)           | 206,095                                       | (3,535)                                      | –   | 3,967   | 206,527                                     |
| Dividend payable<br>(note v)                     | –   | (1,734)                                      | (8,266)   | 10,000  | –   |
| Accrued issue costs                              | 1,428   | –  | –   | (154)   | 1,274                                       |
|  | <u>209,951</u>                                | <u>(6,252)</u>                               | <u>(8,266)</u>  | <u>13,856</u>                                       | <u>209,289</u>                              |
|  |   |  |   |   |   |
|  | <b>At<br/>1 January<br/>2018<br/>HK\$'000</b> | <b>Financing<br/>cash flows<br/>HK\$'000</b> | <b>Non-cash<br/>changes<br/>(note i)<br/>HK\$'000</b> | <b>Other<br/>changes<br/>(note ii)<br/>HK\$'000</b> | <b>At<br/>30 June<br/>2018<br/>HK\$'000</b> |
| Obligation under<br>finance leases<br>(note iii) | 1,179   | (2,385)                                      | –   | 5,448   | 4,242                                       |
| Bank and other<br>borrowings (note iv)           | 179,210                                       | 1,436  | –   | 4,467   | 185,113                                     |
| Dividend payable<br>(note v)                     | –   | (5,202)                                      | (20,019)  | 30,000  | 4,779                                       |
| Accrued issue costs                              | 1,124   | (854)  | –   | 1,409   | 1,679                                       |
|  | <u>181,513</u>                                | <u>(7,005)</u>                               | <u>(20,019)</u>                                       | <u>41,324</u>                                       | <u>195,813</u>                              |

*Notes:*

- (i) Non-cash changes represent the effects of set off of the amounts due from/to related companies with the amount due to a director (note 19), the set off of the dividends declared to the shareholders/the then shareholders of the companies comprising the Group with the current account of a director (note 37), and the set off of the consideration of transfer of equity interest of a subsidiary with the current account of a director (note 37).
- (ii) Other changes includes the addition of property, plant and equipment through finance lease, finance cost recognised (note 8) and issued costs accrued.
- (iii) The cash flows of obligations under finance leases represent repayments of principal and interest during the Track Record Period.
- (iv) Bank and other borrowings include bank and other loans and bank borrowings from factoring of trade receivables with full recourse. The cash flows from bank and other borrowings comprise the net amount of new borrowing raised and repayment of principal and interest of bank and other borrowings during the Track Record Period.
- (v) The cash flows of dividend payable represent payment of dividend to shareholders.

**41. SUBSEQUENT EVENTS**

The following significant events took place subsequent to 30 June 2018:

- (i) Pursuant to the written resolutions passed by the shareholders of the Company on 16 August 2018, conditional upon the crediting of the Company's share premium account as a result of the issue of the offer shares pursuant to the Share Offer, the directors of the Company were authorised to capitalise an amount of approximately HK\$4,049,900 standing to the credit of the share premium account of the Company by applying such sum towards the paying up in full at par a total of 404,990,000 shares for allotment and issue to the shareholders as of 16 August 2018, on a pro rata basis.
- (ii) Pursuant to a written resolution passed by the shareholder on 16 August 2018, the Company has conditionally adopted a share option scheme. A summary of its principal terms is set out in the paragraphs headed "D. Other Information" in Appendix IV to the Prospectus. No option was granted as at the date of the report.

**42. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to 30 June 2018.

The following information set out in this Appendix does not form part of the accountants' report on the historical financial information of the Group for each of the four years ended 31 December 2014, 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018 (the "Accountants' Report") from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set out in Appendix I, to this prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" of this prospectus and the Accountants' Report set forth in Appendix I to this prospectus.

#### A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company has been prepared by the directors of the Company in accordance with paragraph 4.29 of the Listing Rules to illustrate the effect of Share Offer (as defined in this prospectus) on the audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2018 as if the Share Offer had taken place on 30 June 2018.

This unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to the owners of the Company has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated financial position of the Group had the Share Offer been completed as at 30 June 2018 or at any future dates.

|  | Audited<br>consolidated net<br>tangible assets<br>of the Group<br>attributable to<br>owners of the<br>Company as at<br>30 June 2018<br><i>HK\$'000</i><br><i>(Note 1)</i> | Estimated net<br>proceeds from<br>the Share Offer<br><i>HK\$'000</i><br><i>(Note 2)</i> | Unaudited pro<br>forma adjusted<br>consolidated net<br>tangible assets<br>of the Group<br>attributable to<br>owners of the<br>Company as at<br>30 June 2018<br><i>HK\$'000</i> | Unaudited pro<br>forma adjusted<br>consolidated net<br>tangible assets<br>of the Group<br>attributable to<br>owners of the<br>Company as at<br>30 June 2018<br>per Share<br><i>HK\$</i><br><i>(Note 3)</i> |
|--|---|---|--|--|
| Based on Offer Price of<br>HK\$1.0 per Offer Share | 71,016  | 114,181   | 185,197  | 0.34   |
| Based on Offer Price of<br>HK\$1.2 per Offer Share | 71,016  | 140,234   | 211,250  | 0.39   |

*Notes:*

1. The audited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2018 is based on the audited consolidated net assets of the Group attributable to owners of the Company of HK\$71,016,000 as at 30 June 2018.
2. The estimated net proceeds from the Share Offer are based on 135,000,000 new Shares at indicative Offer Price of HK\$1.0 per Offer Share and HK\$1.2 per Offer Share, respectively, being the low-end and high-end of the indicative Offer Price range, respectively, after deduction of the estimated underwriting fees and commissions and other listing related expenses paid or payable by the Group, other than those expenses which have been recognised in profit or loss in the periods up to 30 June 2018. It does not take into account of any shares (i) which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme or (ii) any shares which may be issued or repurchased by the Company pursuant to the general mandate to issue or repurchase of shares granted to the directors of the Company.
3. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per share is arrived at on the basis that 540,000,000 shares comprise of the shares in issue assuming that the Share Offer and the Capitalisation Issue (as defined in this prospectus) had been completed on 30 June 2018. It does not take into account of any shares (i) which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme or (ii) any shares which may be issued or repurchased by the Company pursuant to the general mandates to issue or repurchase of shares granted to the directors of the Company.
4. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company does not take into account the effect of any trading results or other transaction of the Group entered into subsequent to 30 June 2018.

**B. ASSURANCE REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of the independent reporting accountants' assurance report received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, in relation to the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.*

**Deloitte.****德勤****INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION****To the Directors of Sun Cheong Creative Development Holdings Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Sun Cheong Creative Development Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets as at 30 June 2018 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated 21 September 2018 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed Share Offer (as defined in the Prospectus) on the Group's financial position as at 30 June 2018 as if the Share Offer had taken place at 30 June 2018. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information for the four years ended 31 December 2017 and the six months ended 30 June 2018, on which an accountants' report set out in Appendix I to the Prospectus has been published.

**Directors' Responsibilities for the Unaudited Pro Forma Financial Information**

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").



**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountants’ Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2018 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong, 21 September 2018

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 22 March 2016 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Company’s constitutional documents consist of its Memorandum of Association (the “Memorandum”) and its Articles of Association (the “Articles”).

## 1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

## 2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 16 August 2018 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

### (a) Shares

#### (i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

#### (ii) *Variation of rights of existing shares or classes of shares*

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions

of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

**(iii) Alteration of capital**

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

**(iv) Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

***(v) Power of the Company to purchase its own shares***

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

***(vi) Power of any subsidiary of the Company to own shares in the Company***

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

*(vii) Calls on shares and forfeiture of shares*

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

**(b) Directors***(i) Appointment, retirement and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to

retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

*(ii) Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.



*(iii) Power to dispose of the assets of the Company or any of its subsidiaries*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

*(iv) Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

*(v) Remuneration*

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

*(vi) Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

*(vii) Loans and provision of security for loans to Directors*

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

*(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also

cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or

(ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

**(c) Proceedings of the Board**

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

**(d) Alterations to constitutional documents and the Company's name**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

**(e) Meetings of members**

***(i) Special and ordinary resolutions***

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given held in accordance with the Articles.

*(ii) Voting rights and right to demand a poll*

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

*(iii) Annual general meetings and extraordinary general meetings*

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

Extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by the Company.

*(iv) Notices of meetings and business to be conducted*

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers and in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;

- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

**(v) *Quorum for meetings and separate class meetings***

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

**(vi) *Proxies***

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

**(f) *Accounts and audit***

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditors at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

**(g) Dividends and other methods of distribution**

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.



Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

**(h) Inspection of corporate records**

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

**(i) Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

**(j) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he

deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

**(k) Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

**3. CAYMAN ISLANDS COMPANY LAW**

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman Islands company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

**(a) Company operations**

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

**(b) Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares

(subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

**(c) Financial assistance to purchase shares of a company or its holding company**

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where

shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

**(f) Protection of minorities and shareholders' suits**

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

**(g) Disposal of assets**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(h) Accounting and auditing requirements**

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 11 May 2016.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the UK in 2010 but otherwise is not party to any double tax treaties.

**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

**(m) Inspection of corporate records**

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

**(n) Register of members**

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

**(o) Register of Directors and Officers**

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within sixty (60) days of any change in such directors or officers.

**(p) Register of Beneficial Ownership**

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The register of beneficial ownership is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the Company is listed on the Stock Exchange, it is not required to maintain a register of beneficial ownership.

**(q) Winding up**

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is



unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

**(r) Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

**(s) Take-overs**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

**(t) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

**4. GENERAL**

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

**A. FURTHER INFORMATION ABOUT OUR COMPANY AND ITS SUBSIDIARIES****1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 22 March 2016. Our Company has established a principal place of business in Hong Kong at Flat B-F, Block 4, Golden Dragon Industrial Centre, 182-190 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 28 April 2016. Mr. Tong Ying Chiu has been appointed as the authorised representative of our Company for acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the Companies Law and its constitution which comprises the Memorandum of Association and Articles of Association. A summary of certain provisions of our Company's constitution and relevant aspects of the Cayman Islands company law is set forth in Appendix III to this prospectus.

**2. Changes in share capital of our Company**

As at the date of incorporation of our Company, the authorised share capital of our Company was HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each.

One Share was allotted and issued at par to the initial subscriber on 22 March 2016 which was transferred as fully paid Share to Sun Cheong Creative on the same date for cash at par.

On 3 June 2016, our Company allotted and issued 9,999 Shares to Sun Cheong Creative in consideration of Mr. Tong Ying Chiu and Ms. Ng Siu Kuen Sylvia transferring their respective shares in Chase On to Top Leader International.

On 4 June 2016, Sun Cheong Creative transferred 1,334 Shares and 1,000 Shares to Mr. Chan Kam Hon Ivan and Billion Leading, respectively, at the consideration of HK\$16,000,000 and HK\$12,000,000, respectively. For further details, please refer to the section headed "History and development – Transfers of Shares in our Company" of this prospectus.

On 5 June 2016, Sun Cheong Creative transferred 7,666 Shares to Uni-Pro at par.

On 30 June 2016, Billion Leading transferred 600 Shares and 400 Shares to Uni-Pro and Mr. Chan Kam Hon Ivan, respectively, at HK\$1 and HK\$4,820,000, respectively. For further details, please refer to the section headed "History and development – Transfers of Shares in our Company" of this prospectus. As a result of the transfers, our Company was held by Uni-Pro as to 82.66% and Mr. Chan Kam Hon Ivan as to 17.34%.

On 13 October 2017, Uni-Pro transferred 86 Shares, 1,334 Shares and 173 Shares to Mr. Lau Yuk Wing, Eminent Sky and Harrison Assets at a consideration of HK\$2,438,000, HK\$37,900,000 and HK\$4,904,550, respectively. For further details, please refer to the section headed “History and development – Transfers of Shares in our Company” of this prospectus. As a result of the transfers, our Company was held by Uni-Pro as to 66.73%, Mr. Chan Kam Hon Ivan as to 17.34%, Mr. Lau Yuk Wing as to 0.86%, Eminent Sky as to 13.34% and Harrison Assets as to 1.73%.

Pursuant to resolutions in writing of all our Shareholders passed on 16 August 2018, our authorised share capital was increased from HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each to HK\$20,000,000 divided into 2,000,000,000 Shares of HK\$0.01 each by the creation of an additional 1,962,000,000 Shares.

Immediately following completion of the Share Offer and the Capitalisation Issue but taking no account of any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, the issued share capital of our Company will be HK\$5,400,000 divided into 540,000,000 Shares, all fully paid or credited as fully paid and 1,460,000,000 Shares will remain unissued.

Save for the aforesaid and as mentioned in the paragraph headed “Resolutions in writing of all our Shareholders passed on 16 August 2018” below, there has been no alteration in the share capital of our Company since its incorporation.

### **3. Resolutions in writing of all our Shareholders passed on 16 August 2018**

On 16 August 2018, resolutions in writing were passed by all our Shareholders, pursuant to which, among other things:

- (a) the authorised share capital of our Company was increased from HK\$380,000 to HK\$20,000,000 by the creation of an additional 1,962,000,000 Shares;
- (b) our Company approved and adopted its new Memorandum of Association with immediate effect and its new Articles of Association with effect from the Listing Date;
- (c) conditional on (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including any additional Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme); (ii) the entering into of the agreement on the Offer Price between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company on or before the

Price Determination Date; and (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:

- (i) the Share Offer was approved and our Directors were authorised to allot and issue the new Shares pursuant to the Share Offer;
  - (ii) the rules of the Share Option Scheme, the principal terms of which are set forth in the paragraph headed “D. Other information – 1. Share Option Scheme” in this Appendix, were approved and adopted and our Directors were authorised to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Share Option Scheme and to take all such steps as may be necessary and/or desirable to implement and give effect to the Share Option Scheme; and
  - (iii) conditional on the share premium account of our Company being credited as a result of the issue of the Offer Shares by our Company pursuant to the Share Offer, our Directors were authorised to capitalise an amount of HK\$4,049,900 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 404,990,000 Shares, such Shares to be allotted and issued to our Shareholders whose names appearing on the register of members of our Company at the close of business on 16 August 2018 (or as such Shareholders may direct) in proportion (as nearly as possible without fractions) to their then respective shareholdings in our Company.
- (d) a general unconditional mandate was given to our Directors to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than pursuant to a rights issue or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association or pursuant to the grant of options under the Share Option Scheme or other similar arrangement or pursuant to a specific authority granted by our Shareholders in general meeting, unissued Shares with an aggregate number not exceeding 20% of the total number of Shares in issue immediately following completion of the Share Offer and Capitalisation Issue (excluding any Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any applicable laws of Cayman Islands to be held, or until revoked or varied or renewed by an ordinary resolution of our Shareholders at a general meeting of our Company, whichever occurs first;

- (e) a general unconditional mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase on the Stock Exchange or on any other approved stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose the total number of Shares may not exceed 10% of the number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue (excluding any Shares which may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any applicable laws of Cayman Islands to be held, or until revoked or varied or renewed by an ordinary resolution of our Shareholders at a general meeting of our Company, whichever occurs first; and
- (f) the general unconditional mandate mentioned in paragraph (d) above was extended by the addition to the aggregate number of Shares which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate number of Shares repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (e) above.

#### **4. Corporate reorganisation**

Details of the Reorganisation are set forth in the section headed “Reorganisation” of this prospectus.

#### **5. Changes in share capital of subsidiaries of our Group**

Subsidiaries of our Company are referred to in the Accountants’ Report, the text of which is set forth in Appendix I to this prospectus.

Save as disclosed in the sections headed “History and development” and “Reorganisation”, respectively, of this prospectus, there are no alteration in the share capital of any of our Company’s subsidiaries within the two years immediately preceding the date of this prospectus.

## 6. Repurchase of Shares by our Company

### (a) *Provisions of the Listing Rules*

The Listing Rules permit companies whose primary listing is on the Main Board of the Stock Exchange to repurchase their securities on subject to certain restrictions, the most important of which are summarised below:

#### (i) *Shareholders' approval*

All proposed repurchases of securities on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by our Shareholders on 16 August 2018, the Repurchase Mandate was granted to our Directors authorising the repurchase by our Company on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of Shares with an aggregate number not exceeding 10% of the aggregate number of Shares of our Company in issue immediately following completion of the Share Offer and the Capitalisation Issue (excluding any Shares which may be issued pursuant to the exercise of the options that may be granted under the Share Option Scheme), at any time until the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by any applicable law of the Cayman Islands or the Articles of Association to be held or when such mandate is revoked or varied or renewed by an ordinary resolution of our Shareholders of our Company in general meeting, whichever is the earliest.

#### (ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles of Association and the laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

#### (iii) *Trading restrictions*

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a buy-back (other than an issue of securities pursuant to an exercise of warrants, share

options or similar instruments requiring the company to issue securities which were outstanding prior to such purchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from purchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from purchasing its securities if that purchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect the purchases of its securities discloses to the Stock Exchange such information with respect to such purchases made on behalf of such company as the Stock Exchange may require.

*(iv) Status of purchased Shares*

The listing of all securities which are purchased by a listed company (whether effected on the Stock Exchange or otherwise) will be automatically cancelled and the certificates for those securities must be cancelled and destroyed as soon as reasonably practicable.

*(v) Suspension of Repurchases*

A listed company may not make any purchase of its securities after inside information has come to its knowledge, until such information is made publicly available. In particular, during the period of one month immediately preceding the earlier of (1) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarter or any other interim period (whether or not required under the Listing Rules) and (2) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarter or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, such listed company may not purchase its securities on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a listed company from purchasing its securities on the Stock Exchange if such listed company has breached the Listing Rules.

*(vi) Reporting Requirements*

Certain information relating to buy-backs made by a company of its securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding such purchases of securities made during the year, including a monthly analysis of the



number of securities purchased, the purchase price per share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid. The directors' report shall contain references to the purchases made during the year and the directors' reasons for making such purchases.

*(vii) Core Connected Persons*

A listed company is prohibited from knowingly purchasing its securities on the Stock Exchange from a "core connected person", that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their close associates, and a core connected person is prohibited from knowingly selling his securities to the company.

***(b) Reasons for repurchases***

Our Directors believe that it is in the best interests of our Company and its Shareholders for our Directors to have a general authority from our Shareholders to enable our Company to repurchase Shares in the market. Repurchases of Shares will only be made when our Directors believe that such repurchases will benefit our Company and its members. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of our Company and its assets and/or its earnings per Share.

***(c) Funding of repurchases***

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles of Association and the applicable laws of the Cayman Islands.

It is presently proposed that any repurchase of Shares will be made out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or the proceeds of a fresh issue of shares made for the purpose of the purchase or, subject to the Companies Law and if so authorised by the Articles, out of capital and, in the case of any premium payable on the purchase, out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, subject to the Companies Law and if so authorised by the Articles, out of capital.

Our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or its gearing levels which, in the opinion of our Directors, are from time to time appropriate for our Company.

*(d) General*

None of our Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective close associates (as defined in the Listing Rules), has any present intention to sell any Shares to our Company or its subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands. Our Company has not repurchased any Shares in the previous six months.

No core connected person (as defined in the Listing Rules) has notified our Company that he/she or it has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falls below 25% of the total number of issued Shares.

If as a result of a securities repurchase pursuant to the Repurchase Mandate, a shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Codes. Accordingly, a Shareholder, or a group of Shareholders acting in concert, depending on the level of increase of our Shareholders' interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Code as a result of any such increase. Save as aforesaid, our Directors are not aware of any consequences which may arise under the Code if the Repurchase Mandate is exercised.

**B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP**

**1. Summary of material contracts**





The following contracts (not being contracts in the ordinary course of business) have been entered into by our Company or any of its subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (a) the deed of indemnity dated 16 August 2018 and entered into by our Controlling Shareholders in favour of our Company (for itself and as trustee for each of its present subsidiaries) to provide indemnities on a joint and several basis in respect of, among other matters, taxation resulting from income, to which our Group may be subject on or before the Listing Date; and
- (b) the Public Offer Underwriting Agreement.

## 2. Intellectual property rights of our Group

## (a) Trademarks

(i) As at the Latest Practicable Date, our Group had the following registered trademarks which are material to our business:

| No. | Trademark   | Class<br>(note 4, 5) | Place of<br>registration | Registered<br>owner | Registration<br>number | Registration<br>date | Expiry date         |
|-----|---|----------------------|--------------------------|---------------------|------------------------|----------------------|---------------------|
| 1.  | <br>MasterCookshop                     | 35                   | Hong Kong                | Chase On            | 303854340              | 29 July 2016         | 28 July 2026        |
| 2.  |  HEAPS                                 | 21                   | Hong Kong                | Chase On            | 303821292              | 28 June 2016         | 27 June 2026        |
| 3.  |  SUN CHEONG                            | 21                   | Hong Kong                | Chase On            | 303821300              | 28 June 2016         | 27 June 2026        |
| 4.  | <br>ClipFresh<br>Just what you need.   | 21                   | Hong Kong                | Chase On            | 303111146              | 22 August<br>2014    | 21 August<br>2024   |
| 5.  |                                       | 21                   | PRC                      | Chase on            | 6394650                | 14 March<br>2010     | 13 March<br>2020    |
| 6.  |                                      | 20                   | PRC                      | Chase on            | 6394651                | 14 March<br>2010     | 13 March<br>2020    |
| 7.  |                                      | 21                   | PRC                      | Chase on            | 8058178                | 28 February<br>2011  | 27 February<br>2021 |
| 8.  |  Aplus                               | 20                   | PRC                      | Chase on            | 7571311                | 7 September<br>2011  | 6 September<br>2021 |
| 9.  |  Aplus                               | 21                   | PRC                      | Chase on            | 7571312                | 14 June 2011         | 13 June 2021        |
| 10. |                                      | 21                   | PRC                      | Chase On            | 7823900                | 7 January<br>2011    | 6 January<br>2021   |
| 11. |  HEAPS                               | 21                   | PRC                      | Chase On            | 20457662               | 14 August<br>2017    | 13 August<br>2027   |
| 12. | <br>MasterCookshop                   | 35                   | PRC                      | Chase On            | 18354358               | 28 January<br>2018   | 27 January<br>2028  |
| 13. | <br>ClipFresh<br>Just what you need. | 21                   | PRC                      | Chase On            | 20981224               | 28 April<br>2018     | 27 April<br>2028    |

| No. | Trademark   | Class<br>(note 4, 5) | Place of<br>registration | Registered<br>owner | Registration<br>number | Registration<br>date | Expiry date                     |
|-----|---|----------------------|--------------------------|---------------------|------------------------|----------------------|---------------------------------|
| 14. |    | 21                   | US                       | Chase On            | 4942203                | 19 April<br>2016     | 18 April<br>2026                |
| 15. |    | 21                   | New<br>Zealand           | Chase On            | 1008912                | 14 November<br>2014  | 13 November<br>2024<br>(note 1) |
| 16. |    | 21, 35               | EU                       | Chase On            | 013200101              | 20 January<br>2015   | 26 August<br>2024               |
| 17. |    | 21                   | Australia                | Chase On            | 1642741                | 22 August<br>2014    | 22 August<br>2024<br>(note 2)   |
| 18. |    | 21                   | US                       | Chase On            | 4113460                | 20 March<br>2012     | 19 March<br>2022                |
| 19. |   | 21                   | Canada                   | Chase On            | TMA794841              | 6 April 2011         | 5 April 2026                    |
| 20. |  | 21                   | Australia                | Chase On            | 1343165                | 29 January<br>2010   | 28 January<br>2020              |
| 21. |  | 21                   | New<br>Zealand           | Chase On            | 818889                 | 5 August<br>2010     | 29 January<br>2020<br>(note 3)  |
| 22. |  | 21                   | Chile                    | Chase On            | 1231733                | 12 September<br>2017 | 12 September<br>2027            |

## Notes:

1. The renewal due date is 14 November 2024.
2. It is due for renewal on 22 August 2024.
3. The renewal due date is 29 January 2020.
4. Pursuant to the International Classification of Goods and Services for the Purposes of the Registration of Marks (Nice Classification), Class 21 includes household or kitchen utensils and containers; combs and sponges; brushes (except paint brushes); brush-making materials; articles for cleaning purposes; steel wool; unworked or semi-worked glass (except glass used in building); glassware, porcelain and earthenware not included in other classes.
5. Pursuant to the International Classification of Goods and Services for the Purposes of the Registration of Marks (Nice Classification), Class 35 includes advertising; business management; business administration and office functions.

**(b) Patents**

- (i) As at the Latest Practicable Date, our Group had the following registered patents which are material to our business:

| No. | Patent  | Place of registration | Type              | Patent number    | Registration date | Expiry date       |
|-----|---|-----------------------|-------------------|------------------|-------------------|-------------------|
| 1.  | A food container  | Hong Kong             | Short-term patent | HK1144883        | 24 November 2010  | 23 November 2018  |
| 2.  | A lid for food container                                  | Hong Kong             | Short-term patent | HK1144882        | 24 November 2010  | 23 November 2018  |
| 3.  | A food container  | PRC                   | Utility model     | ZL201020270878.4 | 26 July 2010      | 25 July 2020      |
| 4.  | Slip-resistant lid for food container, and food container | PRC                   | Utility model     | ZL201020270877.X | 26 July 2010      | 25 July 2020      |
| 5.  | Plastic lid (rectangular)                                 | PRC                   | Design            | ZL201230430654.X | 10 September 2012 | 9 September 2022  |
| 6.  | Plastic lid (square)                                      | PRC                   | Design            | ZL201230430653.5 | 10 September 2012 | 9 September 2022  |
| 7.  | Plastic lid (round)                                       | PRC                   | Design            | ZL201230430651.6 | 10 September 2012 | 9 September 2022  |
| 8.  | Plastic lid (rectangular 2)                               | PRC                   | Design            | ZL200930238674.5 | 30 September 2009 | 29 September 2019 |
| 9.  | Plastic lid (round)                                       | PRC                   | Design            | ZL200930238673.0 | 30 September 2009 | 29 September 2019 |
| 10. | Plastic lid (rectangular)                                 | PRC                   | Design            | ZL200930238672.6 | 30 September 2009 | 29 September 2019 |
| 11. | Storage Box (3325)  | PRC                   | Design            | ZL201630052279.8 | 25 February 2016  | 24 February 2026  |
| 12. | Storage Box (3326)  | PRC                   | Design            | ZL201630052278.3 | 25 February 2016  | 24 February 2026  |
| 13. | Snack Box (CFIB 9307)                                     | PRC                   | Design            | ZL201630225128.8 | 6 June 2016       | 5 June 2026       |
| 14. | Snack Box (CFIB 9308)                                     | PRC                   | Design            | ZL201630225117.X | 6 June 2016       | 5 June 2026       |
| 15. | Lid (CFUN 23310)  | PRC                   | Design            | ZL201630225137.7 | 6 June 2016       | 5 June 2026       |
| 16. | Microwave Oven Box (CFMW Series)                          | PRC                   | Design            | ZL201730348821.9 | 2 August 2017     | 1 August 2027     |
| 17. | Rectangular plastic and transparent food container        | PRC                   | Utility Model     | ZL201720968292.7 | 4 August 2017     | 3 August 2027     |
| 18. | Plastic lids  | EU                    | Design            | 002713693-0001   | 5 June 2015       | 5 June 2020       |
| 19. | Lid for food container                                    | US                    | Design            | USD676274S       | 19 February 2013  | 18 February 2027  |
| 20. | Lids for containers                                       | EU                    | Design            | 003315233-0001   | 21 July 2016      | 21 July 2021      |

| No. | Patent  | Place of registration | Type              | Patent number  | Registration date | Expiry date                      |
|-----|---|-----------------------|-------------------|----------------|-------------------|----------------------------------|
| 21. | Food container lids   | EU                    | Design            | 001826033-0001 | 24 February 2011  | 24 February 2021                 |
| 22. | A lid   | New Zealand           | Design            | 417613         | 17 May 2013       | 22 April 2023<br><i>(note 1)</i> |
| 23. | A lid   | New Zealand           | Design            | 417534         | 22 April 2013     | 22 April 2023<br><i>(note 1)</i> |
| 24. | A lid   | New Zealand           | Design            | 417612         | 17 May 2013       | 22 April 2023<br><i>(note 1)</i> |
| 25. | A lid for a container   | New Zealand           | Design            | 420049         | 19 March 2015     | 19 March 2020<br><i>(note 2)</i> |
| 26. | A lid for a container   | New Zealand           | Design            | 420050         | 19 March 2015     | 19 March 2020<br><i>(note 2)</i> |
| 27. | A lid for a container   | New Zealand           | Design            | 420051         | 19 March 2015     | 19 March 2020<br><i>(note 2)</i> |
| 28. | Lid for a container   | Australia             | Design            | 201613938      | 5 August 2016     | 20 July 2021                     |
| 29. | Food container  | Australia             | Design            | 201810631      | 2 February 2018   | 1 February 2023                  |
| 30. | A transparent food plastic container for containing food in rectangular shape | Hong Kong             | Short-term patent | HK1233435      | 4 August 2017     | 3 August 2025                    |

*Notes:*

1. The renewal due date is 22 April 2023 and the final expiry date is 22 April 2028.
2. The renewal due date is 19 March 2020 and the final expiry date is 19 March 2030.

- (ii) As at the Latest Practicable Date, our Group had applied for registration of the following patents which are material to our business:

| No. | Patent              | Place of application | Type   | Application number | Date of application | Name of applicant |
|-----|---------------------|----------------------|--------|--------------------|---------------------|-------------------|
| 1.  | Lid for a container | US                   | Design | 29574600           | 17 August 2016      | Chase On          |

**(c) Registered designs**

- (i) As at the Latest Practicable Date, our Group had the following registered designs which are material to our business:

| No. | Patent      | Place of registration | Type              | Registration number | Registration date | Expiry date     |
|-----|-------------|-----------------------|-------------------|---------------------|-------------------|-----------------|
| 1.  | Storage box | Hong Kong             | Registered design | 1600062.8           | 14 January 2016   | 13 January 2021 |
| 2.  | Storage box | Hong Kong             | Registered design | 1600063.0           | 14 January 2016   | 13 January 2021 |

| No. | Patent                      | Place of registration | Type              | Registration number | Registration date | Expiry date      |
|-----|-----------------------------|-----------------------|-------------------|---------------------|-------------------|------------------|
| 3.  | Lid for storage container   | Hong Kong             | Registered design | 0901719.5M001       | 19 October 2009   | 18 October 2019  |
| 4.  | Lid for storage container   | Hong Kong             | Registered design | 0901719.5M002       | 19 October 2009   | 18 October 2019  |
| 5.  | Lid for storage container   | Hong Kong             | Registered design | 0901719.5M003       | 19 October 2009   | 18 October 2019  |
| 6.  | Square plastic box lid      | Hong Kong             | Registered design | 1201791.1M001       | 10 September 2012 | 9 September 2022 |
| 7.  | Rectangular plastic box lid | Hong Kong             | Registered design | 1201791.1M002       | 10 September 2012 | 9 September 2022 |
| 8.  | Round plastic box lid       | Hong Kong             | Registered design | 1201791.1M003       | 10 September 2012 | 9 September 2022 |
| 9.  | Storage cabinet             | Hong Kong             | Registered design | 1600728.2           | 20 April 2016     | 19 April 2021    |
| 10. | Storage cabinet             | Hong Kong             | Registered design | 1600727.0           | 20 April 2016     | 19 April 2021    |
| 11. | Storage box                 | Hong Kong             | Registered design | 1600726.8           | 20 April 2016     | 19 April 2021    |
| 12. | Food container              | Hong Kong             | Registered design | 1600750.8           | 21 April 2016     | 20 April 2021    |
| 13. | Food container              | Hong Kong             | Registered design | 1600749.6           | 21 April 2016     | 20 April 2021    |
| 14. | Lid                         | Hong Kong             | Registered design | 1600748.4           | 21 April 2016     | 20 April 2021    |
| 15. | Microwave box               | Hong Kong             | Registered design | 1701511.4M001       | 2 August 2017     | 1 August 2022    |
| 16. | Microwave box               | Hong Kong             | Registered design | 1701511.4M002       | 2 August 2017     | 1 August 2022    |
| 17. | Microwave box               | Hong Kong             | Registered design | 1701511.4M003       | 2 August 2017     | 1 August 2022    |
| 18. | Microwave box               | Hong Kong             | Registered design | 1701511.4M004       | 2 August 2017     | 1 August 2022    |

**(d) Domain names**

As at the Latest Practicable Date, our Group was the registered proprietor of the following domain names which are material to our business:

| No. | Domain name        | Registered owner    | Expiry date     |
|-----|--------------------|---------------------|-----------------|
| 1.  | clip-fresh.com     | Chase On            | 12 October 2022 |
| 2.  | suncheong.com.cn   | Shenzhen Sun Cheong | 29 June 2020    |
| 3.  | mastercookshop.com | Chase On            | 11 August 2021  |

**C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS OF OUR COMPANY**

**1. Directors**

*(a) Disclosure of interests – interests and short positions of our Directors and the chief executives of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations*

Immediately following completion of the Share Offer and the Capitalisation Issue without taking into account the Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme, the interests or short positions of Directors or chief executives of our Company in the Shares, underlying Shares and debentures of our Company or its 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 interest or 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, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to our Company and Stock Exchange, once the Shares are listed are as follows:

*Interests in our Company*

| <b>Name of Shareholder</b> | <b>Capacity</b>   | <b>Number of Shares</b>                                | <b>Approximate percentage of issued Shares</b> |
|----------------------------|---|--|--|
| Mr. Tong Ying Chiu         | Interest of a controlled corporation/interest of spouse | 270,256,500 Shares<br>(long position)<br><i>(note)</i> | 50.05%   |
| Ms. Ng Siu Kuen Sylvia     | Interest of a controlled corporation/interest of spouse | 270,256,500 Shares<br>(long position)<br><i>(note)</i> | 50.05%   |
| Mr. Chan Kam Hon Ivan      | Beneficial owner  | 70,227,000 Shares<br>(long position)                   | 13.0%  |

*Note:*

These Shares are held by Uni-Pro, a company incorporated in the BVI and is wholly-owned by Sun Cheong Creative. Sun Cheong Creative is a company incorporated in Hong Kong and is held as to 50% by Mr. Tong Ying Chiu and as to 50% by Ms. Ng Siu Kuen Sylvia. Mr. Tong Ying Chiu is the spouse of Ms. Ng Siu Kuen Sylvia. Accordingly, Mr. Tong Ying Chiu and Ms. Ng Siu Kuen Sylvia are deemed to be interested in the Shares held by Uni-Pro under the SFO.



*Interests in our associated corporation*

| Name of associated corporation | Name of Director       | Capacity/<br>Nature of interest                             | Number of shares              | Approximate percentage of shareholding |
|--------------------------------|------------------------|---|-------------------------------|--|
| Uni-Pro                        | Mr. Tong Ying Chiu     | Interest of a controlled corporation/<br>interest of spouse | 1 share of US\$1.00<br>(note) | 100%                                   |
| Uni-Pro                        | Ms. Ng Siu Kuen Sylvia | Interest of a controlled corporation/<br>interest of spouse | 1 share of US\$1.00<br>(note) | 100%                                   |
| Sun Cheong Creative            | Mr. Tong Ying Chiu     | Beneficial owner<br>Interest of spouse                      | 5,000 shares<br>5,000 shares  | 50%<br>50%                             |
| Sun Cheong Creative            | Ms. Ng Siu Kuen Sylvia | Beneficial owner<br>Interest of spouse                      | 5,000 shares<br>5,000 shares  | 50%<br>50%                             |

*Note:*

The share is held by Sun Cheong Creative, a company incorporated in Hong Kong and which is held as to 50% by Mr. Tong Ying Chiu and as to 50% by Ms. Ng Siu Kuen Sylvia.

**(b) Particulars of our Directors' service contracts**

Each of our executive Directors has entered into a service contract with our Company for an initial term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other and is subject to termination provisions therein and provisions on retirement by rotation of our Directors as set forth in the Articles of Association.

Each of our executive Directors is entitled to a director's fee. Each of our executive Directors shall be paid a remuneration on the basis of twelve months in a year. In addition, each of our executive Directors is also entitled to bonus as determined by our Board based on the recommendations made by our remuneration committee. The current annual director's fees and remuneration of our executive Directors are as follows:

| Name of Directors      | Approximate annual Director's fee and remuneration<br>HK\$ |
|------------------------|--|
| Mr. Tong Ying Chiu     | 960,000  |
| Ms. Ng Siu Kuen Sylvia | 960,000  |
| Mr. Tong Bak Nam Billy | 960,000  |
| Mr. Chan Kam Hon Ivan  | 960,000  |

Our independent non-executive Directors have been appointed for an initial term of one year from 16 August 2018. Our Company intends to pay a director's fee of HK\$240,000 per annum to each of our independent non-executive Directors.

Under the arrangement currently in force, the aggregate amount of emoluments payable by our Group to our Directors (including our independent non-executive Directors) for the year ending 31 December 2018 is estimated to be approximately HK\$2.7 million.

## 2. Substantial Shareholders

So far as our Directors are aware, immediately following the completion of the Share Offer and the Capitalisation Issue without taking into account the Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme, the following persons (other than a Director or chief executive of our Company) will have or be deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO or are directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group.

| <b>Name of Shareholder</b>               | <b>Capacity</b>                      | <b>Number of Shares</b>                                    | <b>Approximate percentage of issued Shares</b> |
|--|--------------------------------------|--|--|
| Uni-Pro ( <i>note 1</i> )                | Beneficial owner                     | 270,256,500 Shares<br>(long position)                      | 50.05%   |
| Sun Cheong Creative                      | Interest of a controlled corporation | 270,256,500 Shares<br>(long position)<br>( <i>note 2</i> ) | 50.05%   |
| Eminent Sky<br>( <i>note 3</i> )         | Beneficial owner                     | 54,027,000 Shares<br>(long position)                       | 10.0%  |
| VMS Proprietary Investment Limited       | Interest of a controlled corporation | 54,027,000 Shares<br>(long position)<br>( <i>note 4</i> )  | 10.0%  |
| VMS Proprietary Investment Group Limited | Interest of a controlled corporation | 54,027,000 Shares<br>(long position)<br>( <i>note 4</i> )  | 10.0%  |
| VMS Holdings Limited                     | Interest of a controlled corporation | 54,027,000 Shares<br>(long position)<br>( <i>note 4</i> )  | 10.0%  |
| Master Competent Limited                 | Interest of a controlled corporation | 54,027,000 Shares<br>(long position)<br>( <i>note 4</i> )  | 10.0%  |
| Ms. Mak Siu Hang Viola                   | Interest of a controlled corporation | 54,027,000 Shares<br>(long position)<br>( <i>note 4</i> )  | 10.0%  |

*Notes:*

1. Uni-Pro is a company incorporated in the BVI and is wholly-owned by Sun Cheong Creative.
2. These Shares are held by Uni-Pro, a company incorporated in the BVI and is wholly-owned by Sun Cheong Creative. Accordingly, Sun Cheong Creative is deemed to be interested in the Shares held by Uni-Pro under the SFO.
3. Eminent Sky is a company incorporated in the BVI and wholly owned by VMS Proprietary Investment Limited.
4. These Shares are held by Eminent Sky, a company incorporated in the BVI and is a wholly-owned by VMS Proprietary Investment Limited. VMS Proprietary Investment Limited is a company incorporated in the BVI and is wholly owned by VMS Proprietary Investment Group Limited, which is a company incorporated in the BVI and is wholly owned by VMS Holdings Limited. VMS Holdings Limited is a company incorporated in the BVI and is owned by Ms. Mak Siu Hang Viola as to 59.8%, Master Competent Limited as to 32.2% and an Independent Third Party as to 8%. Master Competent Limited is a company incorporated in the BVI and is wholly owned by Ms. Mak Siu Hang Viola. Accordingly, each of VMS Proprietary Investment Limited, VMS Proprietary Investment Group Limited, VMS Holdings Limited, Master Competent Limited and Ms. Mak Siu Hang Viola is deemed to be interested in the Shares held by Eminent Sky under the SFO.

**3. Agency fees or commissions received**

Save as disclosed in this prospectus, no commissions, discounts, brokerages or other special terms 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.

**4. Disclaimers**

Save as disclosed herein:

- (a) none of our Directors or chief executives of our Company has any interest or short position in the Shares, underlying Shares or debentures of our Company or any of its associated corporation (within the meaning of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO 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 Shares are listed;
- (b) none of our Directors or experts referred to under the paragraph headed “D. Other information – 7. Consents of experts” in this Appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;

- (d) none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (e) taking no account of Shares which may be issued upon the exercise of the options which may be granted under the Share Option Scheme, none of our Directors are aware of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Share Offer and the Capitalisation Issue, have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of SFO or be interested, directly or indirectly, in 10% or more of the issued voting shares of any other member of our Group;
- (f) none of the experts referred to under the paragraph headed “D. Other information – 7. Consents of experts” in this Appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;
- (g) so far as is known to our Directors, none of our Directors, their respective close associates (as defined under the Listing Rules) or our Shareholders who are interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group; and
- (h) none of our Directors has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to any member of our Group.

## D. OTHER INFORMATION

### 1. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the resolutions in writing of our Shareholders of our Company passed on 16 August 2018.

#### (a) Purpose

The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions the Eligible Participants (as defined in paragraph (b) below) had or may have made to our Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in our Company with the view to achieving the following objectives:

- (i) motivate the Eligible Participants to optimise their performance efficiency for the benefit of our Group;

- (ii) attract and retain or otherwise maintain on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of our Group; and
- (iii) for such purposes as the Board may approve from time to time.

**(b) Who may join**

Our Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as our Board may determine at an exercise price determined in accordance with paragraph (e) below to the following (the “Eligible Participants”):

- (i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries;
- (ii) any directors (including executive, non-executive and independent non-executive directors) of our Company or any of its subsidiaries; and
- (iii) any advisers, consultants, suppliers, customers, agents and related entities to our Company or any of its subsidiaries.

Upon acceptance of the option, the grantee shall pay HK\$1.00 to our Company by way of consideration for the grant. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot of dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting the acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

**(c) Maximum number of Shares**

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of our Company must not in aggregate exceed 10% of the total number of Shares in issue immediately following completion of the Share Offer, being 54,000,000 Shares, excluding for this purpose Shares which would have been issuable pursuant to the options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of our Company). Subject to the issue of a circular by our Company and the approval of our Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, our Board may:

- (i) renew this limit at any time to 10% of the Shares in issue as of the date of the approval by our Shareholders in general meeting; and/or

- (ii) grant options beyond the 10% limit to Eligible Participants specifically identified by our Board. The circular issued by our Company to our Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company at any time shall not exceed 30% of the Shares in issue from time to time. No options shall be granted under any schemes of our Company (including the Share Option Scheme) if this will result in the 30% limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of our Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of our Company in accordance with paragraph (q) below whether by way of consolidation, capitalisation issue, rights issue, sub-division or reduction of the share capital of our Company but in no event shall exceed the limit prescribed in this paragraph.

***(d) Maximum number of options to any one individual***

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of our Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as of the date of grant. Any further grant of Options in excess of this 1% limit shall be subject to:

- (i) the issue of a circular by our Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rules 17.03(4) and 17.06 of the Listing Rules and/or such other requirements as prescribed under the Listing Rules from time to time; and
- (ii) the approval of our Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his close associates (as defined in the Listing Rules) (or his associates (as defined in the Listing Rules) if the Eligible Participant is a Connected Person) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before our Shareholders' approval and the date of our Board meeting at which our Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the subscription price of the Shares. Our Board shall forward to such Eligible Participant an offer document in such form as our Board may from time to time determine.

(e) *Price of Shares*

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as our Board in its absolute discretion shall determine, save that such price will not be less than the highest of:

- (i) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- (ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a Share.

(f) *Granting options to connected persons*

Any grant of options to a director, chief executive or substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Options). If our Board proposes to grant options to a substantial shareholder or any independent non-executive Director or their respective associates (as defined in the Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% or such other percentage as may be from time to time provided under the Listing Rules of the Shares in issue; and
- (ii) having an aggregate value in excess of HK\$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the official closing price of the Shares at the date of each grant,

such further grant of options will be subject to the issue of a circular by our Company and the approval of our Shareholders in general meeting on a poll at which the grantee, his/her associates and all core connected persons (as defined in the Listing Rules) of our Company shall abstain from voting in favour, and/or such other requirements prescribed under the Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

The circular to be issued by our Company to our Shareholders pursuant to the above paragraph shall contain the following information:

- (i) the details of the number and terms (including the exercise price) of the options to be granted to each selected Eligible Participant which must be fixed before our Shareholders' meeting and the date of Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price of such options;

- (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent shareholders as to voting;
- (iii) the information required under Rule 17.02(2)(c) and (d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
- (iv) the information required under Rule 2.17 of the Listing Rules.

***(g) Restrictions on the time of grant of Options***

A grant of options may not be made after inside information has come to the knowledge of our Company until it has announced such information pursuant to the requirements of the Listing Rules. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

- (i) the date of our Board meeting (as such date to first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's annual results or half-year, quarterly or other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for our Company to publish an announcement of its annual results or half-year, or quarterly or other interim period (whether or not required under the Listing Rules) and ending on the date of actual publication of the results announcement.

***(h) Rights are personal to grantee***

An option is personal to the grantee and may be exercised or treated as exercised, as the case may be, in whole or in part. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option or attempt so to do (save that the grantee may nominate a nominee in whose name the Shares issued pursuant to the Share Option Scheme may be registered). Any breach of the foregoing shall entitle our Company to cancel any outstanding options or any part thereof granted to such grantee.

***(i) Time of exercise of Option and duration of the Share Option Scheme***

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the Option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by our Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the Listing Date. Subject to earlier termination by our Company in general meeting or by our Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the Listing Date.



***(j) Performance target***

A grantee may be required to achieve any performance targets as our Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised.

***(k) Rights on ceasing employment or death***

If the grantee of an option ceases to be an employee of our Company or any of its subsidiaries:

- (i) by any reason other than death, ill-health, injury, disability or termination of his relationship with the Group on the grounds specified in paragraph (l) below, the option to the extent not already exercised on the date of cessation (which date shall be the last actual working day with our Company or the relevant subsidiary whether salary is paid in lieu of notice or not) shall lapse automatically on the date of cessation; or
- (ii) by reason of death, ill-health, injury or disability, his personal representative(s) may exercise the option within a period of 12 months from such cessation.

***(l) Rights on dismissal***

If the grantee of an Option ceases to be an employee of our Company or any of its subsidiaries on the grounds that he has been guilty of serious misconduct, or has become insolvent, bankrupt or has made arrangements or compositions with his creditors generally, or on any other ground that would warrant the termination of his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group, or has been convicted of any criminal offence involving his integrity or honesty, his Option will lapse and not be exercisable after the date of termination of his employment.

***(m) Rights on takeover***

If a general offer is made to all our Shareholders (or all such shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror (as defined in the Takeovers Codes)) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee of an option shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

***(n) Rights on winding-up***

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall forthwith give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled

to exercise all or any of his options (to the extent not already exercised) at any time not later than two business days prior to the proposed general meeting of our Company referred to above by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting, allot the relevant Shares to the grantee credited as fully paid and register the grantee as holder thereof.

***(o) Rights on compromise or arrangement between our Company and its members or creditors***

If a compromise or arrangement between our Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of our Company or its amalgamation with any other companies pursuant to the laws of jurisdictions in which our Company was incorporated, our Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members or creditors summoning the meeting to consider such a scheme or arrangement and each grantee shall be entitled to exercise all or any of his options in whole or in part at any time prior to 12 noon (Hong Kong time) on the business day immediately preceding the date of the meeting directed to be convened by the relevant court for the purposes of considering such compromise or arrangement and if there are more than one meeting for such purpose, the date of the first meeting.

With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. If for any reason such compromise or arrangement does not become effective and is terminated or lapses, the rights of grantees to exercise their respective options shall with effect from such termination be restored in full as if such compromise or arrangement had not been proposed by our Company.

***(p) Ranking of Shares***

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank *pari passu* in all respects and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation as attached to the other fully paid Shares in issue on the date of issue.

***(q) Effect of alterations to capital***

In the event of any alteration in the capital structure of our Company whilst any option may become or remains exercisable, whether by way of capitalisation issue, rights issue, open offer, consolidation, sub-division or reduction of share capital of our Company, or otherwise howsoever, such corresponding alterations (if any) shall be made in the number of Shares subject to any options so far as unexercised; the subscription price per Share of each

outstanding option; the shares to which the option relates; the method of exercise of the option; and/or any combination thereof, as the auditors of our Company or an independent financial adviser shall certify in writing to our Board to be in their/his opinion fair and reasonable in compliance with Rule 17.03(13) of the Listing Rules and the note thereto and the supplementary guidance issued by the Stock Exchange on 5 September 2005 and any future guidance and interpretation of the Listing Rules issued by the Stock Exchange from time to time.

Any such alterations will be made on the basis that a grantee shall have the same proportion of the issued share capital of our Company for which any grantee of an Option is entitled to subscribe pursuant to the Options held by him before such alteration and the aggregate subscription price payable on full exercise of any option is to remain as nearly as possible the same (and in any event not greater than) as it was before such event. No such alteration will be made the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

*(r) Expiry of option*

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option as may be determined by our Board;
- (ii) the expiry of any of the periods referred to in paragraphs (k), (l), (m), (n) or (o);
- (iii) the date on which the scheme of arrangement of our Company referred to in paragraph (o) becomes effective;
- (iv) the date of commencement of the winding-up of our Company;
- (v) the date on which the grantee ceases to be an Eligible Participant by reason of such grantee's resignation from the employment of our Company or any of its subsidiaries or the termination of his or her employment or contract on any one or more of the grounds that he or she has been guilty of serious misconduct, or has been convicted of any criminal offence involving his or her integrity or honesty, or has become insolvent, bankrupt or has made arrangements or compositions with his or her creditors generally, or any other ground that would warrant the termination of his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group. A resolution of our Board to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or
- (vi) the date on which our Board shall exercise our Company's right to cancel the option at any time after the grantee commits a breach of paragraph (h) above or the options are cancelled in accordance with paragraph (t) below.

*(s) Alteration of the Share Option Scheme*

The Share Option Scheme may be altered in any respect by resolution of our Board except that:

- (i) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules; and
- (ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted (except any alterations which take effect automatically under the terms of the Share Option Scheme) shall first be approved by our Shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Share Option Scheme. The amended terms of the Share Option Scheme shall still comply with Chapter 17 of the Listing Rules and any change to the authority of our Board in relation to any alteration to the terms of the Share Option Scheme must be approved by our Shareholders in general meeting.

*(t) Cancellation of Options*

Any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing. For the avoidance of doubt, such approval is not required in the event that any option is cancelled pursuant to paragraph (h).

*(u) Termination of the Share Option Scheme*

Our Company may by resolution in general meeting or our Board at any time terminate the Share Option Scheme and in such event no further option shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

*(v) Administration of our Board*

The Share Option Scheme shall be subject to the administration of our Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

*(w) Condition of the Share Option Scheme*

The Share Option Scheme is conditional on:

- (i) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of options to be granted under the Share Option Scheme;
- (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as result of the waiver of any such condition(s)) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise;
- (iii) the approval of the rules of the Share Option Scheme by our Shareholders in general meeting; and
- (iv) the commencement of dealings in the Shares on the Stock Exchange.

*(x) Disclosure in annual and interim reports*

Our Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

*(y) Present status of the Share Option Scheme*

As at the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme.

**2. Estate duty, tax and other indemnities**

Each of the Controlling Shareholders have entered into a deed of indemnity with and in favour of our Company (for itself and as trustee for each of its present subsidiaries) (being the contract referred to in paragraph (a) of the paragraph headed “Summary of material contracts” in this Appendix) to provide indemnities on a joint and several basis in respect of, among other matters, Hong Kong estate duty which might be payable by any member of our Group, by reason of any transfer of property (within the meaning of Section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong, as amended by the Revenue (Abolition of Estate Duty) Ordinance) to any member of our Group on or before the Listing Date.

The deed of indemnity also contain, amongst other things, indemnities given by the Controlling Shareholders in respect of (a) taxation resulting from income, profits or gains earned, accrued or received to which our Group may be subject on or before the Listing Date; and (b) claims and liabilities arising from the non-compliances of our Group, including the non-compliance incidents set out in the section headed “Business – Major non-compliance incidents” of this prospectus.

### 3. Litigation

As at the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and, so far as our Directors are aware, no litigation or claim of material importance is pending or threatened by or against any member of our Group that would have a material adverse effect on its operating results or financial condition.

### 4. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately HK\$63,000 and are payable by our Company.

### 5. Promoter

Our Company has no promoter for the purpose of the Listing Rules.

### 6. Qualification of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

| <b>Name</b>                            | <b>Qualification</b>  |
|--|---|
| Giraffe Capital Limited                | A corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities under the SFO |
| Deloitte Touche Tohmatsu               | Certified public accountants  |
| Hills & Co.                            | PRC Legal Adviser   |
| Mr. Chan Chung                         | Barrister-at-law of Hong Kong   |
| Conyers Dill & Pearman                 | Cayman Islands attorneys-at-law   |
| Edwin Yeung & Company<br>(CPA) Limited | Tax Adviser   |

Squire Patton Boggs (US) LLP      Squire Patton Boggs (US) LLP is an international law firm. Squire Patton Boggs (US) LLP advised on the sanctions risk in relation to the export of our products to certain countries

## 7. Consents of experts

Each of the experts referred to in paragraph 6 above has given and has not withdrawn his or its written consent to the issue of this prospectus with the inclusion of his or its report and/or letter and/or valuation certificate and/or opinion and/or the references to his or its name included herein in the form and context in which it is respectively included.

## 8. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (WUMP) Ordinance so far as applicable.

## 9. Miscellaneous

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
  - (i) no share or loan capital of our Company or any of its subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;
  - (ii) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
  - (iii) our Group has no outstanding convertible debt securities or debentures;
  - (iv) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries;
  - (v) no founders, management or deferred shares of our Company or, any of its subsidiaries have been issued or agreed to be issued;
  - (vi) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of its subsidiaries;
- (b) none of the persons named in the paragraph headed “D. Other information – 7. Consents of experts” in this Appendix is interested beneficially or otherwise in any shares of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of our Group;

- (c) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 30 June 2018 (being the date to which the latest audited consolidated financial statements of our Group were made up);
- (d) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 24 months preceding the date of this prospectus;
- (e) the principal register of members of our Company will be maintained in Cayman Islands by Conyers Trust Company (Cayman) Limited and a branch register of members of our Company will be maintained in Hong Kong by Union Registrars Limited. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Company's branch share registrar in Hong Kong and may not be lodged in Cayman Islands;
- (f) no member of our Group is presently listed on any stock exchange or traded on any trading system;
- (g) there is no arrangement under which future dividends are waived or agreed to be waived; and
- (h) all necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.

#### **10. Bilingual prospectus**

The English and Chinese language version of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

#### **11. Sole Sponsor**

The Sole Sponsor has made an application for and on behalf of our Company to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares that may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme. The Sponsor is independent of our Company in accordance with Rule 3A.07 of the Listing Rules.

The Sole Sponsor's fees in relation to the Listing are approximately HK\$6.0 million.



**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

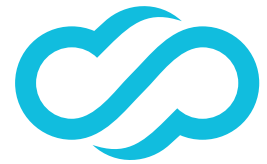
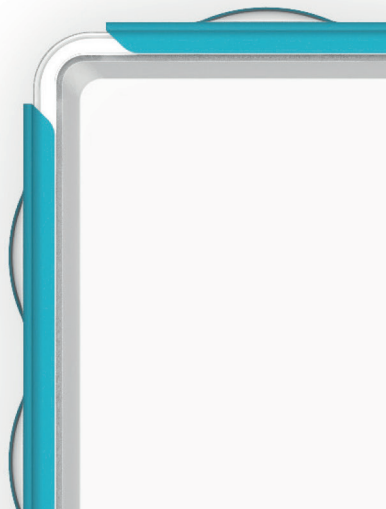
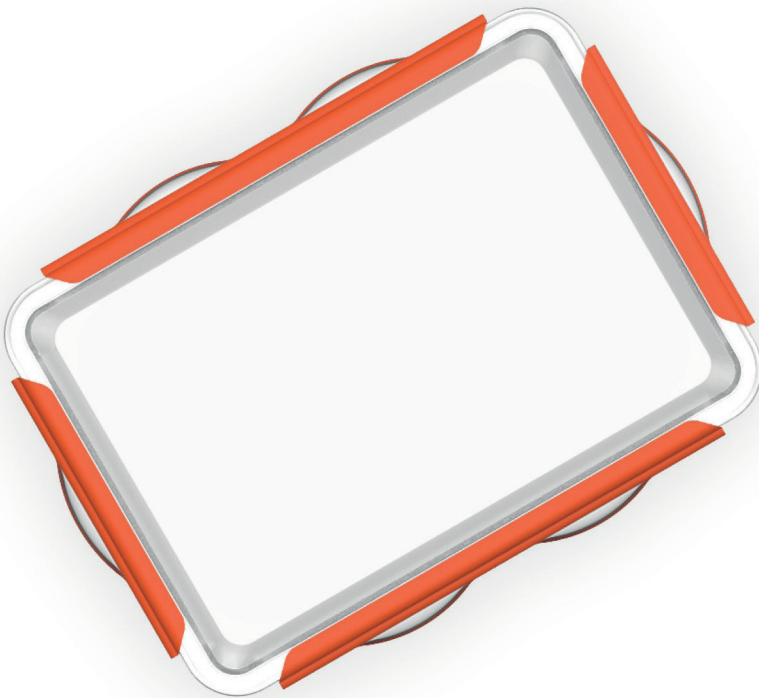
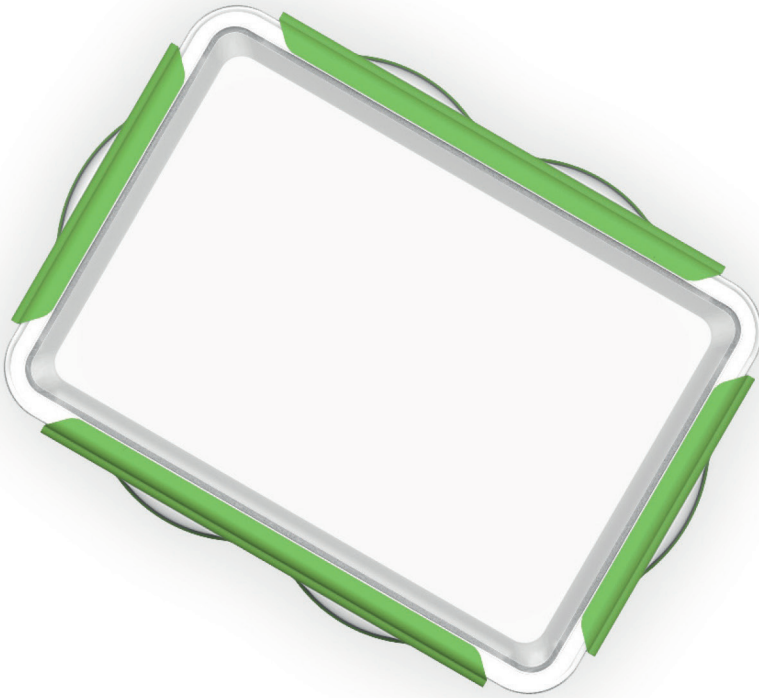
- (a) a copy of the **WHITE** Application Form and **YELLOW** Application Form;
- (b) the written consents referred to in the section headed “Statutory and general information – D. Other information – 7. Consents of experts” in Appendix IV to this prospectus; and
- (c) a copy of each of the material contracts referred to in the section headed “Statutory and general information – B. Further information about the business of our Group – 1. Summary of material contracts” in Appendix IV to this prospectus.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Watson Farley & Williams at Suites 4610-4619, Jardine House, 1 Connaught Place, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and Articles of Association;
- (b) the Accountants’ Report from Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus;
- (c) the assurance report from Deloitte Touche Tohmatsu in respect of the compilation of unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (d) the audited consolidated financial statements of our Group for the four years ended 31 December 2017 and the six months ended 30 June 2018;
- (e) the letter of advice from Conyers Dill & Pearman, our Cayman Islands legal adviser, summarising certain aspects of Cayman Islands company law referred to in “Summary of the Constitution of the Company and Cayman Islands company law” in Appendix III to this prospectus;
- (f) the Companies Law;
- (g) the legal opinions dated the prospectus date issued by Hills & Co., our PRC Legal Adviser in respect of our Group’s business operations and property interests in the PRC;

- (h) the material contracts referred to in the section headed “Statutory and general information – B. Further information about the business of our Group – 1. Summary of material contracts” in Appendix IV to this prospectus;
- (i) the service contracts and letters of appointment entered into between our Company and each of our Directors referred to in the paragraph headed “Statutory and general information – C. Further information about our Directors and substantial shareholders of our Company – 1. Directors – (b) Particulars of our Directors’ service contracts” in Appendix IV to this prospectus;
- (j) the written consents referred to in the section headed “Statutory and general information – D. Other information – 7. Consents of experts” in Appendix IV to this prospectus;
- (k) the letters of advice prepared by Mr. Chan Chung, barrister-at-law of Hong Kong;
- (l) the tax opinions issued by Edwin Yeung & Company (CPA) Limited;
- (m) the advice letter issued by the Sanctions Law Legal Adviser; and
- (n) the rules of the Share Option Scheme.



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