

# PACIFIC LEGEND GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8547

## SHARE OFFER

Sole Sponsor



Joint Lead Managers and Joint Bookrunners



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# IMPORTANT

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

## Pacific Legend Group Limited

*(Incorporated in the Cayman Islands with limited liability)*

### LISTING ON GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF SHARE OFFER

Number of Offer Shares : 250,000,000 Shares  
Number of Placing Shares : 225,000,000 Shares (subject to reallocation)  
Number of Public Offer Shares : 25,000,000 Shares (subject to reallocation)  
Offer Price : Not more than HK\$0.40 per Offer Share and not less than HK\$0.30 per Offer Share plus brokerage fee of 1.0%, 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 : 8547

#### Sole Sponsor



#### Joint Lead Managers and Joint Bookrunners



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, together with the documents specified under the section headed “Documents delivered to the Registrar of Companies in Hong Kong” in Appendix V to this prospectus, has been registered with 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 other documents referred to above.

The Offer Price is currently expected to be fixed by an agreement between our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters) on the Price Determination Date, which is expected to be on or about Friday, 6 July 2018, or such later date as may be agreed between our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters). If, for any reason, the final Offer Price is not agreed by our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters), the Share Offer will not become unconditional and will lapse immediately. In such case, an announcement will be made immediately by our Company on the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company’s website at [www.pacificlegendgroup.com](http://www.pacificlegendgroup.com). The Offer Price is expected to be not more than HK\$0.40 per Offer Share and not less than HK\$0.30 per Offer Share, unless otherwise announced. The Joint Lead Managers (for themselves and on behalf of the Underwriters) may, with the consent of our Company, reduce the indicative Offer Price range below to that stated in this prospectus at any time on or prior to the Price Determination Date. If this occurs, a notice of reduction of the indicative Offer Price range will be published on the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company’s website at [www.pacificlegendgroup.com](http://www.pacificlegendgroup.com).

**Prior to making investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including but not limited to the risk factors set out in the section headed “Risk factors” of this prospectus.**

Prospective investors of the Offer Shares should note that the Sole Sponsor and/or the Joint Lead Managers (for themselves and on behalf of the Underwriters) are entitled to terminate the Underwriting Agreements by giving a notice in writing to our Company upon the occurrence of any of the events set out under the paragraph headed “Underwriting — Underwriting arrangements and expenses — Public Offer — Grounds for termination” of this prospectus, at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Should the Sole Sponsor and/or the Joint Lead Managers (for themselves and on behalf of the Underwriters) terminate the Underwriting Agreements, the Share Offer will not proceed and will lapse.

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## CHARACTERISTICS OF GEM

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*GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.*

*Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.*

*The principal means of information dissemination on GEM is by publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazette newspapers. Accordingly, prospective investors should note that they need to have access to the website of the Stock Exchange at <http://www.hkexnews.hk> in order to obtain up-to-date information on companies listed on GEM.*

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## EXPECTED TIMETABLE

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If there is any change to the following expected timetable, our Company will issue an announcement on the respective websites of our Company at [www.pacificlegendgroup.com](http://www.pacificlegendgroup.com) and the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

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

Public Offer and **WHITE, YELLOW and GREEN**

Application Forms available from . . . . . 9:00 a.m. on Friday, 29 June

Latest time for completing electronic applications under

**HK eIPO White Form** services through the designated website

at [www.hkeipo.hk](http://www.hkeipo.hk)<sup>(2)</sup> . . . . . 11:30 a.m. on Friday, 6 July

Application lists of Public Offer open . . . . . 11:45 a.m. on Friday, 6 July

Latest time for lodging **WHITE and YELLOW** Application

Forms and giving **electronic application instructions**

to HKSCC<sup>(3)</sup> . . . . . 12:00 noon on Friday, 6 July

Latest time for completing payment of **HK eIPO White Form**

applications by effecting internet banking transfer(s) or PPS

payment transfer(s) . . . . . 12:00 noon on Friday, 6 July

Application lists of Public Offer close<sup>(4)</sup> . . . . . 12:00 noon on Friday, 6 July

Expected Price Determination Date<sup>(5)</sup> . . . . . on or around Friday, 6 July

Announcement of the final Offer Price, the level of indications

of interest in the Placing, the level of applications in the

Public Offer and the basis of allocation of the Public Offer

Shares under the Public Offer to be published on our

Company's website at [www.pacificlegendgroup.com](http://www.pacificlegendgroup.com) and the

website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) on or

before . . . . . Tuesday, 17 July

Results of allocations in Public Offer (with successful

applicants' identification numbers, where applicable) will be

available through a variety of channels as described in the

paragraph headed "How to apply for the Public Offer Shares

— 11. Publication of results" in this prospectus . . . . . Tuesday, 17 July

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## EXPECTED TIMETABLE

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Results of allocation in the Public Offer will be available at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) with a “search by ID Number/Business Registration Number” Function from . . . . . Tuesday, 17 July

Despatch/collection of share certificate or Deposit of the share certificate into CCASS in respect of wholly or partially successful applications pursuant to the Public Offer on or before<sup>(6)</sup>. . . . . Tuesday, 17 July

Despatch/collection of refund cheques or **HK eIPO White Form** e-Auto Refund payment instructions in respect of wholly or partially successful applications (if applicable) and wholly or partial unsuccessful applications pursuant to the Public Offer on or before<sup>(6)</sup>. . . . . Tuesday, 17 July

Dealing in our Shares on GEM expected to commence at 9:00 a.m. on . . . . . Wednesday, 18 July

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*Notes:*

1. All times and dates refer to Hong Kong local time and dates unless otherwise stated in this prospectus. 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” in this prospectus.
2. You will not be permitted to submit your application through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications when the application lists close.
3. Applicants who apply for Public Offer Shares by giving electronic application instructions to HKSCC via CCASS should refer to the paragraph headed “How to apply for the Public Offer Shares — 6. Applying by giving electronic application instructions to HKSCC via CCASS” in this prospectus.
4. 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. to 12:00 noon on Friday, 6 July 2018, the application lists will not open or close on that day. Please refer to the paragraph headed “How to apply for the Public Offer Shares — 10. Effect of bad weather on the opening of the application lists” in this prospectus for details.
5. The Price Determination Date is expected to be on or around Friday, 6 July 2018 or such later date as may be agreed between our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters). If, for any reason, the final Offer Price is not agreed by our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters), the Share Offer will not become unconditional and will lapse immediately.
6. Refund cheques or e-Auto Refund payment instruction will be used in respect of wholly or partially unsuccessful applications pursuant to the Public Offer and also in respect of wholly or partially successful application in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before encashment of the refund cheque. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may invalidate or delay encashment of the refund cheque. Applicants who have applied on **WHITE** Application Forms or **HK eIPO White Form** for 1,000,000 or more Public Offer Shares and have provided all information required by their Application Forms may collect any refund cheques and/or share certificates in person from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong

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## EXPECTED TIMETABLE

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from 9:00 a.m. to 1:00 p.m. on Tuesday, 17 July 2018. Applicant being individual who is eligible for personal collection may not authorise any other person to collect on his/her behalf. Applicant being corporation which is eligible for personal collection must attend through its authorised representative bearing a letter of authorisation from the corporation stamped with the corporation's chop. Both individuals and authorised representatives of corporations must produce evidence of identification acceptable to our Hong Kong Branch Share Registrar at the time of collection. Applicants who have applied on **YELLOW** Application Form for 1,000,000 or more Public Offer Shares may collect their refund cheques, if any, in person but may not elect to collect their share certificates as such share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to their designated CCASS Participants' stock account as stated in their Application Forms. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants. Applicants who have applied on Public Offer Shares by giving electronic application instructions to HKSCC via CCASS should refer to the paragraph headed "How to apply for the Public Offer Shares — 14. Despatch/collection of share certificates and refund monies" in this prospectus for details. Applicants who have applied through the **HK eIPO White Form** service and paid their application monies through single bank accounts may have refund monies (if any) despatched to the bank account in the form of e-Auto Refund payment instructions. Applicants who have applied through the **HK eIPO White Form** service and paid their application monies through multiple bank accounts may have refund monies (if any) despatched to the address as specified in their application instructions in the form of refund cheques by ordinary post at their own risk. Applicants who have applied for less than 1,000,000 Public Offer Shares and any uncollected share certificates and/or refund cheques will be despatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications. Further information is set out in the paragraphs headed "How to apply for the Public Offer Shares — 13. Refund of application monies" and "How to apply for the Public Offer Shares — 14. Despatch/Collection of share certificates and refund monies" in this prospectus.

**Share certificates will only become valid certificates of title to which they relate at 8:00 a.m. (Hong Kong time) on the Listing Date provided that (i) the Share Offer has become unconditional in all respects; and (ii) the right of termination described in the paragraph headed "Underwriting — Underwriting arrangements and expenses — Public Offer — Grounds for termination" in this prospectus has not been exercised and has lapsed. Investors who trade Shares prior to the receipt of share certificates or the share certificates becoming valid certificate of title do so at their own risk.**

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### IMPORTANT NOTICE TO INVESTORS

*This prospectus is issued by our Company solely in connection with the Public Offer in Hong Kong and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Offer Shares offered by this prospectus pursuant to the Public Offer. 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. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or any exemption therefrom.*

*Prospective investors should rely only on the information contained in this prospectus and the Application Forms to make the investment decision. Our Company, the Sole Sponsor, the Joint Lead Managers, the Joint Bookrunners and the Underwriter(s), have not authorised anyone to provide prospective investors with information that is different from what is contained in this prospectus. Any information or representation not contained in this prospectus must not be relied on by prospective investors as having been authorised by our Company, the Sole Sponsor, the Joint Lead Managers, the Joint Bookrunners, the Underwriter(s), any of their respective directors, advisers, officers, employees, agents, affiliates or representatives, or any other person or party involved in the Share Offer.*

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## SUMMARY

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*This summary aims to give prospective investors an overview of the information contained in this prospectus and should be read in conjunction with the full text of this prospectus. As this is only a summary, it may not contain all the information that may be important to prospective investors. Prospective investors should read the whole prospectus in its entirety before you decide to invest in the Offer Shares.*

*There are risks associated with any investment in companies listed on GEM. Some of the particular risks relating to investing in the Offer Shares are set out in the section headed “Risk factors” of this prospectus. Prospective investors should read the “Risk factors” section carefully before deciding to invest in the Offer Shares. Various expressions used in this summary are defined in the sections headed “Definitions” and “Glossary and technical terms” of this prospectus.*

### **OUR BUSINESS MODEL**

We principally operate three lines of business, namely, (i) sale of home furniture and accessories; (ii) rental of home furniture and accessories; and (iii) project and hospitality services, which typically involve designing, styling, decorating and furnishing commercial or residential properties such as hotels, serviced apartments and showflats. According to the Ipsos Report, we are considered an affordable luxury brand, ranking fifth in the home furniture and accessories industry in Hong Kong in 2016 in terms of sales and had a market share of 1.5%. In addition to the Hong Kong market, we also have established subsidiaries in China and UAE for conducting businesses in the respective regions. As at the Latest Practicable Date, we operated a total of 11 retail stores, of which nine were in Hong Kong, one in China and one in UAE.

#### **Sale of home furniture and accessories**

We conduct sale of our home furniture and accessories (i) through retail sale to customers visiting our retail stores; (ii) through our corporate sales team soliciting purchases from corporate clients; and (iii) through our online shop.

For our corporate sales, members of our corporate sales team will visit our corporate clients to help identify their needs and provide tailored solutions that deliver against their business objectives, budgets and timelines. Our corporate clients include property developers, serviced apartment and hotels operators. Individual or corporate customers can also directly place purchase orders through our online shop where our products are grouped into different categories to facilitate the navigation of our customers. Our latest *lookbook* and pictures of individual items are also available on our online shop.

#### **Rental of home furniture and accessories**

We rent home furniture and accessories to customers in return for monthly rental payment. Customers using our furniture rental services may choose to rent a limited number of items up to a full house package at various rental periods with a minimum of one month up to a maximum of 24 months. For short term rental clients, customers will select the items from a specific range of product designated for rental purpose only. For long term rental clients, they can choose the items from our entire retail inventory.

#### **Project and hospitality services**

We have the expertise and proven track record in styling, decorating and furnishing hospitality or residential properties. We offer a turn-key solution to the property owners whereby our services start from designing a mood board created by our own in-house interior

## SUMMARY

designer and finish with a fully furnished property where the home furniture and accessories inside are sourced, procured and installed by us for our clients. In some cases, we are engaged by property developers to custom-design furniture and offer furniture packages to their home buyers.

The following table sets forth the revenue attributable to each of our business lines during the Track Record Period:

	Year ended 31 December			
	2016		2017	
	<i>HK\$'000</i>	Approximate percentage of total revenue %	<i>HK\$'000</i>	Approximate percentage of total revenue %
Sale of home furniture and accessories .....	175,117	71.6	190,497	68.4
Rental of home furniture and accessories .....	33,399	13.7	28,280	10.1
Project and hospitality services	35,925	14.7	59,851	21.5
<b>Total</b> .....	<b>244,441</b>	<b>100</b>	<b>278,628</b>	<b>100</b>

The following table sets forth the gross profit and gross profit margin by business lines during the Track Record Period:

	Year ended 31 December			
	2016		2017	
	<i>HK\$'000</i>	Gross profit margin %	<i>HK\$'000</i>	Gross profit margin %
Sale of home furniture and accessories .....	106,522	60.8	118,364	62.1
Rental of home furniture and accessories .....	26,445	79.2	22,503	79.6
Project and hospitality services	13,601	37.9	21,028	35.1
<b>Total</b> .....	<b>146,568</b>	<b>60.0</b>	<b>161,895</b>	<b>58.1</b>

The following table sets forth the revenue attributable to each of our geographical locations during the Track Record Period:

	Year ended 31 December			
	2016		2017	
	<i>HK\$'000</i>	Approximate percentage of total revenue %	<i>HK\$'000</i>	Approximate percentage of total revenue %
Hong Kong .....	152,319	62.3	182,695	65.6
China .....	33,324	13.6	37,703	13.5
UAE .....	58,798	24.1	58,230	20.9
<b>Total</b> .....	<b>244,441</b>	<b>100</b>	<b>278,628</b>	<b>100</b>

## PRODUCTS AND SERVICES

We offer a wide range of products for sale or for rental. They include sizeable items of tables, chairs, sofas, beds, storage solutions to smaller pieces such as cushions, kitchenware, tableware, etc.

## SUMMARY

We have a special line of products especially for kids to capture a niche space in the market. Apart from home furniture and accessories that we source from third party suppliers, we also offer furniture designed by ourselves or furniture bearing our own labels.

For our project and hospitality business, we have been engaged by hotel owners, property developers and major airlines to style, decorate and furnish different types of properties, including five-star hotels, staff quarters, low-rise and luxury private residential properties, serviced apartments and showflats.

### OUR RETAIL NETWORK AND OPERATION

During the Track Record Period, we operated a total of 11 retail stores through our brand *Indigo*, of which eight were in Hong Kong, one in China and two in UAE. The table below sets out a breakdown of revenue, operating profit/(loss) and operating profit/(loss) margin from each of our retail stores during the Track Record Period:

		Year ended 31 December							
		2016				2017			
Lease term	Revenue	Approximate percentage of revenue contributed by our retail stores	Operating profit/(loss) at store level (Note 4)	Operating profit/(loss) margin at store level (Note 4)	Revenue	Approximate percentage of revenue contributed by our retail stores	Operating profit/(loss) at store level (Note 4)	Operating profit/(loss) margin at store level (Note 4)	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	
<b>Hong Kong</b>									
Horizon Plaza . . . . .	1 October 2016 to 30 September 2019	32,982	27.6	15,179	46.0	35,107	28.2	16,704	47.6
Horizon Plaza (Discount store) . . . . .	(i) Unit 1004: 2 April 2017 to 31 August 2018 (ii) Unit 1005: 6 June 2016 to 31 August 2018	4,133	3.5	1,311	31.7	4,829	3.9	1,393	28.8
Cyberport (Note 1) . . . . .	1 August 2016 to 31 July 2019	4,687	3.9	1,605	34.2	4,201	3.4	1,561	37.2
Cyberport (Kids) (Note 1) . . . . .		1,611	1.3	364	22.6	1,233	1.0	271	22.0
Caine Road . . . . .	1 April 2017 to 31 March 2020	6,638	5.5	2,233	33.6	6,640	5.3	2,375	35.8
Prince's Building (Note 2) . . . . .	1 October 2015 to 30 September 2018	15,274	12.8	4,806	31.5	14,948	12.0	4,764	31.9
Shatin . . . . .	1 April 2016 to 14 September 2018	14,620	12.2	4,231	28.9	16,657	13.4	4,853	29.1
Repulse Bay . . . . .	7 October 2016 to 6 October 2019	5,462	4.6	2,185	40.0	4,844	3.9	1,844	38.1
<b>Sub-total</b> . . . . .		<b>85,407</b>	<b>71.4</b>	<b>31,914</b>	<b>37.4</b>	<b>88,459</b>	<b>71.1</b>	<b>33,765</b>	<b>38.2</b>
<b>China</b>									
Shanghai . . . . .	15 September 2013 to 14 September 2021	9,000	7.5	3,009	33.4	11,559	9.3	3,384	29.3

## SUMMARY

		Year ended 31 December							
		2016				2017			
		Revenue	Approximate percentage of revenue contributed by our retail stores	Operating profit/(loss) at store level (Note 4)	Operating profit/(loss) margin at store level (Note 4)	Revenue	Approximate percentage of revenue contributed by our retail stores	Operating profit/(loss) at store level (Note 4)	Operating profit/(loss) margin at store level (Note 4)
Lease term	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	
UAE									
Sheikh Zayed Road . . . . .	1 May 2018 to 30 April 2019	24,314	20.3	9,328	38.4	24,400	19.6	9,006	36.9
Yas Mall (Note 3) . . . . .	N/A	990	0.8	(2,717)	(274.4)	–	–	–	–
<b>Sub-total</b> . . . . .		<u>25,304</u>	<u>21.1</u>	<u>6,611</u>	<u>26.1</u>	<u>24,400</u>	<u>19.6</u>	<u>9,006</u>	<u>36.9</u>
<b>Total</b> . . . . .		<u>119,711</u>	<u>100.0</u>	<u>41,534</u>	<u>34.7</u>	<u>124,418</u>	<u>100.0</u>	<u>46,155</u>	<u>37.1</u>

*Notes:*

1. Cyberport and Cyberport (Kids) are catered for as two adjoined and connected stores under a single lease.
2. During the Track Record Period, revenue generated from pop-up store in Prince's building was included, which was operated during the periods of January to February 2016 and October 2016 to April 2017.
3. During the Track Record Period, the Yas Mall store in Abu Dhabi of UAE was closed in June 2016.
4. Operating profit/(loss) at store level is calculated by deducting cost of inventories sold, selling and distribution costs and administrative and other operating expenses that are directly attributable to respective stores (including store level rental and related expenses, store level staff costs, store level depreciation expenses, store level credit card commission, store level utilities expenses and other store level administrative and operating expenses). Operating profit/(loss) margin at store level of each store is the percentage arrived at by dividing operating profit/(loss) at store level by revenue of each respective store.  
Operating profit/(loss) at store level and operating profit/(loss) margin at store level are not HKFRS items/measures. For further details of this note, please refer to the paragraph headed "Business — Our business model — Our retail network and operation — Note 3" of this prospectus.

As at the Latest Practicable Date, we operated 11 retail stores including one store in Yuen Long in Hong Kong which commenced operations in May 2018, all of which are operating at properties leased from third parties. The rental and related expenses of our retail stores were approximately HK\$21.8 million and HK\$21.0 million, accounted for approximately 22.2% and 18.0% to our Group's total cost of sales for the years ended 31 December 2016 and 2017, respectively. For further details of the terms of such leased properties including their respective expiry dates, please refer to the paragraph headed "Business — Our retail network and operation" of this prospectus.

In addition to operating our own retail stores, we entered into a franchise agreement with an Independent Third Party on 14 June 2017 to operate four retail stores as well as an online shop in Saudi Arabia for a term of five years commencing from 2017. We are entitled to a fixed store opening fee and we are further entitled to a monthly royalty at an agreed percentage of the monthly gross turnover of the franchised store. The franchisee has also committed to a minimum annual purchase amount from us. The minimum purchase amount for the first season was US\$516,000 (of which approximately US\$200,000 is the initial opening stock) with the subsequent minimum purchase amount for each season to be negotiated between us and the franchisee in good faith, failing which we shall be entitled to fix the amount but subject to an increase of no more than 10% from the previous seasonal minimum purchase amount. The franchised retail store commenced its operation in December 2017 and

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## SUMMARY

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the revenue to the franchisee during the year ended 31 December 2017 was approximately HK\$2.9 million. As at the Latest Practicable Date, there was one retail store in operation under the franchise agreement.

### PRICING POLICY

We use a cost plus approach when determining the retail prices of our products based on a combination of factors, including: (i) our gross margin and net targeted profit margin; (ii) procurement costs from suppliers/manufacturing costs of manufacturer; (iii) market demand for the products; and (iv) inventory turnover rates of our products.

For our rental business, we normally set the monthly rental price based on a specific percentage of the retail price of the relevant item.

Regarding our project and hospitality business, it is project-based in nature and we determine our price on a case-by-case basis with reference to a number of factors. For further details, please refer to the paragraph headed “Business — Our business model — Project and hospitality services” of this prospectus.

### SUPPLIERS

During the Track Record Period, our suppliers are companies principally engaged in the manufacture and wholesale of home furniture and accessories. We purchase our products from suppliers or manufacturers located in different regions such as China, Vietnam and India. Generally, we do not enter into long-term agreements with our suppliers. Our purchase orders with them generally specify major terms of our purchase including price and payment terms. We also engage certain ancillary service providers such as trucking company during the ordinary and usual course of our businesses.

For the years ended 31 December 2016 and 2017, purchases from our five largest suppliers accounted for approximately 28.3% and 34.0% of our total cost of merchandise goods and outsourced costs, respectively. For the years ended 31 December 2016 and 2017, purchases from our largest supplier accounted for approximately 7.5% and 11.8% of our total cost of merchandise goods and outsourced costs, respectively.

### CUSTOMERS

The majority of our customers consist of retail customers who purchase our products at our retail stores and they are members of the general public. Generally, we do not enter into long term contracts with our retail customers and our terms and conditions of sale are set out in the notes to our commercial invoices. Customers for our furniture rental services are property developers, general individuals coming to work in, and corporate clients relocating their staff from elsewhere to, places where we operate. Our rental agreements will set out the items to be rented, length of rental period, rental payable, payment arrangement and provisions for deposit and its return. The customers engaging us for our project and hospitality services include property developers, hotel owners and private individuals.

For the years ended 31 December 2016 and 2017, revenue from our five largest customers amounted to approximately HK\$37.6 million and HK\$72.2 million, representing approximately 15.4% and 25.9% of our total revenue, respectively, and revenue attributable to our Group’s largest customer amounted to approximately HK\$9.2 million and HK\$27.0 million, representing approximately 3.8% and 9.7% of our total revenue, respectively, during the same periods.

The table below sets out a breakdown of revenue from rental of home furniture and accessories by customer types during the Track Record Period:

## SUMMARY

	Year ended 31 December			
	2016		2017	
	<i>HK\$'000</i>	Approximate percentage of revenue from rental of home furniture and accessories	<i>HK\$'000</i>	Approximate percentage of revenue from rental of home furniture and accessories
Property developer .....	12,744	38.1	8,164	28.8
Individual .....	10,280	30.8	8,624	30.5
General corporate .....	9,755	29.2	9,433	33.4
Others ( <i>Note</i> ) .....	620	1.9	2,059	7.3
<b>Total</b> .....	<b>33,399</b>	<b>100</b>	<b>28,280</b>	<b>100</b>

*Note:* Others include consulates and embassies.

The table below sets out a breakdown of revenue from project and hospitality services by customer types during the Track Record Period:

	Year ended 31 December			
	2016		2017	
	<i>HK\$'000</i>	Approximate percentage of revenue from project and hospitality services	<i>HK\$'000</i>	Approximate percentage of revenue from project and hospitality services
Property developer .....	24,868	69.2	37,908	63.3
General corporate .....	7,683	21.4	17,449	29.2
Hospitality management company .....	3,313	9.2	2,205	3.7
Individual .....	61	0.2	1,481	2.5
Others ( <i>Note</i> ) .....	–	–	808	1.3
<b>Total</b> .....	<b>35,925</b>	<b>100</b>	<b>59,851</b>	<b>100</b>

*Note:* Others include schools and hospitals.

### PRINCIPAL RISK FACTORS

Potential investors are advised to read carefully the section headed “Risk factors” in this prospectus before making any investment decision in the Offer Shares. There are certain risks involved in our operation. Relatively material risks include the following:

- we do not have any long-term purchase commitments from our customers;
- we may suffer from a decrease in sales if there is a shift in customers’ tastes and preferences;
- all our of retail stores, offices and warehouses are leased from third parties and increase in rental expenses may affect our business;
- approximately 62.3% and 65.6% of our revenue were derived from Hong Kong for the years ended 31 December 2016 and 2017, respectively, and we rely on the Hong Kong market substantially;
- our success depends on the continued service of our Directors and management team;

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## SUMMARY

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- our subsidiary in UAE operates in a different political, economic and social environmental as well as legal system from that in Hong Kong and there is no assurance that the existing business environment such as government policies, restriction on foreign investment, regulatory and licensing requirement, taxation, etc. will continue;
- substantial uncertainties exist with respect to the enactment timetable, interpretation and implementation of new laws allowing full foreign ownership in companies registered outside UAE's free-zone and how it may impact the viability of our current corporate structure, corporate governance and business operations;
- we may not be able to successfully implement our strategies, or achieve our business objectives;
- due to the foreign ownership restriction under UAE law, 51% shareholding interest in Indigo Dubai is controlled by us through the Contractual Arrangements, which could be unilaterally challenged before a UAE court on the basis of the UAE Federal Law No. 17 of 2004 in respect of the Commercial Concealment or other general public policy related provisions under other UAE legislation.

### OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths, details of which are set out in the paragraph headed “Business — Our competitive strengths” in this prospectus, contribute to our success:

- long operating history and brand recognition;
- offering a trend-driven and comprehensive range of products that meet our customer's preference;
- experienced and committed management team;
- proven track record of hospitality projects;
- providing tailored services to our customers;
- long term relationship with suppliers; and
- strong relationship with our key corporate customers.

### OUR BUSINESS STRATEGIES

Our vision is to increase our competitiveness and market share in Hong Kong and to further expand our business overseas. We will implement the following strategies to achieve our vision:

- expansion of retail network;
- further developing our online shop and enhancing our information technology capabilities;
- enhancing our in-store design consultancy service; and
- further expanding our product offering for kids.

### HISTORICAL NON-COMPLIANCE INCIDENTS

During the Track Record Period, Indigo China and Indigo Shanghai failed to pay its tax on time in 2016 and 2017 and Indigo China has also underpaid VAT in respect of income for furniture rental. Also, Indigo Dubai's commercial license does not cover furniture leasing business. It is estimated that the potential maximum penalty arising from our Group's non-compliance during the Track Record Period and up to the Latest Practicable Date is no more than HK\$20,000. For more details, please refer to the paragraph headed “Business — Litigation and legal compliance — Legal compliance” of this prospectus.

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## SUMMARY

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### LITIGATION AND LEGAL COMPLIANCE

Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, our Directors confirmed that we had complied with the relevant laws and regulations in relation to our business in all material respects and there were no material breaches or violations of the laws and regulations applicable to our Group that would have a material adverse effect on our business or financial condition taken as a whole.

### Indemnity given by our Controlling Shareholders

Our Controlling Shareholders have entered into the Deed of Indemnity to indemnify our Group on a joint and several basis, in respect of, amongst others, all damages, losses, claims, fines and penalties that may be imposed, charges, fees, costs, interests and expenses (including all legal costs and expenses) together with all reasonable costs and other liabilities which our Company and/or any of our subsidiaries may sustain, suffer, incur or be imposed by any regulatory authorities or courts in Hong Kong or any applicable jurisdiction as a result of any violation or non-compliance or alleged non-compliance by any members of our Group with any applicable laws, rules or regulations of any jurisdiction or as a result of any breach of our tenancy lease prior to the Listing. For details, please refer to the paragraph headed “E. Other information — 1. Tax and other indemnities” in Appendix IV of this prospectus.

### KEY FINANCIAL AND OPERATIONAL DATA

The following tables present selected historical financial information and key operational data during the Track Record Period. The financial information as at and for the years ended 31 December 2016 and 2017 is derived from and should be read in conjunction with our audited combined financial statements, including the accompanying notes, set forth in the Accountants’ Report included as Appendix I to this prospectus.

#### Summary of results of operations

	Year ended 31 December	
	2016	2017
	<i>HK\$’000</i>	<i>HK\$’000</i>
Revenue . . . . .	244,441	278,628
Profit before taxation . . . . .	7,581	4,960
Profit for the year attributable to equity shareholders of our Company . . . . .	5,420	3,123
Total comprehensive income for the year attributable to equity shareholders of our Company . . . . .	5,365	3,843

For FY2016 and FY2017, we generated revenue of approximately HK\$244.4 million and HK\$278.6 million, respectively. Our net profit amounted to approximately HK\$5.4 million and HK\$3.1 million for FY2016 and FY2017, respectively. Our adjusted net profit (excluding the Listing expenses) was approximately HK\$5.4 million and HK\$9.7 million for FY2016 and FY2017, respectively. Our net profit adjusted by the exclusion of the Listing expenses is non-HKFRS measures.



## SUMMARY

### Highlight of combined statements of financial position

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	11,376	9,332
Non-current liabilities	6,698	6,987
Current assets	143,441	147,115
Current liabilities	49,145	46,643
Net current assets	94,296	100,472

Our net current assets increased by approximately 6.5% to approximately HK\$100.5 million as at 31 December 2017. The increase was mainly attributable to (i) an increase in inventory; (ii) an increase in cash and cash equivalents and pledged bank deposit; and (iii) a decrease in trade and other payable. This was partially offset by a decrease in amounts due from customers for contract work and an increase in the amounts due to customers for contract work.

### Highlight of combined statements of cash flows

	Year ended 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Operating profit before changes in working capital</b>	16,879	14,712
Net cash from operating activities	23,325	9,980
Net cash used in investing activities	(7,165)	(7,825)
<b>Net increase in cash and cash equivalents</b>	16,160	2,155
<b>Cash and cash equivalents at the beginning of the year</b>	27,515	43,607
<b>Effect of foreign exchange rate changes</b>	(68)	120
<b>Cash and cash equivalents at the end of the year</b>	43,607	45,882

Our operating profit before changes in working capital decreased from approximately HK\$16.9 million for FY2016 to HK\$14.7 million for FY2017. Such decrease was primarily attributed to a decrease in profit before taxation from approximately HK\$7.6 million for FY2016 to HK\$5.0 million for FY2017, which was mainly due to (i) the incurrence of Listing expenses of approximately HK\$6.6 million in FY2017; (ii) the decrease in depreciation expense from approximately HK\$9.6 million for FY2016 to HK\$7.8 million for FY2017, which was a result of the decrease in furniture held of rental in FY2017; (iii) the loss on write-off/disposal of property, plant and equipment of approximately HK\$1.2 million for FY2016 due to the closure of the Yas Mall store in UAE; and partially set-off by several one-off event in FY2016 of (a) the reversal of provision for long service payments of approximately HK\$1.9 million; and (b) the reversal of accrued withholding tax of approximately HK\$263,000 in FY2016. Our Group recorded a decrease in cash generated from operating activities from approximately HK\$23.3 million for FY2016 to approximately HK\$10.0 million for FY2017, primarily reflecting the change in operation profit before working capital of approximately HK\$16.9 million for FY2016 to HK\$14.7 million, as adjusted by (i) an increase in inventories of HK\$2.2 million for FY2017; (ii) a decrease in project contracts of approximately HK\$8.3 million; (iii) an increase in trade and other receivables of approximately HK\$2.9 million for FY2017; (iv) a decrease in trade and other payables of approximately HK\$7.0 million; and (v) an increase in amount due from a director of approximately HK\$1.2 million for FY2017.

Please refer to the section headed “Financial information” in this prospectus for details of our Group’s financial performance during the Track Record Period.

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## SUMMARY

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### Key financial ratios

	As at/ for the year ended 31 December	
	2016	2017
Return on total assets (%) .....	3.5	2.0
Return on equity (%) .....	5.5	3.0
Current ratio ( <i>times</i> ) .....	2.9	3.2
Quick ratio ( <i>times</i> ) .....	2.1	2.2

During the Track Record Period, our Group did not have any interest expenses incurred from the banking facilities and outstanding bank borrowing, therefore, the gearing ratio is not applicable. Please refer to the section headed “Financial information” in this prospectus for details of our Group’s key financial ratios during the Track Record Period.

### COMPETITION

Hong Kong is our major market. According to the Ipsos Report, there were approximately 1,140 home furniture and accessories retailers in Hong Kong in 2016 and the top five market players accounted for approximately 39.7% of the total market share. The Hong Kong market is considered to be a mature market with CAGR of approximately 1.8% from 2012 to 2016 while rental rate rose at a CAGR of approximately 3.8% from 2012 to 2017 period. Accordingly, we consider that the operating environment of the Hong Kong market challenging. For further details about competitive landscape of the Hong Kong market as well as the details of the China and UAE markets, please refer to the section headed “Industry overview” of this prospectus.

### LISTING EXPENSES

Assuming the Offer Price of HK\$0.35 per Offer Share, being the mid-point of the indicative range of the Offer Price stated in this prospectus, the Listing expenses, which are non-recurrence in nature, are estimated to be approximately HK\$25.2 million (including the underwriting commission).

Approximately HK\$8.0 million of our estimated Listing expenses is directly attributable to the issue of the Offer Shares and is to be accounted for as a deduction from equity in accordance with the relevant accounting standard. The remaining amount of approximately HK\$17.2 million has been or is to be charged to profit or loss, of which (i) approximately HK\$6.6 million was recognised for year ended 31 December 2017 (as set out in Appendix I to this prospectus); and (ii) balance of approximately HK\$10.6 million is expected to be charged for the year ending 31 December 2018.

Our Directors would like to emphasise that the Listing expenses stated above are the current estimation purely for the purpose of reference and the actual amount to be recognised is subject to adjustments based on changes in variables and assumptions. Expenses in relation to the Listing are non-recurring in nature. Prospective investors should note that the financial performance of our Group for the year ending 31 December 2018 would be materially and adversely affected by the Listing expenses mentioned above.

### DIVIDEND

Our Board has not adopted any dividend policy for the time being and does not have any pre-determined dividend ratio. Our Board will consider the relevant factors when determining the dividends to be declared if any. There is no assurance that our Company will be able to declare or distribute any dividends in the amount set out in any plan of our Board or at all. Subsequent to the Track Record Period, on 4 January 2018, Pacific Legend Development declared interim dividends totalling HK\$26,250,000 which was ultimately paid as dividend by our Company to Double Lions. All such dividends have been fully paid and we financed the payment of such dividends by internal resources. A decision to declare and pay any dividends would require the approval of our Board and will be at its discretion. In addition, any final dividend for a financial year will be subject to Shareholders’ approval.

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## SUMMARY

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### REASONS FOR LISTING

Our Directors believe that the Listing of the Shares on GEM will facilitate the implementation of our business strategies by accessing the capital market for raising funds both at the time of the Listing and at the later stage. While we have been maintaining a healthy cash level to support our Group's existing operations, we believe that the net proceeds from the Share Offer are necessary for the implementation of our future plans which requires considerable additional financial resources. In particular, our Directors believe the commercial rationale of the Listing is that (i) the Share Offer provides funding for our expansion plans; (ii) the Share Offer provides alternative to debt financing; (iii) the Listing enhances our brand awareness and publicity; (iv) the Listing allows us to implement meaningful incentive scheme to retain talents; and (v) the Listing offers our Company a broader shareholder base. For more details, please refer to the section headed "Future plans and use of proceeds — Reasons for the Share Offer" in this prospectus.

### FUTURE PLANS AND USE OF PROCEEDS

The net proceeds to our Company from the issue of the Offer Shares, after deducting the underwriting fees and estimated total expenses in the aggregate amount of approximately HK\$25.2 million paid and payable by our Company in connection thereto, are estimated to be approximately HK\$62.3 million (assuming an Offer Price of HK\$0.35, being the mid-point of the proposed Offer Price range of HK\$0.30 to HK\$0.40 per Offer Share). We intend to apply the net proceeds as follows:

- approximately 58.6% of the net proceeds, or approximately HK\$36.5 million, for the expansion of our retail network by opening four additional retail stores by the end of 2020, of which three new stores will be in China and one new store will be in UAE;
- approximately 8.0% of net proceeds, or approximately HK\$5.0 million, for enhancing our online shop and our information technology capability;
- approximately 11.4% of the net proceeds, or approximately HK\$7.1 million, for recruiting additional staff at our headquarters;
- approximately 3.2% of the net proceeds, or approximately HK\$2.0 million, for recruiting additional staff for our planned new stores;
- approximately 10.4% of the net proceeds, or approximately HK\$6.5 million, for increasing our inventory; and
- approximately 8.4% of the net proceeds, or approximately HK\$5.2 million, as general working capital for our Group.

### STATISTICS OF SHARE OFFER

	Based on an Offer Price of	
	HK\$0.30 per Offer Share	HK\$0.40 per Offer Share
Market capitalisation of our Shares ( <i>Note 1</i> ) . . . . .	HK\$300,000,000	HK\$400,000,000
Unaudited pro forma adjusted combined net tangible assets of our Group attributable to equity shareholders of our Company as at 31 December 2017 per Share ( <i>Note 2</i> ) . . . . .	HK\$0.16	HK\$0.18

*Notes:*

1. The calculation of market capitalisation of the Shares is based on 1,000,000,000 Shares in issue and expected to be in issue immediately after completion of the Capitalisation Issue and the Share Offer.
2. The unaudited pro forma adjusted net tangible assets per Share is arrived on the basis of 1,000,000,000 Shares (being the number of ordinary shares expected to be in issue immediately after completion of the Share Offer and the Capitalisation Issue). No account has been taken of our Shares which may be allotted and issued upon the exercise of any options that may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company under the general mandates granted to our Directors.

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## SUMMARY

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3. No adjustments have been made to reflect any trading results or other transactions of our Group entered into subsequent to 31 December 2017. In particular, the unaudited pro forma adjusted combined net tangible assets of our Group attributable to equity shareholders of our Company have not been adjusted to show the effects of the payment of interim dividends totalling HK\$26,250,000 on 4 January 2018 and the issue of Shares, representing 15.4% of the then enlarged issued share capital of our Company, to the Pre-IPO Investors for a total cash consideration of HK\$10,000,000 on 12 January 2018.
- Have the interim dividends payment and the issue of Shares to the Pre-IPO Investors been taken into account, the unaudited pro forma adjusted combined net tangible assets of our Group attributable to equity shareholders of our Company as at 31 December 2017 per Share would be HK\$0.14 and HK\$0.17 based on the Offer Price of HK\$0.30 and HK\$0.40 per Share, respectively.

### SHAREHOLDERS INFORMATION

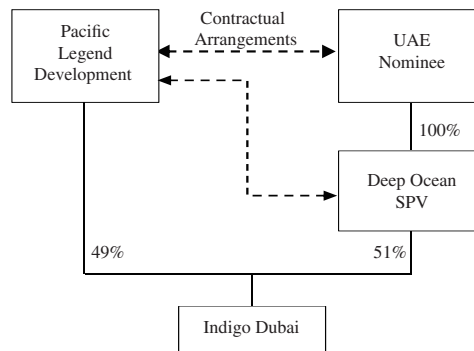
Immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any of our Shares that may be allotted and issued upon exercise of the options that may be granted under the Share Option Scheme), our Company will be owned as to 63.45% by Double Lions, which is owned as to 40.48% by Mr. McLennan, 20.00% by Ms. Fitzpatrick, 14.88% by Ms. Bailey, 14.88% by Mr. Rinderknecht and 9.76% by Mr. Leach. Double Lions, Mr. McLennan, Ms. Fitzpatrick, Ms. Bailey, Mr. Rinderknecht and Mr. Leach confirmed in the Deed of AIC, their acting in concert arrangements in the past, as well as their intention to continue to act in the above manner (as long as they remain as Shareholders) upon Listing to consolidate their control over our Group until and unless the Deed of AIC is terminated in writing. Accordingly, Double Lions, Mr. McLennan, Ms. Fitzpatrick, Ms. Bailey, Mr. Rinderknecht and Mr. Leach will be regarded as a group of Controlling Shareholders under the GEM Listing Rules. Each of our Controlling Shareholders confirms that each of them does not have any interest in a business apart from our Group's business which competes or may compete, directly or indirectly, with our Group's business. Please refer to the sections headed "History, development and Reorganisation — Reorganisation" and "Relationship with Controlling Shareholders" in this prospectus for details of the shareholding structure among our Controlling Shareholders.

### PRE-IPO INVESTMENT

On 12 January 2018, we entered into the Great Metro Subscription Agreement with Great Metro and the Upperhand Subscription Agreement with Upperhand for the consideration of, respectively, HK\$6,500,000 and HK\$3,500,000. Immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any of our Shares that may be allotted and issued upon exercise of the options that may be granted under the Share Option Scheme), Great Metro and Upperhand will each hold approximately 7.51% and 4.04% of all our issued Shares. Please refer to the paragraph headed "History, development and Reorganisation — Pre-IPO Investments" in this prospectus for further details of Great Metro and Upperhand and the terms of their investments in our Company.

### CONTRACTUAL ARRANGEMENTS

We conduct businesses in UAE via Indigo Dubai. Under HKFRS, pursuant to the terms of the Original Contractual Arrangements and the New Contractual Arrangements, Indigo Dubai is regarded as an indirect wholly-owned subsidiary of our Group. The New Contractual Arrangements are as follow:



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## SUMMARY

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For further details about the Contractual Arrangements, please refer to the section headed “Contractual Arrangements” of this prospectus.

In May 2018, Sheikh Mohammed Bin Rashid Al Maktoum, the prime minister of the UAE, announced a cabinet decision to allow 100% foreign ownership of companies incorporated in the UAE and that this decision would be implemented by the end of the year 2018. Our UAE Legal Advisers advised that, as at the Latest Practicable Date, the draft legislation following the implementation of the decision will not be published until the last quarter of the year and presently it is not feasible for us to gauge how and to what extent the decision or relevant draft legislation will benefit our Group.

Under the New Contractual Arrangements, the UAE Nominee undertakes to terminate and unwind the documents which constitute the New Contractual Arrangements as soon as the prevailing laws and regulations of the UAE allow Indigo Dubai to be owned without a 51% UAE national shareholder. Our Directors confirm that if the proposed legislation which implements the decision would allow Indigo Dubai to be owned without a 51% UAE national shareholder, we will unwind the New Contractual Arrangements upon the implementation of such law. Based on the legal advice of our UAE Legal Advisers, we do not expect any legal impediment to unwind the New Contractual Arrangements upon the relaxation of the current restriction on foreign ownership in Dubai. For further details about the decision, please refer to the paragraph headed “Contractual Arrangements — Potential relaxation of foreign restriction laws in the UAE” of the prospectus.

### **RECENT DEVELOPMENT SUBSEQUENT TO THE TRACK RECORD PERIOD AND NO MATERIAL ADVERSE CHANGE**

Subsequent to the Track Record Period and up to the Latest Practicable Date, our Directors confirmed that there had not been any material changes to our business model, revenue structure and cost structure. Our principal business continued to include sale of home furniture and accessories, rental of home furniture and accessories and project and hospitality services. As at the Latest Practicable Date, we operated a total of 11 retail stores including one store in Yuen Long in Hong Kong which commenced operations in May 2018, of which nine were in Hong Kong, one in China and one in UAE.

As at the Latest Practicable Date, we rely on the New Contractual Arrangements for our control over Indigo Dubai. It was announced by the UAE Cabinet that it had decided to allow 100% foreign ownership in companies registered in UAE and a detailed study is expected to be published in the third quarter of 2018 with global investor ownership expected to reach 100% by the end of 2018. It is our Company’s intention that, in the event it becomes legally feasible for us to hold our interest in Indigo Dubai ourselves without reliance on the Contractual Arrangements, our Company will act to exercise our rights under the New Contractual Arrangements to secure such interests. However, as at the Latest Practicable Date, as advised by our UAE Legal Advisers, the enactment timetable, interpretation and implementation of such proposed changes to the UAE law is currently uncertain. Please refer to the sections headed “Risk factors” and “Contractual Arrangements” of this prospectus.

According to the unaudited management accounts of our Group, our unaudited revenue amounted to approximately HK\$62.8 million for the three months ended 31 March 2018, representing an increase of approximately 35.8% compared to approximately HK\$46.2 million for the three months ended 31 March 2017. Such increase was mainly due to (i) an increase in corporate sales in Hong Kong and UAE; (ii) a significant increase in project and hospitality services business for the provision of total design and styling and furniture package for home buyers in Hong Kong; and (iii) partially set off by the decrease in retail business in UAE due to the introduction of 5% VAT since 1 January 2018. Our unaudited gross profit margin was

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## SUMMARY

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decreased from approximately 64.3% for the three months ended 31 March 2017 to approximately 60.1% for the three months ended 31 March 2018, which was mainly due to (i) the higher discount offered during the New Year sales for the clearance of aged stock and display items in January 2018; and (ii) the decrease in gross profit margin in rental business, as a result of the decrease in short term rental business with higher gross profit margin than that of long term rental business; and (iii) a significant increase in revenue in project and hospitality services business with lower gross profit margin compared to other business lines, which lower the overall gross profit margin of our Group. The above represents our management's analysis on our results of operations for the three months ended 31 March 2018. Our Directors are responsible for the preparation and fair presentation of the unaudited consolidated financial statements of our Group for the three months ended 31 March 2018 in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our consolidated financial statements for the three months ended 31 March 2018 are unaudited but have been reviewed by our reporting accountants, Baker Tilly Hong Kong Limited, in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

As at 30 April 2018, the outstanding project value on hand of our rental of home furniture and accessories amounted to approximately HK\$13.3 million. Subsequent to the Track Record Period, from 1 January 2018 to 31 May 2018, the recognised project value was approximately HK\$14.8 million and the outstanding project value on hand of our project and hospitality services amounted to approximately HK\$27.8 million as at 31 May 2018. To the best estimation of our Directors, we expect to recognise such revenue in the years ending 31 December 2018 and 2019. In view of the completion of an apartment project involving the provision of property design, styling and furniture package for Customer B in UAE for the year ended 31 December 2017, it is expected that the revenue generated from the project and hospitality services business in UAE from Customer B may decrease.

Prospective investors are specifically warned that given (i) the estimated non-recurring Listing expenses of our Group, of which approximately HK\$10.6 million are expected to be charged to profit or loss of our Group for the year ending 31 December 2018; and (ii) the increase in administrative and other operating expenses due to the opening of new stores in Yuen Long in May 2018 and in Shanghai in the second half of 2018 according to our Group's future plans prior to achieve an operating breakeven, our Group's profit for the year ending 31 December 2018 may show a substantial decline as compared to that of the previous financial year. Prospective investors are specifically warned that, given the aforesaid expenses, our Group's financial performance for the year ending 31 December 2018 may not be comparable to that of the previous year.

Our Directors confirmed that, save for the non-recurring Listing expenses as disclosed above, up to the date of this prospectus, there had been no material adverse change in the financial or trading position of our Group after 31 December 2017 (being the latest reporting date of the Accountants' Report in Appendix I to this prospectus) and there has been no occurrence of any event after 31 December 2017 which would materially affect the information shown in the Accountants' Report in Appendix I to this prospectus.

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## DEFINITIONS

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

“Accountants’ Report”	the accountants’ report included in Appendix I to this prospectus
“ADGM”	Abu Dhabi Global Market of the Emirates of Abu Dhabi of the UAE
“AED”	United Arab Emirates Dirham, the lawful currency of the UAE
“affiliate(s)”	any other person(s), directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Application Form(s)”	<b>WHITE</b> Application Form(s), <b>YELLOW</b> Application Form(s) and <b>GREEN</b> Application Form(s) or, where the context so requires, any of them to be used in connection with the Public Offer
“Articles” or “Articles of Association”	the amended and restated articles of association of our Company, adopted on 19 June 2018, which will take effect on the Listing Date, and as amended from time to time, a summary of which is set out in the paragraph headed “2. Articles of Association” in Appendix III to this prospectus
“associate(s)” or “close associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Board” or “our Board”	our board of Directors
“Business Day”	any day (other than a Saturday, a Sunday or a public holiday) on which licensed banks in Hong Kong are generally open for normal banking business to the public
“BVI”	the British Virgin Islands

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## DEFINITIONS

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“Capitalisation Issue”	the issue of 749,999,000 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 paragraph headed “A. Further information about our Company and our subsidiaries — 3. Written resolutions of our Shareholders passed on 19 June 2018” in Appendix IV to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Companies Law”	the Companies Law (as revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“Companies (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
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), which came into effect on 3 March 2014 as amended, supplemented or otherwise modified from time to time
“Companies Registry”	the Companies Registry of Hong Kong
“Company”, “our Company”, “us” or “we”	Pacific Legend Group Limited, an exempted company incorporated in the Cayman Islands with limited liability on 1 September 2017



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## DEFINITIONS

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“Compliance Adviser”	Altus Capital Limited (浩德融資有限公司), a corporation licensed to carry on Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
“connected person(s)” or “core connected person(s)”	has the same meaning ascribed thereto under the GEM Listing Rules
“Contractual Arrangements”	Original Contractual Arrangements and New Contractual Arrangements
“Controlling Shareholder(s)”	has the same meaning ascribed thereto under the GEM Listing Rules and, in the context of this prospectus, means Double Lions, Mr. McLennan, Ms. Bailey, Mr. Leach, Mr. Rinderknecht and Ms. Fitzpatrick
“Corporate Governance Code”	the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules
“DED”	the Economic Department of Development of the Government of Dubai (which later became the Dubai Economy)
“Deed of AIC”	the deed of confirmation dated 12 February 2018 executed by each of the Controlling Shareholders and the entities they directly or indirectly controlled, solely and jointly by them, whereby they confirmed the existence of their acting in concert arrangement, a summary of which is set over is the section headed “Relationship with Controlling Shareholders” in this prospectus
“Deed of Indemnity”	the deed of indemnity dated 19 June 2018 and entered into by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for each of our subsidiaries), particulars of which are set out in the paragraph headed “E. Other information — 1. Tax and other indemnities” in Appendix IV to this prospectus

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## DEFINITIONS

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“Deed of Non-competition”	the deed of non-competition dated 19 June 2018 entered into between our Controlling Shareholders and our Company (for ourselves and as trustee for each of our subsidiaries), particulars of which are set out in the paragraph headed “Relationship with Controlling Shareholders — Deed of Non-competition” in this prospectus
“Deep Blue”	Deep Blue Living Limited (previously known as Banyan Tree Limited and Pure Design (H.K.) Limited), a company incorporated in Hong Kong with limited liability on 1 May 1979 and an indirect wholly-owned subsidiary of our Company
“Deep Ocean SPV”	Deep Ocean SPV Limited, a company incorporated in ADGM, a free zone of the UAE, with limited liability on 4 March 2018 and, based on the New Contractual Arrangements, is regarded as a wholly-owned subsidiary of our Group
“DIDA” or “Dubai FDI”	Dubai Investment Development Agency, also known as Dubai FDI, is a part of the Dubai Economy and the regulatory authority in terms of registration of all companies established in Dubai within its jurisdiction
“DIFC”	Dubai International Financial Centre
“DIFC-LCIA”	the DIFC-LCIA Arbitration Centre
“Director(s)” or “our Director(s)”	the director(s) of our Company
“Double Lions”	Double Lions Limited, a company incorporated in the BVI with limited liability on 9 June 2017 and one of the Controlling Shareholders of our Company
“Dubai”	the Emirate of Dubai in the UAE
“Dubai Economy”	the Dubai Economy (previously known as the DED)
“Free Zone Company”	a company incorporated in a free zone of the UAE
“GEM”	the GEM operated by the Stock Exchange

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## DEFINITIONS

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“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, as amended, supplemented or otherwise modified from time to time
“Great Metro”	Great Metro Limited, one of the Pre-IPO Investors and a company incorporated in BVI with limited liability on 9 March 2010 and is wholly-owned by Mr. Kwan; Great Metro is an Independent Third Party
“Great Metro Subscription Agreement”	the subscription agreement dated 12 January 2018 entered into amongst our Company, Great Metro and Mr. McLennan in relation to the Pre-IPO Investments, details of which are set out in the paragraph headed “History, development and Reorganisation — Pre-IPO Investments” in this prospectus
“GREEN Application Form(s)”	the application form(s) to be completed by the <b>HK eIPO White Form</b> Service Provider
“Group”, “our Group”, “we” or “us”	our Company together with our subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries, such subsidiaries as if they were our subsidiaries at the relevant time
“HK\$” or “HKD”	Hong Kong dollar(s), the lawful currency of Hong Kong
“HK eIPO White Form”	the application of Public Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website at <b><u><a href="http://www.hkeipo.hk">www.hkeipo.hk</a></u></b>
“HK eIPO White Form Service Provider”	the <b>HK eIPO White Form</b> service provider designated by our Company, as specified on the designated website of <b><u><a href="http://www.hkeipo.hk">www.hkeipo.hk</a></u></b>
“HKFRS”	Hong Kong Financial Reporting Standards issued by 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

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## DEFINITIONS

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“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“HKSCC Participant”	a participant who has been duly registered as a clearing participant of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited, the Hong Kong branch share registrar of our company
“Hong Kong Government”	the Government of Hong Kong
“Independent Third Party(ies)”	individual(s) or company(ies) who or which is or are independent of and not connected with (within the meaning of the GEM Listing Rules) any of our Directors, chief executive or substantial Shareholders of our Company or our subsidiaries or any of their respective associates
“Indigo China”	因邸高家居商貿(上海)有限公司 (in English, for identification purpose only, Indigo China Home Furniture Trading (Shanghai) Limited), a wholly-foreign owned enterprise established in the PRC on 1 November 2013 and an indirect wholly-owned subsidiary of our Company
“Indigo Dubai”	Indigo Living L.L.C., a company incorporated in Dubai, UAE with limited liability on 11 April 2006 and an indirect wholly-owned subsidiary of our Company
“Indigo HK”	Indigo Living Limited (previously known as Options Home Furnishings Limited, Lim Mei Manufacturing Company Limited (廉美製造有限公司), Lim Mei Carpet Manufacturing Co. Limited (廉美地氈製造有限公司) and Wide Dragon Industries Limited (宏龍實業有限公司)), a company incorporated in Hong Kong with limited liability on 11 November 1986 and an indirect wholly-owned subsidiary of our Company
“Indigo Macao”	Indigo Living Macau Limited, a company incorporated in Macao with limited liability on 14 September 2007 which was an indirect wholly-owned subsidiary of our Company before it was wound up on 1 December 2017

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## DEFINITIONS

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“Indigo Shanghai”	上海因邸閣裝潢設計工程有限公司 (in English, for identification purpose only, Shanghai Indigo Decoration and Design Works Limited), a wholly-foreign owned enterprise established in the PRC on 12 November 2015 and an indirect wholly-owned subsidiary of our Company
“Indigo Singapore”	Indigo Living (S) Pte. Ltd., a company incorporated in Singapore with limited liability on 21 August 2009 which was an indirect wholly-owned subsidiary of our Company before it was struck off in April 2018
“Ipsos”	Ipsos Limited, a company commissioned by our Company to provide the Ipsos Report and an Independent Third Party
“Ipsos Report”	an independent market research report commissioned by our Company and prepared by Ipsos for the purpose of this prospectus
“Joint Lead Managers” or “Joint Bookrunners”	Aristo Securities Limited, Supreme China Securities Limited, Opus Capital Limited and Success Securities Limited appointed as the joint lead managers and joint bookrunners of the Share Offer
“Latest Practicable Date”	20 June 2018, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information in this prospectus
“LCIA”	the London Court of International Arbitration
“Legal Counsel”	Ms. Kate Poon, barrister-at-law in Hong Kong, who is the legal counsel of our Company
“Listing”	the listing of our Shares on GEM by way of Share Offer
“Listing Date”	the date on which dealings in our Shares first commence on GEM, which is expected to be on or around 18 July 2018
“Listing Division”	the Listing Department of the Stock Exchange
“Macao”	Macao Special Administrative Region of the PRC

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## DEFINITIONS

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“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of our Company, adopted on 19 June 2018, which will take effect on the Listing Date, and as amended from time to time, a summary of which is set out in the paragraph headed “1. Memorandum of Association” in Appendix III to this prospectus
“Mr. Hansen”	Mr. Gregory Joseph Hansen, the 100% owner of Upperhand, one of the Pre-IPO Investors
“Mr. Kwan”	Mr. Kwan Hoi Wang, the 100% owner of Great Metro, one of the Pre-IPO Investors
“Mr. Leach”	Mr. James Seymour Dickson Leach, one of the Controlling Shareholders and the spouse of Ms. Bailey
“Mr. McLennan”	Mr. John Warren McLennan, our chairman, executive Director and one of the Controlling Shareholders and the spouse of Mrs. McLennan
“Mr. Rinderknecht”	Mr. John Martin Rinderknecht, one of the Controlling Shareholders and an uncle of Mrs. McLennan
“Mrs. McLennan”	Mrs. Jennifer Carver McLennan, our non-executive Director, the spouse of Mr. McLennan and niece of Mr. Rinderknecht
“Ms. Bailey”	Ms. Alison Siobhan Bailey, one of the Controlling Shareholders and the spouse of Mr. Leach
“Ms. Fitzpatrick”	Ms. Tracy-Ann Fitzpatrick, our executive Director, chief executive officer, vice-chairman and one of the Controlling Shareholders
“New Contractual Arrangements”	a series of agreements to be entered between or among Pacific Legend Development, the UAE Nominee, the shareholders of the UAE Nominee, and/or Deep Ocean SPV in connection with the control of Indigo Dubai by our Group, further details of the foregoing are set under the paragraph headed “Contractual Arrangements — New Contractual Arrangements” in this prospectus
“Ocean Blue”	Ocean Blue Living Limited, a company incorporated in Hong Kong with limited liability on 9 May 2017 and an indirectly wholly-owned subsidiary of our Company

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## DEFINITIONS

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“Offer Price”	the final offer price per Offer Share in Hong Kong dollars (exclusive of brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%), at which the Offer Shares are to be subscribed pursuant to the Share Offer, which will not be more than HK\$0.40 and is currently expected to be not less than HK\$0.30 and to be agreed upon by our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters) on or before the Price Determination Date
“Offer Shares”	the Placing Shares and Public Offer Shares
“Original Contractual Arrangements”	a series of agreements entered into between Pacific Legend Development and the UAE Nominee in connection with the control of Indigo Dubai by our Group, further details of the foregoing are set out under the paragraph headed “Contractual Arrangements — Original Contractual Arrangements” in this prospectus
“Pacific Legend Development”	Pacific Legend Development Limited (達駿發展有限公司), a company incorporated in Hong Kong with limited liability on 9 June 2006 and an indirect wholly-owned subsidiary of our Company
“Placing”	the conditional placing of the Placing Shares by the Underwriters on behalf of our Company with professional, institutional and other investors in Hong Kong for cash at the Offer Price, as further described in the section headed “Structure and conditions of the Share Offer” in this prospectus
“Placing Shares”	the 225,000,000 new Shares initially offered for subscription pursuant to the Placing (subject to reallocation as described in the section headed “Structure and conditions of the Share Offer” in this prospectus)
“Placing Underwriters”	the underwriters of the Placing, who are expected to enter into the Placing Underwriting Agreement to underwrite the Placing

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## DEFINITIONS

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“Placing Underwriting Agreement”	the conditional underwriting agreement relating to the Placing and to be entered into on or about the Price Determination Date by, among others, our Company, the executive Directors, the Controlling Shareholders, the Sole Sponsor, the Joint Lead Managers, the Joint Bookrunners and the Placing Underwriters, particulars of which are summarised in the section headed “Underwriting” in this prospectus
“PRC” or “China”	the People’s Republic of China, and for the purpose of this prospectus and unless otherwise indicated, excludes Hong Kong, Macao and Taiwan
“PRC Legal Advisers”	AllBright Law Offices, being the legal advisers to our Company as to PRC law
“Predecessor Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) prior to its repeal and replacement on 3 March 2014 by the Companies Ordinance and the Companies (Miscellaneous Provisions) Ordinance
“Pre-IPO Investments”	the transactions contemplated under the Pre-IPO Subscription Agreements as further described in the paragraph headed “History, development and Reorganisation — Pre-IPO Investments” in this prospectus
“Pre-IPO Investor(s)”	Great Metro and Upperhand, collectively
“Pre-IPO Subscription Agreement(s)”	the Great Metro Subscription Agreement and the Upperhand Subscription Agreement, collectively
“Pre-IPO Subscription Shares”	Shares allotted and issued to the Pre-IPO Investors pursuant to the Pre-IPO Subscription Agreements
“Price Determination Agreement”	the agreement expected to be entered into between our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters) on the Price Determination Date to record and determine the Offer Price



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## DEFINITIONS

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“Price Determination Date”	the date expected to be on or about 6 July 2018 or such later date as may be agreed between our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters) on which the Offer Price will be fixed for the purpose of the Share Offer
“Public Offer”	the conditional offer to the public in Hong Kong for subscription of the Public Offer Shares at the Offer Price, on and subject to the terms and conditions stated in this prospectus and in the Application Forms, details of which are described in the section headed “Structure and conditions of the Share Offer” in this prospectus and the related Application Forms
“Public Offer Shares”	the 25,000,000 new Shares initially offered by our Company for subscription pursuant to Public Offer (subject to reallocation as described in the section headed “Structure and conditions of the Share Offer” in this prospectus)
“Public Offer Underwriters”	the underwriters of the Public Offer whose names are set forth in the paragraph headed “Underwriting — Underwriters — Public Offer Underwriters” in this prospectus
“Public Offer Underwriting Agreement”	the conditional underwriting agreement dated 28 June 2018 relating to the Public Offer and entered into by, among others, our Company, the executive Directors, the Controlling Shareholders, the Sole Sponsor, the Joint Lead Managers, the Joint Bookrunners and the Public Offer Underwriters, particulars of which are summarised in the section headed “Underwriting” in this prospectus
“Raeford”	Raeford Holdings Limited, a company incorporated in the BVI with limited liability on 9 June 2017 and a direct wholly-owned subsidiary of our Company after the Reorganisation
“RAM”	RAM Far East, LLC, a company registered in the State of Colorado of the United States with limited liability on 14 June 2006 and wholly-owned by Mr. Rinderknecht

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## DEFINITIONS

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“Reorganisation”	the corporate reorganisation arrangement undergone by our Group in preparation for the Listing, details of which are set out in the paragraph headed “History, development and Reorganisation — Reorganisation” in this prospectus
“RMB”	Renminbi, the lawful currency of PRC
“Rules of CCASS”	the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time
“SAFE”	中華人民共和國國家外匯管理局 (the State Administration of Foreign Exchange in the PRC) or its competent local branches
“SAIC”	中華人民共和國國家工商行政管理總局 (the State Administration for Industry and Commerce of the PRC)
“Saudi Arabia”	the Kingdom of Saudi Arabia
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.01 each in the share capital of our Company
“Share Offer”	the Placing and the Public Offer
“Share Option Scheme”	the share option scheme conditionally approved and adopted by our Company on 19 June 2018, the principal terms of which are summarised in the paragraph headed “D. Share Option Scheme” in Appendix IV to this prospectus
“Shareholder(s)”	holder(s) of the Share(s) from time to time
“Singapore”	Republic of Singapore
“sq.ft.”	square feet
“sq.m.” or “m <sup>2</sup> ”	square metre
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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## DEFINITIONS

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“subsidiary(ies)”	has the same meaning ascribed thereto under the GEM Listing Rules
“substantial Shareholder(s)”	has the same meaning ascribed thereto under the GEM Listing Rules
“Success New Spring Capital ” or “Sole Sponsor”	Success New Spring Capital Limited (實德新源資本有限公司), a corporation licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO, appointed as the sponsor to the Listing
“Takeovers Code”	the Code on Takeovers and Mergers issued by the SFC as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the period comprising the two financial years ended 31 December 2017
“UAE”	United Arab Emirates
“UAE Entities”	a UAE national (or a company owned 100% by UAE nationals)
“UAE Legal Advisers”	Trench & Associates, being the legal advisers to our Company as to UAE laws
“UAE Nominee”	Links Commercial Brokers LLC, a limited company incorporated under the laws of UAE and the registered holder of 51% equity interest in Indigo Dubai and is a corporate nominee service provider pursuant to the Contractual Arrangements
“Underwriter(s)”	the Public Offer Underwriters and the Placing Underwriters
“Underwriting Agreements”	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
“Upperhand”	Upperhand Holdings Limited, one of the Pre-IPO Investors and a company incorporated in the BVI with limited liability on 27 May 2011 and which is wholly-owned by Mr. Hansen. Upperhand is an Independent Third Party

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## DEFINITIONS

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“Upperhand Subscription Agreement”	the subscription agreement dated 12 January 2018 entered into amongst our Company, Upperhand and Mr. McLennan in relation to the Pre-IPO Investments, details of which are set out in the paragraph headed “History, development and Reorganisation — Pre-IPO Investments” of this prospectus
“U.S.” or “United States”	the United States of America, including its territories and possessions
“US\$” or “USD”	United States dollars, the lawful currency of the United States of America
“VAT”	Value-added tax
“WHITE Application Form(s)”	the application form(s) for use by the public who require(s) such Public Offer Shares to be issued in the applicant’s or applicant’s own name(s)
“Winford”	Winford Inc. Limited, a company incorporated in Hong Kong with limited liability and is owned as to 50% by Mr. McLennan and 50% by an Independent Third Party
“YELLOW Application Form(s)”	the application form(s) for use by the public who require(s) such Public Offer Shares to be deposited directly into CCASS
“%”	per cent.

\* *The English names of the PRC entities mentioned in this prospectus are translations from their Chinese names. If there is any inconsistency, the Chinese names shall prevail.*

*Unless expressly stated or the context requires otherwise in this prospectus:*

- *all dates and times refer to Hong Kong time;*
- *all information is as at the Latest Practicable Date;*
- *certain monetary amount and percentage figures have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them; and*
- *amounts denominated in RMB, AED and US\$ have been converted into Hong Kong dollars, for the purpose of illustration only, at the rates of RMB1:HK\$1.24, AED1:HK\$2.13 and US\$1:HK\$7.82, respectively. No representation is made that any amounts in RMB, AED or US\$ can be or could have been converted at the relevant dates at the above rates or any other rates or at all.*

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## GLOSSARY AND TECHNICAL TERMS

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*This glossary contains explanation of certain terms and definitions used in this prospectus in connection with our business and operations. The terms and their meanings may not correspond to the standard industry meanings or usage of those terms.*

“CAGR”	compound annual growth rate, the year-on-year growth rate over a specified period of time
“Ex works basis”	the seller delivers when it places the goods at the disposal of the buyer at the seller’s premises or at another named place (i.e., works, factory, warehouse, etc.). The seller does not need to load the goods on any collecting vehicle, nor does it need to clear the goods for export, where such clearance is applicable
“FOB basis”	the seller delivers the goods on board the vessel nominated by the buyer at the named port of shipment or procures the goods already so delivered. The risk of loss of or damage to the goods passes when the goods are on board the vessel, and the buyer bears all costs from that moment onwards
“GDP”	an acronym for gross domestic product
“GFA”	gross floor area
“lookbook”	in our context, a set of photographs displaying our new collection of home furniture and accessories, assembled as a magazine for marketing purpose and serve as our products catalogue
“mood board”	an arrangement of images, materials, pieces of text, etc. intended to evoke or project a particular style or concept
“POS system”	point of sale system, usually at the checkout/cashier counter in a store or a location where a transaction occurs, to keep track of inventory record, product price, sales and returns

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## FORWARD-LOOKING STATEMENTS

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This prospectus includes forward-looking statements. All statements other than statements of historical facts contained in this prospectus, including, without limitation, those regarding our future financial position, our strategies, plans, objectives, goals and targets, future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words “anticipate”, “believe”, “expect”, “could”, “estimate”, “project”, “aim”, “intend”, “may”, “ought to”, “plan”, “consider”, “seek”, “should”, “would”, “will” or similar expressions or the negative of these words or other similar expressions or statements, are forward-looking statements.

These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

These forward-looking statements are based on various assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- future development, trends and conditions in the industry and markets in which we operate;
- expansion, consolidation or other trends in the industry and markets in which we operate;
- regulations and restrictions that may affect the industry and markets in which we operate;
- our strategies, plans, objectives and goals;
- exchange rate fluctuations and the developing legal system, in each case pertaining to Hong Kong and the industry and markets in which we operate;
- macroeconomic measures taken by the Hong Kong government, the PRC government, the UAE government, the Saudi Arabia government or governments of other relevant countries or territories in which we may operate our business to manage economic growth;
- our business prospects;
- changes in general political and economic conditions in Hong Kong, the PRC, the UAE, Saudi Arabia or other relevant countries or territories that may be detrimental to the industry in which we operate;
- competition for our business activities and the actions and development of our competitors;

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## FORWARD-LOOKING STATEMENTS

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- our financial condition and performance;
- our dividend;
- changes to our expansion plans and use of capital expenditures;
- realisation of benefits of our future plans and strategies;
- catastrophic losses from fires, floods, windstorms, earthquakes, diseases or other adverse weather conditions or natural disasters; and
- other factors beyond our control.

We believe that the sources of information and assumptions contained in such forward-looking statements are appropriate sources for such statements and have taken reasonable care in extracting and reproducing such information and assumptions. We have no reason to believe that information and assumptions contained in such forward-looking statements are fake or misleading or that any fact has been omitted that would render such forward-looking statements fake or misleading in any material respect.

The information and assumptions contained in the forward-looking statements have not been independently verified by us, our Directors, our Controlling Shareholders, the Sole Sponsor, the Joint Lead Managers, the Joint Bookrunners, the Underwriter(s), any other party involved in the Share Offer or their respective directors, officers, employees, advisers or agents and no representation is given as to the accuracy or completeness of such information or assumptions on which the forward-looking statements are made. Additional factors that could cause actual performance or achievements of our Group to differ materially include, but are not limited to, those discussed under the section headed “Risk factors” and elsewhere in this prospectus.

These forward-looking statements are based on current plans and estimates, and apply only as of the date they are made. We undertake no obligation to update or revise any forward-looking statements in light of new information, future events or otherwise. Forward-looking statements involve inherent risks and uncertainties and are subject to assumptions, some of which are beyond our control. We caution you that a number of important factors could cause actual outcomes differ, or differ materially, from those expressed in any forward-looking statement. Accordingly, prospective investors should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified with reference to cautionary statements set out in this section.

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

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## RISK FACTORS

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*Prospective investors should carefully consider all of the information in this prospectus including the risks and uncertainties described below before making an investment in the Offer Shares. Prospective investors should pay particular attention to the fact that the legal and regulatory environment of Hong Kong may differ in some respects from that prevailing in other countries. The business, financial condition or results of operation of our Group could be materially and adversely affected by any of these risks and uncertainties. The trading price of our Shares could decline due to any of these risks and uncertainties, and prospective investors may lose all or part of their investment.*

There are certain risks relating to an investment in our Shares. These risks can be broadly categorised into: (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to the Contractual Arrangements; and (iv) risks relating to the Share Offer. Additional risks and uncertainties not presently known to us, or not expressed or implied below, or that are presently deemed immaterial, could also harm our business, financial condition and operating results.

### **RISKS RELATING TO OUR BUSINESS**

#### **We do not have any long-term purchase commitments from our customers**

Due to the nature of the home furniture and accessories industry, our Directors believe that our customers generally purchase our products on an infrequent basis. We do not have any purchase commitments from our customers and there is no obligation for them to purchase any products from us in the future. We cannot assure you that we will have a consistent source of revenue.

Similarly, our Group's project and hospitality services business is project-based. Our Group's project and hospitality services business cover a wide range of services including design, property styling and furnishing, provision of custom-made furniture package, which can be individually or collectively engaged by our clients according to their needs for each individual project. Fee collection and profit margin significantly depend on various factors, such as the proposed budget of our clients, the terms of the quotations, the length of the project, the efficiency of execution and the general market conditions. As a result, the income flow of our Group's project and hospitality services business is irregular and is subject to various factors beyond the control of our Group. As such, there can be no assurance that the profitability of a project can be maintained or estimated at any particular level.



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## RISK FACTORS

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### **We may suffer from a decrease in sales if there is a shift in customers' tastes and preferences**

The demand for our products is subject to various factors including the tastes and preferences of customers for furniture, which can be affected by market trends, overall economic environment and marketing and advertising campaigns. Further, our business is susceptible to adverse changes in customers' spending patterns, which could materially and adversely affect the demand for our products. We cannot assure you that we will be able to anticipate the changes in market demand. We also may not be able to effectively promote our products through our marketing and advertising campaigns. If we fail to react to the changes in consumers' tastes and preferences in a timely manner, our sales may decline and our financial condition and results of operations may be adversely affected.

### **Our business may be affected by increase in rental expenses or the termination of leases of our retail stores**

As at the Latest Practicable Date, all of our Group's retail stores, offices and warehouses are leased from Independent Third Parties. Please refer to the paragraphs headed "Business — Our retail network and operation" and "Business — Properties" in this prospectus for details of the tenancy agreements. Our rental and related expenses for the years ended 31 December 2016 and 2017 were, respectively, HK\$36.7 million and HK\$37.8 million, representing approximately 25.9% and 25.0% of our total expenses, respectively.

Our retail stores are the main distribution channel of our products, and are therefore essential to our business. However, there is no assurance that our Group could renew the existing tenancies upon their respective expiry or could renew the same on terms and conditions no less favourable to our Group than the existing ones. Failure to renew the existing tenancies on terms and conditions acceptable to us may lead to disruption of our business and additional costs being incurred for relocation and renovation. If our Group is unable to find alternative locations that are suitable or on commercially acceptable terms in a timely manner, it may lead to a reduction in the number of retail stores and our business, results of operation and financial condition may be adversely affected.

### **We rely on the Hong Kong market substantially**

Approximately 62.3% and 65.6% of our Group's revenue for the years ended 31 December 2016 and 2017, respectively, were derived from Hong Kong. As at the Latest Practicable Date, nine out of our 11 retail stores are located in Hong Kong. We anticipate that we will continue to derive a significant portion of our revenue from Hong Kong in the near future. Any adverse economic, political or regulatory changes in Hong Kong may lead to an adverse impact on our business and the operation and prospects of our business may be adversely affected. Examples of such adverse economic, political or regulatory changes in Hong Kong would be economic downturns, collapse of the property market, outbreak of contagious disease or the imposition of regulations that place restrictions on us or on our industry by the government.

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## RISK FACTORS

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### **Our success depends on the continued service of our Directors and management team**

Our Directors and senior management possess in-depth knowledge of the home furniture and accessories industry and have made significant contributions to our Group's business development. Details of our current management personnel, including their relevant areas of expertise, are set forth in the section headed "Directors and senior management" in this prospectus. Our continued success depends, to a large extent, on the ability to attract and retain the services of our key management personnel. Accordingly, if we lose or are unable to attract or retain any of our key management personnel, thereby losing their services without suitable and timely replacements, there may be disruption to our operation, which may adversely affect our results of operations and prospects.

### **Social, political, regulatory, economic and legal developments, as well as any changes in UAE government policies, could materially and adversely affect our Group's business and operating results**

We have a subsidiary incorporated and operating in UAE. During the Track Record Period, revenue derived from UAE for the years ended 31 December 2016 and 2017 were approximately HK\$58.8 million and HK\$58.2 million, respectively, representing approximately 24.1% and 20.9% of our total revenue of the corresponding period. The political, economic and social environments as well as the legal system in UAE are different from that of Hong Kong where we are headquartered. We cannot assure you that the existing business environment such as government policies, restriction on foreign investment, regulatory and licensing requirement, taxation, etc. will continue and any negative developments in those areas may adversely affect our Group's business, financial condition, results of operations and prospects. Further, any negative developments in the UAE economy may also have a material adverse effect on the business.

Please also refer to the paragraph headed "Risks relating to the Contractual Arrangements" in this section for further details about the risks associated with our business structure of our subsidiary in UAE.

### **Substantial uncertainties exist with respect to the enactment timetable, interpretation and implementation of new laws allowing full foreign ownership in companies registered outside UAE's free-zone and how it may impact the viability of our current corporate structure, corporate governance and business operations**

The UAE Cabinet has announced that it had decided to allow 100% foreign ownership in companies registered in UAE and a detailed study is expected to be published in the third quarter of 2018 with global investor ownership expected to reach 100% by the end of 2018. It is our Company's intention that in the event it becomes legally feasible for us to hold our interest in Indigo Dubai ourselves without reliance on the Contractual Arrangements, we will promptly effect such shareholding structure. However, it is currently uncertain with respect to the enactment timetable, interpretation and implementation of the relevant law allowing 100% foreign ownership. For example, it is uncertain whether such 100% foreign ownership would be

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## RISK FACTORS

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allowed in all industries or business or would only be available to certain industries or businesses, and if there is such restriction, whether our current business in UAE fall within or outside such restriction. It is also uncertain if a full 100% foreign ownership will result in any additional compliance costs or tax liabilities on us in the absence of concrete details about the decision of the UAE Cabinet. Further, if full ownership is permitted and we are to proceed to obtain 100% ownership in Indigo Dubai, we will need to exercise our rights provided for under the New Contractual Arrangements. Accordingly, the relevant legislation allowing 100% foreign ownership in companies registered in UAE may materially impact the viability of our current corporate structure of Indigo Dubai, corporate governance and business operations in various aspects.

### **We may not be able to successfully implement our strategies, or achieve our business objectives**

Our business objectives and strategies as set out in this prospectus are based on our existing plans and intentions. However, the objectives and strategies are based on prevailing circumstances currently known to our Directors. We intend to expand our existing business in accordance with the objectives. We have to recruit additional employees with the necessary skills and knowledge to achieve our planned expansion and implement our strategies. In addition, the implementation of our strategies and plans may result in significant capital expenditures incurred by us, which may or may not be recoverable, and may divert management's attention from other business concerns. Further, the increase in capital expenditure may result in an increase in depreciation expenses, which may adversely affect our results of operations. During the Track Record Period, our total depreciation expenses were approximately HK\$9.6 million and HK\$7.8 million for the years ended 31 December 2016 and 2017, respectively. We expect that our planned capital expenditures for the years ending 31 December 2018, 2019 and 2020 are, respectively, HK\$6.5 million, HK\$9.5 million and HK\$6.5 million, which will be primarily for enhancing our online shop and our information technology capacity and fitting out of our retail stores planned to be opened. There is no assurance that we will successfully implement our strategies or that our strategies will be able to achieve our objectives. Our business, operating results and financial position may be materially and adversely affected if our business objectives are not achieved.

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## RISK FACTORS

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**We have no prior experience in franchising and if our franchisee fails to operate the franchised retail store to our standards, it may result in negative publicity or impact on our brand and reputation**

We granted to an Independent Third Party a franchise to operate four retail stores in Saudi Arabia under our brand *Indigo* pursuant to a franchise agreement dated 14 June 2017. This is the first time that we have allowed a third party to trade under our brand name and we have no prior experience in managing a third party franchisee. Although there are contractual provisions in the franchise agreement by which we can supervise or monitor the third party franchisee in operating the franchised retail store, there is no assurance that the third party franchisee will fully comply with the franchise agreement and that we can effectively monitor the franchised retail store on a day-to-day basis. If the third party franchisee fails to honour his obligations under the franchise agreement or fails to operate the franchised retail store up to the standards that we expect, it may result in unfavourable publicity or impact on our brand and reputation.

**We have not entered into any long-term contracts with our suppliers**

We do not have our own manufacturing capabilities and we rely on our suppliers to supply products to us but we do not have any long-term contracts with these suppliers. As such, we are exposed to certain risks such as unexpected price fluctuations, shortage of supply of products, failure to meet our agreed delivery time and refusal to supply products. In such case, we may have to look for alternative suppliers and we may not be able to do so in a timely manner and/or at a similar price with comparable quality. Further, if we fail to replace our suppliers when our business relationship is disrupted or terminated, we may face a shortage in supply of certain products and our business and results of operations may be adversely affected as a result.

Further, we are not able to control the production costs of the products that we sell because of the absence of our own manufacturing facilities. Our procurement costs may fluctuate due to factors such as shortage in raw materials, fluctuations in our shipping costs and changes in general market conditions. We may not be able to pass on to our customers the increase in our procurement costs but will instead have to absorb such increase ourselves in order to stay competitive. As a result of this, our profitability may be adversely affected.

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## RISK FACTORS

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### **Our growth depends on our ability to profitably operate our existing retail stores and to open and profitably operate new retail stores**

We operated 11 retail stores as at the Latest Practicable Date. Our growth depends on our ability to profitably operate our existing retail stores and to open and profitably operate new retail stores. One of our retail stores were loss-making and was subsequently closed during the Track Record Period. We are not able to ensure that all of our retail stores will become profitable, or will maintain their current profitability or that our new retail stores could achieve breakeven within our intended timeframe. The operating results of our Group are affected by the performance of our existing retail stores and the initial investment cost and performance of our new retail stores.

We plan to further open four (three in the PRC and one in the UAE) new retail stores by 31 December 2020. The number and timing of opening of new retail stores during any given period, and their associated contribution to our growth, are subject to a number of risks and uncertainties, including but not limited to our ability to:

- identify quality locations and secure leases on commercially reasonable terms;
- obtain adequate financing for development and opening costs;
- efficiently manage the time and cost involved in the design, fitting-out and pre-opening processes for each new retail store;
- accurately estimate expected consumer demand in new locations and markets;
- secure adequate suppliers of home furniture and accessories that meet our customers' preference;
- hire, train and retain skilled management and other employees on commercially reasonable terms; and
- successfully promote our new retail stores and compete in the markets where our new retail stores are located.

We may not be able to open our planned new retail stores on a timely basis, if at all, and if opened, these retail stores may not operate profitably. Opening new retail stores may place substantial strain on our management, operational and financial resources. We may not be able to attract enough customers to our new retail stores. If we are unable to overcome the costs associated with opening and building a satisfactory new customer base for our new retail stores, the operating results of the such retail stores may not be comparable to the operating results generated at any of our existing retail stores. The new retail stores may even operate at a loss, which could have a significant adverse effect on our overall operating results, financial positions and even the brand image of our Group.

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## RISK FACTORS

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### **We are exposed to risks of slow-moving inventory which may adversely affect our cash flow and liquidity**

The demand for our products is highly dependent on customer preferences which may change from time to time and which may be affected by market trends, marketing and advertising campaigns. Further, our business is susceptible to adverse changes in customers' spending patterns, which could materially and adversely affect the demand for our products. Our Group cannot assure that we will be able to anticipate or respond to changes in customer preferences and market trend. The failure to source products that satisfy new customer preferences in a timely manner or effectively promote our products through marketing and advertising campaigns may lead to a decrease in sales and the slow-moving inventory which we may have to sell at discounted prices or write off. As such, slow-moving inventories may have an adverse impact on the liquidity, financial position and profitability of our Group.

The average inventory turnover days of our merchandise goods in respect of the years ended 31 December 2016 and 2017 were, respectively, 157 days and 133 days. During the Track Record Period, we made inventory provision and adjustment of HK\$1.2 million and HK\$1.4 million for slow-moving stock and inventory adjustment for the years ended 31 December 2016 and 2017, respectively.

### **We may be exposed to delays and/or defaults of payments by our customers which would adversely affect our cash flows or financial results**

As at 31 December 2016 and 31 December 2017, our trade receivables amounted to HK\$15.8 million and HK\$12.2 million, respectively, and our average trade receivable turnover days were approximately 23 days and 18 days for each of the years ended 31 December 2016 and 2017, respectively. Our finance lease receivables for the years ended 31 December 2016 and 2017 were HK\$4.2 million and HK\$3.4 million, respectively. For further details of our trade receivables and our finance lease receivables, please refer to the paragraphs headed "Financial information — Discussion on selected combined statements of financial position items — Trade and other receivables" and "Financial information — Discussion on selected combined statements of financial position items — Finance lease receivables" in this prospectus. We cannot assure you that we will be able to recover all or any part of the amounts due from our customers or that we will be able to collect all or any part of trade receivables from our customers within the agreed credit terms or at all. There is also a possibility that it may take longer than the average trade receivable turnover days for us to collect payments. This will negatively affect our cash flows and financial performance.

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## RISK FACTORS

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**We may not be able to detect quality issues in our products and we are exposed to product liability claims and litigation risks for defective or unsafe products**

The home furniture and accessories we sell are sourced from third party suppliers. Notwithstanding we have staff dedicated for quality control of the products, we cannot guarantee that our quality control measures will be able to identify all quality or safety issues, particularly if the quality issue arises at the production process which is beyond our control. For details of our quality control measures, please refer to the paragraph headed “Business — Quality control and customer complaints” in this prospectus. Any quality or safety issues with the products we sell may be harmful to our reputation which is crucial to the effective marketing of products to our target customers. For more details about our quality control procedures, please refer to the paragraph headed “Business — Quality control and customer complaints” of this prospectus.

We may face product liability claims from our customers on the grounds that the use of our products has resulted in their bodily injuries, property damage or other losses. We may incur legal liabilities and compensatory obligations in respect of valid product liability claims. The costs of litigation are inherently expensive and our brand may be damaged regardless of the merits or success of the claim.

**We may experience delays in completing our works for our project and hospitality services, which may cause us to incur penalties and additional costs and to experience delays in receiving payments, and our business and reputation may be affected**

For our business of project and hospitality services, we are typically required to complete each project according to a fixed schedule by an agreed date as stated in the relevant quotations or tenders. If we fail to timely complete a project, we may be liable to compensate our client for losses or damages caused by the delay. Any delay in the completion of a project, whether or not caused by us, could also lead to additional costs being incurred. As at 31 May 2018, the value of outstanding projects of our project and hospitality services amounted to approximately HK\$27.8 million, of which HK\$20.1 million was estimated to be recognised for the year ending 31 December 2018. As we typically receive payment in stages based on project progress, any delay in the course of a project may postpone our receipt of anticipated payments which could have a material adverse effect on our cashflow position. There is no assurance that such project delays will not happen in the future. Any failure on our part to timely complete a project could harm our reputation and hinder our ability to secure future business and as a result, our reputation, business and financial performance of operation could be materially and adversely affected.

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## RISK FACTORS

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**Failure to accurately assess the costs in rendering our project and hospitality services may adversely affect our profitability**

The business of our project and hospitality services is typically project-based and we usually have to fix our fees in our quotations or tenders submitted at the outset. In preparing our quotations or tenders, we have to take into consideration various factors, including the costs of our own, the estimated time to be spent on a project, and procurement or production costs. If the actual costs incurred by us deviate from our original estimation or there is unexpected increase in procurement or production costs due to any reason, we will not be able to achieve the intended profitability and thus our financial performance of operation could be materially and adversely affected.

**We may be unable to detect, deter and prevent all instances of fraud or other misconduct committed by our employees, customers or other third parties which could subject us to financial losses and harm our reputation**

We receive and handle cash and credit card transactions in our daily operations at our retail stores. During the years ended 31 December 2016 and 2017, the sales conducted throughout our retail stores and settled in cash amounted to approximately HK\$9.1 million and HK\$10.2 million, respectively. There is a risk that there may be instances of fraud, theft or other misconduct involving our employees, customers and other third parties which we are unable to detect, deter or prevent. Any misconduct committed against our interests, which may include past acts that have gone undetected or future acts, could subject us to financial losses and reputational damage and may have a material adverse effect on our business and results of operations.

**We engage third parties to deliver products to our customers**

We engage third-party delivery services to deliver some products purchased in store and online to those customers who require our delivery service. The performance of such third-party delivery service providers is beyond our control. It is not impossible that there would be delays in their delivery or that they would be damaged in transit. Failure to deliver products to our customers intact or efficiently may cause an adverse impact on the reputation of our Group. Further, other than the service agreement with a transportation company controlled by Mr. McLennan, we engage such delivery services as and when required and we had not entered into any long-term agreements with them. We cannot guarantee that we will be able to engage the third-party delivery services on favourable terms and we may be exposed to the risk of an increase in costs which may adversely affect our profitability.



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## RISK FACTORS

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### **A system failure or breakdown of our information technology system may cause interruptions of our business and operations**

We use our information technology system to keep track of our inventory and stock details and we also make our decision on our procurement based on the details of our inventory and stock. We also rely on our information technology system for our online shop. For the years ended 31 December 2016 and 2017, revenue generated from our online sales amounted to approximately HK\$4.6 million and HK\$9.2 million, respectively. Any failure or breakdown in our information technology system for an extended period of time may cause interruptions in our business and operations.

### **We may not be able to adequately protect our intellectual property rights and there may be replicas of our products**

As at the Latest Practicable Date, our Group has one trademark registered in Hong Kong, four trademarks registered in UAE and three trademarks registered in the PRC. Details of our intellectual property rights are set forth in Appendix IV of this prospectus. Unauthorised use of our trademarks may cause damage to our brand and reputation. There is no assurance that there will not be any infringement in the future. In the event that any infringement occurs, we may have to protect our intellectual property rights or other rights through litigation which may be costly and could have adverse impact on our business, results of operations and financial condition.

Moreover, there is no assurance that there will not be any replicas of our furniture or home accessories we sourced from overseas. Demand for our products may be adversely affected should there be any replica products made available, the performance and business operations of our Group may also be adversely affected.

### **We are exposed to foreign exchange fluctuation**

Most of our products are imported from overseas and sourced from places such as the PRC, Vietnam, and India. Our markets are primarily based in Hong Kong, UAE and the PRC. Most of our purchases are settled in foreign currencies, and a substantial part of our sales revenue is in RMB, AED, HKD and USD. Therefore, we are exposed to exchange rate risk as a result of sales and purchases that are denominated in RMB. During the Track Record Period, net exchange loss of approximately HK\$236,000 and HK\$166,000 were recorded, respectively, for the years ended 31 December 2016 and 2017. The net foreign exchange loss recorded during the Track Record Period were mainly due to the effect of appreciation of RMB against HKD. Changes in exchange rates between the RMB and HKD, AED and USD may be reflected in our financial results. We cannot predict exchange rate fluctuations and how or whether such fluctuations may materially and adversely affect our business, financial condition and results of operations. While both the HKD and AED are at present pegged to the USD, if either one or both of the pegging systems between the HKD and AED against the USD is changed or terminated due to any reason whatsoever, it may pose additional uncertainty on our business, financial condition and results of operations.

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Since we do not have a hedging policy of the currency exchange risk, our Group cannot predict the impact of future exchange rate fluctuations on our results of operations and thus our profitability and financial performance may be affected.

**We do not have physical possession of home furniture and accessories rented out and if customers using our rental services default, it may be difficult to repossess the relevant furniture and accessories**

Our home furniture and accessories rental businesses depends on the continuous performance by our customer of their obligations under the relevant rental agreement. Once the rented items are delivered to the customers, we are no longer in actual possession of such items until they are returned to us. In the event that a customer fails to honour their rental payment obligations and refuses to allow us to enter the relevant premises to repossess our home furniture and accessories, we may have to commence legal proceedings to get back the rented items which will incur costs and divert the attention of our management. Further, the rental deposit, which is usually equivalent to three months' rental paid to us may not be sufficient to cover the cost or replacement cost of the home furniture and accessories rented out. There is no guarantee that customers using our home furniture and accessories rental services will fully comply with the relevant rental agreement.

**Uncertainties in the PRC's legal system could materially and adversely affect our Group**

Our Group's operations in the PRC are subject to the PRC laws and regulations. The PRC's 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 PRC has promulgated laws and regulations dealing with economic matters, such as the issuance and trading of securities, shareholder rights, foreign investment, corporate organisation and governance, commerce, taxation and trade. However, many of these laws and regulations are relatively new and evolving, and are subject to different interpretations and may be inconsistently implemented and enforced. In addition, limited volumes of published court decisions may be cited for reference, but such cases have limited precedential value as they are not binding on subsequent cases. These uncertainties relating to the interpretation, implementation and enforcement of these laws and regulations and a system of jurisprudence that gives only limited precedential value to prior court decisions can affect the legal remedies and protections available to you and adversely affect the value of your investment.

**The trend of our historical financial information may not necessarily reflect our financial performance in the future**

For the years ended 31 December 2016 and 2017, our Group's revenue amounted to approximately HK\$244.4 million and HK\$278.6 million respectively and our Group's net profit amounted to approximately HK\$5.4 million and HK\$3.1 million respectively. Such trend of historical financial performance of our Group is an analysis of our past performance only and does not have any positive implication or may not necessarily reflect our financial performance in the future, which will depend to a large extent on our ability to maintain our

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## RISK FACTORS

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market share, to offer home furniture and accessories that meet our customers' preferences, to secure new contracts for our project and hospitality services and to control our costs and expenditures. There is no assurance that our Group could achieve the same or higher level of financial performance as we did during the Track Record Period in the future.

### **The trend of our historical gross margin may not necessarily reflect our financial performance in the future**

For the years ended 31 December 2016 and 2017, our Group's gross margin, defined as revenue less cost of sales, amounted to approximately 60.0% and 58.1%, respectively. Such trend of historical financial performance of our Group is an analysis of our past gross margin only and does not have any positive implication and may not necessarily reflect our gross margin in the future, which will depend to a large extent on our ability to secure new projects with higher direct margin. If we have to sell our inventory at a low price or to undertake more projects with lower gross margin, our gross margin will be adversely affected.

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

On 4 January 2018, we declared interim dividend of HK\$26,250,000 to our Shareholders prior to the Listing. Any future dividend declaration and distribution by us will depend on various factors, including, without limitation, our results of operations, financial condition, future prospects and other factors which our Board may determine. Accordingly, our historical dividend distributions are not indicative of our future dividend and we cannot assure you that dividends of similar amounts or at similar rates will be declared in the future. Potential investors should be aware that the amount of dividends previously paid should not be used as a reference or basis upon which future dividends are determined.

## **RISKS RELATING TO OUR INDUSTRY**

### **We are and may continue to be reliant on the performance of the property market in Hong Kong**

The business and prospects of our Group partly depends on the performance of the property market in Hong Kong. Our Directors are of the view that soaring property prices may lead to a decline in the transaction number and sales value of residential properties in Hong Kong. We cannot assure that the property market in Hong Kong will maintain the level of activity as it has in the past. Fluctuations of demand in the property market may influence the demand for home furniture and accessories generally. Our business and results of operations may be adversely affected if there is any adverse development in the property market in Hong Kong.

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### **Competition and pressure from our competitors may harm our revenues and profitability**

To maintain our market share, we must be able to maintain our competitiveness in the market in terms of price, reputation, style and quality. As such, we are required to keep abreast with the latest market trend and business strategies implemented by our competitors. If our competitors are able to offer more competitive prices for products that are similar to ours, we may have to reduce our prices so as to maintain competitiveness in the market. Lowering of our prices may affect our market positioning and lead to lower revenue and profitability. Further, if we are unable to compete effectively with our competitors, our market share may shrink, which may have a material adverse result on our business, financial conditions and business prospects.

### **There is increasing competition from online retailers which may have an adverse effect on our market share and/or our revenue**

Our Directors consider that online retailing will become increasingly popular amongst consumers and there are online sales platforms and online retailers which are engaged in the business of selling home furniture and accessories and may include a wide variety of products catering to the needs and demands for different customers. As compared to traditional physical retail stores, online sales platforms offer greater accessibility and convenience for customers who do not need to travel to purchase furniture. Further, online retailers may incur lower overhead expenses compared with physical retail stores and as such, similar products to our own may be offered at more competitive prices by online retailers. If our physical retail stores or online shop are unable to compete with other online retailers effectively, our revenue may decline and our business, financial conditions and business prospects may be materially and adversely affected.

### **Demand for our home furniture and accessories rental services may be affected by the number of expatriates relocating to Hong Kong**

Customers using our furniture rental services include multi-national corporations or expatriates relocating to Hong Kong. Our Directors believe that whether multi-national corporations will establish a presence in Hong Kong, whether they will choose to relocate their staff to Hong Kong and the willingness of overseas personnel to relocate to Hong Kong depends on a number of factors which are beyond our control, such as the attractiveness of conducting business in Hong Kong, availability of education offering an international curriculum to the children of the expatriates, environmental issues and the changing conditions of expatriate engagement terms and benefits. If these factors are not favourable from the perspective of those multi-national corporations or expatriates, the demand for our home furniture and accessories rental business may decline, which may result in material and adverse impact on our Group's results, performance and business prospects.

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## RISK FACTORS

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**We may be forced to cease our retail store in Shanghai due to breach of permitted usage in Shanghai and our retail store in Repulse Bay in Hong Kong due to existence of potentially unauthorised building works**

Our retail store in Shanghai, being the only retail store we have in China for the time being, is operating at a premises designated for education purpose. Accordingly, our commercial operation at the Shanghai premises is inconsistent with its permitted use, as a result of which the relevant authority is entitled to request us to vacate from the relevant premises. If we have to vacate from the premises, our business operations in Shanghai will have to be suspended until we relocate to a new premises. We will also have to incur other costs such as fitting out costs and transportation costs. There is also no assurance that we will be able to secure new premises and/or at acceptable commercial terms for the continuation of the suspended business operations.

For our retail store in Repulse Bay in Hong Kong, there is erected a cockloft at the premises. According to a registered architect engaged by us, the cockloft is an unauthorised building works. We had used the cockloft in the past to showcase our kids-related furniture and accessories, the sales amount of which during the Track Record Period amounted to HK\$724,000 and HK\$539,000 for each of the years ended 31 December 2016 and 2017, respectively. We have ceased using the cockloft since March 2018. If the government authority issue order for the removal or rectification of the cockloft, the carrying out the works for removal or rectification of the cockloft may interrupt or require temporary suspension of our current business operation at the Repulse Bay.

**Our existing insurance may not sufficiently cover the risks related to our business operation**

We maintain a number of insurance policies on our assets and against our operation risks including property damage insurance, public liability insurance, employees compensation insurance and vehicle insurance. Details of our existing insurance coverage are set forth in the paragraph headed “Business — Insurance” of this prospectus. We cannot guarantee that our existing insurance policies will sufficiently cover all potential liabilities or risks associated with our business operation. In the event that our insurance does not or is insufficient to compensate, or should we be unable to effect any insurance, for the losses or damages arising from the potential liabilities, our financial condition and results of operations could be adversely affected.

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## RISK FACTORS

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### RISKS RELATING TO THE CONTRACTUAL ARRANGEMENTS

**We rely on the Contractual Arrangements for our control over Indigo Dubai, which may not be in compliance with the laws in UAE and may be challenged**

The UAE Companies Law provides that every company incorporated in the UAE (other than companies incorporated in a free zone) must have one or more shareholders who are UAE nationals (or entities wholly-owned by UAE nationals) who own not less than 51 per cent of that company's registered share capital. As a result, a foreign person or entity cannot own more than 49 per cent of the shares of a company incorporated under the UAE Companies Law. Due to the foreign ownership restriction under UAE law, 51% shareholding interest in Indigo Dubai is controlled by us through the Contractual Arrangements. For details of the Contractual Arrangements, please refer to the section headed "Contractual Arrangements" in this prospectus.

The Contractual Arrangements is a structure commonly used by foreign investors in Dubai according to our UAE Legal Advisers. However, it is possible that the Contractual Arrangements could be unilaterally challenged before a UAE court on the basis of the UAE Federal Law No. 17 of 2004 (the "Anti-Fronting Law") or other general public policy related provisions under other UAE legislation, and that a UAE court could decide that the ownership structure violates public policy, morals or law in the UAE. The Anti-Fronting Law, on its face, has the effect of prohibiting situations where companies seek to circumvent the 51/49 foreign ownership restriction. The Anti-Fronting Law was scheduled to come into effect in November 2007. However, by way of a cabinet resolution, the UAE federal government suspended the application of the Anti-Fronting Law until November 2009 and it was further suspended until September 2011. The Anti-Fronting Law is now in force, but, as at the Latest Practicable Date, the provisions of the law have not been enforced, to our knowledge and to the knowledge of our UAE Legal Advisers, against any UAE company. However, as the Anti-Fronting Law is binding law, the UAE federal government has the ability to enforce the Anti-Fronting Law at any time in the future. If the Anti-Fronting Law is enforced against us in relation to the Contractual Arrangements, we will lose control over Indigo Dubai and may not be able to consolidate its financial results in our accounts. During the years ended 31 December 2016 and 2017, revenue generated from Indigo Dubai were HK\$58.8 million and HK\$58.2 million, respectively, representing approximately 24.1% and 20.9% of our total revenue for the corresponding year.

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## RISK FACTORS

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### **We rely on the Contractual Arrangements for our operations in UAE, which may not be as effective as direct ownership in providing operational control**

We have relied and expect to continue to rely on the Contractual Arrangements with the UAE Nominee to operate business in UAE. The Contractual Arrangements may not be as effective as direct ownership in providing us with control over Indigo Dubai as direct ownership. If we had direct ownership of Indigo Dubai, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of those entities, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. However, under the Contractual Arrangements, we rely on the performance by the UAE Nominee of its obligations under the contracts to exercise control over Indigo Dubai. If the UAE Nominee fails to perform its obligations under the Contractual Arrangements, we cannot exercise shareholders' rights to direct corporate actions as direct ownership would otherwise entail. If the UAE Nominee under such Contractual Arrangements refuses to carry out our directions in relation to everyday business operations of Indigo Dubai, we will be unable to maintain effective control over the operations of Indigo Dubai. If we were to lose effective control over Indigo Dubai, certain negative consequences would result, including our being unable to consolidate the financial results of Indigo Dubai with our financial results. Further, losing effective control over Indigo Dubai may impair our access to their cash flow from operations, which may reduce our liquidity. Therefore, the Contractual Arrangements may not be as effective in ensuring our control over our operations in UAE as direct ownership would be.

### **If we exercise the option to acquire equity ownership of Indigo Dubai, the ownership transfer may subject us to substantial costs**

Under the Original Contractual Arrangements, we can recall the shares in Indigo Dubai held by the UAE Nominee and assign such shares to any third party. Under the New Contractual Arrangements, we can require the UAE Nominee to transfer our interest in Deep Ocean SPV to a third party if the UAE Nominee is in breach of its obligations under the New Contractual Arrangements. However, given the current prohibition against foreign 100% ownership under the UAE laws, we can only direct transfer of the shares or interest held by the UAE Nominee to another third party and to enter similar arrangement as currently adopted under the Contractual Arrangements. We will inevitably incur time and resources in identifying third party nominee and engaging professional parties for drawing up the documents to implement such new holding arrangement. We may be subject to substantial costs in exercising our rights to transfer our 51% interest in Indigo Dubai.

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### **There are limitations when we exercise our rights to demand for and effect the transfer of the 51% interest in Indigo Dubai under the Contractual Arrangements**

While under the Contractual Arrangements, the interest in Indigo Dubai, or as the case may be, the Deep Ocean SPV are pledged to Pacific Legend Development as collateral for the loans provided by Pacific Legend Development and, according to our UAE Legal Advisers, Pacific Legend Development can recall the interest held by the UAE Nominee and can assign the shares to any third party. However, the pledge under the Original Contractual Arrangements cannot be registered and non-registration may render the pledge unenforceable according to our UAE Legal Advisers. Further, due to the foreign ownership restriction under UAE law, in the event Pacific Legend Development decides to exercise such option to re-call the interest held by the UAE Nominee, Pacific Legend Development would have to cause all of the shares registered under the name of the relevant UAE Nominee to be transferred to a third party who must also be an UAE citizen(s) or legal entity fully owned by UAE citizen(s), and to procure such third party to take up and hold all such shares subject to arrangements similar to that of the Contractual Arrangements.

In the event that Pacific Legend Development is unable to procure such a third party to replace the UAE Nominee to take up the shares subject to arrangements similar to that of the Contractual Arrangements and in the event that Pacific Legend Development itself takes up those shares and becomes the registered shareholder of those shares, as advised by our legal advisers on UAE laws, (i) Indigo Dubai may violate the UAE law which imposes the foreign ownership restriction; (ii) Indigo Dubai may not be able to renew or amend its business licence; (iii) the relevant government authority may not process the application for registration of change in the company's shareholders composition, directors or commissioners or articles of association when Indigo Dubai is legally required to register such changes; and (iv) any transfer of our interest in the Indigo Dubai that violates UAE law and regulations may be declared null and void by UAE courts in case a party applies to the relevant UAE courts to nullify and void such transfers.

### **We may have difficulties in enforcing interim remedies granted by judiciary outside UAE in relation to disputes arising out of the New Contractual Arrangements**

While there are dispute resolution clauses in the New Contractual Arrangements which provide that the resolution of disputes will be dealt with by arbitration in the UAE and that the courts of Hong Kong, Cayman Islands, UAE and the places where the principal assets of Pacific Legend Development or Indigo Dubai are located shall have the jurisdiction to grant interim remedies in support of arbitration pending the formation of arbitral tribunal, such dispute resolution clauses are recognised and enforceable in the UAE to the extent of the request for the arbitration panel or courts in the UAE to issue interim remedies only. For interim remedies granted by overseas courts such as Hong Kong or Cayman Islands, they may not be recognised or enforced directly in the UAE according to our UAE Legal Advisers. Our Directors and we do not have any prior experience and are not familiar with the relevant procedures in the UAE. In the event we are unable to enforce the New Contractual Arrangements, we may not be able to exert effective control over Indigo Dubai, and our ability to conduct our business in UAE may be negatively affected.



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## RISK FACTORS

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**The UAE Nominee as borrower under the Contractual Arrangements may have potential conflicts of interest with us**

The UAE Nominee as borrower under the Contractual Arrangements may have potential conflicts of interest with us and they may commit breaches of their respective contractual obligations under the Contractual Arrangements if they believe that it would further their own interest, if they are fraudulent, act in bad faith or for whatever reasons. In such circumstances, there is no assurance that when such conflicts of interest arise, the UAE Nominee as borrower of the loans provided by Pacific Legend Development will act completely in our interests or that the conflicts of interest will be resolved in our favour.

**The Contractual Arrangements may be subject to scrutiny of tax authorities of UAE and additional tax may be imposed if there is any change in laws or change in the interpretation of laws or regulations by the tax authorities of UAE in the future**

There is no assurance that there will not be any change in laws or regulations or change in the interpretation of laws or regulations by tax authorities of UAE in the future which may result in the Contractual Arrangements being scrutinised by the tax authorities and higher tax rates or additional taxes being imposed on and incurred by Indigo Dubai or Pacific Legend Development in connection with the Contractual Arrangements and thereby adversely affecting our results of operations.

**We do not have any insurance coverage to cover our risks relating to the Contractual Arrangements**

We have not purchased nor do we maintain any insurance policy to cover any of the risks relating to the Contractual Arrangements. In the event that the Contractual Arrangements are held or declared to be illegal, invalid or not legally binding, or if we fail to enforce our rights under the Contractual Arrangements, or if we fail to seek remedies against the UAE Nominee under the Contractual Arrangements, we may not be adequately compensated for our losses.

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

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

Prior to the Share Offer, no public market for our Shares existed. Following the completion of the Share Offer, the Stock Exchange will be the only market on which the Shares are publicly traded. We cannot assure our investors that an active trading market for our Shares will develop or sustain after the Share Offer. In addition, we cannot assure our investors that our Shares will trade in the public market at or above the Offer Price subsequent to the Share Offer. The Offer Price for the Shares is expected to be fixed by the Price Determination Agreement, and may not be indicative of the market price of the Shares following the completion of the Share Offer. If an active trading market for our Shares does not develop or is not sustained after the Share Offer, the market price and liquidity of our Shares may be materially and adversely affected.

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## RISK FACTORS

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### **The trading price and volume of our Shares may be volatile**

The trading price of our Shares may be volatile and may fluctuate widely in response to factors beyond our control, including variations in the level of liquidity of our Shares, changes in securities analysts' (if any) estimates of our financial performance, investors' perceptions of our Group and the general investment environment, changes in laws, regulations and taxation systems which affect our operations, and general market conditions of the securities markets in Hong Kong. These broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance.

In addition to market and industry factors, the price and trading volume for our Shares may be highly volatile for specific business reasons. In particular, factors such as variations in our revenue, net income and cash flow, success or failure of our efforts in implementing business and growth strategies and involvement in material litigation as well as recruitment or departure of key personnel, may cause the market price of our Shares to change unexpectedly. Any of these factors may result in large and sudden changes in the volume and trading price of our Shares.

Further, there will be a gap of several days between pricing and trading of the Offer Shares. The Offer Price of our Shares is expected to be determined on the Price Determination Date while our Shares will not commence trading on the Stock Exchange until the Listing Date. As a result, investors may not be able to sell or otherwise deal in our Shares during the period between the Price Determination Date and the Listing Date and hence are subject to the risk that the price of our Offer Shares could fall during the period before trading of our Offer Shares begins.

### **Investors may experience difficulties in enforcing their Shareholder's rights because our Company is incorporated in the Cayman Islands, and Cayman Islands law may provide protection and remedies to minority Shareholders which are different from those available under the laws of Hong Kong or other jurisdictions**

Our Company is incorporated in the Cayman Islands and our affairs are governed by our Articles of Association, the Companies Law and common law applicable in the Cayman Islands. The laws of the Cayman Islands may differ from those of Hong Kong or other jurisdictions where investors may be located. As a result, minority Shareholders may not enjoy the same rights available under the laws of Hong Kong or such other jurisdictions. A summary of the Cayman Islands company law on the protection of minority Shareholders is set out in Appendix III to this prospectus.

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## RISK FACTORS

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### **Issue of new Shares under the Share Option Scheme or any future equity fund raising exercise will have a dilution effect and may affect our profitability**

We have conditionally adopted the Share Option Scheme but no option has been or will be granted thereunder prior to the Listing Date. Any exercise of the options to be granted under the Share Option Scheme in the future will result in a dilution in the shareholding of our Shareholders in our Company and may result in a dilution in the earnings per Share and net asset value per Share. Under the HKFRSs, the costs of share options to be granted under the Share Option Scheme will be charged to our Company's profit or loss over the vesting period by reference to the fair value as at the date of grant of the share options. As a result, our profitability may be materially and adversely affected.

### **RISKS RELATING TO CERTAIN INFORMATION CONTAINED IN THIS PROSPECTUS**

#### **Investors should read the entire prospectus and should not rely on any information contained in press articles or other media coverage regarding us and the Share Offer**

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

#### **Certain facts, forecasts and other statistics in this prospectus obtained from publicly available sources have not been independently verified and may not be reliable**

Certain facts, forecast and other statistics in this prospectus are derived from various government and official resources. However, our Directors cannot guarantee the quality or reliability of such source materials. We believe that the sources of the said information are appropriate 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 or that any fact has been omitted that would render such information false or misleading. Nevertheless, such information has not been independently verified by us, the Sole Sponsor, the Joint Lead Managers and the Joint Bookrunners, the Underwriters or any of their respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such facts and statistics. Further, we cannot assure our investors that they are stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In all cases, our investors should consider carefully how much weight or importance should be attached to or placed on such facts or statistics.

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## RISK FACTORS

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### **Information contained in press articles or other media**

We wish to emphasise to prospective investors that we do not accept any responsibility for the accuracy or completeness of the information contained in any press articles or other media coverage regarding our Group or the Share Offer, and such information that was not sourced from or authorised by us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any information contained in any press articles or other media about our business or financial projections, share valuation or other information. Accordingly, in all cases, prospective investors should give consideration as to how much weight or importance they should attach to, or place on, such press articles or other media coverage.

### **Forward-looking statements contained in this prospectus may prove inaccurate and are subject to risks and uncertainties**

This prospectus contains certain forward-looking statements relating to the plans, objectives, expectations and intentions of our Directors and our Group. Such forward-looking statements are based on numerous assumptions as to the present and future business strategies of our Group and the development of the environment in which our Group operates. These statements involve known and unknown risks, uncertainties and other factors which may cause the actual financial results, performance or achievements of our Group to be materially different from the anticipated financial results, performance or achievements of our Group expressed or implied by these statement.

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## WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES

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### WAIVER IN RESPECT OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We have entered into a service agreement and the New Contractual Arrangements which would constitute continuing connected transactions of our Company under Chapter 20 of the GEM Listing Rules following the completion of the Share Offer. We have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Chapter 20 of the GEM Listing Rules in relation to the non-exempt continuing connected transactions. For details of such non-exempted continuing connected transactions and the waiver, please refer to the paragraphs headed “Contractual Arrangements — New Contractual Arrangements” and “Connected transactions — (2) Non-exempted continuing connected transactions — Corporate nominee service agreement and Contractual Arrangements” in this prospectus.

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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 (Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the GEM Listing Rules for the purpose of giving information with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and is not misleading or deceptive and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

### **OFFER SHARES ARE FULLY UNDERWRITTEN**

This prospectus is published solely in connection with the Share Offer which is sponsored by the Sole Sponsor and is managed by the Joint Lead Managers. The Offer Shares are fully underwritten by the Underwriter(s) subject to the terms and conditions of the Public Offer Underwriting Agreement and subject to the Offer Price to be fixed by the Price Determination Agreement on the Price Determination Date, which is expected to be on or around Friday, 6 July 2018, or such later date as may be agreed between our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriter(s)). Further information relating to the underwriting arrangements is set out in the section headed "Underwriting" of this prospectus.

If, for any reason, the Offer Price is not agreed between our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriter(s)) by the Price Determination Date or such later date as may be agreed by the parties, the Share Offer will not become unconditional and will lapse.

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

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

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

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Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Offer Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

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” in this prospectus, and the procedures for applying for the Public Offer Shares are set out in the section headed “How to apply for the Public Offer Shares” in this prospectus and on the relevant Application Forms.

### **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 is fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement, and is subject to the agreement on the Offer Price between the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date. A Placing Underwriting Agreement relating to the Placing is expected to be entered into on or around 6 July 2018, subject to the Offer Price being agreed. The Share Offer is managed by the Joint Lead Managers and the Joint Bookrunners.

If, for any reason, the Offer Price is not agreed by our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters), the Share Offer will not become unconditional and will lapse immediately. Further details of the Underwriters and the underwriting arrangement are set out in the paragraph headed “Underwriting — Underwriting arrangements and expenses” in this prospectus.

### **OFFER PRICE**

The Offer Shares are being offered at the Offer Price, which is expected to be fixed by the Price Determination Agreement between the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date, which is currently expected to be on or about, Friday, 6 July 2018 (or such later date as the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company may agree). If, for any reason, the final Offer Price is not agreed by our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters), the Share Offer will not become unconditional and will lapse immediately. For full information relating to the determination of the Offer Price, please refer to the section headed “Structure and conditions of the Share Offer” in this prospectus.

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

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

No action has been taken in any jurisdiction other than Hong Kong to permit the offering of the Offer Shares on the general distribution of this prospectus and/or the Application Forms. This prospectus and/or the Application Forms may not be used for the purpose of, and does not constitute, an offer or invitation in relation to the Share Offer in any jurisdiction or, in any circumstance in which such an offer or invitation is not authorised, and is not an offer or invitation to any person to whom it is unlawful to make an unauthorised offer or invitation. Persons who possess this prospectus and/or the Application Forms are deemed to have confirmed with our Company, the Sole Sponsor, the Joint Lead Managers, the Joint Bookrunners and the Underwriters that such restrictions have been observed.

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 and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile. Each person subscribing for or purchasing of the Offer Shares will be required to, or is deemed by his/her/its subscription or purchase of the Offer Shares, to confirm that he/she/it is aware of the restrictions on offers of the Offer Shares described in this prospectus and that he/she/it is not subscribing for, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.

### **STRUCTURE AND CONDITIONS OF THE SHARE OFFER**

Further details of the structure and conditions of the Share Offer are set out in the section headed “Structure and conditions of the Share Offer” of this prospectus.

### **APPLICATION FOR LISTING ON GEM**

Application has been made to the Listing Division for the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Capitalisation Issue and the Share Offer (including any additional Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme) on GEM.

Save as disclosed in this prospectus, no part of the share capital of our Company is listed or dealt in on any other stock exchange and no such listing or permission to deal is being or is proposed to be sought.



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

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

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of Listing and at all times thereafter, our Company must maintain the minimum prescribed percentage of at least 25% of the issued share capital of our Company in the hands of the public (as defined in the GEM Listing Rules). Accordingly, a total of 250,000,000 Offer Shares, which represents 25% of the enlarged issued share capital of our Company immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued pursuant to the exercise of any option which may be granted under the Share Option Scheme) will be made available under the Share Offer.

Only securities registered on our branch register of members kept in Hong Kong may be traded on GEM unless the Stock Exchange otherwise agrees.

### **COMMENCEMENT OF DEALINGS IN OUR SHARES**

Dealings in our Shares on GEM are expected to commence at 9:00 a.m. on or about Wednesday, 18 July 2018. Shares will be traded in board lots of 10,000 Shares each. The stock code for the Shares will be 8547. No temporary documents or evidence of title will be issued.

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

Subject to the approval of, and permission to deal in, our Shares on GEM and the compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or on any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

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

All necessary arrangements have been made for our Shares to be admitted into CCASS. If you are unsure about the details of CCASS settlement arrangements and how such arrangements will affect your rights and interests, you should seek the advice from your stockbrokers or other professional advisers.

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

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### **PROFESSIONAL TAX ADVICE RECOMMENDED**

If you are unsure about the taxation implications of the subscription for, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to our Shares, you should consult your professional advisers. It is emphasised that none of our Company, the Sole Sponsor, the Joint Lead Managers, the Joint Bookrunners, the Underwriters, any of their respective directors, agents or advisers or any other person involved in the Share Offer accepts responsibility for any tax effects on or liabilities of any person resulting from the subscription for, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to our Shares.

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

All the Offer Shares will be registered on our Company's branch share register maintained in Hong Kong by Tricor Investor Services Limited. Our principal register of members will be maintained in the Cayman Islands by Conyers Trust Company (Cayman) Limited. Only securities registered on the branch register of members of our Company kept in Hong Kong may be traded on GEM unless the Stock Exchange otherwise agrees.

Dealings in our Shares registered on our branch register of members in Hong Kong will be subject to Hong Kong stamp duty. For further details about Hong Kong stamp duty, please refer to the paragraph headed "E. Other information — 2. Registrars of members and taxation concerning the Shareholders" in Appendix IV to this prospectus.

Unless our Company determines otherwise, dividends (if any) payable in HK dollars in respect of our Shares will be paid at the Shareholder's risk by ordinary post to the registered address of each Shareholder or, in the case of joint Shareholders, to the first-named Shareholder.

### **ROUNDING**

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

### **LANGUAGE**

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

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## INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

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### EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations of certain RMB, AED and/or US\$ amounts into Hong Kong dollar amounts or vice versa at specified rates. You should not construe these translations as representations that RMB, AED and/or US\$ amounts could actually be converted into Hong Kong dollar amounts or vice versa at the rates indicated or at all. For the purpose of this prospectus, unless we indicate otherwise, the translation of RMB amounts into Hong Kong dollar amounts have been made at the rate of RMB1 to HK\$1.24, translation of AED amounts into Hong Kong dollar amounts have been made at the rate of AED1 to HK\$2.13, and the translation of US\$ amounts into Hong Kong dollar amounts have been made at the rate of US\$1 to HK\$7.82.

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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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### DIRECTORS

Name	Address	Nationality
<b>Executive Directors</b>		
Mr. John Warren McLennan (Chairman)	Flat 50, 1/F, Block 3 Middleton Towers 140 Pok Fu Lam Road Pok Fu Lam Hong Kong	Canadian
Ms. Tracy-Ann Fitzpatrick (Chief executive officer and vice-chairman)	1/F, Block 39 Baguio Villa 550 Victoria Road Hong Kong	New Zealand
Ms. Mok Lai Yin Fiona (莫麗賢)	Flat RB, 36/F Tower 5, Hemera LOHAS Park 1 Lohas Park Road Sai Kung New Territories Hong Kong	Chinese
<b>Non-executive Director</b>		
Mrs. Jennifer Carver McLennan	Flat 50, 1/F, Block 3 Middleton Towers 140 Pok Fu Lam Road Pok Fu Lam Hong Kong	American
<b>Independent non-executive Directors</b>		
Ms. Elaine June Cheung (張綺玲)	Flat 61, 7/F, Block 3 Middleton Towers 140 Pok Fu Lam Road Pok Fu Lam Hong Kong	American
Mr. Roderick Donald Nichol	Flat B, 14/F Nikken Heights 12 Prince's Terrace Hong Kong	Canadian
Ms. Li Yan Yan (李茵茵)	12/F, Block 34 Baguio Villa 550 Victoria Road Hong Kong	British

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

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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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### PARTIES INVOLVED IN THE SHARE OFFER

**Sole Sponsor**

**Success New Spring Capital Limited**  
Unit 2108, China Merchants Tower  
Shun Tak Centre  
168–200 Connaught Road Central  
Hong Kong

**Joint Lead Managers and  
Joint Bookrunners**

**Aristo Securities Limited**  
Room 101, 1st Floor  
On Hong Commercial Building  
145 Hennessy Road, Wanchai  
Hong Kong

**Supreme China Securities Limited**  
Suites 2701-2, 27/F, Everbright Centre  
108 Gloucester Road, Wanchai  
Hong Kong

**Opus Capital Limited**  
18/F, Fung House  
19-20 Connaught Road Central  
Central  
Hong Kong

**Success Securities Limited**  
Suite 1603-7, 16/F, Great Eagle Centre  
23 Harbour Road, Wanchai  
Hong Kong

**Legal advisers to our Company**

*As to Hong Kong law*  
**Stevenson, Wong & Co.**  
39/F, Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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*As to PRC law*

**AllBright Law Offices**

Room 02-07, 33/F

Guangzhou International Finance Centre

5 Zhujiang West Road

Guangzhou

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 UAE law*

**Trench & Associates**

2nd Floor, Albwardy Building

PO Box 21832

Dubai

United Arab Emirates

**Legal adviser to the Sole Sponsor, the  
Joint Lead Managers, the Joint  
Bookrunners and the Underwriter(s)**

*As to Hong Kong law*

**CFN Lawyers**

27/F, Neich Tower

128 Gloucester Road

Wan Chai

Hong Kong

**Auditors and reporting accountants**

**Baker Tilly Hong Kong Limited**

2nd Floor, 625 King's Road

North Point

Hong Kong

**Internal control consultant**

**Baker Tilly Hong Kong Risk Assurance Limited**

2nd Floor, 625 King's Road

North Point

Hong Kong

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**DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER**

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**Industry consultant**

**Ipsos Limited**  
22/F, Leighton Centre  
77 Leighton Road  
Causeway Bay  
Hong Kong

**Compliance adviser**

**Altus Capital Limited**  
21 Wing Wo Street  
Central  
Hong Kong

**Receiving bank**

**Industrial and Commercial Bank of China (Asia)  
Limited**  
33/F, ICBC Tower  
3 Garden Road  
Central  
Hong Kong

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## CORPORATE INFORMATION

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<b>Registered office</b>	Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Head office and principal place of business in Hong Kong</b>	Units 1202–04, Level 12 Cyberport 2 100 Cyberport Road Hong Kong
<b>Company's website</b>	<b><u><a href="http://www.pacificlegendgroup.com">http://www.pacificlegendgroup.com</a></u></b> <i>(Note: the information contained in this website does not form part in this prospectus)</i>
<b>Company secretary</b>	Mr. Fu Chi Wing Jason ( <i>HKICPA</i> ) 9/F, 451 Lockhart Road Wanchai Hong Kong
<b>Authorised representatives (for the purpose of the GEM Listing Rules)</b>	Ms. Tracy-Ann Fitzpatrick 1/F, Block 39 Baguio Villa 50 Victoria Road Hong Kong  Mr. Fu Chi Wing Jason ( <i>HKICPA</i> ) 9/F, 451 Lockhart Road Wanchai Hong Kong
<b>Compliance officer</b>	Ms. Tracy-Ann Fitzpatrick 1/F, Block 39, Baguio Villa 50 Victoria Road Hong Kong
<b>Audit committee</b>	Ms. Elaine June Cheung (張綺玲) ( <i>Chairlady</i> ) Mr. Roderick Donald Nichol Ms. Li Yan Yan (李茵茵)



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## CORPORATE INFORMATION

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<b>Remuneration committee</b>	Mr. Roderick Donald Nichol ( <i>Chairman</i> ) Ms. Elaine June Cheung (張綺玲) Ms. Li Yan Yan (李茵茵) Mr. John Warren McLennan
<b>Nomination committee</b>	Ms. Li Yan Yan (李茵茵) ( <i>Chairlady</i> ) Ms. Elaine June Cheung (張綺玲) Mr. Roderick Donald Nichol Ms. Tracy-Ann Fitzpatrick
<b>Cayman Islands principal share registrar and transfer office</b>	<b>Conyers Trust Company (Cayman) Limited</b> Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Hong Kong branch share registrar and transfer office</b>	<b>Tricor Investor Services Limited</b> Level 22 Hopewell Centre 183 Queen's Road East Hong Kong
<b>Principal bankers</b>	<b>Wing Lung Bank Limited</b> 45 Des Voeux Road Central Hong Kong

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## INDUSTRY OVERVIEW

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*We have extracted and derived the information and statistics in the section below, unless otherwise specified, from the Ipsos Report. We believe that the sources of the information and statistics in this section are appropriate sources for such information and statistics and have taken reasonable care in the extraction and reproduction of such information and statistics. We have no reason to believe that such information and statistics is false or misleading or that any fact has been omitted that would render such information and statistics false or misleading. The information in this section has not been independently verified by us, the Sole Sponsor, the Joint Lead Managers, the Joint Bookrunners, the Underwriters, any of our or their respective affiliates, directors or advisers or any other persons or parties involved in the Share Offer, and no representation is given as to its completeness, accuracy or fairness. Accordingly, you should not place undue reliance on the information in this section.*

### SOURCE AND RELIABILITY OF INFORMATION

#### Background of Ipsos

We have commissioned Ipsos Limited, an Independent Third Party to conduct an analysis of, and to report on the furniture retail and rental industry in Hong Kong, UAE and Mainland China at a fee of HK\$485,000 and our Directors consider that such fee reflects market rates. Ipsos is an independent market research company wholly-owned by Ipsos Group S.A.. The Ipsos Report has been prepared by Ipsos independent of our Group's influence. Except as otherwise noted, the information and statistics set forth in this section have been extracted from the Ipsos Report. The payment of such amount was not conditional on our Group's successful Listing or on the results of the Ipsos Report. Ipsos Business Consulting, a division of Ipsos, has solid experience in conducting market research for various industries in initial public offerings of companies listed on the Stock Exchange.

The information in the Ipsos report are derived by data and intelligence obtained by: (a) primary research via in-depth telephone conversations and face to face interviews with key knowledge leaders; (b) secondary desk research by gathering background information and to support facts and identify trends on the industry; and (c) performing client consultation to facilitate the research including in-house background information of the client (such as the business of our Group). The information and statistics as set forth in this section have been extracted from the Ipsos Report.

#### Assumptions and parameters used in the Ipsos Report

The following bases and assumptions are used in the market sizing and forecasting model in the Ipsos Report: (1) It is assumed that the global economy remains in steady growth across the period from 2017 to 2021; and (2) 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 home furniture and accessories industry in Hong Kong, Mainland China and UAE from 2017 to 2021.

The following parameters are used in the market sizing and forecasting model in the Ipsos Report:

- GDP and GDP growth rate in Hong Kong, UAE and Mainland China from 2012 to 2016 and forecast from 2017 to 2021.
- Number of sales and purchase agreements for domestic properties in Hong Kong from 2012 to 2017.
- Number of completed private residential units in Hong Kong from 2012 to 2017.
- Total floor area of newly completed commercial space in Hong Kong from 2012 to 2017.
- Total floor area of newly completed office space in Hong Kong from 2012 to 2017.
- Residential price index for Hong Kong from 2012 to 2016.
- Sales revenue of the home furniture and accessories industry in Hong Kong from 2012 to 2016 and forecast from 2017 to 2021.

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- Sales revenue of the home furniture and accessories industry in Mainland China from 2012 to 2016 and forecast from 2017 to 2021.
- Sales revenue of the home furniture and accessories industry in UAE from 2012 to 2016 and forecast from 2017 to 2021.
- Average rent for retail space in Hong Kong from 2012 to 2017 (HK\$ per m<sup>2</sup> per month).
- Median monthly wages for workers in retail sector (HK\$ per employee per month) in Hong Kong from 2012 to 2017.
- Average rent for private retail premises in Shanghai (RMB per m<sup>2</sup> per month) from 2012 to 2016.
- Average annual wages for wholesale and retail salesperson (RMB per employee) from 2012 to 2016.
- Average rent for retail space in Dubai (AED per sq.ft.) from 2012 to 2017.
- Average annual wage in wholesale and retail trade in UAE (AED per employee per month) from 2012 to 2016.

Our Directors confirmed that, as at the Latest Practicable Date, after taking reasonable care, 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.

Except as otherwise noted, all the data and forecasts contained in this section are derived from the Ipsos Report.

### MARKET OVERVIEW OF THE HOME FURNITURE AND ACCESSORIES INDUSTRY IN HONG KONG, MAINLAND CHINA AND UAE

Home furniture and accessories industry in Hong Kong refers to the distribution and retail of home furniture<sup>(1)</sup>, tableware<sup>(2)</sup>, home décor<sup>(3)</sup>, lighting<sup>(4)</sup>, bed and bath accessories<sup>(5)</sup> and other related products. Subjected to the keen competition from neighbouring economies, rising production costs and shortage in labour, furniture manufacturing sector in Hong Kong has relocated their production base to mainland China, leaving the retail sector remain robust and continue to grow within the industry. In general, Hong Kong furniture and accessories retailers primarily sell their products via retail stores along with other channels such as rental services and corporate project engagements. A small portion of home furniture and accessories retailers in Hong Kong also engage in online sale to provide home furniture and accessories.

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*Notes:*

- 1 Home furniture refers to the collection of movable objects and immovable fixtures designed to support human activities, are generally classified into these categories: living room furniture; dining room furniture; bedroom furniture; kitchen furniture and bathroom furniture.
- 2 Tableware refers to dishware used for setting tables, serving food and dining, products include but not limited to the following: dinnerware; silverware; drinkware, and table linen.
- 3 Home décor refers to the interior decoration of apartments and houses which include items purchased for decorative purpose that help set the home accent, products include but not limited to the following: candles, cushions, vases, wall décor, rugs, botanical plants and curtains.
- 4 Lighting refers to the home accessories that uses light to illuminate and achieve practical or aesthetic effects, products include but not limited to the following: ceiling lights, floor lamps, and table lamps.
- 5 Bed and bath accessories refer to accessories that offer users the benefit of convenience while ensuring bedrooms and bathrooms are clean and tidy, products include but not limited to the following: bedding linen, bedding accessories, bath accessories and bath linen.

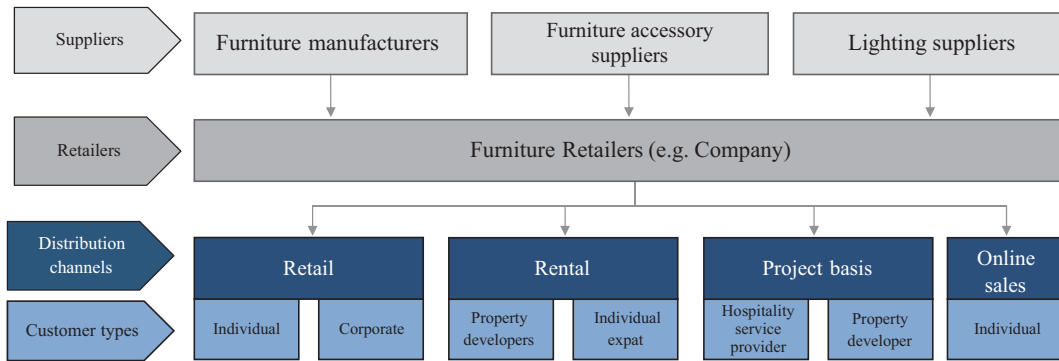
*Source: Ipsos research and analysis*

### Value chain analysis

Home furniture and accessories retailers in Hong Kong, mainland China and UAE mainly source products from (i) furniture manufacturers, (ii) furniture accessory suppliers, (iii) lighting suppliers and other product manufacturers. Depending on the expertise, capacity and scale, furniture retailers can sell their products to customers through four main channels, including (i) retail; (ii) rental services; (iii) project engagement; and (iv) online sales. With different channels, furniture and accessories retailers can target different customer types accordingly.

## INDUSTRY OVERVIEW

The exhibit below sets forth the value chain of the home furniture and accessories industry in Hong Kong, Mainland China and UAE:



Source: Ipsos research and analysis

Retailers of home furniture and accessories can offer their services and product to customers through these channels:

Distribution channels	Business practices	Value-added services	Key customer types
Retail stores	Products sales at self-own retail stores or department stores, where customers can experience the firsthand quality and the made of furniture pieces as well as their effects on the overall home décor.	<ul style="list-style-type: none"> <li>Suggestions of floor plans, custom-made furniture designs for home decoration.</li> <li>Delivery and installation services.</li> </ul>	<ul style="list-style-type: none"> <li>Home owners</li> <li>Landlords</li> <li>Interior designers</li> </ul>
Rental	Lease furniture pieces and accessories to customers for a certain length of time, which ranges from one month to a year. Leasing services offer customers with short-term needs and the benefits of cost and convenience.	<ul style="list-style-type: none"> <li>Repair and maintain furniture pieces under the lease if the item require refurbishment.</li> </ul>	<ul style="list-style-type: none"> <li>Expatriates</li> <li>Property developers</li> </ul>
Corporate projects	Provide turn-key solutions that cover interior design as well as the furnishing of commercial and residential properties.	<ul style="list-style-type: none"> <li>Turn-key solutions to customers which include creating mood boards, planning interior space usage, designing custom-made furniture, and furniture procurement.</li> <li>Delivery and installation services.</li> </ul>	<ul style="list-style-type: none"> <li>Hospitality service providers</li> <li>Property developers</li> </ul>
Online shops and sales platform	Products list on their own websites or third party online platforms for sale. Customers can browse their full range of furniture and accessories before placing online orders. The online shopping channels help customers save time and offer them the benefits of convenience.	<ul style="list-style-type: none"> <li>Delivery services or merchandise pick up services.</li> </ul>	<ul style="list-style-type: none"> <li>Home owners</li> <li>Landlords</li> <li>Interior designers</li> </ul>

Source: Ipsos research and analysis

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## INDUSTRY OVERVIEW

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The establishment of online sales channel with existing retail stores aim to serve two purposes: i) retaining existing customers, and ii) expanding existing customer base. The establishment of online stores is partially a move to match with the changing customer behaviour of purchasing more from online. Brick-and-mortar stores serve as the traditional sales channel of home furniture and accessories, allowing customers to have physical touch of the items and demonstrating the items in a home setting. With the adoption of online sales channel, customers can therefore make purchase online after exploring furniture and accessories in brick-and-mortar outlets.

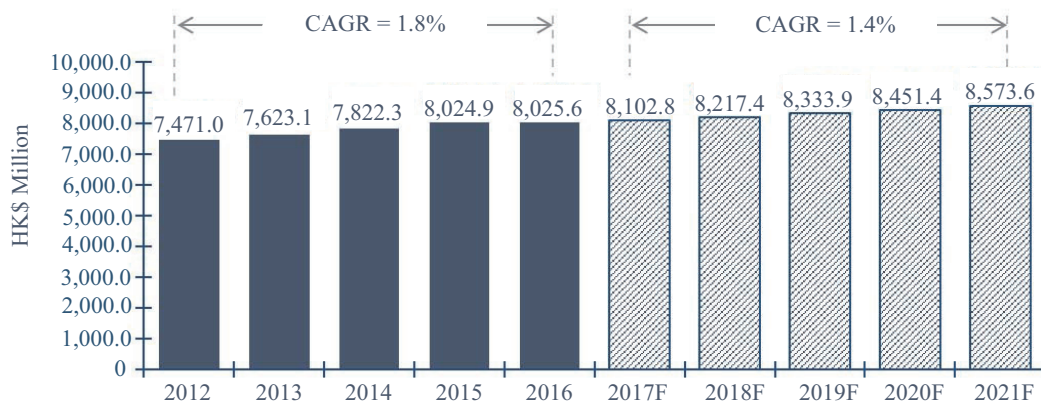
Furthermore, online sales platform can be treated as an online catalog which displays product details such as dimension, colour and material. Customers can easily browse the availability of different products, attracting potential customers to purchase furniture and accessories online or encouraging customers to visit physical stores and make the purchase.

Lastly, establishing online sales channel can help build stronger brand awareness, especially among young customers who are more internet centric. Promotional information is likely to reach to more potential customers through online manners compared to traditional channels. As a result, online sales channel can actually help capture more customers. The two sales channels are supplementary to each other.

### Sales revenue of the home furniture and accessories industry in Hong Kong

The graph below sets forth the revenue of the home furniture and accessories industry in Hong Kong during the period from 2012 to 2021:

#### Sales revenue of home furniture and accessories industry in Hong Kong from 2012 to 2021F



*Notes:*

- 1 The estimation above includes furniture and accessories sale through retail stores only in Hong Kong and excludes sales value through rental service and project engagements.
- 2 "F" denotes forecast figures.

*Source: Ipsos research and analysis*

The sale revenue of the Hong Kong home furniture and accessories industry grew from HK\$7,471.0 million in 2012 to HK\$8,025.6 million in 2016, rising at a CAGR of approximately 1.8%. Over the forecast period, the gross output value is projected to continue rising from HK\$8,102.8 million in 2017 to HK\$8,573.6 million in 2021 at a CAGR of approximately 1.4%.

Favourable factors such as the real estate boom and the consistent level of private consumption produced moderate growth in sales for Hong Kong home furniture and accessories industry between 2012 and 2016. Growth in the home furniture and accessories

## INDUSTRY OVERVIEW

industry is projected to continue between 2017 and 2021 but at a slower pace. Such slower growth is due to the fact that there is increasing customers may choose to purchase home furniture and accessories in mainland China.

### Real estate markets in Hong Kong

The table below sets forth the analysis of total number of newly completed private residential units, number of domestic sale and purchase agreements and the total floor area of newly completed commercial and office space:

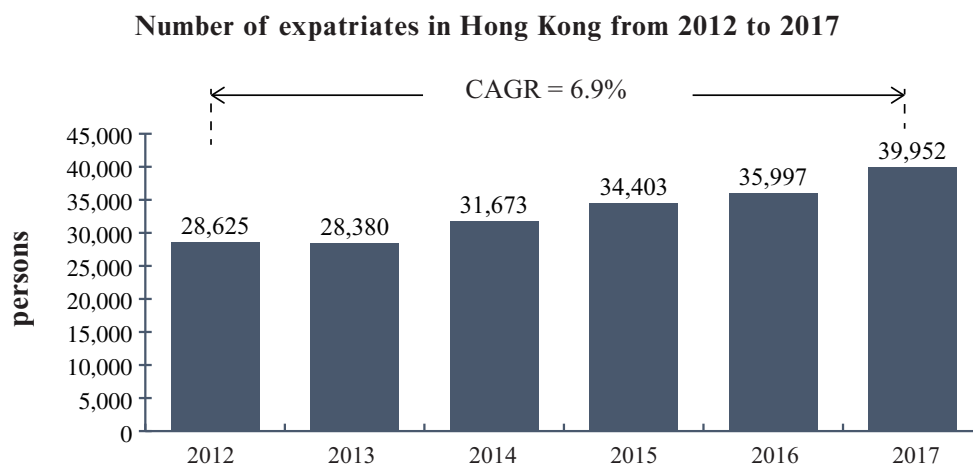
	2012	2013	2014	2015	2016	2017	CAGR
Newly completed private residential units ( <i>unit</i> ) . . . . .	10,149	8,254	15,719	11,296	14,595	17,791	11.9%
Number of domestic sale and purchase agreements . . . . .	81,333	50,676	63,807	55,982	54,701	61,591	-5.4%
Newly completed commercial space ('000 <i>m</i> <sup>2</sup> ) . . . . .	90.1	38.4	57.1	68.3	123.1	105.0	3.1%
Newly completed office space ('000 <i>m</i> <sup>2</sup> ) . . . . .	135.7	122.7	103.6	164.5	153.1	198.1	7.9%

Sources: Rating and Valuation Department, HKSAR; Ipsos research and analysis

The growing property market in Hong Kong is driving the demand for home furniture pieces and accessories and project engagements with property developers. For example, the number of private residential units completed in Hong Kong per year fluctuated and experienced an overall increase at a CAGR of approximately 11.9% from 2012 to 2017. The number is projected to reach 18,130 units in 2018, and 20,371 units in 2019, according to the Rating and Valuation Department.

### Number of expatriates in Hong Kong

The graph below sets forth the total number of expatriates from 2012 to 2017:



Note: The number of expats each year refers to figures released by the Immigration Department on the number of applications approved annually under the General Employment Policy.

Sources: Immigration Department, HKSAR; Ipsos research and analysis

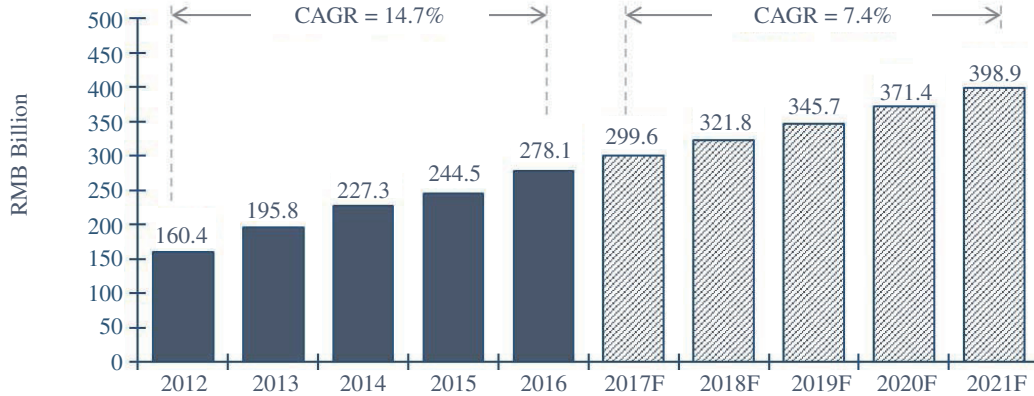
There is an overall increase in the number of expatriates in Hong Kong from 28,625 in 2012 to 35,997 in 2016, at a CAGR of approximately 5.9%. The growth of the number of expatriates in Hong Kong may lead to the rising demand of home furniture and accessories rental services. Also, expatriates employed at manager or executive levels are often entitled to relocation and housing allowance packages may consider the option of renting furniture to help furnishing their homes in Hong Kong.

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### Sales revenue of the home furniture and accessories industry in Mainland China

The graph below sets forth the sales revenue of the home furniture and accessories industry in Mainland China during the period from 2012 to 2021:

#### Sales revenue of home furniture and accessories industry in Mainland China from 2012 to 2021F



*Notes:*

- 1 The estimation above includes furniture and accessories sale through retail stores only in Mainland China and excludes sales value through rental service and project engagements.
- 2 "F" denotes forecast figures.

*Source: Ipsos research and analysis*

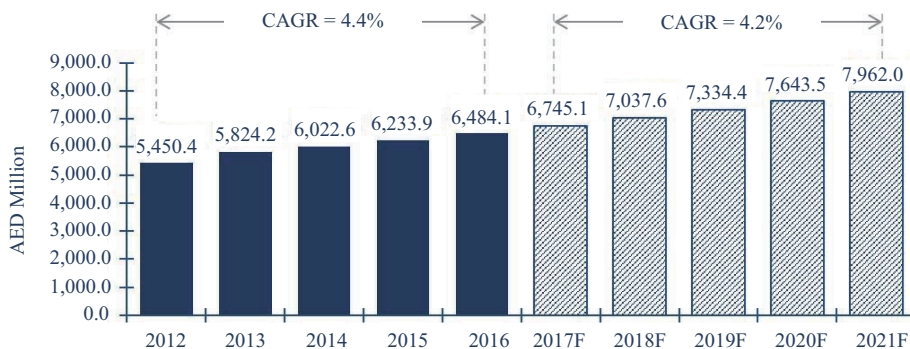
The sales revenue of the China home furniture and accessories industry grew from RMB160.4 billion in 2012 to RMB278.1 billion in 2016, rising at a CAGR of approximately 14.7%. Over the forecast period, the industry is expected to grow from RMB299.6 billion in 2017 to RMB398.9 billion in 2021, expanding at a CAGR of approximately 7.4%.

The strong growth experienced from 2012 to 2016 reflected the country's strong economic development as well as the acceleration of urbanisation over the same period. China's urbanisation rate rose from approximately 52.6% in 2012 to 58.5% in 2017, rising at a CAGR of approximately 2.2%, driving large scale migration of rural residents into cities, which in turn simulated the demand for home furniture and accessories. Over the forecasted period, China's home furniture and accessories industry is projected to grow, benefiting from the country's on-going urbanisation as well as its booming property market.

### Sales revenue of the home furniture and accessories industry in UAE

The graph below sets forth sales revenue of the home furniture and accessories industry in UAE during the period from 2012 to 2021:

#### Sales revenue of home furniture and accessories industry in UAE from 2012 to 2021F



## INDUSTRY OVERVIEW

*Notes:*

- 1 The estimation above includes furniture and accessories sale through retail stores only in UAE and excludes sales value through rental service and project engagements.
- 2 "F" denotes forecast figures.

*Source: Ipsos research and analysis*

The sales revenue of the UAE home furniture and accessories industry increased from AED5,450.4 million in 2012 to AED6,484.1 million in 2016, rising at a CAGR of approximately 4.4%. The sales revenue of the industry is projected to continue to expand from AED6,745.1 million in 2017 to AED7,962.0 million in 2021, rising at a CAGR of approximately 4.2%.

The rise in sale value could be explained by the UAE's growing number of villas and residential apartment. The number of newly completed villas and residential apartments in Dubai<sup>(1)</sup> rose from 2012 to 2016 at a CAGR of approximately 13.7% and approximately 12.8% respectively.

The growth rate for the forecast period is slightly lower than that from 2012 to 2016 because of the implementation of value added tax in UAE in January 2018, which may have a slight but adverse effect on expenditure on home furniture and accessories.

A growth in expatriates population in Dubai<sup>(1)</sup> from 2,012,110 in 2013 to 2,465,170 in 2016, rising at a CAGR of approximately 7.0% has led to the rising demand for home furniture and accessories in UAE.

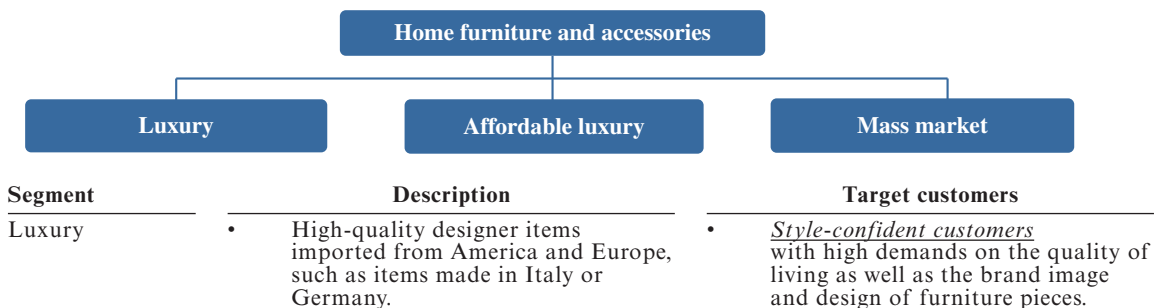
The World Expo 2020 Dubai is an international public fair, and millions of visitors are expected to visit the Expo. The government of Dubai is making investments on several major construction projects in preparation of the Expo, such as: 1) the construction and fitting out of the Expo site financed by the Government of Dubai with a budget of approximately US\$8.8 billion, and 2) the continuous development of the Dubai World Trade Central with a budget of approximately US\$31 billion on the acceleration of residential, retail and hospitality districts development. Dubai will see continued increase of demand for furniture, as the newly completed buildings, including residential buildings and hotels, need to be furnished. Therefore, the World Expo 2020 Dubai is considered as an opportunity for home furniture and accessories retail industry in the UAE, particularly in Dubai.

*Note:* Dubai is one of the seven emirates and a major city in UAE.

### COMPETITIVE LANDSCAPE OF THE HOME FURNITURE AND ACCESSORIES INDUSTRY IN HONG KONG

#### Market segmentation

The overall home furniture and accessories industry in Hong Kong, mainland China and UAE can be categorised in to three segments based on the market position, namely (i) luxury (ii) affordable luxury and (iii) mass market. Furniture and accessories retailers often falls into one of the three segments.





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Segment	Description	Target customers
Affordable luxury	<ul style="list-style-type: none"> <li>High-end but not perceived as luxury brands. They often featured with sophisticated design and quality materials.</li> </ul>	<ul style="list-style-type: none"> <li><i>Style-conscious consumers</i> who pursuit of quality lifestyle and are less price-sensitive, and are more driven by aesthetical considerations.</li> </ul>
Mass market	<ul style="list-style-type: none"> <li>Manufactured at the lowest costs, and their retail prices are competitive in the market.</li> </ul>	<ul style="list-style-type: none"> <li><i>Price-sensitive customers</i> who focus on function and price rather than quality and design.</li> </ul>

*Source: Ipsos research and analysis*

The Group provides quality and designer products at a reasonable price, targeting at customers that are seeking for quality of life. The Group, therefore, is positioned in the affordable luxury segment within the Hong Kong, Mainland China, and UAE markets.

### Industry structure

#### *Hong Kong*

The home furniture and accessories industry is considered a mature market with long history of development in Hong Kong, and featured with stable industry structure in the past five years. In 2017, there were approximately 1,120 home furniture and accessories establishments in Hong Kong. The top five market players have accounted for 39.7% of the total market share. The industry is primarily led by the top two players in the market, primarily targeting the mass market in Hong Kong. With long presence of these two players in the market, they have established strong brand image and positioned to mass market, and thus secured considerable market shares in the industry. The Company was ranked the fifth in the home furniture and accessories industry in 2016, accounted for an approximately 1.5% market share in Hong Kong. The market value of the home furniture and accessories in Hong Kong increased from approximately HK\$7,471.0 million in 2012 to approximately HK\$8,025.6 million in 2016, with the CAGR of approximately 1.8%. Additionally, the market value is expected to increase from approximately HK\$8,102.8 million in 2017 to approximately HK\$8,573.6 million in 2021, growing at a CAGR of approximately 1.4%.

#### *China*

The home furniture and accessories industry is considered mature and very fragmented with myriad of furniture retailers across the country. There are chiefly three sales channels in the industry, (i) furniture specialty stores, (ii) furniture malls and (iii) online retail platforms. The industry is mainly dominated by local players, while, increasing number of foreign brands are expanding their business to the mainland China market. Given the fragmented nature and a total market value of home furniture and accessories industry in mainland China at RMB278.1 billion in 2016, the market share of the Company in China was relatively insignificant.

Affordable luxury and luxury brands are concentrated in the first and second tier cities in China, such as Beijing and Shanghai, as residences in first and second tier cities are more fashion-conscious and tend to seek for higher living standard. Chinese consumers are more willing to spend more money on home furniture and accessories to improve their quality of lives. Attributing to such market potential, the number of foreign affordable luxury and luxury brands is increasing in China that intensified the competition in the affordable luxury and luxury market segments.

#### *UAE*

The home furniture and accessories industry in the UAE market is quite similar to Hong Kong market where the UAE market has a few major local and international brands. Overall, both local and international brands are active in the market. Due to the close proximity, local brands include those regional players who have business in UAE, Middle East and/or other

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Gulf Cooperation Council (GCC) countries. With the market value of AED6,484.1 million in 2016, the Company, in term of the revenue generated from UAE retail stores, accounted for an approximately 0.2% market share in UAE.

The competition among affordable luxury and luxury home furniture and accessories in the UAE is somewhat intense. The high demand for affordable luxury and luxury home furniture and accessories in the UAE attracted brands from different countries expanding their business to the UAE. Most of the affordable luxury and luxury brands are concentrated in Dubai and Abu Dhabi, being the two major cities for retail in the UAE; in particular Dubai is a major regional retail center. Both affordable luxury and luxury brands are targeting customers who are fashion conscious and willing to spend more money on fashionable products.

### Top five home furniture and accessories retailers

The top five home furniture and accessories retailers in Hong Kong including their estimated revenue and market share are as follows:

Ranking	Company	Headquarter location	Year of establishment	Company description	Estimated revenue in 2016	Share of total industry revenue
					<i>HKS million</i>	%
1	Company A	Netherlands	1943	Company A is a private company, based in the Netherlands. The brand offers ready-to-assemble furniture and home accessories in a simple and practical style.	1,298.2	16.2
2	Company B	Hong Kong	1986	Company B is listed on the Stock Exchange for retail sales of furniture pieces, home appliances and accessories through omni distribution channel.	1,062.5	13.2
3	Company C	Hong Kong	1999	Company C is a private domestic brand in Hong Kong with European-style sofas and armchairs as centrepiece	504.0	6.3
4	Company D	Hong Kong	1975	Company D is a domestic retailer, listed on the Stock Exchange, providing home furniture and accessories with international design.	207.9	2.6
5	The Company	Hong Kong	1979		116.4	1.5
	Others				4,836.6	60.3
	<b>Total</b>				<b>8,025.6</b>	<b>100</b>

*Notes:*

- 1 Revenue only includes sales generated from retailing home furniture and accessories products, and excluding any sales generated through rental and project-solution services.
- 2 Percentages may not total 100% due to rounding.
- 3 Some total amounts may not correspond with the sum of separate figures due to rounding.

*Source: Ipsos research and analysis*

### Factors of competition

**Provision of furniture styling and consultancy services:** To acquire and maintain competitive edge, retailers of home furniture and accessories increasingly offer customers furniture styling and consultancy services in “one-stop shop” packages. It is becoming popular for retailers to bundle their products and services with professional recommendations and advice from interior designers.

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***Stylish design and product quality:*** An increasing number of customers are looking for furniture pieces that are fashionable and stylishly designed. Retailers of home furniture and accessories need to keep up with the latest trends and offer customers fashionable products and services. In addition, product quality is always an important criterion when customers choose furniture and accessories to furnish their homes.

***Customisation and innovation:*** There is a trend among property developers in Hong Kong to offer flats that are generally smaller in area than those in other markets, which in turn affects the design and size of home furniture and accessories that can fit into these flats. Retailers may offer services to modify or customise home furniture pieces. In addition, owners of small flats welcome innovative, multifunctional furniture pieces to help them utilise limited space more effectively, and retailers who can offer these solutions can better target and meet the needs of these customers.

### MARKET DRIVERS AND OPPORTUNITIES

***Preference for better home décor:*** Customers in Hong Kong and mainland China are getting more conscious of the quality of living as well as their life styles, thereby developing a preference for better home décor. Designer furniture and stylish products are gaining in popularity, while rising levels of income are raising the bar on standards and expectations customers bring with them when choosing furniture pieces for their homes. Rising affluence contributes to the growth in the number of consumers who are willing to spend more money on premium products with stylish designs, thus driving the retail market for designer furniture and accessories in Hong Kong and mainland China.

***Significant increase in expatriate population:*** The number of expatriates in Hong Kong rose from 2012 to 2017 at a CAGR of approximately 6.9%. In general, expatriates qualified under the General Employment Policy are granted an initial stay of 24 months. Often entitled to relocation and housing allowance packages, they are open to the option of renting furniture to help furnish their new homes in Hong Kong. Therefore, increases in expatriate population will help boost the demand for designer furniture as well as furniture rental services in Hong Kong.

***Real estate boom:*** Government's initiative to increase supply of land for residential development remains a key driver of growth for the home furniture and accessories market. The number of private residential units completed annually in Hong Kong fluctuated with an overall increase from 2012 to 2017 at a CAGR of approximately 11.9%. The figure is projected to further increase in 2018 and 2019. The forecasted upward trend implies an increasing number of new homes which will help generate demand for furnishing and project engagements with private developers.

***Growing potential of furniture for children:*** With improving living standards, parents are more willing to invest and provide their children with quality living conditions. This led to the growth in demand for furniture designed for children. At the same time, the incidence of having excessive amount of toxic substance – such as formaldehyde and heavy metal – in furniture items has also helped parents appreciate the importance of quality and safety when it comes to choosing furniture items. Furniture designed for kids aim to prevent accidents and to protect the health of children aged 3 to 14. It is projected the potential rise in birth rate following the implementation of the “Two Children Policy” and the stringent regulation of children's furniture will create an opportunity for home furniture and accessories industry in mainland China.

### ENTRY BARRIERS

***Capital investment in retail operations:*** Prime retail locations are hard to come by in Hong Kong, and the continuous rise in rental rates have caused higher operation cost. The rental rate index for retail space overall rose from 2012 to 2017 at a CAGR of approximately 3.8%. Such means higher capital investments to cover operating cost are required to run a furniture retail business. This may pose challenges to prospective new entrants who might not have sufficient capital to substantiate the high rental rates.

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**Reputation and brand recognition:** Good reputation and brand awareness help furniture retailers attract new customers and retain existing ones. Goodwill that comes with reputation and brand needs to be built up over time, and requires significant capital investment on promotion and marketing activities (such as advertising campaigns). In addition, the home furniture and accessories industry in Hong Kong is dominated by well-known players who are established market leaders. Their well-recognised brand names can prevent new entrants from winning over customers within a short period of time.

### THREATS

**Potential substitute:** The emergence of e-commerce retailers in mainland China has enabled individuals and SMEs to conduct business operations without significant overheads and capital investments. These online retailers can pose threats to Hong Kong's retail industry for home furniture and accessories. Online retailers operate under intensive price competition, high exposure to search rankings and customer service feedbacks, whereas local retailers with brick-and-mortar stores struggle to match and compete with their online peers in these respects.

**Increasing cost of operation:** The major costs of the home furniture and accessories industry are labour costs and retail rental expenses. Median monthly wages for employees in Hong Kong's retail sector and the rental rate index rose from 2012 to 2017 at CAGR of approximately 4.8% and 3.8%, respectively. Rising operating cost requires retailers to hold a higher cash flow and may create a greater financial burden for operating furniture retail stores.

**Increasing number of foreign brands entering the market:** Due to the continuous urbanisation in China and growing purchasing power in China, more foreign brands, such as Ikea, Zara Home and Ashley Furniture, are attracted to enter the mainland China market. The increasing number of foreign brands may potentially intensify the competition in the mainland China market. Market segments from mass market to luxury brands are all affected by the increasing number foreign brands. Brands aim at mass market are expanding their presence in various cities in China. Moreover, designer brands are entering China aiming at the affordable luxury to luxury sector. This poses a potential threat to the existing players in the market.

### Major costs analysis

The table below sets forth the major cost engaging in the industry from 2012 to 2017:

	2012	2013	2014	2015	2016	2017	CAGR
<b>Hong Kong</b>							
Average rent for retail space (HK\$ per m <sup>2</sup> per month) . . . . .	1,356.3	1,402.3	1,470.7	1,471.7	1,379.0	1,413.0	0.8%
Hong Kong Island (HK\$ per m <sup>2</sup> per month) . . . . .	1,465.0	1,549.0	1,628.0	1,612.0	1,499.0	1,517.0	0.7%
Kowloon (HK\$ per m <sup>2</sup> per month) . . . . .	1,443.0	1,482.0	1,534.0	1,519.0	1,338.0	1,394.0	(0.7)%
New Territories (HK\$ per m <sup>2</sup> per month) . . . . .	1,161.0	1,176.0	1,250.0	1,284.0	1,300.0	1,328.0	2.7%
Median monthly wages for workers in retail sector (HK\$ per employee per month) . . . . .	10,300.0	10,900.0	11,500.0	12,000.0	12,400.0	13,000.0	4.8%
	2012	2013	2014	2015	2016		CAGR
<b>Mainland China</b>							
Average rent for private retail premises in Shanghai (RMB per m <sup>2</sup> per month) . . . . .	1,206.4	1,245.0	1,179.0	1,184.3	1,154.7		(1.1)%
Average monthly wage for wholesale and retail salesperson (RMB per employee per month) . . . . .	3,861.7	4,192.3	4,653.2	5,027.0	5,421.8		8.9%

## INDUSTRY OVERVIEW

	2012	2013	2014	2015	2016	CAGR
<i>UAE</i>						
Average rent for retail space in Dubai (AED per m <sup>2</sup> per month) . . . . .	195.1	234.8	248.3	254.2	249.8	6.4%
Average monthly wage in wholesale and retail trade in UAE (AED per employee per month) . . . . .	7,663.7	8,074.1	7,865.6	10,214.3	13,138.0	14.4%

*Sources: Census and Statistics Department, HKSAR; Labour Department, HKSAR; National Bureau of Statistics, PRC; Dubai Land Department, UAE; Ipsos research and analysis*

### *Hong Kong*

Fluctuation in average rental rates for retail spaces varied between the city's different regions. The substantial rise in average rental rates of retail space from 2012 to 2017 was mainly driven by the imbalance between supply and demand, supply of retail space was insufficient to meet the increasing demand that drove up rental rates.

Median monthly wages are one of the major cost items for the retail industry, and rose from 2012 to 2017 added further burden on companies operating in the sector. Business owners and enterprises indicated that staff turnover, recruitment difficulties and shortage in labour supply within the sector led to wage increases, which was compounded by implementation of Statutory Minimum Wage. Implementation of the revised Statutory Minimum Wage on 1 May 2017 (from HK\$28.0 per hour to HK\$34.5 per hour). Such continued to affect Hong Kong's retail industry for home furniture and accessories.

### *China*

The growth in the annual wages for salespersons employed by wholesalers and retailers were driven by China's rapid economic growth as well as the rising minimum wages in China's major cities. For example, the monthly minimum wage in Shanghai City increased from RMB2,020.0 in 2015 to RMB2,190.0 in 2016.

Meanwhile, the declining monthly rent for private retail premises were attributed to the increasing number of vacant retail space due to number of newly established shopping malls and retail areas. Owing to the rapid growth of the China's online retail industry, increasing number of retailers has switched their operations from physical sales to online sales, which pushed up the vacancy rate, in turn lowered the monthly rent for retail premises.

### *UAE*

The increase in average rent represents the boom of the retail sector. Dubai, as well as Abu Dhabi, are the major shopping centres in the region. Benefit from economic development, as well as the boom of tourism in Dubai, the retail sector witnessed expansion during the period of 2012 to 2016. With the expansion of retail sector, demand for retail space was increased for more retail stores.

The increase in the average annual wage in whole and retail trade can be explained by the development of online sales channel by these companies. Since online sales channel is gaining its importance in the UAE retail market, retail brands are investing in developing online sales platforms such as websites and mobile apps. Professionals such as engineers and designers are hired by the retail brands for the development or management of the online platforms.

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## REGULATORY OVERVIEW

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This section sets out a summary of certain aspects of the laws and regulations in Hong Kong, PRC, UAE and Saudi Arabia which are relevant to our Group's operations and business.

### I. HONG KONG

There are no specific industry-related qualifications, licenses or permits needed to be obtained by our Group for carrying on our businesses in Hong Kong.

The following summarises the principal laws and regulations of Hong Kong which are relevant to our Group's business.

#### **Sale of Goods Ordinance (Chapter 26 of the Laws of Hong Kong)**

The Sale of Goods Ordinance aims to codify the laws relating to the sale of goods, and provides that:

- a) under section 15, where there is a contract for the sale of goods by description, there is an implied condition that the goods shall correspond with the description;
- b) under section 16, where a seller sells goods in the course of a business, there is an implied condition that the goods supplied under the contract are of merchantable quality, except that there is no such condition (i) as regards to defects specifically drawn to the buyer's attention before the contract is made; or (ii) if the buyer examines the goods before the contract is made, as regards defects which that examination ought to reveal; or (iii) if the contract is a contract for sale by sample, as regards defects which would have been apparent on a reasonable examination of the sample; and
- c) under section 17, where there is a contract for sale by sample, there are implied conditions that (i) the bulk shall correspond with the sample in quality; (ii) the buyer shall have a reasonable opportunity of comparing the bulk with the sample; and (iii) the goods shall be free from any defect, rendering them unmerchantable, which would not be apparent on reasonable examination by sample.

Where any right, duty or liability would arise under a contract for sale of goods by implication of law, it may (subject to the Control of Exemption Clauses Ordinance (Chapter 71 of the Laws of Hong Kong)) be negated or varied by express agreement, or by course of dealings between the parties, or by usage if the usage is such as to bind both parties to the contract.

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## **REGULATORY OVERVIEW**

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### **Consumer Goods Safety Ordinance (Chapter 456 of the Laws of Hong Kong)**

There are several pieces of legislation dealing with product safety requirements, the most common one being the Consumer Goods Safety Ordinance (the “**CGS Ordinance**”). Under the CGS Ordinance, all consumer goods (except those listed in the Schedule of the CGS Ordinance) must comply with the general safety requirements or the safety standards and specifications prescribed by the Secretary for Commerce and Economic Development of Hong Kong.

The CGS Ordinance imposes a statutory duty on manufacturers, importers and suppliers to ensure that the consumer goods they supplied are reasonably safe, having regard to all the circumstances, including (a) the manner in which, and the purpose for which, the consumer goods are presented, promoted or marketed; (b) the use of any mark in relation to the consumer goods and instructions or warnings given for the keeping, use or consumption of the consumer goods; (c) reasonable safety standards published by a standards institute or similar body for consumer goods of that description; and (d) the existence of any reasonable means to make the consumer goods safer. The CGS Ordinance also provides a due diligence defence.

Any person who sells unsafe goods to commits an offence and is liable to a fine of HK\$100,000 and an imprisonment of one year on first conviction, and HK\$500,000 and two-year imprisonment on subsequent conviction. Those unsafe goods may be seized by the Customs and Excise Department and other authorised officers.

### **Trade Descriptions Ordinance (Chapter 362 of the Laws of Hong Kong)**

The Trade Descriptions Ordinance deals with mis-description of goods in general and it is to ensure the seller, in the course of business, give an accurate description about the goods.

Under the Trade Descriptions Ordinance, a trade description includes but do not limit to the quantity, method of manufacture, production, processing or reconditioning, composition, fitness for purpose, place of origin, person by whom manufactured, produced, and processed or reconditioned. Pursuant to the Trade Descriptions Ordinance, origin marking is not mandatory, but where such marking is used, it must be accurate and not misleading. It is an offence under that the Trade Descriptions Ordinance if the seller applies a false trade description to any goods or supplies or offers to supply any goods to which a false trade description is applied or has in his possession for sale or for any purpose of trade or manufacture any goods to which a false trade description is applied. In addition, any person who imports any goods to which a false trade description is applied commits an offence, unless he could prove that he acted without any intention to defraud, and had no reason to suspect and could not, with reasonable diligence, have found out that the goods are goods to which a false trade description is applied.

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## REGULATORY OVERVIEW

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### **Mandatory Provident Fund Scheme Ordinance (Chapter 485 of the Laws of Hong Kong) (the “MPFSO”)**

Section 7 of the MPFSO requires every employer of a relevant employee to take all practicable steps to ensure that the employee becomes a member of a registered scheme within the permitted period after the relevant time. Section 7A of the MPFSO requires an employer who is employing a relevant employee to, for each contribution period occurring after that commencement (i) from the employer’s own funds, contribute to the relevant registered scheme the amount determined in accordance with the MPFSO; and (ii) deduct from the employee’s relevant income for that period as a contribution by the employee to that scheme the amount determined in accordance with the MPFSO.

### **Employees’ Compensation Ordinance (Chapter 282 of the Laws of Hong Kong)**

The Employees’ Compensation Ordinance establishes a no-fault and non-contributing employee compensation system for work injuries and lays down the rights and obligations of employers and employees in respect of injuries or death caused by accidents arising out of and in the course of employment, or by prescribed occupational diseases.

Under the Employees’ Compensation Ordinance, if an employee sustains an injury or dies as a result of an accident arising out of and in the course of his employment, his employer is in general liable to pay compensation even if the employee might have committed acts of faults or negligence when the accident occurred. Similarly, an employee who suffers incapacity arising from an occupational disease is entitled to receive the same compensation as that payable to employees injured in occupational accidents.

According to section 40 of the Employees’ Compensation Ordinance, all employers (including contractors and subcontractors) are required to take out insurance policies to cover their liabilities both under the Employees’ Compensation Ordinance or independent from the Ordinance for injuries arising out of and in the course of the employees’ employment (including full-time and part-time employees). According to section 40(2) of the Employees’ Compensation Ordinance, an employer who fails to comply with the Employees’ Compensation Ordinance to secure an insurance cover is liable on conviction to a fine up to HK\$100,000 and imprisonment for up to two years.

According to section 15 of the Employees’ Compensation Ordinance, an employer must notify the Commissioner for Labour of any accident or prescribed occupational disease, irrespective of whether the accident or the occupational disease gives rise to any liability to pay compensation. Notice of any accident which results in the death of the employee within 3 days after the accident shall be given to the Commissioner for Labour by the employer not later than 7 days after the accident irrespective of whether the accident gives rise to any liability to pay compensation. Notice of any accident which results in the total or partial incapacity of the employee shall be given to the



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Commissioner for Labour by the employer not later than 14 days after the accident, irrespective of whether the accident gives rise to any liability to pay compensation. Any employer who without reasonable excuse fails to serve notice commits an offence and is liable to a fine up to HK\$50,000.

### **Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong)**

The Minimum Wage Ordinance provides for a prescribed minimum hourly wage rate (currently set at HK\$34.5 per hour) during the wage period for every employee engaged under a contract of employment under the Employment Ordinance, unless otherwise exempted from the Minimum Wage Ordinance. 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.

Failure to pay minimum wage amounts to a breach of the wage provisions under the Employment Ordinance. According to the Employment Ordinance, an employer who willfully and without reasonable excuse fails to pay wages to an employee when it becomes due is liable to prosecution and, upon conviction, to a fine of HK\$350,000 and to imprisonment for up to three years.

### **Business Registration Ordinance (Chapter 310 of the Laws of Hong Kong)**

Section 5 of the Business Registration Ordinance requires every person (a company or an individual) carrying on a business in Hong Kong to register with the Inland Revenue Department and obtain a business registration certificate within one month of the commencement of the business. Business registration is a process based on application and does not involve government approval. Once the requisite criteria are met, a business registration certificate will be granted. Business registration serves to notify the Inland Revenue Department of the establishment of a business in Hong Kong and facilitate the collection of tax from businesses in Hong Kong.

### **Occupiers Liability Ordinance (Chapter 314 of the Laws of Hong Kong)**

The Occupiers Liability Ordinance regulates the obligations of a person occupying or having control of premises on injury resulting to persons or damage caused to goods or other property lawfully on the land.

The Occupiers Liability Ordinance imposes a common duty of care on an occupier of premises to take such care as in all the circumstances of the case is reasonable to see that the visitor will be reasonably safe in using the premises for the purposes for which he is invited or permitted by the occupier to be there.

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### **Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) (the “PDPO”)**

The PDPO aims to protect the privacy of individuals in relation to personal data, which is defined in section 2 of the PDPO as any data (i) relating directly or indirectly to a living individual (data subject); (ii) from which it is practicable for the identity of the individual to be directly or indirectly ascertained; and (iii) in a form in which access to or processing of the data is practicable. The PDPO regulates the conducts of a data user, i.e. any person who, either alone or jointly or in common with other persons, controls the collection, holding, processing or use of personal data.

Visitors of our website and stores may choose to register as our members. During the registration process we collect our member’s personal information. As such, in carrying out our Group’s operations, we need to comply with the PDPO and its six data protection principles, which are:

Principle 1 — Purpose and manner of collection. This provides for the lawful and fair collection of personal data and sets out the information a data user must give to a data subject when collecting personal data from that subject.

Principle 2 — Accuracy and duration of retention. This provides that personal data should be accurate, up-to-date and kept no longer than necessary.

Principle 3 — Use of personal data. This provides that unless the data subject gives consent otherwise personal data should be used for the purposes for which they were collected or a directly related purpose.

Principle 4 — Security of personal data. This requires appropriate security measures to be applied to personal data (including data in a form in which access to or processing of the data is not practicable).

Principle 5 — Information to be generally available. This provides for openness by data users about the kinds of personal data they hold and the main purposes for which personal data are used.

Principle 6 — Access to personal data. This provides for data subjects to have rights of access to and correction of their personal data.

In the course of our business, our Group has in its possession private and confidential personal data. As such, our operations in relation to personal data are regulated by the PDPO and our Group falls within the definition of “data user” as defined under the PDPO. Hence, we are subject to the principles set out in the PDPO regarding the collection, use, retention, accuracy and security of and access to personal data.

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## REGULATORY OVERVIEW

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### **Toys and Children’s Products Safety (Additional Safety Standards or Requirements) Regulation (Chapter 424C of the Laws of Hong Kong) (the “TCPSR”)**

The Toys and Children’s Products Safety (Additional Safety Standards or Requirements) Regulation imposes three additional safety standards or requirements for toys as set out in part 2 thereto and children’s products as set out in part 3 thereto, which are, namely,

- (1) “identification markings” — sections 5 and 10 of the TCPSR require all toys and children’s products to carry the full name, trademark or other identification mark and the local address of the manufacturer, importer or supplier in English, Chinese or both languages;
- (2) “bilingual safety warning or caution” — sections 6 and 11 of the TCPSR require that, where a toy or children’s product or its packaging is marked with, or where a label affixed to a toy or children’s product or its packaging or a document enclosed in its packaging contains, any warning or caution with respect to its safe keeping, use, consumption or disposal, such warning or caution must be legible and in both English and Chinese; and
- (3) “concentration of phthalates in toys and children’s products” — sections 7 to 9 and 13 to 15 of the TCPSR provide for the control on the concentration limits of six types of phthalates in toys and children’s products.

### **Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong)**

The Occupational Safety and Health Ordinance provides for the safety and health protection to employees in workplaces, both industrial and non-industrial. Employers or the occupier of the premises (as the case may be) must as far as reasonably practicable ensure the safety and health in their workplaces by:

- a) providing and maintaining plant and work systems that are safe and without risks to health;
- b) making arrangement for ensuring safety and absence of risks to health in connection with the use, handling, storage or transport of plant or substances;
- c) providing all necessary information, instruction, training and supervision for ensuring safety and health;
- d) providing and maintaining safe access to and egress from workplaces; and
- e) providing and maintaining a working environment that is safe and without risks to health.

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## REGULATORY OVERVIEW

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Failure to comply with the above provisions constitutes an offence and the employer or occupier is liable on conviction to a fine of HK\$200,000. An employer or occupier who fails to do so intentionally, knowingly or recklessly commits an offence and is liable on conviction to a fine of HK\$200,000 and to imprisonment for 6 months.

The Commissioner for Labour may also issue improvement notices against non-compliance of this Ordinance or the Factories and Industrial Undertakings Ordinance (Chapter 59 of the laws of Hong Kong), or suspension notices against activity of workplace which may create imminent hazard to the employees. Failure to comply with such notices constitutes an offence punishable by a fine of HK\$200,000 and HK\$500,000 respectively and imprisonment of up to one year.

### **Laws and regulations relating to online retail business**

Our Group operates an online retail store in Hong Kong to sell home furniture and accessories. The legislations that may be applicable to our online retail store and proposed mobile application include the Sale of Goods Ordinance, the Trade Descriptions Ordinance, the Control of Exemption Clauses Ordinance and the Personal Data (Privacy) Ordinance. Please refer to the relevant disclosures in this section.

## **II. PRC**

There are no specific industry-related qualifications, licenses or permits needed to be obtained by our Group for carrying on our businesses in the PRC.

The following summarises the principal laws and regulations of the PRC which are relevant to our Group's business.

### **Product quality**

Products of the PRC subsidiaries shall be in compliance with applicable products quality law in the PRC.

The principal legal provisions governing product liability are set out under the Product Quality Law of the PRC (《中華人民共和國產品質量法》), promulgated by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) (the "SCNPC") on 22 February 1993, amended on 8 July 2000, 27 August 2009, and effective as of 27 August 2009 which is applicable to manufacture and sale of any product within the territory of the PRC. Both the producer and the sellers shall be liable for failing to meet the prescribed quality standards. The products shall meet the following quality requirements: (1) constituting no unreasonable threats to personal safety or safety of property, and conforming to the national standards or the sectoral standards for ensuring human health, personal safety and safety of property, where there are such standards; (2) possessing the properties as required, except for those with directions stating their functional defects; and (3) conforming to the product standards marked on

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## REGULATORY OVERVIEW

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the products or on the packages thereof, and to the quality conditions indicated by way of product directions, samples, etc. Violations of the Product Quality Law may result in fines and in some cases the violator may be ordered to suspend its operations, or its business license will be revoked. Criminal liability may be incurred if the non-compliance incidents are matters of a serious nature. The current supervision system adopts selective examination as the main method.

If a defective product causes physical injury to a person or damage to property other than the defective product itself, the producer or seller shall be held liable unless there proved to be any of the following circumstances: (1) the product has not been put in circulation; (2) the defect causing the damage does not exist at the time when the product is put in circulation; or (3) the science and technology at the time the product is put in circulation is at a level incapable of detecting the defect.

Any producer or seller that produces or sells products not up to the relevant national or sectoral standards for ensuring human health, personal safety and safety of property shall be ordered to discontinue production or sale of such products, the products illegally produced or ready for sale shall be confiscated, and such producer or seller shall be subject to a fine of a sum equal to the amount of but not more than three times of the value of the products illegally produced or ready for sale (including those already sold and those unsold). The illegal gains, if any, shall also be confiscated. If the circumstances are serious, the business license shall be revoked. If a crime is committed, investigation will be conducted in accordance with the law.

Where a producer or a seller mixes impurities or imitations into a product, or passes off fake products as genuine ones, or passes off defective products as good ones, or passes off substandard product as standard ones, such producer or seller shall be ordered to discontinue production or sale, the products illegally produced or for sale shall be confiscated. The relevant producer or seller shall be fined no less than 50 percent but not more than three times of the value of the products illegally manufactured or ready for sale; the unlawful earnings, if any, shall be confiscated; if the circumstances are serious, the business license shall be revoked; if a crime is committed, investigation will be conducted in accordance with the law.

The Law on Protection of Consumers Rights and Interests (《中華人民共和國消費者權益保護法》) was promulgated by the SCNPC on 31 October 1993, amended on 27 August 2009, 25 October 2013 and effective as of 15 March 2014. Under the Law on Protection of Consumers Rights and Interests, the rights of consumers in respect of safety of person and property in purchasing or using commodities and receiving services shall be protected. Consumers whose legitimate rights and interests are infringed upon their purchasing, using of such commodities or receiving services are entitled to compensation from the sellers and/or suppliers of the services concerned. Consumers or other persons suffering personal injuries or property damage resulting from defects of commodities may demand compensations either from the sellers or from the producers. If the liability is on the manufacturers, the sellers, after paying the compensations, have the

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## REGULATORY OVERVIEW

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right to remunerate the compensations from the manufacturers; if the liability is on the sellers, the manufacturers, after paying the compensations, have the right to remunerate the compensations from the sellers.

Under the Tort Law of the PRC (《中華人民共和國侵權法》) promulgated by the SCNPC on 26 December 2009 and effective as of 1 July 2010, a manufacturer shall bear tort liability if its product causes damage to others due to a product defect. If a defective product endangers the personal or property safety of others, the infringed party shall be entitled to request that the manufacturer or seller assume tort liability through, inter alia, removal of obstacle and elimination of danger. If a defect is found in a product after it has been put into circulation, the manufacturer and the seller shall take remedial measures in a timely manner including, inter alia, alerts and recalls. In the event of damage arising from a failure to take remedial measures in a timely manner or inadequate remedial measures, they shall bear tort liability. In the event of death or serious damage to health arising from a product that is manufactured or sold when it is known to be defective, the infringer shall be entitled to claim corresponding punitive compensation.

### **Imports and exports**

According to the Customs Law of the PRC (《中華人民共和國海關法》), promulgated by the SCNPC on 22 January 1987, amended on 8 July 2000, 29 June 2013, 28 December 2013 and 7 November 2016, and effective as of 7 November 2016, unless otherwise provided for, the declaration of import or export goods and the payment of duties may be made by the consignees or consignors themselves, and such formalities may also be completed by their entrusted customs brokers that have registered with the permission of the customs. The consignees and consignors for import or export of goods and the customs brokers engaged in customs declaration shall register with the customs in accordance with the laws. The declaration of inward and outward articles and payment of duties on them may be made by the owners of the articles themselves or by the persons they have entrusted with the work.

According to the Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》), promulgated by the SCNPC on 12 May 1994, amended on 6 April 2004 and 7 November 2016, and effective as of 7 November 2016, foreign trade operators engaged in goods or technology import and export shall go through the record-filing registration formalities with the competent department of foreign trade under the State Council or its entrusted institutions, except for those that do not need to go through the record-filing registration formalities prescribed by laws, administrative regulations and the provisions of the competent department of foreign trade under the State Council. The specific measures for record-filing registration shall be formulated by the competent department of foreign trade under the State Council. Where a foreign trade operator fails to go through the record-filing registration formalities, the customs are entitled to refuse to handle the formalities for declaration and clearance of goods imported or exported by the operator.

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Pursuant to the Notice of the Ministry of Commerce on Relevant Issues Concerning the Record-filing Registration of Right to Foreign Trade of Foreign-invested Enterprises (《商務部關於外商投資企業外貿權備案登記有關問題的通知》) issued by MOFCOM on 17 August 2004 and effective as of the same date, any foreign invested enterprises (the “FIEs”) established after 1 July 2004 that engages in import or export of self-use or self-produced goods and technology of this enterprise need not go through the record-filing registration formalities for foreign trade operators. On the contrary, if a FIE established after 1 July 2004 intends to engage in import or export of goods or technology not used or produced by itself, it shall complete the record-filing registration formalities after its establishment.

### **Online sales and proposed mobile application**

The law governing online sales in the PRC is Administrative Measures on Internet-based Information Services (互聯網信息服務管理辦法) (the “Measures on Internet Services”), which was promulgated by the State Council on 8 January 2011. Pursuant to the Measures on Internet Services, internet-based information services are divided into services of a commercial nature and services of a non-commercial nature. Commercial internet-based information services refer to the provision of content or services which internet users need to pay to access. Non-commercial internet-based information services refer to the provision of content or services which internet users do not need to pay to access. The State Council has implemented a license system for commercial internet-based information services and a filing-for-record system for non-commercial internet-based information services.

As confirmed by our PRC Legal Advisers, since we do not charge users to view our content on the internet, our online sales of furniture and home decorative items fall within the definition of “non-commercial internet-based information services”, and our Group has complied with the filing requirement.

The laws and regulations concerning information services provided through Apps or online App store services within the PRC are Decision of the SCNPC on Strengthening Network Information Protection (全國人民代表大會常務委員會關於加強網絡信息保護的決定) which was issued by SCNPC on 28 December 2012 and Regulations for the Administration of Mobile Internet Application Information Services (移動互聯網應用程序信息服務管理規定) which was promulgated by National Internet Information Office (國家互聯網信息辦公室) and became effective on 1 August 2016. In light of the above regulations, for the services to be provided through mobile application within our business scope, our Group shall make filing to the local internet information office within 30 days of operation. As at the Latest Practicable Date, we have not provided any service through mobile application, therefore we are not subject to the laws described in this paragraph.

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### **Trademark**

The Trademark Law of the PRC (中華人民共和國商標法), adopted in 1982 and revised respectively in 1993, 2001 and 2013 and effective as 1 May 2014, protects registered trademarks. The China Trademark Office under the State Administration for Industry and Commerce (國家工商行政管理總局商標局) is responsible for trademark registrations. Upon the registration of a trademark, the register will have the right to exclusively use the trademark. The validity period of a registered trademark is 10 years and may be extended thereafter.

### **Labour**

According to the PRC Labour Law (《中華人民共和國勞動法》) promulgated by the SCNPC on 5 July 1994 and became effective on 1 January 1995 and was amended on 27 August 2009, workers are entitled to fair employment, choice of occupation, labour remuneration, leave, a safe workplace, a sanitation system, social insurance and welfare and certain other rights. The working time for workers may not exceed eight hours a day and no more than 44 hours a week on average. Employers shall establish and improve their work safety and sanitation system, educate employees on safety and sanitation and provide employees with a working environment that meets the national work safety and sanitation standards.

The PRC Labour Contract Law (《中華人民共和國勞動合同法》) was promulgated by the SCNPC on 29 June 2007 and amended on 28 December 2012, and its implementation regulations were implemented on 18 September 2008. According to the Labour Contract Law, labour contracts must be executed in writing to establish labour relationships between employers and employees. Employees who fulfill certain criteria, including having worked for the same employer for 10 years or more, may demand that the employer execute a permanent labour contract. Wages paid by employers may not be lower than the local minimum wage. Both employers and employees must perform their respective obligations stipulated in the labour contracts. Where workers are provided by a staffing company, the staffing company is the employer and performs the legal obligations of an employer toward the despatched workers, including, among others, entering into a labour contract with a fixed term of more than two years with the workers and paying remuneration for their labour. The staffing company must conclude a labour despatch agreement with the entities that receive labour services. In the event of a violation of any legal provisions of the Labour Contract Law, administrative penalties may be imposed on employers by the competent PRC government authority in charge of labour administration, including warnings, rectification orders, fines, orders for payment of wages and compensation to employees, revocation of business licenses and other penalties. An entity receiving workers from a staffing company may be held jointly and severally liable together with the staffing company in case harm is done to workers as a result of the staffing company's violation of the Labour Contract Law.



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## REGULATORY OVERVIEW

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The PRC Employment Promotion Law (《中華人民共和國就業促進法》), which was promulgated by the SCNPC and became effective on 1 January 2008, requires that individuals have equal employment opportunities, both in hiring and in employment terms, without discrimination on the basis of ethnicity, race, gender, religious belief, communicable disease or rural residence.

### **Employment permit**

Under the Administrative Provisions on Employment of Foreigners in China (the “**Regulations on Employment Foreigners**”) (《外國人在中國就業管理規定》), which was promulgated by the Ministry of Human Resources and Social Security (人力資源和社會保障部) and became effective on 13 March 2017, employers hiring a foreigner shall apply an employment permit for the said foreigner, and may only employ him/her upon approval and obtaining a “Permit to Employ Foreigner in the People’s Republic of China”. Meanwhile in view of the Implementation Rules of the Law of the PRC on Administration of Entry and Exit of Foreigners (《中華人民共和國外國人入境出境管理法實施細則》) which was revised on 24 April 2010 by the State Council, any organisation or individual who employs foreigners without permission may, in addition to being demanded to terminate the employment, be imposed upon a fine of RMB5,000 up to RMB50,000, and in addition, be ordered to bear all the expenses required for repatriating the foreigners who it employs without permission.

In accordance with the Administrative Regulation on Employment of Taiwan, Hong Kong and Macao Residents in Mainland China (《台灣香港澳門居民在內地就業管理規定》), which was promulgated by the Ministry of Labour and Social Security (勞動和社會保障部) and became effective on 1 October 2015, an employment permit system shall be implemented for employment of Taiwan, Hong Kong and Macao personnel in Mainland China. Employers proposing to employ Taiwan, Hong Kong and Macao personnel directly shall apply an “Employment Permit for Taiwan, Hong Kong or Macao Personnel” for such personnel. Where employers dismiss or accept the dispatch of Taiwan, Hong Kong and Macao personnel, a record filing system will be implemented. The labour and social security administration authorities shall order employers who employ Taiwan, Hong Kong and Macao personnel directly but fail to apply for the employment permits or complete filing formalities to make correction within a stipulated period and may impose a fine of RMB1,000.

### **Social insurance and housing provident fund**

Pursuant to the PRC Social Insurance Law (《中華人民共和國社會保險法》) promulgated by the SCNPC on 28 October 2010, which became effective on 1 July 2011, employers in the PRC must register with the relevant social insurance authority and make contributions to the pension insurance fund, basic medical insurance fund, unemployment insurance fund, maternity insurance fund and work-related injury insurance fund. Pursuant to the PRC Social Insurance Law, pension insurance, basic medical insurance and unemployment insurance contributions must be paid by both employers and employees, while work-related injury insurance and maternity insurance contributions must be paid solely by employers. An employer must declare and make social insurance contributions in full and on time. The social insurance contributions payable by employees must be withheld and paid by employers on behalf of the employees. Employers who fail to register with the social insurance authority may be ordered to rectify the failure within a specific time period. If the employer fails to rectify the failure to register within a specified time period, a fine of one to three times the actual premium may be imposed. If the employer fails to make social insurance contributions on time and in full, the social insurance collecting agency shall order the employer to make up the shortfall within the prescribed time period and impose a late payment fee amounting to 0.05% of the unpaid amount for each day overdue. If the non-compliance continues, the employer may be subject to a fine ranging from one to three times the unpaid amount owed to the relevant administrative agency.

Pursuant to the Regulations on the Administration of Housing Provident Fund (《住房公積金管理條例》) issued by the State Council, effective on 3 April 1999 and as amended on 24 March 2002, a unit (including a foreign investment enterprise) shall undertake the registration with the administrative centre of housing provident funds and pay the funds for their staff. If an employer, in violation of the aforesaid regulations, fails to undertake registration or to open the housing provident funds account for its employees, the administrative centre of housing provident funds will impose an order for completion within prescribed time limit, if such employer further fails to process within the aforesaid time limit, a fine ranging from RMB10,000 to RMB50,000 will be imposed. On the other hand, if a unit, in violation of the aforesaid regulations, fails to pay or to fully pay the housing provident funds, the administrative centre of housing provident funds will impose an order for payment within a prescribed time limit if such unit further fails to make payment within the aforesaid time limit, the centre shall have the right to apply for compulsory enforcement in court.

### PRC taxation

#### *a) Enterprise Income Tax*

According to the newly promulgated Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (hereafter as the “**EIT Law**”) promulgated on 16 March 2007 and effective on 1 January 2008 and the Implementation Rules of Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) (hereafter as the “**Implementation Rules**”) effective on 1 January 2008, the income tax for both domestic and foreign-invested enterprises will be at the same rate of 25% effective from 1 January 2008.

#### *b) Value Added Tax*

All entities and individuals engaged in the sales of goods, provision of processing, repairs and replacement services, and the importation of goods within the territory of the PRC shall pay value added tax in accordance with the Provisional Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》) (the “**Provisional Regulations on VAT**”) and its implementation rules. The Provisional Regulations on VAT was promulgated by the State Council (國務院) on 13 December 1993 and amended on 5 November 2008, 6 February 2016 and effective as of 6 February 2016. Pursuant to the Provisional Regulations on VAT and its implementation rules, value added tax payable is calculated as “output value added tax” minus “input value added tax”. Unless stated otherwise, for the value added tax payers who are selling or importing goods in the PRC, the rate of value added tax shall be 17%.

Since 1 May 2018, the rate of value added tax for sale or import of goods shall be 16% according to Notice of the Ministry of Finance and the SAT on the Adjustment to VAT Rates (《財政部、國家稅務總局關於調整增值稅稅率的通知》) as promulgated on 4 April 2018 and became effective on 1 May 2018.

#### *c) Business Tax*

Pursuant to the Provisional Regulations of the PRC on Business Tax (《中華人民共和國營業稅暫行條例》) enacted by the State Council on 10 November 2008 and became enforceable on 1 January 2009 and its Implementation Rules on the Provisional Regulations of the PRC on Business Tax (《中華人民共和國營業稅暫行條例實施細則》) issued by the Ministry of Finance (財政部) on 28 October 2011 and be enforceable as at 1 January 2009, the tax rate for the service industry, the sale of real estate industry and the transfer of intangible assets is 5%.

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On 7 March 2016, the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (《關於全面推開營業稅改徵增值稅試點的通知》) (the “**Circular 36**”) was promulgated by the Ministry of Finance and the State Administration of Taxation (國家稅務總局) (the “**SAT**”). Circular 36 had superseded previous circulars regarding the collection of value added tax in lieu of business tax and had also incorporated appendixes including the Implementing Measures for Pilot Collection (《營業稅改徵增值稅試點實施辦法》), the Provisions on Matters Concerning the Pilot Collection of Value-Added Tax in Lieu of Business Tax (《營業稅改徵增值稅試點有關事項的規定》), the Provisions on the Transit Policies for the Pilot Collection of Value-Added Tax in Lieu of Business Tax (《營業稅改徵增值稅試點過渡政策的規定》) and the Provisions on VAT Zero Rate and Tax Exemption Policy Applicable to Cross-border Taxable Acts (《跨境應稅行為適用增值稅零稅率和免稅政策的規定》).

Under the Implementing Measures for Pilot Collection, the tax rate shall be 6% for provision of modern services (except for leasing services of tangible movables).

### *d) Withholding Tax on Dividends*

According to the EIT Law and the Implementation Rules of the EIT Law, non-resident enterprises which have not set up institutions or premises in the PRC, or where the institutions or premises are set up but its subsidiary’s after-tax income has no actual relationship with such institutions or premises shall be subject to the withholding tax of 10% on income derived from the after-tax profit of its subsidiary. According to the Arrangements between the Mainland of the PRC and Hong Kong Special Administrative Region on 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》), profit derived by a foreign investor residing in Hong Kong from PRC enterprise in which such foreign investor owns directly at least 25% equity interest is subject to the tax rate of 5% after obtaining the approval from the relevant tax bureau.

Pursuant to the Circular of the SAT on Relevant Issues relating to 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 party to a tax agreement to be entitled to the tax rate specified in the tax agreement for dividends paid to it by a PRC resident company: (i) such a fiscal resident who obtains dividends should be the company as provided in the tax agreement; (ii) owner’s equity interests and voting shares of the PRC resident company directly owned by such a fiscal resident reaches a specified percentage; and (iii) the equity interests of the PRC domestic company directly owned by such a fiscal resident, at any time during the twelve months prior to the obtainment of the dividends, shall reach the percentage specified in the tax agreement.

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According to the Administrative Measures for Non-resident Taxpayers to Enjoy 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 on 27 August 2015 and came into force on 1 November 2015, if the non-resident taxpayers are qualified for enjoying the favourable tax benefits under the tax arrangements, they could enjoy such benefits of themselves from the tax authority when they or their withholding agents make declarations to the relevant tax authority. Under the Administrative Measures, when the 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.

### *e) Income Tax on Share Transfer of Non-resident Enterprise*

Pursuant to the Announcement of the SAT on Several Issues Concerning the Enterprise Income Tax on Indirect Property Transfer by Non-Resident Enterprises (《國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (the “**Announcement No. 7**”) promulgated by the SAT and came into effect on 3 February 2015, where a non-resident enterprise indirectly transfers properties such as equity in Chinese resident enterprises without any reasonable commercial purposes with the aim of avoiding to pay enterprise income tax, such indirect transfer shall be reclassified as a direct transfer of equity in Chinese resident enterprise in accordance with Article 47 of the EIT Law. Indirect transfer of Chinese taxable properties shall mean transactions of non-resident enterprises which are carried out through transfer of equity of enterprises abroad that directly or indirectly hold Chinese taxable properties and other similar equities and cause the concrete results same as or similar to that of direct transfer of Chinese taxable properties, including the circumstance that the restructuring of non-resident enterprises causes changes of shareholders of enterprises abroad.

According to the Announcement No. 7, indirect transfer of Chinese taxable properties that meets all of the following conditions shall be deemed as having a reasonable commercial purpose:

- (1) The equity relationship of the parties involved in the transfer falls under one of the following circumstances: (i) equity transferor directly or indirectly owns more than 80% of the equity of the equity transferee; (ii) equity transferee directly or indirectly owns more than 80% of the equity of the equity transferor; or (iii) more than 80% of the equity of both equity transferor and equity transferee is owned by the same party. If more than 50% (not including 50%) of the value of the equity of an enterprise abroad is directly or indirectly from the real estate in the territory of China, the proportion in items (i), (ii) and (iii) of this article shall be 100%. The aforesaid equity indirectly held shall be calculated based on the product of the shareholding ratios of all enterprises in the shareholding chain.

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- (2) Compared with the same or similar indirect transfer occurred without this indirect transfer, the burden of taxation in China will not be reduced on the indirect transfer that may occur again after this indirect transfer.
- (3) Equity transferee pays all the equity transfer consideration with its equity or equity of enterprises controlled by it (not including equity of listed enterprises).

### Foreign currency exchange

The principal regulation governing foreign currency exchange in the PRC is the Foreign Exchange Administration Rules of the PRC (《中華人民共和國外匯管理條例》) (the “**Foreign Exchange Administration Rules**”). It was promulgated by the State Council of the PRC on 29 January 1996, became effective on 1 April 1996 and was amended on 14 January 1997 and 1 August 2008. Pursuant to the Foreign Exchange Administration Rules, the current account incomes of foreign exchanges can be retained or sold to financial authorities that manage exchange settlement and sale and purchase of foreign exchange. However, approvals from the State Administration of Foreign Exchange (國家外匯管理局) (the “**SAFE**”) are required for the relevant capital account transactions of the FIEs, such as capital transfers. FIEs may purchase foreign exchange without the approval of the SAFE for trade and service related foreign exchange transactions by providing documents evidencing such transactions. In addition, foreign exchange transactions involving direct investment, loans and investment in securities outside the PRC are subject to limitations and require pre-approvals from the SAFE.

While convertible for capital account items, such as capital transfer, direct investment, investment in securities, derivative products or loan are subject to registration with SAFE and approval or file with the relevant governmental authorities (if necessary).

In light of the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving Policies for the Foreign Exchange Administration of 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》) promulgated by the SAFE on 13 February 2015 and effective as of 1 June 2015, to improve the efficiency on foreign exchange management, the SAFE has cancelled (a) approval of foreign exchange registration under domestic direct investment and approval of foreign exchange registration under overseas direct investment; (b) registration for confirmation of the non-cash capital contribution of foreign investors under domestic direct investment and the registration for confirmation of the capital contribution made by foreign investors for acquisition of the equity interests held by the Chinese parties; (c) filing of overseas re-investment foreign exchange; and (d) annual inspection on direct investment foreign exchange.

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According to the Circular of the State Administration of Foreign Exchange on Reforming the Management Mode of Foreign Exchange Capital Settlement of Foreign Invested Enterprises (《國家外匯管理局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**”) promulgated on 30 March 2015 which came into force on 1 June 2015, the SAFE loosens the controls on settlement of foreign exchange capital by allowing the FIEs to settle their foreign exchange capital according to real business needs, and removes the restriction that foreign exchange capital of the FIEs shall not be settled and used for domestic equity investment, the foreign exchange capital can be directly settled in RMB and transferred by the FIEs to the designated accounts of the invested enterprises after the invested enterprises have made domestic re-investment registration with the SAFE. While the FIEs are prohibited to use the foreign exchange capital settled in RMB (a) for any expenditures beyond the business scope of the FIEs or forbidden by laws and regulations; (b) for direct or indirect securities investment unless otherwise provided by laws and regulations; (c) to provide entrusted loans (unless permitted by the scope of business) or repay loans between enterprises (including advances by a third party); or (d) to purchase real estate not for self-use purposes (save for real estate enterprises).

### **Incorporation, operation and management of Wholly Foreign-owned Enterprise**

The establishment, operation and management of corporate entities in China are governed by the Company Law of the PRC (《中華人民共和國公司法》) (the “**Company Law**”), which was promulgated by 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. Pursuant to the Company Law, companies are classified into categories, namely limited liability companies and limited companies by shares. The Company Law shall also apply to foreign-invested limited liability companies and companies limited by shares. According to the Company Law, the provisions otherwise prescribed by the laws on foreign investment shall prevail.

The establishment procedures, approval procedures, registered capital requirement, foreign exchange, accounting practices, taxation and labour matters of a wholly foreign-owned enterprise are regulated by the Wholly Foreign-owned Enterprise Law of the PRC (《中華人民共和國外資企業法》), which was promulgated by the SCNPC on 12 April 1986 and amended on 31 October 2000, and the Implementation Regulations of the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法實施細則), which was promulgated by the State Council on 12 December 1990 and amended on 12 April 2001 and 19 February 2014.

Any investments conducted by the foreign investors and foreign enterprises in the PRC shall be subject to the Catalogue for the 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 (國家發展和改革委員會) on 28 June 2017 and came into effect on 28 July 2017. The Guidance Catalogue was divided into the encouraged foreign investment industries, the

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restricted foreign investment industries and the prohibited foreign investment industries. Industries which are not listed in the Guidance Catalogue shall be classified as the permitted foreign investment Industries. According to the Guidance Catalogue, the core business of our PRC subsidiaries falls within the permitted category for foreign investments on a wholly-owned basis.

Before the Wholly Foreign-Owned Enterprise Law of the PRC and the Sino-Foreign Equity Joint Venture Law of the PRC (中華人民共和國中外合資經營企業法) became effective, the establishments of FIEs shall be approved by the competent department of foreign economic relations and trade. The same goes for the joint venture agreements and articles of association concluded by parties of FIEs. FIEs must also obtain business licenses from the competent administration of industry and commerce before it can commence business. Now, for FIEs not involved in the implementation of special access administrative measures prescribed by the state, filing for a record in lieu of the competent authority's approval is sufficient for purpose of the establishment. Pursuant to the Interim Administrative Procedure for Filing of the Establishment and Change of Foreign-Funded Enterprise (《外商投資企業設立及變更備案管理暫行辦法》) (the “**Administrative Procedure for Filing**”) issued by the MOFCOM on 8 October 2016 and revised on 30 July 2017, the special entry management measures shall be implemented with reference to the relevant regulations as stipulated in the Guidance Catalogue in relation to the restricted foreign-invested industries, prohibited foreign-invested industries and encouraged foreign-invested industries which have requirements as to shareholding and qualifications of senior management. Administrative Procedure for Filing also specifies the authorities, procedures and legal responsibilities of the filing of the establishment and change of FIEs.

### III. UAE

The following summarises the principal laws and regulations of the UAE which are most relevant to Indigo Dubai in the context of its ordinary course of trading, including retail.

#### **Labour Law**

The Federal Law No. 8 of 1980 (as amended by Federal Laws No. 24 of 1981, No. 15 of 1985, No. 12 of 1986 and No. 8 of 2007 and Ministerial Decree 764, 765 and 766 of 2015) the UAE Labour Law, is a comprehensive law that regulates all aspects of labour relations between employers and employees. In its 193 articles, the UAE Labour Law outlines everything such as employee entitlements, employment contracts, labour dispute settlement, disciplinary rules, and labour inspection, among others.

A summary of the main points with regards to probation, working hours, overtime payments and gratuity pay is included below.



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### *Probation period*

Article 37 of the UAE Labour Law stipulates that the period of probation can be for a maximum period of six months. An employee or the employer can terminate the employment contract at any time during the probation period without the employer being liable to pay the end of service gratuity or the employee compensation for damages.

### *Working hours*

- The maximum working hours for an adult employee is eight hours a day (48 hours a week). This can be increased to nine hours a day, for specific jobs like those in cafeterias, hotels, trades and guards. The travel time is not included in working hours.
- The UAE Labour Law states that any hours worked more than ‘normal hours’ can be considered as overtime. The UAE Labour Law has set the number of working hours per week at 48 hours, and employers who compel workers to exceed this limit without paying them are violating labour rules. Article 65 of the UAE Labour Law states that the ‘ordinary’ work-hours for an adult worker is eight hours per day, i.e., 48 hours a week. But, an employer has the right to ask the employee to work overtime, provided, the employee is paid accordingly for the number of excess hours worked.
- Also, instead of the usual eight hours a day, an employer can ask employees to work nine hours on a given day in a week, but, this extra hour should be deducted from their work time on another day in the week. After every five hours of consecutive work, an hour’s break is allowed every day.
- For workers involved in industries like trade, cafeterias, hotels, security and other jobs, the number of work hours may be increased to nine hours a day.
- Sometimes, an employer can ask their employee to work on their weekly day off, in return for extra wages, but, they are not allowed to oblige them to work for two consecutive holidays.

### *Overtime payment*

- For additional work hours, the worker shall be paid a wage equivalent to the ordinary hourly wage, apart from 25 percent of the said wage. For instance, a worker earning Dh.100 an hour may be entitled to Dh. 125 every hour of overtime he/she works on a given work day.
- Article 68 of the UAE Labour Law clarifies that if a worker works overtime between 9pm to 4am, he/she is eligible for an additional 50 percent of the said wage.

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- If the employee is required to work on a weekend, he shall be given a day off during the week as a substitution, or will be paid basic wage, in addition to basic wage, and at least fifty percent of that wage.
- Friday is the weekly rest for all workers, except daily workers. If the worker is required to work on this day, he/she is entitled to a substitute rest day, or the basic wage for ordinary work hours, in addition to 50 percent of the said wage. Article 71 of the UAE Labour Law adds that the worker may not be requested to work for more than two consecutive Fridays, (except in case of day workers).
- Overtime is permitted for not more than two hours a day, unless it is an emergency for prevention of occurrence of colossal loss, a serious accident or removal or mitigation of consequences thereof.

### *Gratuity payment*

- Any employee, who completes one year or more in continuous service, shall be eligible to gratuity at the end of the service. Gratuity is calculated as per the UAE Labour Law.

### **Foreign ownership in UAE companies**

Notwithstanding Chapter 2 of the UAE Federal Law No. 2 of 2015 on Commercial Companies, which limits non-Gulf Cooperation Council (“GCC”)/UAE Entities to owning no more than 49% of the share capital in a UAE limited liability company, and the UAE Federal Law No. 17 of 2004 (the “**Anti-Fronting Law**”), which on its face has the effect of prohibiting situations where companies seek to circumvent the 51/49 foreign ownership restrictions, it is a common and widely accepted practice (both by the advisory community and the UAE regulators) for the shareholders of limited liability companies established in the UAE to enter into a suite of contractual documents, the effect of which is to permit the non-GCC/UAE Entities to retain 100% of the economic and beneficial interests in as well as control over in the limited liability company. It was on this basis only that the Contractual Arrangements were drawn up.

According to our UAE legal advisers, and as evidenced from a letter issued on 15 January 2018 from the DIDA to the UAE Nominee, the regulatory authorities in the UAE must be aware of both the practice of Emirati individuals holding shares, for a fee, on behalf of foreign entities (usually subject to a short form “nominee” arrangement), and corporate service providers which provide a more sophisticated service under schemes of arrangement and has endorsed such practices. For further details about the letter issued by the DIDA, please refer to the paragraph headed “Contractual Arrangements — Legality and enforceability of the Contractual Arrangements” of this prospectus. Both practices are widespread although the use of a corporate service provider is the option preferred by international law firms because (i) the corporate service provider has a separate legal status from the UAE national individual shareholders, (ii) the death of any

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the shareholders of the corporate service provider does not affect the existence or operations of the corporate service provider, and (iii) any personal liabilities of the shareholders of the corporate service provider are ring-fenced.

There is a remote possibility that the Anti-Fronting Law could prohibit foreign ownership of a UAE company through structures such as the one used in the Contractual Arrangements. The Anti-Fronting Law was scheduled to come into effect in November 2007. However, by way of a cabinet resolution, the UAE federal government suspended the application of the Anti-Fronting Law until November 2009 and it was further suspended until September 2011. The Anti-Fronting Law is now in force, but, as of the date hereof, the provisions of the Anti-Fronting Law have not been enforced to our knowledge against any UAE company whose shareholding holding structure is similar to the Contractual Arrangements.

Most importantly, as recently as 2012 and 2013, at the Abu Dhabi Court of Cassation, the Judges did not refer to the Anti-Fronting Law when considering “security agreements” which effectively changed the net profits distribution to favour the non-UAE national to have a larger percentage than the registered 49% shareholding. In fact, in the Abu Dhabi Court of Cassation and Civil Appeal 30 of 2015, the rights set up in “security agreements” were protected and recognised by the Court and no reference was made to the Anti-Fronting Law. There is therefore no legal precedent in the UAE where the Anti-Fronting Law has been referred to.

According to our UAE Legal Advisers, the Contractual Arrangements are valid, legally binding and enforceable.

### **Abu Dhabi Global Market**

ADGM is a broad-based international financial centre for local, regional and international institutions, established in the free zone in Abu Dhabi in accordance with the Federal Law No. 8 of 2004, Federal Decree No. 15 of 2013, Cabinet Resolution No. 4 of 2013, and Abu Dhabi Law No. 4 of 2013. Each free zone in the UAE promotes certain business sectors. For ADGM, it encourages companies to set up in ADGM to, among others, (i) provide financial service, and professional service such as legal and accounting, and (ii) act as holding companies and special purpose vehicles. Nevertheless, companies set up in free zone can only operate within the free zone and cannot engage in trading with entities in the mainland UAE. Free zones in the UAE do not permit companies incorporated in the free zones to do business outside the free zone in the mainland of the UAE unless such company obtains appropriate license from the local authority i.e. the Dubai Economy. According to the UAE Federal Law No. 13 of 2011, the Dubai Economy is the only responsible authority for issuing licenses outside the free zones or in the mainland UAE. The said law states that no one is permitted to conduct economic activities in Dubai outside the free zones except through a corporate entity licensed by the DED. If a Free Zone Company is wholly-owned by a non-UAE entity, then such Free Zone Company will not be able to obtain licenses from the Dubai

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Economy because it failed to satisfy Article 10 of the UAE Companies Law No. 2 of 2015 that a company which operates in the mainland UAE must be owned as to at least 51% by UAE Entities. As advised by our UAE Legal Advisers, to strengthen the protection of our Group's interests in Indigo Dubai, Deep Ocean SPV was incorporated as a special purpose vehicle in the ADGM for the UAE Nominee to continue to hold the 51% interests in Indigo Dubai, yet indirectly. This structure (i) allows Indigo Dubai to continue to comply with the laws which requires limited liability companies incorporated in the UAE to be owned at least 51% by UAE Entities, and (ii) enables our Group to have absolute protection over the shares Indigo Dubai owned indirectly by the UAE Nominee because the 100% shares of Deep Ocean SPV were charged in favour of our Group and will be recognised by the ADGM Courts.

ADGM has its own civil and commercial laws. ADGM Courts and its judiciary are broadly modelled on the English judicial system. The foundation of the civil and commercial law in ADGM is provided by the Application of English Law Regulations 2015, which make English common law (including the rules and principles of equity) directly applicable in ADGM. In addition, a wide ranging set of well-established English statutes on civil matters are also made applicable in ADGM. The regulations for ADGM Courts, called ADGM Courts, Civil Evidence, Judgements, Enforcement and Judicial Appointments Regulations 2015 (the “**ADGM Courts Regulations**”), are also drawn from Scots and Australian Federal law. These regulations have been tailored specifically to meet the requirements of ADGM Courts.

Since the Courts in the UAE are governed by the Civil Code and not common law, the judgements are not binding and each judge can exercise his discretion in the interpretation of the laws of the UAE. As such, we underwent a corporate restructuring exercise to submit the suite of Contractual Arrangements, where permissible, to the common law courts which are found in the ADGM in order to further enhance the protection of the shareholding holding structure of Indigo Dubai. The DIFC-LCIA, which is administered by LCIA, is opted as the arbitration centre due to its being up and running for over 5 years and yet its arbitration awards can be enforced through the ADGM Courts. The ADGM Court Judgements are enforceable directly on ADGM entities and there is no argument that the civil courts of Dubai or Abu Dhabi should apply instead.

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### Consumer protection

Under Federal Law No. 24 of 2006 regarding Consumer Protection, including its executive regulation set out in Cabinet Resolution No. 10 of 2007 (collectively, the “**Consumer Protection Laws**”) a consumer guarantee is a right that a consumer automatically benefits from by virtue of purchasing goods or services for personal use.

Under the Consumer Protection Law the consumer rights include the right to:

- a) protection against products, production operations or services causing harm to health and safety;
- b) compensation and fair settlement from lawful claims;
- c) goods which are of sufficient quality, performance and fit for purpose; and
- d) services are properly carried out and meet consumer requirements.

There is no minimum safety threshold for a supplier under the Consumer protection Law. Furthermore, Consumer Protection Law provides for remedies for defective products such as requiring the supplier to withdraw or recall certain products from the market.

The Consumer Protection Law grants powers to government authorities to protect consumers and enforce the product quality and safety regulations, including powers to:

- a) supervise the execution of the general policy for consumer protection;
- b) co-ordinate with the concerned authorities in the UAE to confront unfair commercial practices that harm the consumer;
- c) control price movements;
- d) receive consumers’ complaints and adopt procedures in this regard or refer them to the competent authorities; and
- e) publish decisions and recommendations that contribute to increase consumer awareness.

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### **Civil Code**

Federal Law No. 5 of 1985 regarding civil transactions (the “**Civil Code**”) provides that a sale is deemed to be concluded on the basis that the item sold is free of any defects except for those tolerated by custom. It is an implied condition of a contract that the item sold should be sound and free of any defects. Defects must be pre-existing, and affect the value of the item sold. The defect must also be unknown to the buyer, and the seller must not have contracted for an exemption from the liability for the defect.

### **VAT**

The UAE is currently a tax free jurisdiction and does not impose any income or corporate taxes. However, as of 1 January 2018, Federal Law No. 8 of 2017 on Value Added Tax shall apply across the UAE. Businesses in the UAE must register for VAT when making taxable supplies in excess of the value added tax registration threshold, currently at AED375,000, (or approximately HK\$800,000). Voluntary registration will also be made available for businesses making taxable supplies of AED187,500 (or approximately HK\$400,000) per annum. The standard rate of VAT in the UAE will be 5%. Indigo Dubai has registered for VAT since 1 January 2018.

VAT is payable upon the earlier of (a) the invoice date; (b) the delivery or performance of the service; or (c) the date of payment. In relation to invoices, prices must include VAT. VAT invoices must include (a) the name and address of the seller; (b) the seller’s VAT number; (c) VAT invoice number; (d) date of invoice and supply (if different); (e) a description of the goods or services; (f) prices and quantities as applicable; (g) any discounts; and (h) VAT calculation and amount due.

Businesses will be able to recover input VAT in respect of exempt goods and services. The products sold by Indigo Living L.L.C. are not VAT exempt.

### **Online sales**

The Electronic Transactions and E-Commerce Law (Federal Law No 1 of 2006) generally permits the execution of contracts between two parties via electronic means, and expressly states that the consent and acceptance of contracts may be expressed via electronic communications. Indigo Dubai has the necessary licenses required to conduct online sales and obtained No Objection Letters from Telecommunication Regulatory Authority of the UAE to conduct online sales through its websites and mobile applications.

### IV. Saudi Arabia

The following summarises the principal laws and regulations of Saudi Arabia which are relevant to the franchising business of our Group in Saudi Arabia.

#### **Law of franchising**

The underlying statutory framework concerning agencies, distributorships and franchises in Saudi Arabia is set out in the Commercial Agency Regulation, Royal Decree No. 11 of 22 July 1962 (the “**Commercial Agency Regulation**”) and the Rules for the Implementation of the Commercial Agency Regulations issued pursuant to Ministerial Resolution No. 1897 of 30 March 1981 (the “**Implementing Rules**”). The application of these two statutes to franchises arises from Ministerial Order No. 1012 of the Minister of Commerce of Saudi Arabia made on 20 March 1992 (the “**Order No. 1012**”). The statutes are administrative regulations which only address certain aspects of the relation between principal and the franchisee. The validity, effect and interpretation of franchise agreements are governed by Islamic law, the basic and fundamental law of Saudi Arabia, which grants considerable freedom of contract to the parties to a franchise agreement.

Article 2 of Order No. 1012 requires franchise agreements to be registered with the Ministry of Commerce and Investment of Saudi Arabia within six months from the date of execution. It is the franchisee’s duty to register the agreement, and the franchisor has no actual involvement in the process. However, the Saudi Arabian courts will ordinarily give effect to the common intention of the parties expressed in their written agreements, whether registered or not.

Articles 10 and 11 of the Implementing Rules set out the minimum requirements for franchise agreements, including the rights and obligations of each of the parties, the obligations of both parties vis-a-vis consumers as regards the provision of maintenance and spare parts, the subject of the agency, the area covered, as well as the services, works and goods, duration and method of renewal of the agency and mode of termination or lapse of the agency. Saudi Arabian law imposes no restrictions regarding the duration of franchise agreements or the type of businesses or industries for which franchises may be granted. However, the products or services subject of the franchising must not be contrary to Islamic law, such as alcohol or gambling.

According to the Commercial Agency Regulation, it is not a requirement for the franchisor to have presence in Saudi Arabia, also there are no restrictions on the identity of the franchisor or the ultimate controller of the franchisor. Saudi Arabian law imposes no requirement that the franchisor must operate a certain number of stores or facilities before it can grant a franchise to a Saudi Arabian franchisee.

With regarding to taxation, the franchisor is subject to 15% withholding tax on the gross payment of royalties, 20% withholding tax on management fees, 15% withholding tax on licensing fees and 5% withholding tax on technical services. The tax which the franchisee must pay depends on whether it is a Saudi Arabian company or a foreign investor.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### HISTORY AND DEVELOPMENT

Our Group principally operates three lines of business, namely, (i) sale of home furniture and accessories; (ii) rental of home furniture and accessories; and (iii) project and hospitality services, which typically involve styling, decorating and furnishing commercial or residential properties such as hotels, serviced apartments and showflats. During the past 11 years, we have developed and marketed our brand *Indigo* for all our goods and services. Nevertheless, our Group's history can be traced back to 38 years ago when Pure Design (H.K.) Limited (currently known as Deep Blue Living Limited) was established in 1979.

Mr. McLennan has more than 15 years of experience in the home furnishing industry. Mr. McLennan joined our Group in July 2002 as managing director of Options Home Furnishings Limited (currently known as Indigo Living Limited). In July 2006, Pacific Legend Development, which was owned as to 29% by Mr. McLennan and 71% by two Independent Third Parties at that time, acquired the entire issued share capital of each of Indigo HK and Pure Design (H.K.) Limited (currently known as Deep Blue Living Limited) from Dong Fung Lim Mei Company Limited and Hong Kong Carpet (Holdings) Limited, respectively, both of which were subsidiaries of Tai Ping Carpets International Limited (stock code: 0146). Mr. McLennan funded his investment in our Group with his own resources. Mr. McLennan is the spouse of Mrs. McLennan.

Between July 2006 and until April 2015, a number of share transfers and issue of new shares in the capital of Pacific Legend Development were effected. As at 8 April 2015, Pacific Legend Development was owned as to 39.21% by Mr. McLennan, 18.18% by RAM, 18.18% by Ms. Bailey, 11.93% by Mr. Leach and 12.50% by Ms. Fitzpatrick.

Mr. Rinderknecht is an investor and funded his investment in our Group with his own resources. Mr. Rinderknecht is an uncle of Mrs. McLennan. RAM was incorporated in Colorado, USA with limited liability on 14 June 2006. It is wholly-owned by Mr. Rinderknecht and is an investment holding vehicle of Mr. Rinderknecht.

Ms. Bailey was a director of Indigo HK from June 1998 to November 2005 and a director of Deep Blue from May 1998 to October 2005. Ms. Bailey has more than seven years of experience in the furniture retail industry. Ms. Bailey is an investor and funded her investment in our Group with her own resources. Ms. Bailey is the spouse of Mr. Leach.

Mr. Leach was a director of Indigo HK from June 1998 to June 2002 and a director of Deep Blue from November 1996 to June 2005. Mr. Leach has more than eight years of experience in the furniture retail industry. Mr. Leach is an investor and funded his investment in our Group with his own resources. Mr. Leach is the spouse of Ms. Bailey.

Ms. Fitzpatrick joined our Group and acted as the director of operations in February 2007. Ms. Fitzpatrick has more than 11 years of experience in the home furnishing industry. Ms. Fitzpatrick funded her investment in our Group with her own resources.



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## HISTORY, DEVELOPMENT AND REORGANISATION

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### Key milestones of our Group

The following table sets forth the major development milestones of our Group:

<u>Year</u>	<u>Milestones</u>
1979	Deep Blue (previously known as “Pure Design (H.K.) Limited” and “Banyan Tree Limited”) was incorporated in Hong Kong”.
2006	Pacific Legend Development acquired Indigo HK and Deep Blue from the subsidiaries of Tai Ping Carpets International Limited (stock code: 0146).
2006	We expanded our business to operate in Dubai, UAE.
2011	We opened a retail store for sale of the Indigo Kids collection of children’s furniture and bedroom accessories.
2013	We entered into the PRC market.
2013	We launched our first retail store in Shanghai, PRC.
2015	We commenced our online sales business.
2016	We received the “Quality Shop” by the Hong Kong Tourism Board for 15 consecutive years.
2017	We received the “Homestore of the Year — Gold Award 2017” by Mother Baby & Child.

### OUR COMPANY

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law on 1 September 2017 and became the holding company of our Group on 11 January 2018 pursuant to the Reorganisation. Our Group comprises the following wholly-owned companies:

<u>Name of company</u>	<u>Place of incorporation</u>	<u>Principal business activities</u>
Raeford	BVI	Immediate holding company
Pacific Legend Development	Hong Kong	Investment holding company
Ocean Blue	Hong Kong	Franchising business

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## HISTORY, DEVELOPMENT AND REORGANISATION

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<u>Name of company</u>	<u>Place of incorporation</u>	<u>Principal business activities</u>
Indigo HK	Hong Kong	Retail of home furniture and accessories, leasing of furniture and provision of design consultancy services for fitting out interiors with furnishings
Indigo Dubai ( <i>Note</i> )	Dubai, UAE	Trading and leasing of furniture
Deep Blue	Hong Kong	Investment holding company
Indigo China	PRC	Retail, wholesale and leasing of furniture and interior design consultancy
Indigo Shanghai	PRC	Corporate sales of furniture and design consultancy in the PRC

*Note:* We control Indigo Dubai pursuant to the Contractual Arrangements, details of which can be found in the section headed “Contractual Arrangements” in this prospectus.

Immediately following the completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares that may be allotted and issued by our Company pursuant to the exercise of any options which may be granted under the Share Option Scheme), Double Lions, Great Metro and Upperhand will hold 63.45%, 7.51% and 4.04%, respectively, of the enlarged issued share capital of our Company.

Double Lions was incorporated in the BVI with limited liability on 9 June 2017. It is the investment holding vehicle of the Controlling Shareholders. Double Lions is owned as to 40.48% by Mr. McLennan, 14.88% by Ms. Bailey, 9.76% by Mr. Leach, 14.88% by Mr. Rinderknecht and 20.00% by Ms. Fitzpatrick.

### **(1) Raeford**

Raeford was incorporated in the BVI with limited liability on 9 June 2017 and is an investment holding company as part of the Reorganisation. Since 1 September 2017, Raeford is 100% owned by our Company.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### (2) Pacific Legend Development

Pacific Legend Development was incorporated in Hong Kong on 9 June 2006 with limited liability and is an investment holding company. Since its incorporation, a number of share transfers and allotments and issues of shares in the capital of Pacific Legend Development were effected. From the beginning of the Track Record Period and up to immediately prior to the Reorganisation, the shareholders of Pacific Legend Development are as follow:

<u>Name of shareholder</u>	<u>Shareholdings</u>
Mr. McLennan .....	39.21%
Ms. Bailey .....	18.18%
RAM .....	18.18%
Ms. Fitzpatrick .....	12.50%
Mr. Leach .....	11.93%
<b>Total</b> .....	<b>100.00%</b>

On 28 December 2017, pursuant to the Reorganisation, Pacific Legend Development became an indirect wholly-owned subsidiary of our Company. Details of the Reorganisation are set out in the paragraph headed “Reorganisation” in this section.

### (3) Ocean Blue

Ocean Blue was incorporated in Hong Kong with limited liability on 9 May 2017 and is principally engaged in franchising the business of our Group.

As at the time of its incorporation, Ocean Blue had a paid-up share capital of HK\$1,000 divided into 1,000 ordinary shares. On the same day, 1,000 subscriber shares were allotted and issued as fully paid to Pacific Legend Development.

Since its incorporation and up to immediately prior to the Reorganisation, Ocean Blue was wholly owned by Pacific Legend Development.

On 28 December 2017, pursuant to the Reorganisation, Ocean Blue became an indirect wholly-owned subsidiary of our Company. Details of the Reorganisation are set out in the paragraph headed “Reorganisation” in this section.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### **(4) Indigo HK**

Indigo HK was incorporated in Hong Kong with limited liability on 11 November 1986 and is principally engaged in retail of home furniture and accessories, leasing of furniture and provision of design consultancy services for fitting out interiors with furnishings. Previously, Indigo HK was also known as Wide Dragon Industries Limited (from 1986 to 1987), Lim Mei Carpet Manufacturing Company Limited (from 1987 to 1996), Lim Mei Manufacturing Company Limited (from 1996 to 2002), and Options Home Furnishings Limited (from 2002 to 2004). On 4 October 2004, Indigo HK changed its name from Options Home Furnishings Limited to Indigo Living Limited.

Since its incorporation, a number of share transfers and allotments and issues of shares in the capital of Indigo HK were effected. Since 7 July 2006, Indigo HK is 100% owned by Pacific Legend Development.

On 28 December 2017, pursuant to the Reorganisation, Indigo HK became an indirect wholly-owned subsidiary of our Company. Details of the Reorganisation are set out in the paragraph headed “Reorganisation” in this section.

### **(5) Indigo Dubai**

Indigo Dubai was incorporated in Dubai, UAE as a limited liability company with a share capital of AED300,000 on 11 April 2006, the date on which its commercial licence was issued under UAE law. Indigo Dubai is principally engaged in trading and leasing of furniture.

Since its date of incorporation, Indigo Dubai was legally owned as to 49% and 51% by our Group and the UAE Nominee, respectively. On 27 March 2018, as part of the Reorganisation, the UAE Nominee transferred its 51% shareholding in Indigo Dubai to Deep Ocean SPV, a wholly-owned subsidiary of the UAE Nominee in ADGM.

Since 15 May 2007, there were the Original Contractual Arrangements to allow Pacific Legend Development to exercise and maintain control over the operations of Indigo Dubai and obtain its economic benefits. Under the HKFRS, pursuant to the terms of the Original Contractual Arrangements, Indigo Dubai was regarded as an indirect wholly-owned subsidiary of our Group. Please refer to the section headed “Contractual Arrangements — Original Contractual Arrangements” in this prospectus for further details.

In March 2018, Pacific Legend Development, the UAE Nominee and Deep Ocean SPV entered into the New Contractual Arrangements on terms similar to the Original Contractual Arrangements. Under HKFRS, pursuant to the terms of the New Contractual Arrangements, Indigo Dubai is regarded as an indirect wholly-owned subsidiary of our Group. Please refer to the paragraph headed “Contractual Arrangements — New Contractual Arrangements” in this prospectus for further details.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### (6) Deep Blue

Deep Blue was incorporated in Hong Kong with limited liability on 1 May 1979 and is an investment holding company. Previously, Deep Blue was also known as Pure Design (H.K.) Limited (from 1979 to 1980) and Banyan Tree Limited (from 1980 to 2006). On 17 July 2006, Deep Blue changed its name from Banyan Tree Limited to Deep Blue Living Limited. Deep Blue is now an investment holding company of Indigo China and Indigo Shanghai.

Since its incorporation, a number of share transfers and allotments and issues of shares in the capital of Deep Blue were effected. As of 7 July 2006, Deep Blue was owned as to 100% by Pacific Legend Development. From the beginning of the Track Record Period and up to immediately prior to the Reorganisation, the shareholders of Deep Blue are as follow:

<u>Name of shareholder</u>	<u>Shareholdings</u>
Mr. McLennan .....	39.20%
Ms. Bailey .....	18.20%
RAM .....	18.20%
Ms. Fitzpatrick .....	12.50%
Mr. Leach .....	11.90%
<b>Total</b> .....	<b>100.00%</b>

On 11 January 2018, pursuant to the Reorganisation, Deep Blue became an indirect wholly-owned subsidiary of our Company. Details of the Reorganisation is set out in the paragraph headed “Reorganisation” in this section.

### (7) Indigo China

Indigo China is a limited liability company established in the PRC on 1 November 2013 and has a registered capital of RMB10 million, of which RMB5.0 million has been paid up and the remaining will be paid up by 31 October 2033. Indigo China commenced its business in February 2014. Indigo China is owned as to 100% by Deep Blue since its establishment. Indigo China is principally engaged in retail and wholesale of home furniture and accessories, leasing of furniture and provision of interior design consultancy services for fitting out interiors with furnishings in the PRC.

### (8) Indigo Shanghai

Indigo Shanghai is a limited liability company established in the PRC on 12 November 2015 and has a registered capital of RMB30 million, of which nothing has been paid up and the remaining will be paid up by 31 October 2043. Indigo Shanghai commenced its business in December 2015. Indigo Shanghai is owned as to 100% by Indigo China since its establishment. Indigo Shanghai is principally engaged in leasing and sale of furniture and provision of design consultancy services for fitting out interiors with furnishings for corporate clients such as hotels and serviced apartments in the PRC.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### **(9) Deep Ocean SPV**

Deep Ocean SPV is a special purpose vehicle incorporated in ADGM with limited liability on 4 March 2018. It has an issued share capital of US\$1,000, all of which was funded by our Group and is legally owned by the UAE Nominee. Based on the New Contractual Arrangements, Deep Ocean SPV is regarded as a wholly-owned subsidiary of our Group. Deep Ocean SPV is used solely for holding the 51% in Indigo Dubai which was originally held by the UAE Nominee directly for the benefit of our Group.

Please refer to the paragraph headed “Contractual Arrangements — New Contractual Arrangements” in this prospectus for further details.

### **DISCONTINUED OPERATIONS**

Indigo Macao and Indigo Singapore were our wholly-owned subsidiaries established for business development in Macao and Singapore, respectively. Since we no longer have business operation in Macao and Singapore, we have wound up Indigo Macao and struck off Indigo Singapore. Indigo Macao and Indigo Singapore were solvent immediately before their winding up and striking off.

#### **Indigo Macao**

Indigo Macao was a company incorporated in Macao with limited liability on 14 September 2007. Prior to its winding-up, the principal business of Indigo Macao were (i) interior design, furniture design and design of the fixed set and related equipment; and (ii) procurement, retail, lease, sale, wholesale and import and export of goods, in particular the supervision, consultancy and management of purchasing, retail, leasing, sale, consignment, agency, wholesaling and import and export of furniture, construction equipment and materials, countertops, lighting, rugs, accessories, children’s products and outdoor products. Indigo Macao was set up to serve certain furnituring and hospitality projects of corporate customers on project basis. Subsequent to the completion of these projects, Indigo Macao did not look for new projects since 2014 in Macao. Since Indigo Macao ceased to have business in 2014 and was dormant, as part of the Reorganisation, Indigo Macao was wound up on 1 December 2017. There was no material adverse impact to our Group.

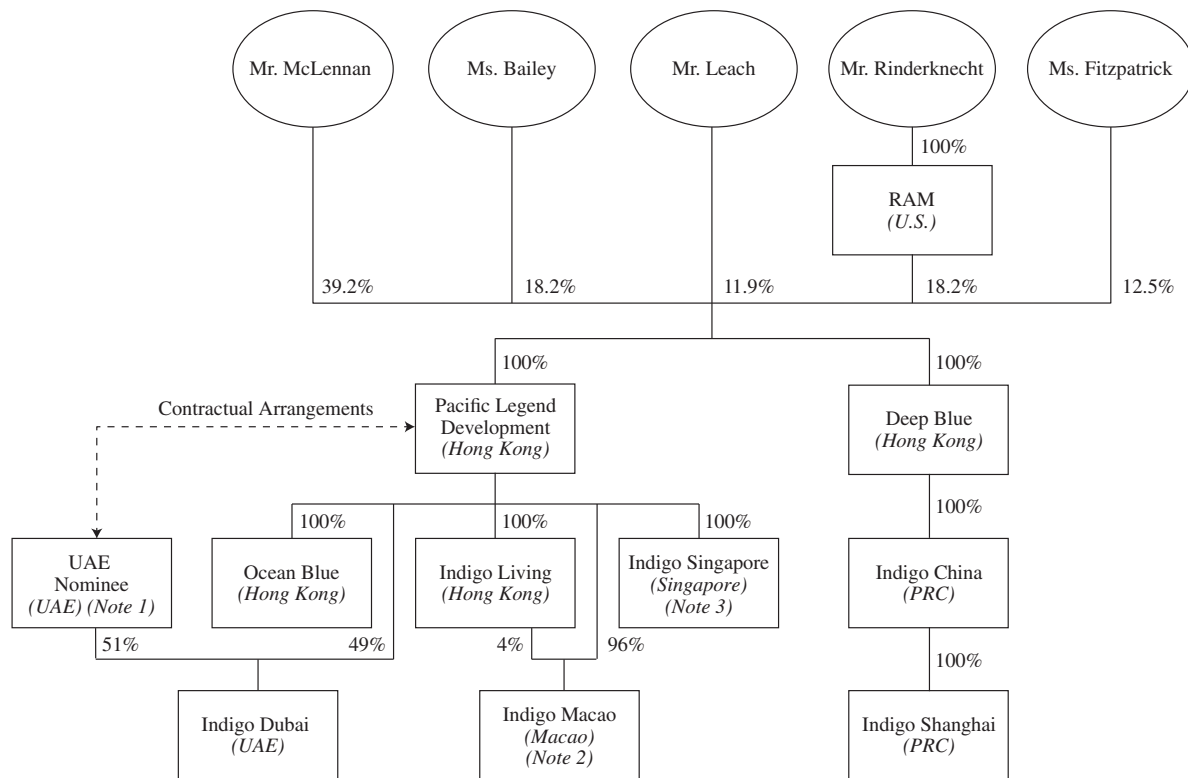
#### **Indigo Singapore**

Indigo Singapore was a company incorporated in Singapore with limited liability on 21 August 2009 and an indirect wholly-owned subsidiary of our Company. The principal activities of Indigo Singapore were wholesale and retail business and interior design services. Indigo Singapore was set up to serve certain furnituring and hospitality projects of corporate customers on project basis. Subsequent to the completion of these projects, Indigo Singapore did not look for new projects since 2012 in Singapore. Since Indigo Singapore ceased to have business in 2012 and was dormant, as part of the Reorganisation, Indigo Singapore was struck off in April 2018. There was no material adverse impact to our Group.

# HISTORY, DEVELOPMENT AND REORGANISATION

## CORPORATE STRUCTURE PRIOR TO THE REORGANISATION

The following chart shows the shareholding and corporate structure of our Group immediately before the Reorganisation, the Share Offer and the Capitalisation Issue.



### Notes:

- 1 UAE Nominee is a corporate nominee service provider.
- 2 Indigo Macao was wound up on 1 December 2017.
- 3 Indigo Singapore was struck off in April 2018.

## REORGANISATION

Our Group underwent the Reorganisation in preparation for our Listing, pursuant to which our Company became the holding company of our Group. The Reorganisation involved the following major steps:

### (i) Incorporation of our Company

On 1 September 2017, our Company was incorporated in the Cayman Islands as an exempted company with limited liability. It is principally engaged in the business of investment holding. As at the date of its incorporation, the authorised share capital of our Company was HK\$380,000 divided into 38,000,000 Shares with a par value of HK\$0.01 each. On 1 September 2017, one nil-paid subscriber Share was transferred from the subscriber to Mr. McLennan at nil consideration. On 3 October 2017, Mr. McLennan transferred the nil-paid subscriber Share to Double Lions at a consideration of HK\$0.01. Upon completion of the Reorganisation, our Company became the holding company of our Group.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### **(ii) Incorporation of Raeford**

On 9 June 2017, Raeford was incorporated in BVI. It is an investment holding company. As at the date of its incorporation, Raeford was authorised to issue a maximum of 50,000 ordinary shares with a par value of US\$1.00 each. On 1 September 2017, 100 subscriber shares of Raeford with a par value of US\$1.00 was allotted and issued, as fully paid, to our Company, and Raeford became wholly-owned by our Company. Upon completion of the Reorganisation, Raeford became the intermediate holding company of our Group.

### **(iii) Acquisition of Pacific Legend Development by Raeford**

On 28 December 2017, our Company, through Raeford, acquired:

- (a) 392,100 shares of Pacific Legend Development (representing 39.21% of its entire issued share capital) from Mr. McLennan at a consideration of HK\$40,386,300 which was settled by our Company allotting and issuing, at the direction of Mr. McLennan, 99 fully paid Shares to Double Lions and crediting as fully paid the one nil-paid subscriber Share of our Company held by Double Lions;
- (b) 181,800 shares of Pacific Legend Development (representing 18.18% of its entire issued share capital) from Ms. Bailey at a consideration of HK\$18,725,400 which was settled by our Company allotting and issuing, at the direction of Ms. Bailey, 100 fully paid Shares to Double Lions;
- (c) 119,300 shares of Pacific Legend Development (representing 11.93% of its entire issued share capital) from Mr. Leach at a consideration of HK\$12,287,900 which was settled by our Company allotting and issuing, at the direction of Mr. Leach, 100 fully paid Shares to Double Lions;
- (d) 181,800 shares of Pacific Legend Development (representing 18.18% of its entire issued share capital) from RAM at a consideration of HK\$18,725,400 which was settled by our Company allotting and issuing, at the direction of RAM, 100 fully paid Shares to Double Lions; and
- (e) 125,000 shares of Pacific Legend Development (representing 12.50% of its entire issued share capital) from Ms. Fitzpatrick at a consideration of HK\$12,875,000 which was settled by our Company allotting and issuing, at the direction of Ms. Fitzpatrick, 100 fully paid Shares to Double Lions.

The above considerations were determined with reference to the unaudited consolidated net asset value of Pacific Legend Development of approximately HK\$103,000,000 as at 30 September 2017.



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## HISTORY, DEVELOPMENT AND REORGANISATION

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### (iv) Acquisition of Deep Blue by Raeford

On 11 January 2018, our Company, through Raeford, acquired:

- (a) 392 shares of Deep Blue (representing 39.20% of its entire issued share capital) from Mr. McLennan at a consideration of HK\$0.392 which was settled by our Company allotting and issuing, at the direction of Mr. McLennan, 70 fully paid Shares to Double Lions;
- (b) 182 shares of Deep Blue (representing 18.20% of its entire issued share capital) from Ms. Bailey at a consideration of HK\$0.182 which was settled by our Company allotting and issuing, at the direction of Ms. Bailey, 70 fully paid Shares to Double Lions;
- (c) 119 shares of Deep Blue (representing 11.90% of its entire issued share capital) from Mr. Leach at a consideration of HK\$0.119 which was settled by our Company allotting and issuing, at the direction of Mr. Leach, 70 fully paid Shares to Double Lions;
- (d) 182 shares of Deep Blue (representing 18.20% of its entire issued share capital) from RAM at a consideration of HK\$0.182 which was settled by our Company allotting and issuing, at the direction of RAM, 70 fully paid Shares to Double Lions; and
- (e) 125 shares of Deep Blue (representing 12.50% of its entire issued share capital) from Ms. Fitzpatrick at a consideration of HK\$0.125 which was settled by our Company allotting and issuing, at the direction of Ms. Fitzpatrick, 66 fully paid Shares to Double Lions.

The above considerations were determined with reference to the unaudited consolidated net asset value of Deep Blue of approximately HK\$1 as at 31 October 2017.

Upon completion of the acquisitions of Pacific Legend Development and Deep Blue by Raeford, (i) Pacific Legend Development and Deep Blue became wholly-owned subsidiaries of Raeford; (ii) Double Lions held 1,000 Shares, representing the entire share capital of our Company; and (iii) as at 11 January 2018, the shareholders of Double Lions were as follow:

<u>Name of shareholder</u>	<u>Shareholdings</u>
Mr. McLennan .....	39.21%
Ms. Bailey .....	18.18%
RAM .....	18.18%
Ms. Fitzpatrick .....	12.50%
Mr. Leach .....	11.93%
<b>Total</b> .....	<b>100.00%</b>

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## HISTORY, DEVELOPMENT AND REORGANISATION

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(v) **Repurchase of shares by Double Lions for shares held by Mr. McLennan, Ms. Bailey, Mr. Leach, RAM and Ms. Fitzpatrick and the sale of shares to Ms. Fitzpatrick**

*1. First declaration of dividend by Pacific Legend Development*

On 4 January 2018, Pacific Legend Development declared an interim dividend payment of HK\$7,000,000 and such dividend was moved up our Group as successive dividend payments where it ultimately ended up as dividend payment to Double Lions, who then had used for the repurchase of shares from Ms. Bailey, Mr. Leach and RAM as described below.

On 12 January 2018, in compliance with the relevant BVI rules and regulations, Double Lions repurchased a total of 1,000 shares of Double Lions:

- (a) 376 shares of Double Lions from Ms. Bailey at a total cash consideration of HK\$2,632,000;
- (b) 377 shares of Double Lions from RAM at a total cash consideration of HK\$2,639,000; and
- (c) 247 shares of Double Lions from Mr. Leach at a total cash consideration of HK\$1,729,000.

The above considerations for repurchase at HK\$7,000 per share were determined with reference to the unaudited net asset value of Pacific Legend Development of HK\$103,069,774 as at 30 September 2017 and a discount of approximately 32.1%.

As at 12 January 2018, upon completion of the above share repurchase, the number of issued shares in the capital of Double Lions was reduced from 10,000 shares to 9,000 shares; and the entire issued share capital of Double Lions was owned as to the followings:

Name of shareholder	Number of shares held by the shareholder	Percentage of issued share capital of Double Lions
Mr. McLennan .....	3,921 shares	43.56%
Ms. Bailey .....	1,442 shares	16.02%
Mr. Leach .....	946 shares	10.51%
RAM .....	1,441 shares	16.01%
Ms. Fitzpatrick .....	1,250 shares	13.89%
<b>Total</b> .....	<b>9,000 shares</b>	<b>100.00%</b>

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### *2. Second declaration of dividend by Pacific Legend Development*

On 4 January 2018, Pacific Legend Development declared a second interim dividend payment of HK\$19,250,000 and such dividend was moved up our Group as successive dividend payments where it ultimately ended up as dividend payment to Double Lions, who had used for the repurchase of shares from Mr. McLennan, Ms. Bailey, Mr. Leach, RAM and Ms. Fitzpatrick as described below.

On 13 January 2018, in compliance with the relevant BVI rules and regulations, Double Lions further repurchased a total of 2,750 shares of Double Lions:

- (a) 1,198 shares of Double Lions from Mr. McLennan at a total cash consideration of HK\$8,386,000;
- (b) 441 shares of Double Lions from Ms. Bailey at a total cash consideration of HK\$3,087,000;
- (c) 289 shares of Double Lions from Mr. Leach at a total cash consideration of HK\$2,023,000;
- (d) 440 shares of Double Lions from RAM at a total cash consideration of HK\$3,080,000; and
- (e) 382 shares of Double Lions from Ms. Fitzpatrick at a total cash consideration of HK\$2,674,000.

The above considerations for repurchase at HK\$7,000 per share were determined based on the net asset value per share of Pacific Legend Development as at 30 September 2017 with reference to the unaudited consolidated net asset value of Pacific Legend Development of approximately HK\$103,069,774 as at 30 September 2017 and a discount of 32.1%.

## HISTORY, DEVELOPMENT AND REORGANISATION

Upon completion of the above second share repurchase, the number of issued shares in the capital of Double Lions was reduced from 9,000 shares to 6,250 shares; and the entire issued share capital of Double Lions was owned as to the followings:

Name of shareholder	Number of shares held by the shareholder	Percentage of issued share capital of Double Lions
Mr. McLennan	2,723 shares	43.57%
Ms. Bailey	1,001 shares	16.02%
Mr. Leach	657 shares	10.51%
RAM	1,001 shares	16.02%
Ms. Fitzpatrick	868 shares	13.89%
<b>Total</b>	<b>6,250 shares</b>	<b>100.00%</b>

### 3. Sale of shares of Double Lions to Ms. Fitzpatrick

On 14 January 2018, (i) Mr. McLennan sold 193 shares of Double Lions at a total cash consideration of HK\$1,930,000 to Ms. Fitzpatrick; (ii) Ms. Bailey sold 71 shares of Double Lions at a total cash consideration of HK\$710,000 to Ms. Fitzpatrick; (iii) Mr. Leach sold 47 shares of Double Lions at a total cash consideration of HK\$470,000 to Ms. Fitzpatrick; and (iv) RAM sold 71 shares of Double Lions at a total cash consideration of HK\$710,000 to Ms. Fitzpatrick.

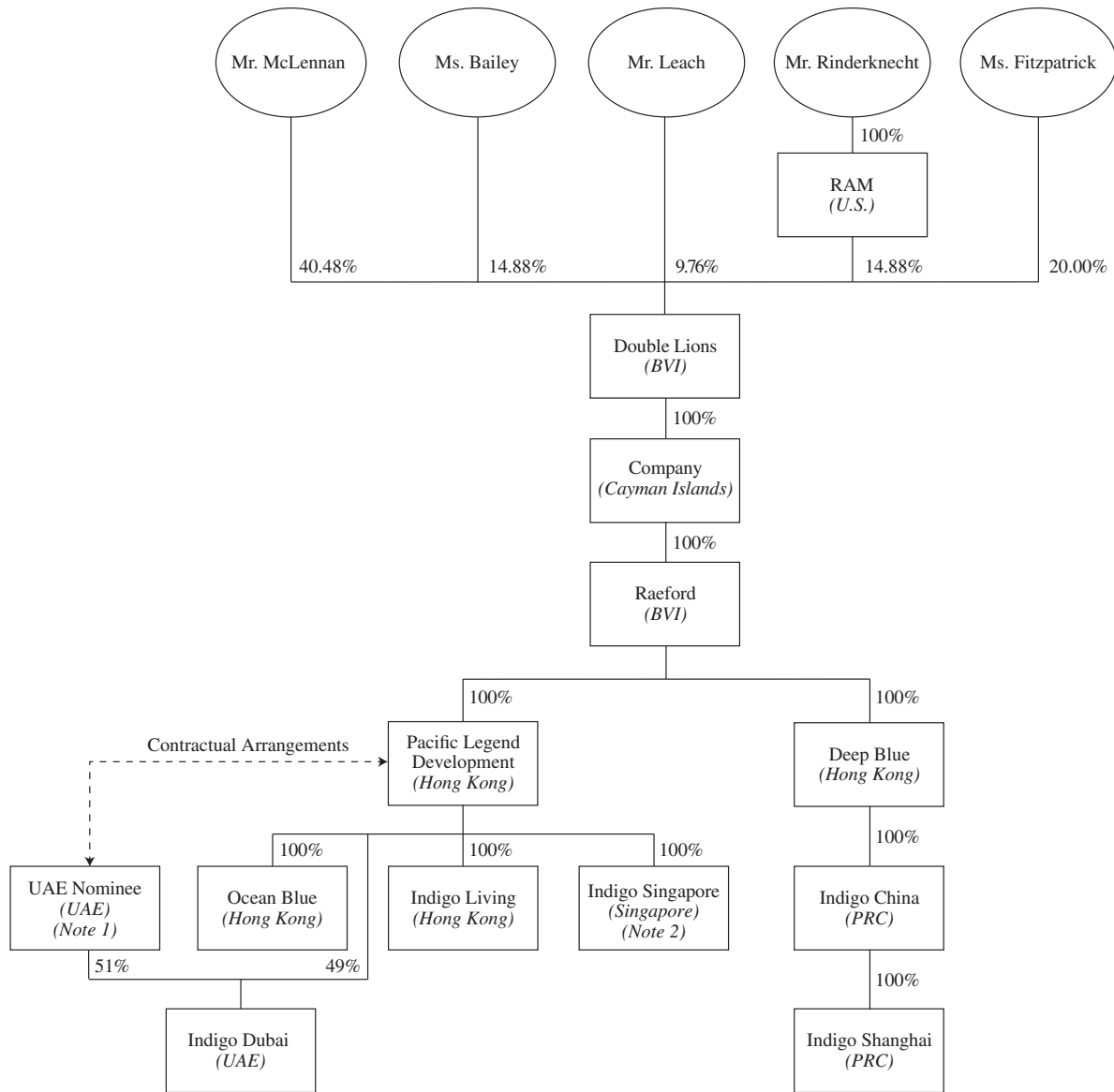
The above considerations at HK\$10,000 per share were determined at arm's length basis and on normal commercial terms.

Upon completion of the above sale of shares, the entire issued share capital of Double Lions was owned as to the followings:

Name of shareholder	Number of shares held by the shareholder	Percentage of issued share capital of Double Lions
Mr. McLennan	2,530 shares	40.48%
Ms. Bailey	930 shares	14.88%
Mr. Leach	610 shares	9.76%
RAM	930 shares	14.88%
Ms. Fitzpatrick	1,250 shares	20.00%
<b>Total</b>	<b>6,250 shares</b>	<b>100.00%</b>

## HISTORY, DEVELOPMENT AND REORGANISATION

The corporate structure of our Group was as follows after repurchase of shares by Double Lions for shares held by Mr. McLennan, Ms. Bailey, Mr. Leach, RAM and Ms. Fitzpatrick:



*Notes:*

- 1 UAE Nominee is a corporate nominee service provider.
- 2 Indigo Singapore was struck off in April 2018.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### (vi) Transfer of 51% in Indigo Dubai from the UAE Nominee to Deep Ocean SPV

Prior to the Reorganisation, the UAE Nominee owned 51% of Indigo Dubai. On 4 March 2018, the UAE Nominee formed Deep Ocean SPV in ADGM. On 27 March 2018, as part of the Reorganisation, the UAE Nominee transferred its 51% in Indigo Dubai to Deep Ocean SPV. In March 2018, Pacific Legend Development, the UAE Nominee and Deep Ocean SPV entered into the New Contractual Arrangements on terms similar to the Original Contractual Arrangements, further details are set out in the section under “Contractual Arrangements” of this Prospectus.

### (vii) Purchase of shares of Double Lions by Mr. Rinderknecht from RAM

On 1 May 2018, Mr. Rinderknecht purchased 930 shares in Double Lions (representing 14.88% of its entire issued share capital) from RAM at a total cash consideration of HK\$9,300,000.

The above consideration for purchase at HK\$10,000 per share was determined with reference to the consideration for sale of shares of Double Lion to Ms. Fitzpatrick on 14 January 2018.

Upon completion of the above share purchase, the entire issued share capital of Double Lions was owned as to the followings:

<u>Name of shareholder</u>	<u>Number of shares held by the shareholder</u>	<u>Percentage of issued share capital of Double Lions</u>
Mr. McLennan .....	2,530 shares	40.48%
Ms. Bailey .....	930 shares	14.88%
Mr. Leach .....	610 shares	9.76%
Mr. Rinderknecht .....	930 shares	14.88%
Ms. Fitzpatrick .....	1,250 shares	20.00%
<b>Total</b> .....	<b>6,250 shares</b>	<b>100.00%</b>

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### PRE-IPO INVESTMENTS

On 12 January 2018, our Company entered into the Great Metro Subscription Agreement with Great Metro and the Upperhand Subscription Agreement with Upperhand, respectively. Upon completion of the Pre-IPO Subscription Agreements, our Company was owned as to 84.60% by Double Lions, 10.01% by Great Metro and 5.39% by Upperhand.

Great Metro is an investment holding company incorporated in the BVI with limited liability on 9 March 2010, and is wholly-owned by Mr. Kwan, an Independent Third Party. Mr. Kwan founded Pinnacle Capital Limited, a company principally engages in business consultancy, in 2001 in Hong Kong and has over 15 years of experience in finance and investment. Our Directors believe that, in addition to providing capital to the development and expansion of our business. Mr. Kwan will bring strategic benefits to our Group by introducing more opportunities to our Group's growing business and operations and providing advice on matters relating to investors' relations to our Group based on his experience in finance and investment. Mr. Kwan invested his own savings into our Group. Mr. Kwan and Mr. McLennan know each other through mutual acquaintances.

Upperhand is an investment holding company incorporated in the BVI with limited liability on 27 May 2011, and is wholly-owned by Mr. Gregory Joseph Hansen ("Mr. Hansen"). Mr. Hansen is an investor with experience in finance and investment. Our Directors believe that, in addition to providing capital to the development and expansion of our business. Mr. Hansen will bring strategic benefits to our Group by introducing more opportunities to our Group's growing business and operations. Mr. Hansen invested his own savings into our Group. Mr. Hansen and Mr. McLennan know each other through mutual acquaintances.

The following table summarises the details of the Pre-IPO Investments:

	Great Metro Subscription Agreement	Upperhand Subscription Agreement
Date of Pre-IPO Subscription Agreements	12 January 2018	
Name of the subscriber	Great Metro	Upperhand
Relationship with our Group	Save as disclosed above and prior to their investment in our Group and up to the Latest Practicable Date, each of Great Metro, Upperhand, Mr. Kwan, Mr. Hansen and their respective associates were Independent Third Parties and did not have any past or present relationships, including but not limited to family, trust, business, employment relationships or any agreements, arrangements or understanding with our Group and/or our connected persons apart from the Pre-IPO Investments.	

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## HISTORY, DEVELOPMENT AND REORGANISATION

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	Great Metro Subscription Agreement	Upperhand Subscription Agreement
Amount of considerations paid	HK\$6,500,000	HK\$3,500,000
Payment dates of considerations	12 January 2018	
Basis of determination of considerations	Approximately 12.1 times of the price-to-earnings ratio based on the total comprehensive income of approximately HK\$5.5 million as extracted from the unaudited combined accounts of Pacific Legend Development and Deep Blue for the year ended 31 December 2016.	
Number of Pre-IPO Subscription Shares	100.1 subscription Shares	53.9 subscription Shares
Percentage of shareholding in our Company upon completion of the Pre-IPO Investments	10.01%	5.39%
Number of Shares to be held and percentage of shareholding in our Company after completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued pursuant to the exercise of any option which may be granted under the Share Option Scheme)	75,075,000 Shares, approximately 7.51%	40,425,000 Shares, approximately 4.04%
Investment cost per Share ( <i>Note 1</i> )	Approximately HK\$0.087	
Discount to the mid-point of the Offer Price range	Approximately 75.1% discount to the Offer Price of HK\$0.35 (being the mid-point of the Offer Price range)	



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## HISTORY, DEVELOPMENT AND REORGANISATION

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	Great Metro Subscription Agreement	Upperhand Subscription Agreement
Special rights (Note 2)	<p>The Pre-IPO Investors are entitled to the following special rights which will be automatically terminated upon the Listing and do not apply to the Reorganisation, the Capitalisation Issue, any Share which may be allotted and issued pursuant to the exercise of any option which may be granted under the Share Option Scheme:</p> <p>(a) Anti-dilution rights — In the event that our Company proposes to issue equity securities (including any securities convertible into, or exchangeable for, such security) before the Listing, the Pre-IPO Investors will have the right and option, but not an obligation, to participate in all such future issuances by our Company of equity securities on a pro rata basis solely for maintaining its percentage shareholding in our Company.</p> <p>(b) The put options — Mr. McLennan, being the guarantor in the Pre-IPO Subscription Agreements and one of our Controlling Shareholders, irrevocably granted a put option to each of the Pre-IPO Investors to require himself (or his nominee(s)) to purchase all but not part only of the relevant Pre-IPO Subscription Shares subscribed by the Pre-IPO Investor under the relevant Pre-IPO Subscription Agreement. The put options can be exercised by the Pre-IPO Investors if and only if:</p> <ol style="list-style-type: none"><li>(1) our Company has withdrawn, aborted or otherwise ceased to pursue the Listing; and</li><li>(2) our Company has notified the Pre-IPO Investors in writing that we have withdrawn, aborted or otherwise ceased to pursue the Listing (the date on which our Company gives such written notification, the “<b>Expiry Date</b>”).</li></ol>	

The above put options will lapse upon the Listing.

The call options — Each of the Pre-IPO Investors irrevocably granted a call option to Mr. McLennan to require itself to sell to Mr. McLennan (or his nominee(s)) all but not part only of the relevant Pre-IPO Subscription Shares subscribed by the Pre-IPO Investor under the relevant Pre-IPO Subscription Agreement. The call options can be exercised by Mr. McLennan if:

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## HISTORY, DEVELOPMENT AND REORGANISATION

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Great Metro Subscription Agreement	Upperhand Subscription Agreement
(1) the Listing does not take place on or before the Expiry Date; and	
(2) the put options have not been exercised by the Pre-IPO Investors.	

The above call options will lapse upon the Listing.

Pursuant to each of the Pre-IPO Subscription Agreements, the option price payable by a Pre-IPO Investor is the sum of (i) the amount of the consideration paid by the relevant Pre-IPO Investor; and (ii) the interests accrued on the consideration from and including the date on which the consideration is settled to and including the date of completion of the relevant Pre-IPO Subscription Agreement pursuant to the exercise of the put option or call option (as the case may be) at 8% per annum, calculated based on the actual number of days and the basis of a 365-day year.

Use of proceeds from  
the Pre-IPO  
Investments

The proceeds of approximately HK\$10,000,000, after deducting all costs and expenses incurred, were intended to be used for the development and expansion of our business and/or payment of expenses in relation to the Listing.

As at the Latest Practicable Date, we used approximately HK\$5.8 million, of which approximately HK\$4.4 million for the partial payment for the Listing expenses and approximately HK\$1.4 million for the opening of new retail store in Yuen Long in May 2018, therefore, approximately HK\$4.2 million of the aforementioned proceeds remain unutilised.

Lock up

The terms of the Pre-IPO Subscription Agreements do not impose any lock up obligations over the Pre-IPO Subscription Shares held by any of the Pre-IPO Investors upon Listing.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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	Great Metro Subscription Agreement	Upperhand Subscription Agreement
Public float	The Pre-IPO Subscription Shares held by Great Metro and Upperhand will be considered as part of the public float of our Shares immediately after the Listing for the purpose of Rule 11.23 of the GEM Listing Rules as (i) each of Great Metro and Upperhand is an Independent Third Party and is not a core connected person of our Company; (ii) the Pre-IPO subscription Shares held by Great Metro and Upperhand are not financed directly or indirectly by any core connected person(s) of our Company; and (iii) each of Great Metro and Upperhand will not become a substantial Shareholder upon the Listing.	

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*Notes:*

1. This is derived based on the assumption that the Pre-IPO Subscription Shares will be held by the Pre-IPO Investors upon completion of the Capitalisation Issue and the Share Offer (without taking into account any Share which may be allotted and issued pursuant to the exercise of any option which may be granted under the Share Option Scheme).
2. These special rights granted to the Pre-IPO Investors shall cease to have any effect upon the Listing.

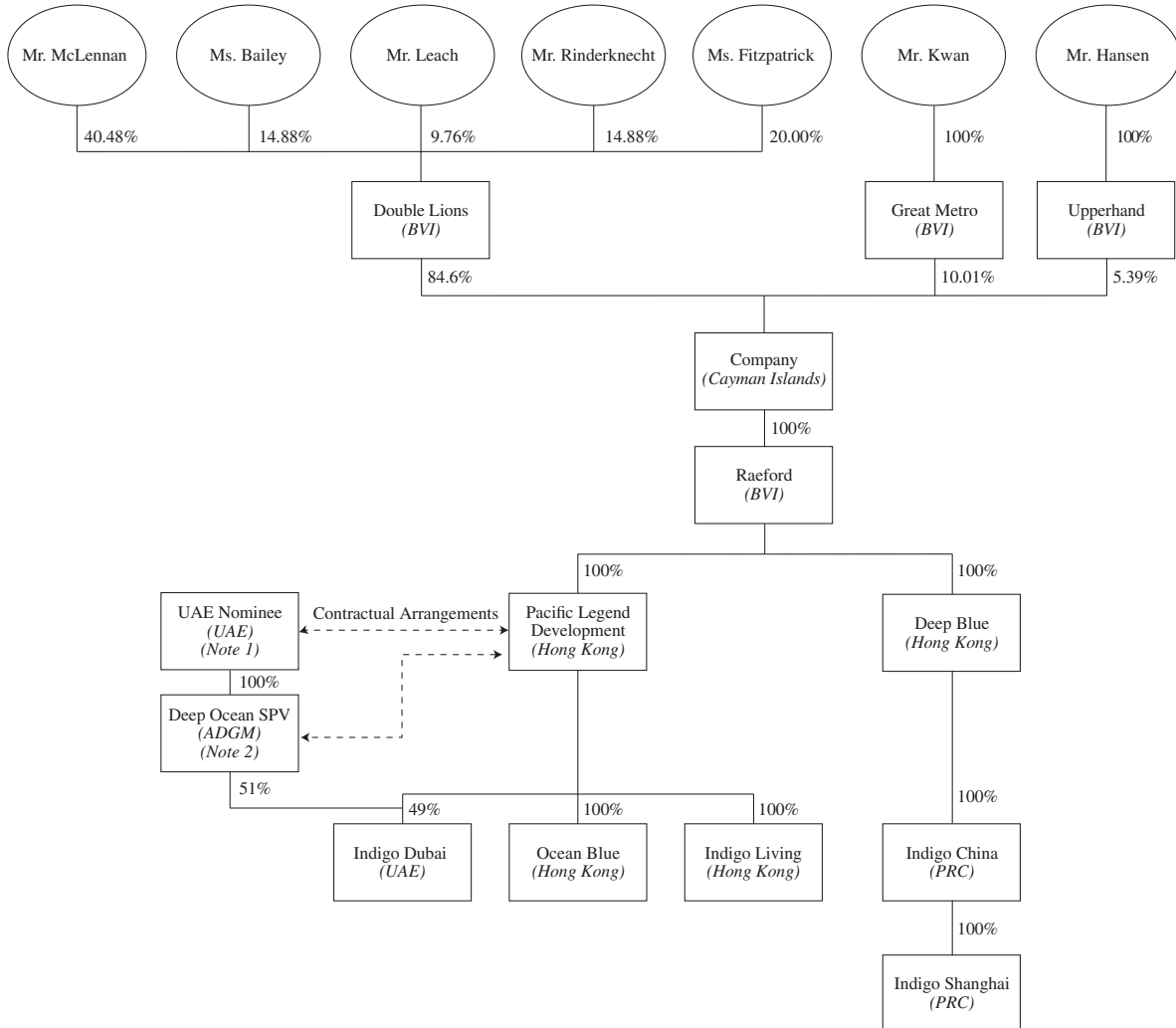
### **Confirmation by the Sole Sponsor**

Given that (a) our Directors having confirmed that the terms of the Pre-IPO Investments (including the considerations under the Pre-IPO Subscription Agreements) were determined on arm's length negotiations between the parties with reference to the total earnings of Pacific Legend Development and its subsidiaries, Indigo China and Indigo Shanghai as shown in the unaudited combined accounts of Pacific Legend Development and Deep Blue for the year ended 31 December 2016; and (b) the considerations under the Pre-IPO Subscription Agreements were fully settled on 12 January 2018, which were more than 28 clear days before the date of the first submission of our Company's application for the Listing, the Sole Sponsor is not aware of any terms of the Pre-IPO Investments by Great Metro and Upperhand which are not in compliance with the "Interim Guidance" HKEx-GL29-12 issued by the Stock Exchange in January 2012 (updated in March 2017), the Guidance Letter HKEx-GL43-12 issued by the Stock Exchange in October 2012 (updated in July 2013 and March 2017) and the Guidance Letter HKEx-GL44-12 issued by the Stock Exchange in October 2012 (updated in March 2017).

## HISTORY, DEVELOPMENT AND REORGANISATION

### CORPORATE STRUCTURE IMMEDIATELY AFTER COMPLETION OF THE REORGANISATION BUT BEFORE COMPLETION OF THE SHARE OFFER AND THE CAPITALISATION ISSUE

The following chart shows the shareholding and corporate structure of our Group immediately after completion of the Reorganisation but before completion of the Share Offer and the Capitalisation Issue, without taking into account any Shares which may be allotted and issued by our Company pursuant to the exercise of any options which may be granted under the Share Option Scheme.



*Notes:*

1. UAE Nominee is a corporate nominee service provider.
2. Based on the New Contractual Arrangements, Deep Ocean SPV is regarded as a wholly-owned subsidiary of our Group.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### SHARE OFFER AND CAPITALISATION ISSUE

In contemplation of the Capitalisation Issue, the authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 shares of a par value of HK\$0.01 each to HK\$100,000,000 divided into 10,000,000,000 shares of a par value of HK\$0.01 each by the creation of an additional 9,962,000,000 Shares, pursuant to the written resolutions of our Shareholders passed on 19 June 2018.

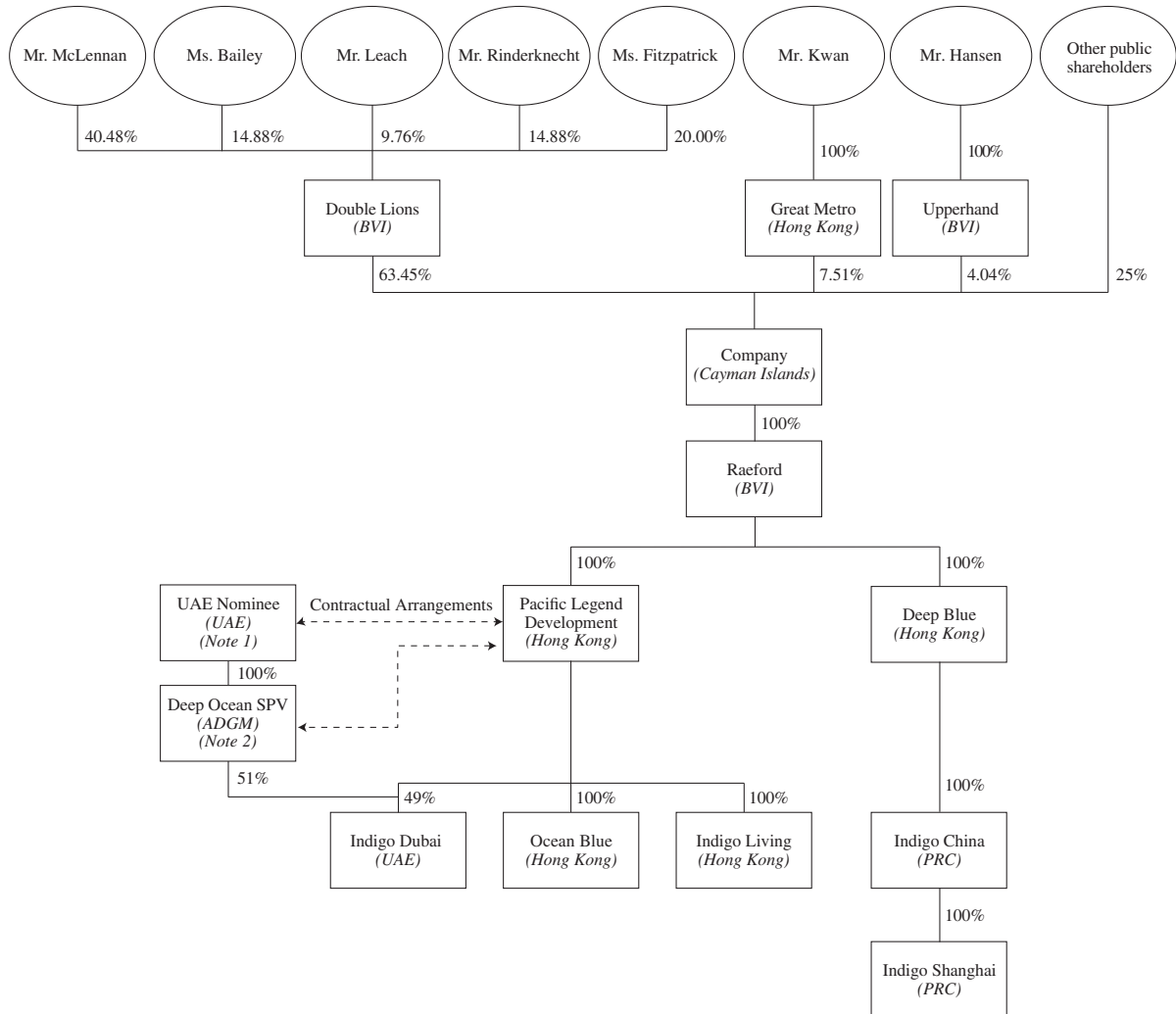
A total of 250,000,000 new Shares of our Company, representing approximately 25.0% of the total issued share capital of our Company immediately after the Reorganisation and completion of the capitalisation issue (without taking into account any Shares which may be allotted and issued by our Company pursuant to the exercise of any options which may be granted under the Share Option Scheme) will be offered for subscription pursuant to the Share Offer.

Conditional on the share premium account of our Company being credited with the proceeds from the share offer, HK\$7,499,990 will be capitalised from the share premium account of our Company and applied in paying up in full for the allotment and issuance of 634,499,154 Shares to Double Lions, 75,074,899.9 Shares to Great Metro and 40,424,946.1 Shares to Upperhand on or prior to the Listing.

## HISTORY, DEVELOPMENT AND REORGANISATION

### CORPORATE STRUCTURE IMMEDIATELY AFTER COMPLETION OF THE REORGANISATION, THE SHARE OFFER AND THE CAPITALISATION ISSUE

The following chart shows the approximate shareholding and corporate structure of our Group immediately after completion of the Reorganisation, the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued by our Company pursuant to the exercise of any options which may be granted under the Share Option Scheme).



*Notes:*

1. UAE Nominee is a corporate nominee service provider.
2. Based on the New Contractual Arrangements, Deep Ocean SPV is regarded as a wholly-owned subsidiary of our Group.

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## CONTRACTUAL ARRANGEMENTS

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### BACKGROUND

We conduct business in the UAE via Indigo Dubai.

Chapter 2 of the UAE Federal Law No. 2 of 2015 limits non-Gulf Cooperation Council (“GCC”) and non-UAE Entities to owning no more than 49% of the share capital in a UAE limited liability company. UAE Federal Law No. 17 of 2004 (the “**Anti-Fronting Law**”), on its face, has the effect of prohibiting situations where companies seek to circumvent the 51/49 foreign ownership restrictions. According to our UAE Legal Advisers, despite the aforementioned laws on foreign ownership restriction, it is a common and widely accepted practice (both by the advisory community and the UAE regulators) for the shareholders of limited liability companies established in the UAE to enter into a suite of contractual documents, the effect of which is to permit the non-GCC and non-UAE Entities to retain 100% of the economic and beneficial interests in as well as control over in the limited liability company. It was on this basis only that the Contractual Arrangements were drawn up.

The Anti-Fronting Law was scheduled to come into effect in November 2007. However, by way of a cabinet resolution, the UAE federal government suspended the application of the Anti-Fronting Law until November 2009 and it was further suspended until September 2011. As advised by the UAE Legal Advisers, the Anti-Fronting Law is now in force, but, as of the date hereof, the provisions of the Anti-Fronting Law have not been enforced against any UAE company whose shareholding holding structure is similar to that under the Original Contractual Arrangements and New Contractual Arrangements. Most importantly, as recently as 2012 and 2013, at the Abu Dhabi Court of Cassation, the Judges did not refer to the Anti-Fronting Law when considering “security agreements”, similar to the documents under the Original Contractual Arrangements and New Contractual Arrangements, which effectively changed the net profits distribution to favour the non-UAE national to have a larger percentage than the registered 49% shareholding. In fact, according to our UAE Legal Advisers, in the Abu Dhabi Court of Cassation and Civil Appeal No. 30 of 2015, the rights set up in “security agreements” were protected and recognised by the Court and no reference was made to the Anti-Fronting Law. As advised by our UAE Legal Advisers, there is therefore no legal precedent in the UAE where the Anti-Fronting Law has been referred to.

The following table sets out the net profit generated by Indigo Dubai for the years ended 31 December 2016 and 2017:

	Year ended 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net profit	2,306	3,131

The operating cash flows of Indigo Dubai was approximately HK\$8.8 million and HK\$12.9 million for the years ended 31 December 2016 and 2017, respectively. During the Track Record Period, all of the revenue generated by Indigo Dubai was generated in the mainland UAE.

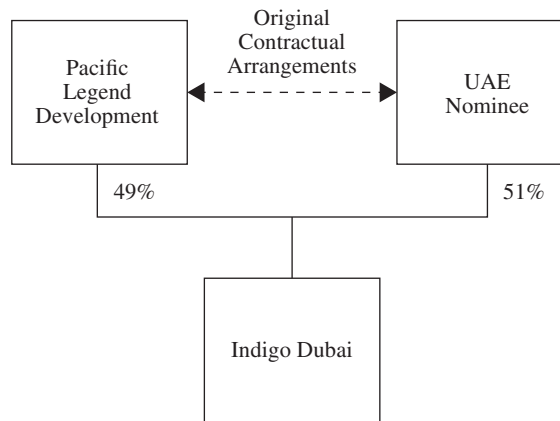
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## CONTRACTUAL ARRANGEMENTS

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### ORIGINAL CONTRACTUAL ARRANGEMENTS

The following diagram illustrates the flow of economic benefit from Indigo Dubai to our Group stipulated under the Original Contractual Arrangements:



The Original Contractual Arrangements comprised:

- (1) **Loan agreement:** Under the loan agreement dated 15 May 2007 between Pacific Legend Development and the UAE Nominee (the “**Loan Agreement**”), Pacific Legend Development lent the UAE Nominee AED153,000 to enable the UAE Nominee to make its proportion of the contribution to the share capital of Indigo Dubai. The Loan Agreement also contained a share pledge under which Pacific Legend Development could recall the shares in Indigo Dubai held by the UAE Nominee and assign such shares to any third party. Article 79 of the UAE Companies Law no. 2 of 2015 stipulates that all charges and mortgages over the shares in a company in Dubai must be registered with the commercial register of the Dubai Economy. However, Dubai Economy has its own rules and interpretation of the law and refuses to implement Article 79 for non-financial institution lenders, despite the fact that there is no reference in the UAE Companies Law no. 2 of 2015 that the lender has to be a financial institution. Therefore, the share pledge under the Original Contractual Arrangements could not be registered, and such non-registration may render the share pledge unenforceable against third parties.
- (2) **Dividend mandate:** The dividend mandate dated 15 May 2007 by the UAE Nominee in favour of Pacific Legend Development provided for Pacific Legend Development to receive 100% of the dividends paid by Indigo Dubai.



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## CONTRACTUAL ARRANGEMENTS

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- (3) **Irrevocable proxy:** Under the irrevocable proxy dated 15 May 2007 between Pacific Legend Development and the UAE Nominee, the UAE Nominee authorised Pacific Legend Development to attend all general meetings of Indigo Dubai and vote as the UAE Nominee's proxy in those meetings.
- (4) **Management agreement:** Under the management agreement dated 15 May 2007 between Pacific Legend Development and the UAE Nominee, the UAE Nominee appointed (i) Pacific Legend Development as the manager and operator of Indigo Dubai to provide operational and management services to Indigo Dubai; and (ii) Mr. McLennan as the first director of Indigo Dubai. The management agreement provided that Pacific Legend Development had the sole right to manage and control Indigo Dubai.
- (5) **Power of attorney:** The power of attorney notarised on 15 February 2006 by Indigo Dubai in favour of Mr. McLennan granted Mr. McLennan powers to represent Indigo Dubai and to run Indigo Dubai on a day-to-day basis as its general manager.
- (6) **Supplemental agreement:** The supplemental agreement dated 15 May 2007 between Indigo HK (and its assignee, Pacific Legend Development) and the UAE Nominee set out the basis on which the management, profits, intellectual property and voting powers are vested with Pacific Legend Development.

As advised by our UAE Legal Advisers, for the period since 15 May 2007 and up until prior to entering into the New Contractual Arrangements, each of the documents constituting the Original Contractual Arrangements is valid and enforceable. There is no legal precedent in the UAE where the provisions of the Anti-Fronting Law have been enforced against any UAE company whose shareholding holding structure is similar to that under the Original Contractual Arrangements. Nevertheless, there is no guarantee as to how the courts in the UAE would interpret the Original Contractual Arrangements, since the courts in the UAE (other than in the DIFC and the ADGM) are governed by the Civil Code and not common law; the Judgements of the Civil Code courts in the UAE are not binding on subsequent cases and each judge can exercise his discretion in the interpretation of the laws of the UAE. There is a possibility that the Civil Code courts in the UAE interpret the Anti-Fronting Law differently, the Original Contractual Arrangements could be challenged but our UAE Legal Advisers are of the view that such possibility is remote.

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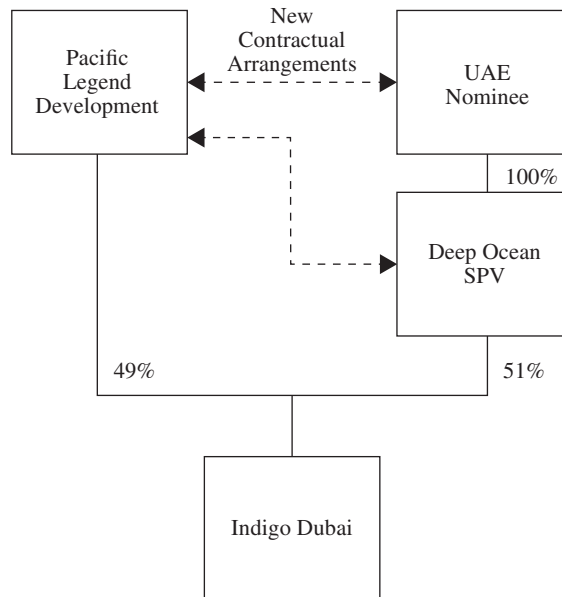
## CONTRACTUAL ARRANGEMENTS

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### NEW CONTRACTUAL ARRANGEMENTS

To minimise the remote possibility that the Original Contractual Arrangements could be challenged at the Civil Code courts in the UAE, as advised by our UAE Legal Advisers, Indigo Dubai underwent a corporate restructuring exercise to submit the suite of the New Contractual Arrangements to the common law courts which are found in the DIFC and the ADGM in order to further enhance the protection of our control and the shareholding holding structure of Indigo Dubai. According to our UAE Legal Advisers, DIFC-LCIA arbitration awards are enforced through the ADGM courts, and ADGM court judgments are enforceable directly on the ADGM entities, including Deep Ocean SPV.

According to our UAE Legal Advisers, (i) under the Original Contractual Arrangements, the share pledge under the Loan Agreement had not been registered since the Dubai Economy refuses to register share pledges where the lender is not a financial institution, so the Loan Agreement was valid and enforceable but Pacific Legend Development would not be a secured creditor for the loan; and (ii) in contrast, the share charge in the shares of Deep Ocean SPV created under the New Contractual Arrangements could be registered with the ADGM, and as a result, even upon the death of any of the shareholders of the UAE Nominee, the beneficial interest in Indigo Dubai of our Group would be protected.



Deep Ocean SPV is used purely as an immediate holding company for the UAE Nominee to hold the 51% in Indigo Dubai. Deep Ocean SPV was incorporated in ADGM, a free zone in Abu Dhabi of the UAE. ADGM was chosen as the place of incorporation for Deep Ocean SPV because ADGM uses Common Law for its legal system and allows the registration of share charges.

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## CONTRACTUAL ARRANGEMENTS

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As at the Latest Practicable Date, there are 45 free zones (including 10 under construction) operating in the UAE and they are located in Dubai, Sharjah, Abu Dhabi, Ajman, Fujairah, Um Al Qwain and Ras Al Khaimah. Each free zone is specifically created to promote certain sectors, such as healthcare, finance and information technology. Free Zone Companies can be wholly-owned by UAE Entities or non-UAE Entities. Free Zone Companies can only engage in activities promoted by the relevant free zone and work inside that particular free zone. Each free zone works independently and strictly adheres to certain set of rules and regulations pertaining to that free zone. Whilst a Free Zone Company can be 100% owned by foreigners or non-UAE Entities, its disadvantages are (i) Free Zone Companies cannot directly trade outside the free zone to other areas of the UAE and (ii) Free Zone Companies can only engage in those business activities promoted by a particular free zone under which they were incorporated. Furthermore, according to UAE Ministerial Decision No. 377 of 2010, Free Zone Companies wholly-owned by foreigners together with their branches will not be able to obtain business licenses to conduct trading activities in the mainland UAE.

As advised by our UAE Legal Advisers, all of the free zones in the UAE share these common features:

1. the business license in free zones is only valid within a specific free zone and shall not extend to the mainland UAE;
2. Free Zone Companies must conduct all businesses or operations within that particular free zone under which they are licensed;
3. if a Free Zone Company is permitted to conduct trading within a free zone, it is strictly restricted to wholesale only; no retail sales is allowed insider nor outside of the free zones;
4. employees of Free Zone Companies are not allowed to work outside the free zone unless written approval has been obtained from the relevant free zone authority and any other concerned authority having jurisdiction over such matters in the place where the employee intends to work; and
5. if distribution in mainland UAE is allowed, Free Zone Companies shall appoint a licensed distributor and ensure compliance with rules, regulations and procedures of the Customs Authority.

Even though our Group can own 100% in a Free Zone Company, the aforementioned restrictions made it impossible for our Group to conduct our existing business directly from the free zone in the mainland UAE.

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## CONTRACTUAL ARRANGEMENTS

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It will not be commercially viable if we were to wholly-own a Free Zone Company and appoint a licensed distributor in Dubai (which, pursuant to Article 10 of the UAE Companies Law No. 2 of 2015, has to be at least 51% owned by UAE Entities and possess the required license issued by the Dubai Economy) to sell furniture to customers in the mainland UAE, not only we need to change our business model entirely from our existing direct sales model (i.e. selling to different customers in the mainland UAE) to distribution wholesale model (i.e. selling to only one customer, i.e. the licensed distributor), but also we would have no control over the operation of the stores in the mainland UAE and service quality to customers.

In view of the limitations described above, and as advised by our UAE Legal Advisers, Deep Ocean SPV was incorporated in the ADGM and used as a holding company for the UAE Nominee, so that Indigo Dubai will still be legally owned 51% by an UAE Entity and will continue to comply with Article 10 of the UAE Companies Law No. 2 of 2015 that a company which operates in the mainland UAE must be owned as to at least 51% by UAE Entities. If Deep Ocean SPV were 100% owned by our Group, Indigo Dubai would not be 51% legally owned by UAE Entities and Article 10 of the UAE Companies Law No. 2 of 2015 would not be satisfied. As advised by our UAE Legal Advisers, the New Contractual Arrangements are “narrowly tailored”.

The New Contractual Arrangements comprise:

- (1) **Loan agreement** dated 7 March 2018 and entered into among Pacific Legend Development as lender, the UAE Nominee as borrower and Deep Ocean SPV (the “**New Loan Agreement**”) provides that:
  - (a) Pacific Legend Development lends to the UAE Nominee in the amount of US\$10,000 (for subscribing the entire share capital of Deep Ocean SPV) and approximately AED13.9 million (for paying 51% of Indigo Dubai, which value was by reference to the unaudited net asset value of Indigo Dubai as at 31 December 2017).
  - (b) The loan is interest free.
  - (c) The UAE Nominee gave an undertaking to Pacific Legend Development including but not limited to the following: (i) not to mortgage, charge, pledge or otherwise encumber the shares of Deep Ocean SPV; (ii) to direct all dividend from Deep Ocean SPV to be paid to Pacific Legend Development; (iii) to keep the 100% shareholding in Deep Ocean SPV isolated from any of the other transactions (including those in the ordinary course of business) of the UAE Nominee; and (iv) not to sell, transfer or otherwise dispose of the shares of Deep Ocean SPV without prior notice and written consent of Pacific Legend Development.

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## CONTRACTUAL ARRANGEMENTS

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- (d) The UAE Nominee shall distribute the dividends, income, assets and capital of Deep Ocean SPV according to the instruction of Pacific Legend Development.
  - (e) Repayment of the loan may only be made by the UAE Nominee transferring the entire share capital of Deep Ocean SPV to Pacific Legend Development or, where the law permits, to any third party designated in the sole and absolute discretion by Pacific Legend Development.
  - (f) The New Loan Agreement shall remain valid until the loan is fully repaid or upon the happening of (i) material default on the part of the UAE Nominee to observe or perform the terms and conditions of the Loan Agreement, (ii) the UAE Nominee compounds with its creditors in consequence of debt or is being threatened to satisfy the debt of its creditors with any of the assets of the UAE Nominee, (iii) Pacific Legend Development is permitted under the laws of ADGM or the UAE to hold Indigo Dubai in its own name, or (iv) upon the bankruptcy of the UAE Nominee.
- (2) **Share charge** dated 7 March 2018 entered into by the UAE Nominee in favour of Pacific Legend Development (the “**Share Charge**”) under which the UAE Nominee agrees (i) to charge the entire shares in Deep Ocean SPV to Pacific Legend Development as continuing security for the payment of the loans pursuant to the New Loan Agreement; (ii) that Pacific Legend Development are entitled to the dividends paid on the shares of Indigo Dubai that are held by the UAE Nominee and/or Deep Ocean SPV; (iii) not to create any security interest over or assign or transfer its rights or obligation under the Share Charge without prior notice to and written consent of Pacific Legend Development; and (iv) Pacific Legend shall retain possession of the share certificate of Deep Ocean SPV as securities for the repayment of the loan under the New Loan Agreement. On 11 March 2018, the Share Charge was registered with the ADGM pursuant to the ADGM Companies Law Regulations, which also govern the registration and enforcement of charges in the ADGM. Due to such registration, even upon the death of any of the shareholders of the UAE Nominee, the interests of Pacific Legend Development in Indigo Dubai are protected. Until the UAE Nominee repays the loan fully under the New Loan Agreement, the UAE Nominee continues to hold 100% of Deep Ocean SPV.
- (3) **Proxy** dated 29 March 2018 entered into by Deep Ocean SPV in favour of Pacific Legend Development (the “**Proxy**”) under which Deep Ocean SPV irrevocably appoints the nominee of Pacific Legend Development to be its proxy to vote at shareholders’ meetings of Indigo Dubai in respect of any existing or further shares of Indigo Dubai which may have been or may from time to time be issued and/or registered in the name of Deep Ocean SPV.

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## CONTRACTUAL ARRANGEMENTS

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- (4) **Special power of attorney** notarised on 18 April 2018 and entered into by the UAE Nominee in favour of Pacific Legend Development (the “**SPOA**”) under which, pursuant to the terms of the Loan Agreement, the UAE Nominee appointed the nominee of Pacific Legend Development to receive all bonus shares and other rights attaching or accruing to the shares of Deep Ocean SPV including the right to transfer the shares of Deep Ocean SPV to another nominee should the UAE Nominee be in breach of its obligations and grant the power to Pacific Legend Development’s directors and their successors (including the rights to vote in a shareholders’ meeting of Deep Ocean SPV, sign minutes, file documents with the ADGM; the UAE Nominee shall ensure that the SPOA does not give rise to any potential conflicts of interest.
- (5) **Undertaking** dated 29 March 2018 entered into by the UAE Nominee, Deep Ocean SPV and the shareholders of the UAE Nominee in favour of Pacific Legend Development (the “**Undertaking**”) provides that the UAE Nominee irrevocably undertakes the following:
- (a) the UAE Nominee will terminate and unwind the New Contractual Arrangements as soon as the UAE allows Indigo Dubai to be owned without a local 51% shareholder;
  - (b) the UAE Nominee will return to Pacific Legend Development any consideration they receive in the event that Pacific Legend Development acquires the 51% of Indigo Dubai from the UAE Nominee; and
  - (c) the UAE Nominee ensures that the New Contractual Arrangements will not give rise to any potential conflicts of interest at Indigo Dubai.
- (6) **General power of attorney** notarised on 3 April 2018 and entered into by Pacific Legend Development and Deep Ocean SPV in favour of Mr. McLennan (the “**GPOA**”) to have full rights of management of Indigo Dubai. According to our UAE Legal Advisers, the GPOA was duly notarised and cannot be revoked other than by all the parties to the GPOA.

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## CONTRACTUAL ARRANGEMENTS

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Each of the documents that constitute the New Contractual Arrangements contains dispute resolution clauses that:

- (1) provide for arbitration and that arbitrators may award remedies over the shares or land assets of Indigo Dubai, injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of Indigo Dubai;
- (2) provide the courts of competent jurisdictions with the power to grant interim remedies in support of the arbitration pending formation of the arbitral tribunal or in appropriate cases, and that the courts of Hong Kong, the Cayman Islands, the DIFC and the ADGM in the UAE, and the place where the principal assets of Pacific Legend Development or Indigo Dubai are located shall have jurisdiction for this purpose; and
- (3) encompass the right to (i) manage the business; (ii) revenue; and (iii) deal with the assets, of Indigo Dubai.

According to our UAE Legal Advisers, the dispute resolution clauses are recognised and enforceable in the UAE insofar as the structured contracts that constitute the Contractual Arrangements provide for arbitration, and Pacific Legend Development can require the arbitration panel at the DIFC-LCIA and the courts of ADGM to issue interim remedies. However, our UAE Legal Advisers advised us that interim remedies or enforcement orders granted by overseas courts such as those in Hong Kong or the Cayman Islands may not be recognised or enforced directly in the UAE or the ADGM.

As advised by our UAE Legal Advisers, the New Contractual Arrangements are valid and enforceable. Indigo Dubai is owned as to 51% by Deep Ocean SPV and 49% by Pacific Legend Development, and under the New Contractual Arrangements, Pacific Legend Development is entitled to (i) all the dividends paid on the shares of Indigo Dubai; and (ii) 100% of the economic rights of Indigo Dubai.

If our Group opens new stores in the UAE, such new stores will only be opened in the mainland UAE and controlled by Indigo Dubai. There will not be any adverse implications on the New Contractual Arrangements if our Group opens new stores in the mainland UAE.

### CONFLICT OF INTEREST

Neither the UAE Nominee nor its shareholders are officers or directors of our Company. As such, our Directors believe that the Contractual Arrangements does not give rise to any potential conflicts of interest between our Company and the UAE Nominee.

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## **CONTRACTUAL ARRANGEMENTS**

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### **CORPORATE NOMINEE**

The UAE Nominee is a corporate service provider. The UAE Nominee is owned by Mohamed Ameen Hasan Mohamed Mubasher Almarzooqi and Maimoona Abdulla Ali Ahmed Alrais on the basis of 90% and 10% respectively.

In the event of bankruptcy or liquidation of the UAE Nominee, the bankruptcy laws of the UAE, namely Federal Law no. 9 of 2016 will apply and a receiver will be appointed to take charge of the UAE Nominee. In cases of liquidation, a liquidator would be appointed to contact the debtors and distribute the entity's assets in line with the law. According to our UAE Legal Advisers, in the event of the insolvency of the UAE Nominee, Pacific Legend Development will rank as a secured creditor of the UAE Nominee due to the Share Charge. Therefore, under such circumstances, the New Contractual Arrangements are binding upon the liquidator, and Pacific Legend Development or a UAE national nominated by it shall be able to take over the shares in Deep Ocean SPV.

As advised by our UAE Legal Advisers, the enforcement of the Contractual Arrangements would not be affected by a divorce or death of any of the shareholders of the UAE Nominee (including spousal inheritance claim, if any) because under the Islamic principle, the parties to a marriage do not have communal property but each party is entitled only to the property which he or she owned prior to marriage. Furthermore, the division of assets obtained after divorce is net of liabilities. Article 275 of the UAE Personal Status Law states that "the creditors of the deceased would take priority over any other distribution except for any burial expenses". In the event of the death of any shareholder of the UAE Nominee, pursuant to the terms of the New Loan Agreement and Share Charge, Pacific Legend Development shall have a priority of claim over the shares of Deep Ocean SPV and Indigo Dubai against the estate of the deceased shareholder of the UAE Nominee.

The UAE Nominee and the shareholders of the UAE Nominee undertake that the shareholders of the UAE Nominee shall remain as UAE nationals at all times.

### **INSURANCE**

Our Company does not maintain an insurance policy to cover the risks relating to the Contractual Arrangements.

### **ECONOMIC RISK**

Since Indigo Dubai is a limited liability company, other than the capital already contributed into Indigo Dubai by Pacific Legend Development and the loan made to the UAE Nominee under the New Loan Agreement, there are no economic risks Pacific Legend Development bears as the primary beneficiary of Indigo Dubai and in no situation we will be required to provide financial support to Indigo Dubai or to the losses of Indigo Dubai.



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## **CONTRACTUAL ARRANGEMENTS**

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### **UNWINDING OF THE NEW CONTRACTUAL ARRANGEMENTS**

Under the Undertaking, the UAE Nominee undertakes to terminate and unwind the documents which constitute the New Contractual Arrangements as soon as the prevailing laws and regulations of the UAE allow Indigo Dubai to be owned without a 51% UAE national shareholder. In such an event, the New Contractual Arrangements will be unwound in the following manner:

- 1) the New Loan Agreement, the Share Charge, the Proxy, the SPOA and the GPOA will be terminated;
- 2) the UAE Nominee will repay the loan by transferring 100% interest in Deep Ocean SPV to Pacific Legend Development and shall return to Pacific Legend Development any consideration it receives from Pacific Legend Development for such transfer; and
- 3) the UAE Nominee shall return to Pacific Legend Development any consideration it receives for the acquisition of the 51% interest in Indigo Dubai.

### **LEGALITY AND ENFORCEABILITY OF THE CONTRACTUAL ARRANGEMENTS**

According to our UAE Legal Advisers, pursuant to the legal and binding effect of the Original Contractual Arrangements and the New Contractual Arrangements, Pacific Legend Development had always and has the entire beneficial ownership of the Indigo Dubai. Our UAE Legal Advisers confirmed that the Original Contractual Arrangements and the New Contractual Arrangements were/are valid, legally binding and enforceable. Our UAE Legal Advisers also confirmed that the use of the Original Contractual Arrangements and the New Contractual Arrangements did/does not constitute any breach of any applicable laws and regulations in UAE, including ADGM.

In view of (i) the lack of judgements which applied the Anti-Fronting Law; (ii) the endorsement by DIDA as evidenced in the DIDA Letter (as defined below); and (iii) the endorsement of the structure of Deep Ocean SPV by ADGM, our UAE Legal Advisers consider the probability of a successful challenge to the ownership structure structured under the Contractual Arrangements to be highly unlikely because (i) the Share Charge is registered with the ADGM Companies Registry and therefore will be upheld by the common law courts of ADGM should a dispute arise; (ii) the UAE Nominee has submitted to the jurisdiction of arbitration at DIFC-LCIA in respect of any dispute regarding the assets and shares of Indigo Dubai and the enforcement of such arbitration award would be at ADGM; and (iii) both the courts of DIFC and ADGM are common law courts which recognise the rules and principles of equity. Furthermore, our UAE Legal Advisers believe that it is highly unlikely that a broad application of the Anti-Fronting Law would take place in the UAE, given that doing so would likely have a severe adverse effect on foreign investment in the UAE and on the laws and regulations of ADGM which were enacted by the ruler of the UAE.

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## CONTRACTUAL ARRANGEMENTS

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Our Directors confirmed that, since Indigo Dubai was incorporated on 11 April 2006 they have not encountered any interference from or encumbrance imposed by any governing bodies in the UAE because of the Contractual Arrangements. Indeed, pursuant to a letter issued on 15 January 2018 from the DIDA to the UAE Nominee (the “**DIDA Letter**”), DIDA endorsed the UAE Nominee’s corporate sponsorship business model whereby corporate entities wholly-owned by UAE nationals to act as nominee shareholders for foreign investors and whereby the UAE Nominee and its subsidiaries to enter into side agreements with foreign partners to allow the foreign partners to gain control of the entire share capital in limited liability companies in the UAE, and is considered by the FDI and relevant government as authorities in the UAE, to be a legally acceptable corporate structure of foreign investors to come to market. The DIDA and Dubai FDI are parts of the Dubai Economy and are responsible for executing foreign direct investment strategy of the government of Dubai. According to our UAE Legal Advisers, pursuant to Article 4 of Dubai Law no. 13 of 2011, the Dubai Economy and, in particular DIDA (which is part of the Dubai Economy) are the competent authorities to register all companies in Dubai mainland at its commercial register. Furthermore, under the same Dubai Law no. 13 of 2011, the Dubai Economy is the competent authority to penalise companies which are in breach of any rules and regulations of Dubai and the federal laws of the UAE. Accordingly, our UAE Legal Advisers are of the view that the DIDA is a competent authority of the Dubai Economy to provide regulatory assurance and that the DIDA Letter represents the views of the DIDA, the Dubai FDI and the Dubai Economy. As advised by our UAE Legal Advisers, (i) the UAE Nominee informed the Dubai Economy, the Dubai FDI and the DIDA of the relevant information relating to the Original Contractual Arrangements, which led to the issuance of the DIDA Letter; (ii) since the ADGM was informed of the New Contractual Arrangements and provided with the relevant documents as part of the requisite registration process; and (iii) since both the Original Contractual Arrangements and the New Contractual Arrangements adopt similar corporate structure to control Indigo Dubai, the DIDA Letter also endorses the New Contractual Arrangements. According to our UAE Legal Advisers, they have informed the DIDA of the New Contractual Arrangements, and the DIDA confirmed verbally that the New Contractual Arrangements are acceptable. The UAE federal government, through its court system, and the Dubai Economy would only enforce the Anti-Fronting Law if there is a dispute brought in the relevant civil courts in Dubai or a complaint filed at the Dubai Economy.

Based on the view of our UAE Legal Advisers, our Directors believe that the Contractual Arrangements confers significant control and economic benefits from the Indigo Dubai to our Company and are enforceable under the relevant laws and regulations in the UAE and ADGM. As advised by our UAE Legal Advisers, since (i) Article 10 of the UAE Companies Law no. 2 of 2015 provides that a company which operates in the mainland UAE must be owned as to at least 51% by UAE Entities; and (ii) UAE Ministerial Decision no. 377 of 2010 forbids foreign companies, directly from abroad or through a Free Zone Company, from engaging in the business of trading or sales and purchase of products and commodities in the mainland UAE, retail and trading of furniture in the UAE can only be conducted by mainland UAE limited liability companies in the mainland UAE, which must be owned as to at least 51% by UAE Entities. Furthermore, our UAE Legal Advisers advised that as the ADGM allows the Share Charge to be registered and the courts of ADGM are common law courts which would

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## CONTRACTUAL ARRANGEMENTS

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recognise the rules and principles of equity, Deep Ocean SPV is best suited for the UAE Nominee to hold the 51% issued share capital in Indigo Dubai so as to maximise the protection of our Group. As advised by our UAE Legal Advisers, because (i) Article 23 of the Dubai Law No. 13 of 2011 provides that a Free Zone Company would need a business license from the DED to operate in trading activities in Dubai, which will not be granted unless the business proposed to be operated in Dubai complies with the laws and regulations in force in Dubai; and (ii) using a Free Zone Company to operate in trading activities in Dubai would be in contravention of Article 10 of the UAE Companies Law no. 2 of 2015 and UAE Ministerial Decision no. 377 of 2010, it is not feasible for our Group to operate our furniture retail and trading business in the UAE directly through a Free Zone Company. Accordingly, our Directors believe that the Contractual Arrangements are narrowly tailored to achieve our business purposes and minimise the potential for conflict with relevant UAE laws and regulations.

Given that the New Contractual Arrangements will constitute continuing connected transactions of our Company, a waiver has been sought from and has been granted by the Stock Exchange, details of which are disclosed in the paragraph headed “Connected transactions — Non-exempted continuing connected transactions — Corporate nominee service agreement and Contractual Arrangements” in this prospectus.

### ACCOUNTING IMPLICATIONS

Our Directors have assessed the control which Pacific Legend Development has over Indigo Dubai in accordance with HKFRS 10 “Consolidated Financial Statements” which provides that an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Given the Contractual Arrangements and the advice of our UAE Legal Advisers in paragraph headed “Legality and enforceability of the Contractual Arrangements” of this section, our Directors conclude that Pacific Legend Development has control over and economic interest of 100% in Indigo Dubai. Our reporting accountants, Baker Tilly Hong Kong Limited, are also of the view that our Group has control over and economic interest of 100% in Indigo Dubai. Accordingly, Indigo Dubai has been accounted for as a wholly owned subsidiary of our Group in preparing the financial information in the Accountants’ Report in Appendix I to this prospectus.

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## CONTRACTUAL ARRANGEMENTS

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### POTENTIAL RELAXATION OF FOREIGN RESTRICTION LAWS IN THE UAE

In May 2018, Sheikh Mohammed Bin Rashid Al Maktoum, the prime minister of the UAE, announced a cabinet decision (the “**Decision**”) to allow 100% foreign ownership of companies incorporated in the UAE and that the Decision would be implemented by the end of the year 2018. Our UAE Legal Advisers advised that, as at the Latest Practicable Date, the draft legislation following the implementation of the Decision will not be published until the last quarter of the year and presently it is not feasible for us to gauge how and to what extent the Decision or relevant draft legislation will benefit our Group. Although our UAE Legal Advisers have advised us that it is uncertain whether such 100% foreign ownership would be allowed in all industries or business or would only be available to certain industries or businesses, and if there is such restriction, whether our current business in the UAE falls within or outside such restriction. In which case, under the New Contractual Arrangements, the UAE Nominee undertakes to terminate and unwind the documents which constitute the New Contractual Arrangements and transfer the 51% shares of Indigo Dubai owned by Deep Ocean SPV to Pacific Legend Development as soon as the prevailing laws and regulations of the UAE allow Indigo Dubai to be owned without a 51% UAE national shareholder. As advised by our UAE Legal Advisers, while the costs of unwinding the New Contractual Arrangements will be borne by our Group, such costs would be relatively low, and the procedures for unwinding the New Contractual Arrangements and transferring the 51% shares in Indigo Dubai from Deep Ocean SPV to Pacific Legend Development are minimal. Our Directors confirm that if the proposed legislation which implements the Decision would allow Indigo Dubai to be owned without a 51% UAE national shareholder, we will unwind the New Contractual Arrangements upon the implementation of such law.

## BUSINESS

### OVERVIEW

We principally operate three lines of business, namely, (i) sale of home furniture and accessories; (ii) rental of home furniture and accessories; and (iii) project and hospitality services, which typically involve styling, decorating and furnishing commercial or residential properties such as hotels, serviced apartments and showflats. Customers for our business of sale of home furniture and accessories are generally members of the public, property developers, interior designers as well as corporate clients. For our rental businesses, our clients include private individuals, property developers, multinational corporations and financial institutions relocating their staff to places where we operate. For our project and hospitality services, we mostly provide services to property developers, general corporate and hospitality management companies, serviced apartments or hotel operators.

Following over 30 years of development, dedication and expansion, we ranked fifth in the home furniture and accessories industry in Hong Kong in 2016 in terms of sales revenue and we had a market share of approximately 1.5% according to the Ipsos Report. Since 2004, we have been trading our current brand *Indigo*. In addition to the Hong Kong market, we also have established subsidiaries in China and UAE for conducting businesses in the respective regions.

The following tables set forth our revenue attributable to each of our business lines and geographical locations during the Track Record Period:

#### Revenue by business lines

	Year ended 31 December			
	2016		2017	
	<i>HK\$'000</i>	Approximate percentage of total revenue %	<i>HK\$'000</i>	Approximate percentage of total revenue %
Sale of home furniture and accessories .....	175,117	71.6	190,497	68.4
Rental of home furniture and accessories .....	33,399	13.7	28,280	10.1
Project and hospitality services	35,925	14.7	59,851	21.5
<b>Total</b> .....	<b>244,441</b>	<b>100</b>	<b>278,628</b>	<b>100</b>

## BUSINESS

### Revenue by geographical operation

	Year ended 31 December			
	2016		2017	
	<i>HK\$'000</i>	% of total revenue	<i>HK\$'000</i>	% of total revenue
Hong Kong .....	152,319	62.3	182,695	65.6
China .....	33,324	13.6	37,703	13.5
UAE .....	58,798	24.1	58,230	20.9
<b>Total</b> .....	<b>244,441</b>	<b>100</b>	<b>278,628</b>	<b>100</b>

As at the Latest Practicable Date, we operated nine, one and one retail stores in, respectively, Hong Kong, China and UAE, the store area of which ranged from 1,078 sq.ft. to 12,590 sq.ft.. It is our plan to further open a total of four retail stores by the end of 2020, of which three stores will be in China and one store will be in the Middle East. The four new stores to be opened will be funded by the net proceeds of the Share Offer. We also conduct sales via our online shops. The home furniture and accessories we sell are wide-ranging, which include bulky pieces like sofas, dining tables, beds as well as accessory items such as cushions, tablewares, candles, etc. In addition to operating our own retail stores, we have also granted a franchise to an Independent Third Party to operate four retail stores in Saudi Arabia for a term of five years commencing from 2017, pursuant to which the franchisee is licensed to use our brand name *Indigo* and we will provide the franchisee with regular and seasonal catalogues and assist the franchisee in procurement during the five-year term.

Our furniture rental business offers our clients flexibility in furnishing their properties where our clients may choose to rent a limited number of items or a full house package. The length of the rental period can be as short as one month to a maximum of 24 months at the choice of our customers. For customers whose furniture rental contract with us range from 12 to 24 months, they may choose to return the rented items to us or to buy out part or all of the rented items at the end of the rental period at a pre-agreed price, which is at least one month's rental of the relevant items. During the Track Record Period, the rental period of furniture rental contracts that we have entered into spanned from one month to 24 months with monthly rental per contract payable to us ranging from less than HK\$1,000 to HK\$122,500.

In addition to our sale and rental businesses, we also have a proven track record of styling, decorating and furnishing hospitality or residential properties. We offer a turn-key solution to the property owners whereby our services start from designing a mood board by our own in-house designer and finish with a fully furnished property where the home furniture and accessories inside are sourced, procured and installed by us. In some cases, we are engaged by property developers to custom-design furniture and offer furniture packages to their home buyers.

The type of properties for which we have provided our project and hospitality services include five-star hotels in different places including Hong Kong, Macao, Dubai, and Sydney, staff quarters for aviation crew members of a major airline based in UAE, multi-residential developments, a low-rise and luxury private residential property project in Lantau Island, serviced apartments and showflats in Hong Kong and China.

### **OUR COMPETITIVE STRENGTHS**

We believe that the following are our key strengths that help us accomplish our achievements and we will continue to ride on these strengths to grow and strengthen our businesses in the future.

#### **Long operating history and brand recognition**

Our Group started out as a local furniture retailer in 1979 and began to trade under the brand *Indigo* in 2004. With over 30 years of operating history, we have accumulated a wealth of knowledge and experience about running a home furniture and accessories retail, rental and project business and such knowledge and experience have been critical to our expansion. Our success in Hong Kong also laid a solid foundation for us to expand outside Hong Kong. In 2006, we commenced our business operation in Dubai. In 2014, we began our business in China. According to the Ipsos Report, we ranked fifth in the Hong Kong home furniture and accessories industry in 2016 in terms of sales revenue. As at the Latest Practicable Date, we operate nine retail stores in Hong Kong, one retail store in China and one retail store in UAE. We believe that part of our success is attributed to our brand, and over the years we have received a number of awards, the details of which can be found in the paragraph headed “Awards and recognitions” in this section.

To maintain our brand awareness and to reach out to our customers, we have been conducting our marketing activities via multiple but selective channels. In addition to print advertisement in lifestyle magazines and minibuses running on selected routes, we also advertise via the Internet and social media such as *Facebook*, *Instagram* and *wechat* where quick and regular updates or illustrations can be made efficiently. We also provide editorial content for local and regional magazines and periodicals. We have also identified interior designers as a key customer group of our products and we maintain a registration system specifically for interior designers who will enjoy discounts on their purchase upon registering their business details with us.

#### **Offering a trend-driven and comprehensive range of products that meet our customer’s preference**

We believe that home furniture and accessories can be trend-driven like fashion. To show to our customers images of curated fashionable products, we produce two catalogues each year, which we call the “*lookbook*”, one for the Spring/Summer season and one for the Autumn/Winter season. The home furniture and accessories featured in our *lookbook* vary from season to season in terms of design, material and texture, colours, pattern, etc. When we put together our ideas in creating the concept or setting the tone or theme for our *lookbook*

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## BUSINESS

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each season, we bear in mind the demographics and characteristics of the target customer groups to whom we are trying to appeal. By introducing to our target customers trend-driven and stylish home furniture and accessories on a regular basis, we strive to entice our customers to visit us repeatedly.

Our team in the Buying and Merchandising Department attend home furniture and accessories trade fairs or exhibitions from time to time, overseas or locally, to meet suppliers and keep ourselves abreast of the industry, market and new product developments. They also work closely with our Image and Style Department and Mr. McLennan, our Chairman, and executive Director, when selecting and developing products in line with customers' preferences and market trends. Accordingly, we believe that our Buying and Merchandising Department has a good grasp of products to be launched that meet the demands of our discerning customers and is able to make procurement at competitive prices for the products of the right style and of good quality. We believe that offering trend-driven products will allow us to enlarge our customer base and expand our market share.

We offer a wide range of trend-driven lifestyle home furniture and accessories, so that customers visiting our stores or clients engaging us for the provision of services can minimise their time and effort in furnishing their homes or properties. Our strong merchandising team is therefore fundamental in achieving the desired result as described. Our Head of Buying, who is in charge of our Buying and Merchandising Department, has over 10 years of experience in procurement and has been with us since 2014.

### **Experienced and committed management team**

We have an experienced and committed management team. All of our executive Directors and our senior management have been serving our Group for an average of 10 years. Our executive Directors are also interested in our business outcomes and thus their own interest aligns with that of ours. The committed and continued service of our management team allows our Group to formulate and execute our business strategy with long term vision and objective without interruption.

Each of our executive Directors and our senior management is also well equipped with the relevant knowledge and experience in performing their roles in our Group. Please refer to the section headed "Directors and senior management" in this prospectus for further details about the qualification and experience of our management team.

### **Proven track record of hospitality projects**

Our project and hospitality service business lines make a material contribution to our revenue and we believe that this differentiates us from other home furniture and accessories retailers.



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The types of projects that we have participated in range from styling, decorating and furnishing a single specific residential unit to five-star hotels with over 250 guestrooms. We are also a chosen partner of Customer A, a major property developer in Hong Kong, for the provision of furniture packages to home-buyers. The furniture package provision is specific to individual property development of Customer A and we have provided furniture package services to Customer A on a project-by-project basis for two property developments during the Track Record Period. In addition to our experience with handling different types of properties and in different countries, we also offer our clients flexible options such that they may engage us only for provision of furniture services, which may be by rental arrangement or a sale at our client's option, or engage us for a turn-key solution whereby we will take care of the entire furnishing process from initial design to final physical installation. For further details of the hospitality projects in which our Group has been involved, please refer to the paragraph headed "Products and services" in this section.

### **Providing tailored services to our customers**

We trust that it is a matter of individual preference when it comes to the aesthetics of the style, decoration or furnishing of a particular property. In serving our customers engaging us for our project and hospitality services, while we provide a curated range of home furniture and accessories that we source from third parties, we also have our own in-house designers who can custom design home furniture or accessories based on our customers' specific preference or requirement. Our own-designed home furniture and accessories can complement the products sourced from third parties and will save our customers cost and time in furnishing their properties.

For our retail customers, we offer our customers design consultancy services and give them ideas on how their homes may be furnished in style. Retail customers visiting our retail stores where design consultancy services are available will not only obtain information about individual pieces of furniture but also obtain recommendations on furniture and accessories, space planning and soft furnishings, and advice on how each individual piece of furniture can be pulled together to create a stylish home based on the individual customer's preferences.

### **Long term relationship with suppliers**

Our success is also attributable to continuous and reliable supply of home furniture and accessories. Our top five suppliers and manufacturers have had a business relationship with us for an average of approximately six years. The long-established business relationships have enabled us to successfully negotiate with some of our suppliers for supply of home furniture and accessories on an exclusive basis in Hong Kong. The long relationship with our suppliers and manufacturers also enhances the efficiency in our procurement and ensures that quality control procedures are effective because they have had accumulated prior experience in handling our orders.

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We have not entered into any long-term supply or manufacturing agreements with our suppliers and manufacturing partners and we find the absence of these do not work to our disadvantage but instead allow us to stay focused on our core businesses.

### **Strong relationship with our key corporate customers**

Our top five customers during the Track Record Period are mostly corporate customers who are major property developers or owners of a diversified property portfolio. These major customers from time to time will bid or acquire land for property development in Hong Kong or elsewhere, which represent business opportunities for us. Our relationship with some of these major customers span over 10 years, further details of which can be found in the paragraph headed “Customers” in this section. Our established business relationships with these customers enable us to understand their business needs and requirements, which will improve the efficiency in our day-to-day communication with them. We believe this will place us in a competitive position in securing business from these customers.

### **OUR BUSINESS STRATEGIES**

Leveraging on our strengths, our vision is to increase our competitiveness and market share in Hong Kong and to further expand our business overseas. We will implement the following strategies to achieve our vision.

#### **Expansion of retail network**

As at the Latest Practicable Date, we operate nine, one and one retail stores in, respectively, Hong Kong, China and UAE, the store area of which ranged from 1,078 sq.ft. to 12,590 sq.ft.. It is our plan to further open a total of four retail stores by the end of 2020, of which three new stores will be in China and one new store will be in UAE. The three new stores in China will be one in Shanghai and two in Beijing.

In order to support the expansion of our retail network, our Group will recruit additional staff including general retail sales staff with at least one to two years’ experience, various levels of retail shop managers with at least three years’ experience or more, and design consultants. In addition to the software and technical skills that will be required from our design consultants, we will also generally seek bilingual sales staff with experience in the furniture industry.

We plan to allocate approximately HK\$36.5 million of the proceeds from the Share Offer to expand our retail network, of which approximately HK\$27.8 million and HK\$8.7 million will be incurred for the expansion in, respectively, China and UAE.

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Save for our store in Yuen Long in Hong Kong which commenced operations in May 2018 and has a relatively short operating history, our Caine Road and Shatin retail stores, being those next most recently opened in Hong Kong with an operating history of over one year, took between one to two month(s) to achieve an operating breakeven<sup>(Note 1)</sup> and between 23 and 27 months to achieve an investment payback<sup>(Note 2)</sup>. In UAE, it took us one and 11 month(s) to reach operating breakeven and investment payback, respectively. In China, the period of time to achieve operating breakeven and investment payback were, respectively, seven and 23 months. Our historical breakeven figures for the Shanghai retail store are higher than that of other regions owing to the additional complexities in renovating an old-style four-storey building. Accordingly, our Group incurred a greater initial setup cost for this retail store. As at the Latest Practicable Date, the latest retail store with an operating history of over one year amongst our retail network in Hong Kong is the one opened on Caine Road, Hong Kong, which commenced its business in 2014. While we expect that our new stores to be opened will require approximately the same period of time as was required on achieving operating breakeven and investment payback in the respective regions, the performance of each individual store is affected by various factors, in particular the location, the timing of commencement of operation, the overall economic condition. Accordingly, the average time for achieving operating breakeven and investment payback may not be indicative of the performance of our new stores to be opened in the future.

We will also increase our inventory to support the business of our expanded retail stores network.

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*Notes:*

1. Operating breakeven period is defined as the period required for a retail store for the first time to record a positive operating cash inflow following the month of commencement of operation of the retail store.
2. Investment payback period is defined as the period required for the renovation and furniture and fittings costs and initial stock costs to be fully covered by the accumulated operating cash inflows of the retail store since its commencement of operation.

### **Further developing our online shop and enhancing our information technology capabilities**

We conduct our online sales via two platforms, namely our own online shop under our own domain name and a virtual store in Tmall, a popular online retail platform operated by an Independent Third Party. Sales generated from our online shop and our virtual store on Tmall for the years ended 31 December 2016 and 2017 were, respectively, approximately HK\$4.6 million and HK\$9.2 million, representing an annual growth of approximately 99.5% from 2016 to 2017. We are of the view that our online shop and our Tmall virtual store do not constitute a competing business for our physical retail stores but instead will create an “online to offline” shopping pattern for our customers.

We anticipate that there will be continuous growth in sales via our online platforms and we intend to capture that market potential by introducing more interactive features to our existing online shop. We also intend to create mobile application for our online shop and hire a digital media specialist to enhance our overall presence in the internet or digital platform.

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To support our overall expansion and our online sales, we will also enhance our overall information technology infrastructure by employing radio frequency identification technology in our warehouse and logistics functions. The new radio identification technology will enable further automation in our operation such as managing our sales order electronically, enhancing the traceability of our inventory and facilitating our analysis of our operating data.

We intend to apply approximately HK\$5.0 million of the proceeds from the Share Offer to enhance our online business and for enhancing our information technology capabilities, of which approximately HK\$2.95 million will be allocated to software enhancements aimed at improving the overall shopping experience, approximately HK\$950,000 will be dedicated to the implementation of digital hardware improvements to enhance in-store digital experience, and approximately HK\$1.1 million to the introduction of radio frequency identification technology to enhance efficiency and accuracy in our warehouse and logistics operations.

In addition to our plans to enhance the radio frequency identification technology for warehouse and logistics functions, we are currently introducing data mining capabilities and upgrading our ERP system to fully integrate with the enhanced warehousing and logistics functionality, new intelligence capabilities and improved online services integration.

### **Enhancing our in-store design consultancy services**

We now already have design consultants stationed in our retail stores in Horizon Plaza, Shatin and Yuen Long in Hong Kong, in Shanghai and in Dubai to provide design consultancy services. Our design consultants are able to present to potential customers how their homes may be decorated and furnished, and advise on accessories, space planning and soft furnishings. Therefore, for customers visiting our retail stores, apart from viewing, touching and feeling the home furniture and accessories in person, they can have the visual images of how their homes may look like and this helps our customers in making choices and enhances the success of our selling effort.

We plan to introduce similar design consultancy services to our new retail stores in China and UAE and our operations in Hong Kong by recruiting an additional 10 design consultants with monthly salaries ranging from approximately HK\$13,000 to HK\$27,000 to serve our customers. We expect that we will incur approximately HK\$1.3 million for employing additional designers to enhance our design consultancy capability, which will be financed out of the net proceeds from the Share Offer and our Group's internal resources.

## BUSINESS

### Further expanding our product offering for kids

We have a specific line of products tailored for kids, namely Indigo Kids. Revenue generated from this product line amounted to approximately HK\$11.2 million and HK\$8.9 million for the years ended 31 December 2016 and 2017, respectively.

With an aim to provide safe and fun living solutions for kids and parents, we plan to introduce a more diversified range of furniture specifically designed for kids and we will create a “shop-within-shop” to showcase this line of furniture to facilitate the shopping process of parents. We believe a wider product range and enhanced shopping experience will bring in more sales for kids’ furniture in the future.

For further details of our plan on the use the proceeds from the Share Offer and the implementation plan, please refer to the section headed “Future plans and use of proceeds” in this prospectus.

### OUR BUSINESS MODEL

We principally operate three lines of business, namely, (i) sale of home furniture and accessories; (ii) rental of home furniture and accessories; and (iii) project and hospitality services, which typically involve designing, styling, decorating and furnishing commercial or residential properties such as hotels, serviced apartments and showflats. Our revenue increased from approximately HK\$244.4 million for the year ended 31 December 2016 to approximately HK\$278.6 million for the year ended 31 December 2017, representing a growth of approximately 14.0%. The following table sets forth a breakdown of our revenue by each business line during the Track Record Period:

	Year ended 31 December			
	2016		2017	
	<i>HK\$'000</i>	Approximate percentage of total revenue %	<i>HK\$'000</i>	Approximate percentage of total revenue %
Sale of home furniture and accessories .....	175,117	71.6	190,497	68.4
Rental of home furniture and accessories .....	33,399	13.7	28,280	10.1
Project and hospitality services	35,925	14.7	59,851	21.5
<b>Total</b> .....	<b>244,441</b>	<b>100</b>	<b>278,628</b>	<b>100</b>

## BUSINESS

In addition to the Hong Kong market, we also have established subsidiaries in China and UAE for conducting businesses in the respective regions. The following tables set forth our revenue based on geographical operation, during the Track Record Period:

	Year ended 31 December			
	2016		2017	
	<i>HK\$'000</i>	Approximate percentage of total revenue	<i>HK\$'000</i>	Approximate percentage of total revenue
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Hong Kong .....	152,319	62.3	182,695	65.6
China .....	33,324	13.6	37,703	13.5
UAE .....	58,798	24.1	58,230	20.9
<b>Total</b> .....	<b>244,441</b>	<b>100</b>	<b>278,628</b>	<b>100</b>

### Sale of home furniture and accessories

We conduct sale of our home furniture and accessories (i) through retail sale to customers visiting our retail stores; (ii) through our corporate sales team soliciting purchases from corporate clients; and (iii) through our online shop. The following flowchart illustrates the overall business flow of our business of sale of home furniture and accessories:



Our home furniture and accessories sale businesses commenced in 1979 when we opened our first retail store in Hong Kong. As at the Latest Practicable Date, we have nine retail stores in Hong Kong, one in China and one in UAE.

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## BUSINESS

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The following breakdown sets forth the breakdown of the contribution of each region of Hong Kong, China and UAE to the revenue of the business line of sale of home furniture and accessories during the Track Record Period:

	Year ended 31 December			
	2016		2017	
	<i>HK\$'000</i>	Approximate percentage of sale of home furniture and accessories  <i>%</i>	<i>HK\$'000</i>	Approximate percentage of sale of home furniture and accessories  <i>%</i>
Hong Kong .....	116,404	66.4	139,011	73.0
China .....	12,566	7.2	14,039	7.4
UAE .....	46,147	26.4	37,447	19.6
<b>Total</b> .....	<b>175,117</b>	<b>100</b>	<b>190,497</b>	<b>100</b>

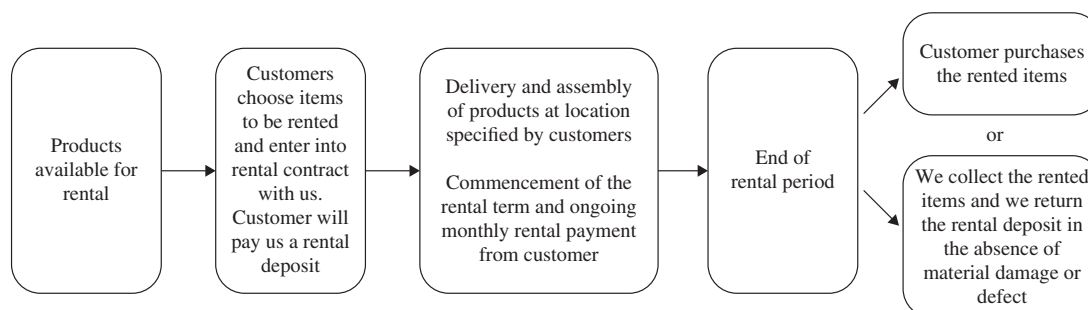
For our corporate sales, members of our corporate sales team will visit our corporate clients to help identify their needs and provide tailored solutions that deliver against their business objectives, budgets and timelines. Our corporate clients include property developers, and serviced apartments and hotels operators. In a typical showflat styling project, our staff from our Image and Style Department will play a crucial role in putting together a properly styled and furnished showflat based on our customers' desired requirements. Revenue generated from our corporate sales amounted to approximately HK\$50.0 million and HK\$53.6 million for the years ended 31 December 2016 and 2017, respectively.

Individual or corporate customers can also directly place purchase orders through our online shop where our products are grouped into different categories to facilitate the navigation of our customers. Our latest *lookbook* and pictures of individual items are also available on our online shop. Revenue generated through our online shop amounted to approximately HK\$4.6 million and HK\$9.2 million, representing approximately 2.6% and 4.8% of the revenue from sale of home furniture and accessories for the years ended 31 December 2016 and 2017, respectively.

## BUSINESS

### Rental of home furniture and accessories

We rent home furniture and accessories to customers in return for monthly rental payment. The overall business flow of our business of rental of home furniture and accessories is summarised as the following chart:



Customers using our furniture rental services may choose to rent a limited number of items up to a full house package at various rental periods with a minimum of one month up to a maximum of 24 months. For short term rental clients, they will select the items from a specific range of product designated for rental purpose only. For long term rental clients, they can choose the items from our entire retail inventory.

The profile of the rental contracts we have entered into during the Track Record Period is as follows:

	Year ended 31 December			
	2016		2017	
Length of rental period <sup>(Note)</sup>	Number of contracts	Average contract value per contract	Number of contracts	Average contract value per contract
		<i>HK\$</i>		<i>HK\$</i>
Less than six months	789	12,855	694	10,243
Six months to less than 12 months	39	134,579	36	101,733
12 months or above	72	193,822	41	249,595
<b>Total</b>	<b>900</b>		<b>771</b>	

*Note:*

The length of a rental contract is taken to be the original term of the contract without regard to any options for extension of the rental period or buy-out. Where customers choose to exercise the option for extension or buy-out, a separate agreement will be entered into between the customer and us.



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## BUSINESS

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The profile of our unfinished furniture rental contracts as at 31 December 2017 is as follows:

<u>Length of rental period</u>	<u>Number of contract</u>	<u>Remaining contract value as at 31 December 2017</u>	<u>Range of remaining rental period</u>
		<i>HK\$'000</i>	
Less than six months . . . . .	62	8,085.3	0 to 5 months
Six months to less than 12 months . . . . .	38	4,427.2	6 to 11 months
12 months or above . . . . .	32	3,090.8	12 to 23 months

We will require our customers to confirm in writing their acceptance of the condition upon delivery and assembly and it is a term of our rental contract that, subject to fair wear and tear, our customers shall keep the rented items in good condition. We will require customers to pay a rental deposit, which is equivalent to three months' rental. Subject to fair wear and tear, the rental deposit will be returned to the customers at the end of the rental period in the absence of material damage or defect to the rented items.

It will also be set out in the rental agreement the following terms:

- notice period and rental payment for extension of the rental period;
- delivery charges as well as additional charges if a heavy item is required to be carried by staircase;
- default interest on late rental payment or bounced cheques;
- the right of inspection by us of the rented items upon giving reasonable prior notice; and
- the obligation of the customer to insure against loss or damage caused to the rented items.

It is also expressly provided under the rental agreement that the rented items are delivered on an "as is" basis and the items delivered will be conclusively presumed to be in good condition in the absence of notification from the customer within two working days after delivery, in which case the customer will be taken to have accepted the condition of the rented items as delivered. Customers using our home furniture and accessories rental service are not allowed to remove the rented items from the location specified in the rental agreement.

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## BUSINESS

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At the end of the rental period, our customer may choose to return the rented items. For customers of long term rental contracts, they have a further option to buy out part or all of the rented items at a price as low as the equivalent of one month's rental of the relevant items. The sales revenue from this buy out option amounted to approximately HK\$1.7 million and HK\$1.1 million for the years ended 31 December 2016 and 2017, respectively. Items that are not purchased by our rental customer following the conclusion of a long term lease will be collected and, if the condition of such items are deemed suitable, may be further leased to other rental customers, sold through our retail stores, or retained for spare parts. When returned items are sold, certain discounts may apply depending on the condition of such items.

During the Track Record Period, save that we have forfeited rental deposit for a sum of approximately HK\$12,000 arising from one rental contract, we have not encountered any dispute with respect to the return condition of items rented nor have we deducted, withheld or forfeited any rental deposit.

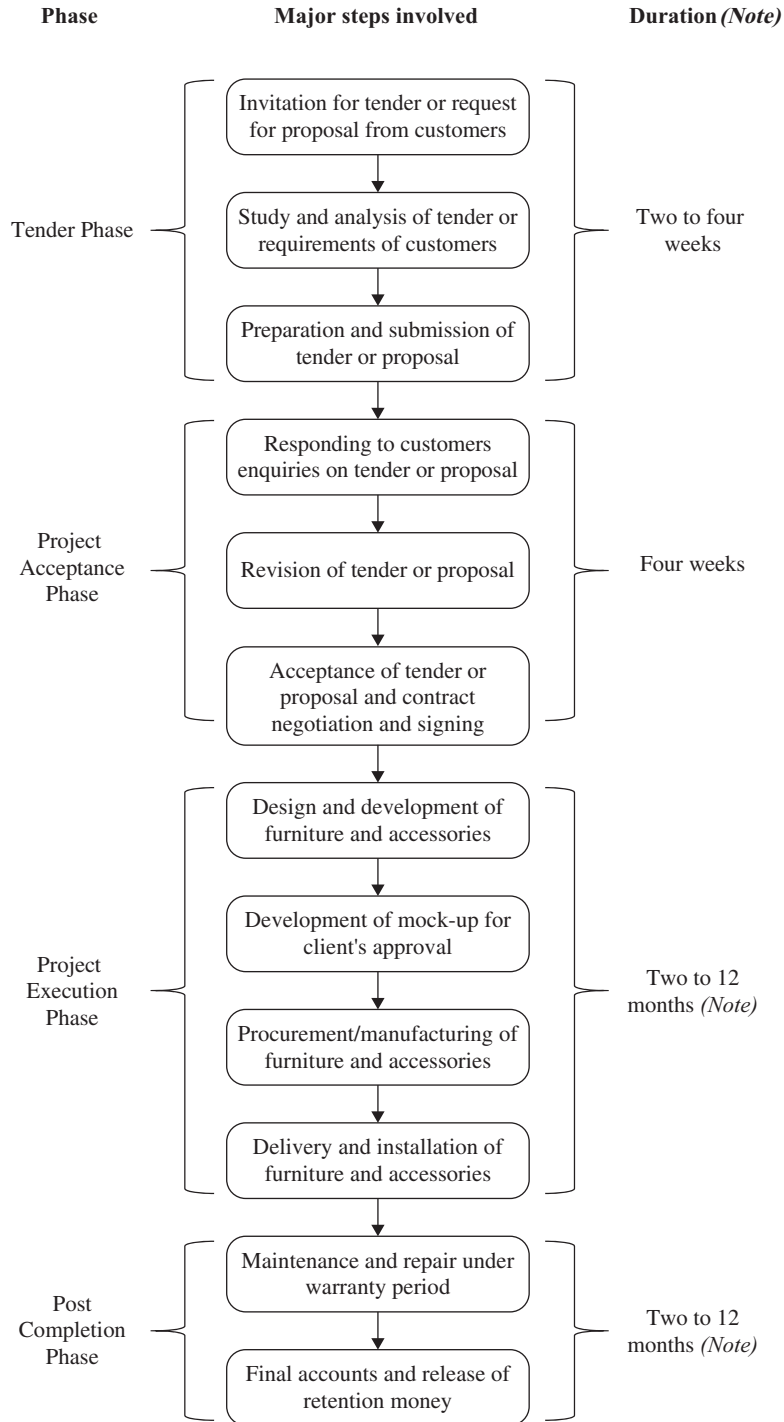
Customers using our rental services include property developers, expatriates working in places where we provide rental services and multinational corporations who relocate staff to places where we operate. We also get referrals from third parties such as logistics and relocation companies as well as property agents. On some occasions, we will pay third parties a commission to be negotiated on a case-by-case basis when their referral for furniture rental business has materialised. The agency commission we paid for the years ended 31 December 2016 and 2017 were, respectively, approximately HK\$1.1 million and HK\$612,000.

### **Project and hospitality services**

We have the expertise and proven track record in styling, decorating and furnishing hospitality or residential properties. We offer a turn-key solution to the property owners whereby our services start from designing a mood board created by our own in-house interior designer and finish with a fully furnished property where the home furniture and accessories inside are sourced, procured and installed by us for our clients. In some cases, we are engaged by property developers to custom-design furniture and offer furniture packages to their home buyers.

## BUSINESS

Typically, our turn-key property project and hospitality services involve the following key stages:



*Note:*

The actual time required varies from project to project and certain projects may not be subject to any warranty or require retention money arrangement.

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## BUSINESS

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Our role in rendering our project and hospitality services is effectively a solution provider and we act as the principal contact point of the client in styling, decorating and furnishing their properties.

The services we need to undertake in a project and hospitality project will vary from case to case. For example, if we are engaged purely for the provision of a furniture package, our principal services will be the design of the furniture based on the structural layouts of the property projects and co-coordinate with the manufacturing, delivery and assembly of the relevant furniture items. Accordingly, our designers, our quality control staff and project team will be involved.

For a turn-key project and hospitality project, it may involve our designers for moodboards, layouts and furniture selection, our furniture designers for design and development of custom furniture, our quality control staff for ensuring quality of the furniture to be provided and project coordinator for the overall project management. We do not undertake any structural works for the properties of our client except in Dubai where we will engage external contractors for performing structural works and we will coordinate the work schedule and standard of the external contractors for our clients.

By reason of the variety of our services in undertaking our project and hospitality businesses, we determine our fees on a case-by-case basis and take into account various factors including the type of services to be provided, the number of units of the properties involved, complexity of the projects, project duration, costs paid to third parties such as procurement or manufacturing costs, our relationship with the customers and our targeted profit margin to be made out from the project.

### ***1. Tender phase***

When we receive a request for proposal or invitation for tender, our members of the Project Department will study the relevant requirements in detail with our senior management. We will prepare and submit our proposals or tender after careful cost analysis. Our proposal or tender will be generally broken down by (i) item or service; (ii) principal terms of our engagement; (iii) payment terms; (iv) project time line; and (v) deliverables.

### ***2. Project acceptance phase***

Our clients may have enquiries after considering our proposal or tender and we will respond by providing further information as requested, which may lead to revision to the original proposal and tender. If our clients accept our proposal or tender, both parties will enter into a binding contract in which it will set out, amongst other things, the scope of our services to be provided, the contract sum, the timeline of our deliverables, payment terms and, if applicable, warranties.

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## BUSINESS

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The contract sum is usually settled in various instalments and we will require our clients to make the first instalment upon or shortly after the signing of contract. Depending on the commercial negotiation, we may also be required to put up some form of performance guarantee by depositing a certain sum of money into a designated bank account where withdrawal by us is restricted.

The following table sets out the number of proposals or tenders that we have submitted and their success rate during the Track Record Period and up to the Latest Practicable Date:

	Year ended 31 December		From 1 January
	2016	2017	2018 to the Latest Practicable Date
Number of proposals or tenders submitted . . . . .	117	143	80
Number of successful proposals or tenders . . . . .	85	94	52( <i>Note 1</i> )
Success rate ( <i>Notes 2, 3 and 4</i> ) . . . .	73%	65%	65%

*Notes:*

1. From 1 January 2018 to the Latest Practicable Date, of the tenders and proposals submitted between 1 January 2018 and the Latest Practicable Date, tenders and proposals with an aggregate contract value of approximately HK\$33.0 million had been awarded to our Group.
2. Success rate is calculated by dividing the number of tender contracts awarded during the year by the number of proposals as at 1 January and submitted for the same year or period.
3. Results for the proposals and tenders submitted are generally made known within two to three months of the submission date.
4. As at the Latest Practicable Date, 17 tenders and projects submitted as at the Latest Practicable Date, remain open with an aggregate contract value of approximately HK\$106.1 million. To the best knowledge of our Directors, results for such tenders and project submitted will be available in the third quarter of 2018.

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## BUSINESS

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The table below sets out the monetary value movement of outstanding project value of our project and hospitality service business line during the Track Record Period and up to 31 May 2018:

	<i>HK\$'000</i>
<b>Outstanding project value on hand as at 1 January 2016</b> .....	7,784
New project value during the year ended 31 December 2016 .....	71,060
Recognised project value during the year ended 31 December 2016 .....	(35,923)
Exchange rate realignment .....	(92)
<b>Outstanding project value on hand as at 31 December 2016 and carried forward to 1 January 2017</b> .....	42,829
New project value during the year ended 31 December 2017 .....	48,564
Recognised project value during the year ended 31 December 2017 .....	(59,852)
Exchange rate realignment .....	(75)
<b>Outstanding project value on hand as at 31 December 2017 and carried forward to 1 January 2018</b> .....	31,466
New project value from 1 January 2018 to 31 May 2018 .....	10,637
Recognised project value from 1 January 2018 to 31 May 2018 .....	(14,786)
Exchange rate realignment .....	442
<b>Outstanding project value as at 31 May 2018</b> .....	27,759
<b>Project completion rate</b> ( <i>Note</i> )	
During the year ended 31 December 2016 .....	46%
During the year ended 31 December 2017 .....	65%
From 1 January 2018 to 31 May 2018 .....	35%

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*Note:* The project completion rate is the total billed project value during the year/period divided by the total project sum. The total project sum represents the outstanding project value carried forward plus new project value during the year.

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The table below further sets forth the outstanding value of our projects on hand as at 31 May 2018 and the expected amount of such revenue to be recognised during the year ending 31 December 2018:

	<i>HK\$'000</i>
Outstanding project value as at 31 May 2018 .....	27,759
Estimate of value to be recognised during the year ending 31 December 2018 .....	20,119

### **3. Project execution phase**

We will have a project manager taking care of each project and coordinating the entire execution process. We will deploy our staff members of different expertise, typically interior design (if required), furniture design, project coordinator, quality control, logistics and procurement to deliver our promised results in the signed contract. Usually, we will create a mock-up for our clients to confirm the furniture design and upon confirmation, we will move forward to procurement or manufacturing of the items that are required for styling, decorating and furnishing our client's properties.

Our quality control managers play an important role in the execution process and will attend the relevant production facilities on-site for sampling and inspection before any shipment, in particular where high risk materials such as marbles, mirror or glass are being used or where the products itself are of high value. When the furniture and other materials arrive at the destination where our client's properties situate, we will also perform quality check. We normally require further payment from our clients upon shipment.

The final installation works will take place in the relevant properties and we may engage external contractors for this. Upon completion of the installation works, our client will settle the final instalment.

### **4. Project completion phase**

Where the project involves a substantial number of properties and span across a couple of years, we may be required to provide warranty periods of various lengths during which we will assist the property owner to replace or repair damaged or defective items, with or without charge. A sum of retention money may be withheld by the property owner and will be returned to us at the expiration of the warranty period.

Apart from the hospitality project described in the above manner, we have also been engaged by property developers to custom-design furniture and offer furniture packages to their home buyers. We will charge the property developer a design fee and will design a whole range of furniture for different types of flats in the relevant property development based on their individual structural layout.

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## BUSINESS

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A furniture catalogue and directory with pictures and styling effect can be prepared and distributed to prospective home buyers by the property developers. Interested home buyers may place an order for a select range of full house furniture packages. Upon receiving purchase orders, we will arrange delivery and installation if stocks are available or we will liaise with our manufacturers for production.

### PRODUCTS AND SERVICES

We offer a wide range of products for sale or for rental. They include sizeable items of tables, chairs, sofas, beds, storage solutions to smaller pieces such as cushions, kitchenware, tableware, etc. In some cases where we have a long and established business relationship with our suppliers, we manage to successfully negotiate with some of our suppliers for supply of home furniture and accessories on an exclusive basis in Hong Kong and our other markets.

We have a special line of products especially for kids to capture a niche space in the market. Safety and fun are the key elements in designing or sourcing this line of products. Typically, those items custom designed for kids come with chunky handles and avoid sharp corners or edges, and are colourful. Our kids furniture collection also meet safety standards in UK and/or Europe. The age group we focus on is between three to 10. Revenue from sale of our kids collection during the Track Record Period were approximately HK\$11.2 million and HK\$8.9 million, representing approximately 6.4% and 4.7% of our total revenue respectively.

Apart from home furniture and accessories that we source from third party suppliers, we also offer furniture designed by ourselves or furniture bearing our own labels.

Our products are sourced or manufactured from overseas including from China, Vietnam and India.

The following pictures showcase our product offering:

#### Furniture



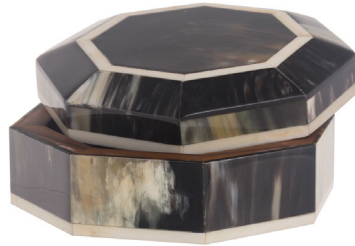


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## BUSINESS

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### Accessories



### Kids products



For our project and hospitality business, we have been engaged by hotel owners, property developers and major airlines to style, decorate and furnish different types of properties, including five-star hotels, staff quarters, low-rise and luxury private residential properties, serviced apartments and showflats.

The following are pictures and details of some hospitality projects that we have completed:



Type of property : Staff accommodation for a national airline based in Dubai  
Location : Dubai, UAE  
Year : 2017  
Scope of services : Procurement and custom manufacturing of furniture and accessories for staff residences of over 650 units

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## BUSINESS

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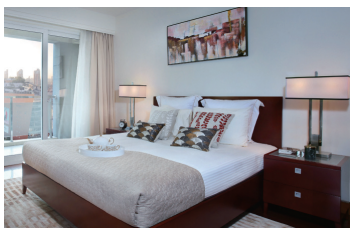
Type of property : Hotel and serviced apartments  
 Location : Causeway Bay, Hong Kong  
 Year : 2017  
 Scope of services : Total design of hotel and serviced apartment building including for different room and apartment layouts, lifts and service areas, and entrance, hall and reception areas



Type of property : Low-rise luxury detached house  
 Location : Lantau Islands, Hong Kong  
 Year : 2017  
 Scope of services : Showflat styling and provision of furniture packages for home buyers



Type of property : Residential properties  
 Location : West Kowloon, Hong Kong  
 Year : 2017  
 Scope of services : Custom designed furniture and provide furniture packages for different flat layouts



Type of property : Serviced apartment  
 Location : Shanghai, China  
 Year : 2017  
 Scope of services : Full furniture, fittings and equipment re-design and layout with mock-ups provided. Management of equipment contractors and procurement of requisite materials, and supervised the furniture and accessories manufacturing and installation

Other properties that we have styled or furnished in the past include casinos, restaurants and private hospitals.

**OUR RETAIL NETWORK AND OPERATION**

During the Track Record Period and up to the Latest Practicable Date, we operated a total of 12 retail stores, including one store in Yuen Long in Hong Kong which commenced operations in May 2018, of which nine were in Hong Kong, one in China and two in UAE. Set out below is a breakdown of revenue for sale of home furniture and accessories from each of our retail stores and their other operating data during the Track Record Period and up to the Latest Practicable Date:

	Time of commencement of operation	Location	Lease term	Monthly rental	Store size (sq.ft.)	Operating breakeven (Note 1)	Investment payback (Note 2)	Revenue for the year ended 31 December 2016	Revenue for the year ended 31 December 2017	Revenue growth between 2016 and 2017	Operating profit/(loss) for the year ended 31 December 2016	Operating profit for the year ended 31 December 2017	Operating profit growth between 2016 and 2017
						(month(s))	(month(s))	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK'000)	(HK'000)	(%)
<b>Hong Kong</b>													
Horizon Plaza	September 2002	Flat No. 1-6, 6/F, Horizon Plaza, 2 Lee Wing Street, Ap Lei Chau	1 October 2016 to 30 September 2019	HK\$238,000	12,590	Not available (Note 4)	Not available (Note 4)	32,982	35,107	6.4%	15,179	16,704	10.0%
Horizon Plaza (Discount store)	April 2013	Unit 1004-1005, 10/F, Horizon Plaza, 2 Lee Wing Street, Ap Lei Chau	(i) Unit 1004: 2 April 2017 to 31 August 2018 (ii) Unit 1005: 6 June 2016 to 31 August 2018	(i) HK\$43,155  (ii) HK\$15,141	2,726	1	1 (Note 14)	4,133	4,829	16.8%	1,311	1,393	6.3%
Cyberport (Note 5)	December 2011	Shops 316 and 317, Level 3, The Arcade, Cyberport, 100 Cyberport Road, Pokfulam	1 August 2016 to 31 July 2019	HK\$1 and 4% of gross takings	3,203	1	23	4,687	4,201	(10.4)%	1,605	1,561	(2.7)%
Cyberport (kids) (Note 5)	December 2011				1,555	1	19	1,611	1,233	(23.5)%	364	271	(25.5)%

# BUSINESS

Time of commencement of operation	Location	Lease term	Monthly rental	Stores size (sq.ft.)	Operating breakeven (Note 1) (month(s))	Investment payback (Note 2) (month(s))	Revenue for the year ended 31		Revenue growth between 2016 and 2017	Operating profit/(loss) for the year ended 31 December 2016 (Note 3) (HK'000)	Operating Profit for the year ended 31 December 2017 (Note 3) (HK'000)	Operating profit growth between 2016 and 2017
							2016 (HK\$'000)	2017 (HK\$'000)				
May 2014	Shop B2, G/F, Cameo Court, 63-69 Caine Road, Mid-Levels	1 April 2017 to 31 March 2020	HK\$90,000.00	2,150	1	23	6,638	6,640	0.03%	2,233	2,375	6.4%
November 2010 (Note 7)	Shop 221-224, 2nd Floor, Prince's Building, 10 Chater Road, Central	1 October 2015 to 30 September 2018	HK\$280,650 or 15% of gross turnover, whichever is higher	1,871	4	22	15,274	14,948	(2.1)%	4,806	4,764	(0.9)%
June 2008 (Note 8)	Shop 206-207, Level 2, 138 Shatin Rural Committee Road, New Territories (Note 9)	1 April 2016 to 14 September 2018 (Note 9)	From 1 April 2016 to 31 March 2017, HK\$286,800 or 15% of monthly gross receipts, whichever is higher. From 1 April 2017 to 14 September 2018, HK\$344,160 or 15% of monthly gross receipts, whichever is higher.	2,868	2	27	14,620	16,657	13.9%	4,231	4,853	14.7%
October 1993	G111-112, G/F, The Repulse Bay, 109 Repulse Bay Road	7 October 2016 to 6 October 2019	From 7 October 2016 to 6 October 2018, HK\$69,000 or 9% of monthly gross turnover, whichever is higher. From 7 October 2018 to 6 October 2019, HK\$72,000 or 9% of monthly gross turnover, whichever is higher.	1,078	Not available (Note 4)	Not available (Note 4)	5,462	4,844	(11.3)%	2,185	1,844	(15.6)%

## BUSINESS

Time of commencement of operation	Location	Lease term	Monthly rental	Stores size (sq.ft.)	Operating breakeven (Note 1)	Investment payback (Note 2)	Revenue for the year ended 31 December		Revenue growth between 2016 and 2017	Operating profit/(loss) for the year ended 31 December 2016 (Note 3)	Operating Profit for the year ended 31 December 2017 (Note 3)	Operating profit growth between 2016 and 2017
							(HK\$'000)	(HK\$'000)				
Yoho Mall . . . . .	Shop No. 2001, Level 2, Yuen Long, New Territories, Hong Kong	1 March 2018 to 28 February 2021	From 1 March 2018 to 28 February 2019, HK\$216,750 or 15% of monthly gross receipts, whichever is greater. From 1 March 2019 to 29 February 2020, HK\$234,090 or 15% of monthly gross receipts, whichever is greater. From 1 March 2020 to 28 February 2021, HK\$251,430 or 15% of monthly gross receipts, whichever is greater.	3,468	Not Available (Note 15)	Not Available (Note 15)	(HK\$'000)	(HK\$'000)	-	-	-	-
Shanghai . . . . .	No. 185-187 An Fu Road, Xuhui District, Shanghai, PRC	15 September 2013 to 14 September 2021	From 15 September 2017 to 14 September 2018, RMB225,000 From 15 September 2018 to 14 September 2019, RMB236,667 From 15 September 2019 to 14 September 2020, RMB2,940,000 From 15 September 2020 to 14 September 2021, RMB2,500,000 (Note 10)	4,058	2	22	9,000	11,559	28.4%	3,009	3,384	12.5%

## BUSINESS

Time of commencement of operation	Location	Lease term	Monthly rental	Store size (sq.ft.)	Operating breakeven (Note 1) (month(s))	Investment payback (Note 2) (month(s))	Revenue for the year ended 31 December 2016 (HK\$'000)	Revenue for the year ended 31 December 2017 (HK\$'000)	Revenue growth between 2016 and 2017	Operating profit/(loss) for the year ended 31 December 2016 (Note 3) (HK'000)	Operating Profit for the year ended 31 December 2017 (Note 3) (HK'000)	Operating profit growth between 2016 and 2017
<b>UAE</b>												
Sheikh Zayed Road . . . . .	Sheikh Zayed Road, Safa Park interchange (Jumeirah side), UAE	1 May 2018 to 30 April 2019	AED\$2,500	7,506	1	15	24,314	24,400	0.4%	9,328	9,006	(3.5)%
Yas Mall (Note 11) . . . . .	L1-048, Yas Mall, Yas Island, Abu Dhabi, UAE	N/A	N/A	1,884	-	-	990	-	N/A	(2,717)	-	N/A
<b>Total</b> . . . . .							119,711	124,418	3.9%	41,534	46,155	11.1%

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## BUSINESS

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*Notes:*

1. Operating breakeven period is defined as the period required for a retail store for the first time to record a positive operating cash inflow following the month of commencement of operation of the retail store.
2. Investment payback period is defined as the period required for the renovation and furniture and fittings costs, and initial stock costs, to be fully covered by the accumulated operating cash inflows of the retail store since its commencement of operation.
3. Operating profit/(loss) at store level is calculated by deducting cost of inventories sold, selling and distribution costs and administrative and other operating expenses that are directly attributable to respective stores (including store level rental and related expenses, store level staff costs, store level depreciation expenses, store level credit card commission, store level utilities expenses and other store level administrative and operating expenses). Other income and expenses that are not directly attributable to respective stores (including rentals and related expenses not related to store level, staff benefit expenses not related to store level, advertising and promotion expenses, transportation and delivery costs, warehouse expenses, sundry income, expenses relating to rental and project businesses, expenses relating to employee training/recruitment, bank charges, entertainment expenses, foreign exchange differences, and professional fees) are excluded in the calculation of operating profit/(loss) at store level.  
Operating profit/(loss) at store level is not a HKFRS item/measure. We have presented these non-HKFRS items/measures as supplemental measures of our operating performance at store level. Other companies in our industry might calculate these non-HKFRS items/measures differently than we do and, accordingly, might not be directly comparable. These non-HKFRS items/measures are not measures of financial performance or operating cash flows under HKFRSs and should not be considered as a substitute for, or superior to, profit before tax or cash flows from operating activities determined in accordance with HKFRSs. These non-HKFRS items/measures have limitations as analytical tools/measures, and you should not consider them in isolation or as substitutes for analysis of our financial performance and operating cash flows as reported under HKFRSs. Each of these non-HKFRS items/measures should be read in conjunction with this footnote with due consideration of their calculation basis, limitations, appropriateness and relevancy. Our presentation of these non-HKFRS items/measures should not be construed as an inference/indication that our future operating results, financial performance and operating cash flows will be unaffected by unusual or non-recurring items.
4. The Horizon Plaza and Repulse Bay stores were already in operation before our Controlling Shareholders took over the control of our business. Based on information available to our management, the Horizon Plaza store was opened in 2002 and the Repulse Bay store was opened in 1993. Due to the long operating history of these two stores, detailed operating data is not available.
5. Cyberport and Cyberport (Kids) are catered for as two adjoined and connected stores under a single lease.
6. During the Track Record Period, revenue generated from pop-up store in Prince's Building was included for the periods of January to February 2016 and October 2016 to April 2017.
7. Whilst the data presented in this table applies to the Prince's Building retail store at its current location, our Group has had a presence in another location of the same building dating back to November 2010.
8. Whilst the data presented in this table applies to the Shatin retail store at its current location, our Group has had a presence in another location of the same building dating back to June 2008.
9. Our Group and the relevant landlord has entered into a new tenancy for the lease of unit 207 of the same building for a term of two years commencing from 15 September 2018.
10. Historical rental obligations have been excluded.
11. During the Track Record Period, the Yas Mall store in Abu Dhabi of UAE was closed in June 2016.
12. Operating breakeven was not achieved prior to the closing down of the Yas Mall store.
13. Investment payback was not achieved prior to the closing down of the Yas Mall store.
14. As the Horizon Plaza (Discount store) was established for the expeditious sale of existing stock, the set up of the store required no initial stock costs and limited renovation costs, allowing the store to achieve investment payback of one month.
15. The Yoho Mall store commenced operations in May 2018. Accordingly, the operating breakeven and investment breakeven have yet to become available, and no revenue will have been recorded for this store during the Track Record Period.

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Movements of our retail stores during the Track Record Period and up to the Latest Practicable Date are summarised as follows:

	<u>Year ended 31 December</u>		<u>For the period from 1 January 2018 to the Latest Practicable Date</u>
	<u>2016</u>	<u>2017</u>	
Opening balance . . . . .	11	10	10
Addition . . . . .	0	0	1
Cessation of business . . . . .	1	0	0
Net increase . . . . .	-1	0	1
Closing balance . . . . .	10	10	11

One new store was opened and no new stores were closed after the end of the Track Record Period and up to the Latest Practicable Date.

During the Track Record Period, we closed one store in Abu Dhabi of UAE. We closed the said store by reason of insufficient customer traffic and unsatisfactory performance and we incurred approximately of HK\$1.7 million in connection with such closure. Such expenses were for compensation to the landlord for early termination of the relevant tenancy, cancellation of trade licence, outsourced transportation costs, and costs incurred in disposing of the inventory and reinstatement of the premises. In determining whether a particular store is underperforming, we will take into consideration the sales of the relevant shops for approximately six months and see if such performance is in line with our original plan for opening the store, or as the case may be, our annual budget. We will also consider if there is any extraordinary circumstances affecting such sales, such as road works, traffic diversion or renovation work of shopping malls and whether such extraordinary circumstances are of temporary nature or of a long term nature. Apart from the financial analysis, we will give due consideration to the strategic value of a particular store to our Group as a whole. If we find a store underperforming, we will further analyse the costs and benefits of closing down the relevant store and we will look into the costs involved in early termination of the lease, options for disposing the store inventory and costs in reinstating the premises. According to the Ipsos Report, the sales revenue of the home furniture and accessories industry is projected to continue to expand from AED6,745.1 million in 2017 to AED7,962.0 million in 2021, rising at a CAGR of approximately 4.2%. The rise in sale value could be explained by the UAE's growing number of villas and residential apartment. The number of newly completed villas and residential apartments in Dubai rose from 2012 to 2016 at a CAGR of approximately 13.7% and approximately 12.8% respectively. It is expected that the both existing and new retail stores can benefit from the estimated growth in the market size of home furniture and accessories industry in UAE after commencement of their operation. Our Directors are of the view that the upcoming expansion within UAE comes at a most opportune time as (i) there continues to be significant opportunity in the Dubai retail furniture market for further growth, creating a need for a further store within the region in order to retain our market position and brand recognition; (ii) we have shortlisted a furniture-focused shopping mall where other recognised furniture retail brands have established a presence, allowing us to take



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advantage of the readily available clustering effect; (iii) since the opening of the Yas Mall and Sheikh Zayed Road stores, our Group has gained a greater and more in-depth understanding of the local market, purchasing preferences, and consumer behaviour, allowing our Group to take advantage of such experience to select and expand into a suitable location offering the greatest potential; and (iv) growing expatriate movement into Dubai continues to cultivate potential for growth in the retail furniture market in the foreseeable future. In addition, according to the Ipsos Report, the World Expo 2020 Dubai has already introduced a significant increase in traffic and new developments to Dubai, particularly in residential complexes and hotel developments, in preparation for the event. This event will also provide a platform for our Group to promote our brand to visitors from nearby regions.

In expanding in UAE, our Group will engage several measures to manage costs and to build and retain customer interest in our brand and products by (i) the adoption of our existing management model whereby our stores are monitored by financial performance as well as by the performance of product categories such that a change in product mix may be swiftly implemented as required; (ii) the sharing of existing infrastructure and back office support readily established in UAE, thereby minimising the additional costs of opening a new store; (iii) the continued hosting of interest groups within our stores, allowing our Group to physically draw our main target customers to our retail stores and providing opportunities for the introduction of our products and trends to such target customers; and (iv) leveraging any marketing and promotional campaigns conducted by shopping malls such as credit card and membership benefits, allowing our Group to leverage an existing third party customer base to promote interest in our brand.

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Further details of our 11 retail stores operating as at the Latest Practicable Date are as follows:

Location	Address	Term of lease	Area ( <i>sq.ft.</i> )
(1) Hong Kong	Flat No. 1–6, 6/F Horizon Plaza, 2 Lee Wing Street, Ap Lei Chau	1 October 2016 to 30 September 2019	12,590
(2) Hong Kong	Shop B2, G/F, Cameo Court, 63–69 Caine Road, Mid-Levels	1 April 2017 to 31 March 2020	2,150
(3) Hong Kong	G111–112, G/F, The Repulse Bay, 109 Repulse Bay Road	7 October 2016 to 6 October 2019	1,078
(4) Hong Kong	Shop 206–207, Level 2, 138 Shatin Rural Committee Road, New Territories ( <i>Note 1</i> )	1 April 2016 to 14 September 2018	2,868
(5) Hong Kong	Shops 316 and 317, Level 3, The Arcade, Cyberport, 100 Cyberport Road, Pokfulam ( <i>Note 2</i> )	1 August 2016 to 31 July 2019	4,758
(6) Hong Kong	Unit 1004–1005, 10/F Horizon Plaza, 2 Lee Wing Street, Ap Lei Chau	Unit 1004: 2 April 2017 to 31 August 2018 ( <i>Note 3</i> ) Unit 1005: 6 June 2016 to 31 August 2018 ( <i>Note 3</i> )	2,726
(7) Hong Kong	Shop 221–224, 2nd Floor, Prince’s Building, 10 Chater Road, Central	1 October 2015 to 30 September 2018	1,871

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Location	Address	Term of lease	Area (sq.ft.)
(8) Hong Kong	Shop No. 2001, Level 2, Yuen Long, New Territories, Hong Kong	1 March 2018 to 28 February 2021	3,468
(9) Shanghai, China	No. 185–187 An Fu Road, Xuhui District, Shanghai, PRC	15 September 2013 to 14 September 2021	4,058
(10) UAE	Sheikh Zayed Road, Safa Park interchange (Jumeirah side), UAE	1 May 2018 to 30 April 2019	7,506

*Notes:*

1. Our Group and the relevant landlord has entered into a new tenancy for the lease of unit 207 of the same building for a period of two years commencing 15 September 2018.
2. Both Cyberport and Cyberport (Kids) are catered for at this single lease as two adjoined and connected stores.
3. Our Group and the relevant landlord is currently in negotiation for a new tenancy.

The rental and related expenses for our retail stores during the Track Record Period were approximately HK\$21.8 million and HK\$21.0 million, respectively. Of the 11 retail stores operating as at the Latest Practicable Date, six were under contingent rent arrangement, and the remaining five were under fixed rent arrangement. Under the contingent rent arrangement, the rent payable by us is calculated based on a certain percentage of the revenue of the relevant retail store, and in some cases a pre-agreed minimum rent is set, in which case we are required to pay the higher of the pre-agreed amount or the amount calculated based on a certain percentage of the revenue. For the year ended 31 December 2016, the amounts of our rental expenses under contingent rent arrangement and under fixed rent arrangement were, respectively, approximately HK\$458,000 and HK\$18.2 million, and other related expenses were HK\$3.1 million. For the year ended 31 December 2017, the amounts of our rental expenses under contingent rent arrangement and under fixed rent arrangement were, respectively, approximately HK\$283,000 and HK\$16.5 million, and other related expenses were HK\$4.2 million.

### Site selection and new store opening

We carefully select locations for our new retail stores and we will go through the following steps in our retail store expansion:

#### *(i) Site selection*

Our Directors and senior management will consider the following factors in selecting a potential location for our new retail stores:

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*Location* — we will consider the accessibility for customers and transportation;

*Market potential of the vicinity nearby* — we will consider the existing residential population and the upcoming property development project in the area nearby to access the market potential;

*Visibility* — we will consider the extent to which the proposed location will bring visibility and awareness to our brand;

*Demographics* — we will consider the demographics of the residents in the proposed location such as the income level, education level and purchasing powers;

*Competition* — we will consider the existing and potential furniture and home furnishing stores in the area nearby which may compete with us as well as the distance from our own existing retail stores to avoid internal sales cannibalisation. To avoid the impact of cannibalisation, our new retail stores will not be located on the same street of existing retail stores or in close proximity (which from our Directors' point of view, refers to two retail stores that are within 15 minutes walking distance) to the existing retail stores in the same district. Since our IT system is capable of tracking each sales of our retail stores individually and producing reports of sales based on different categories of our products, we are able to effectively manage the risk of cannibalisation among our retail stores located in the same district. Our management will review the performance of our retail stores individually and if there is sign of cannibalisation, we will adjust the product offering by offering different product mix and store layout of the relevant retail stores to differentiate their positioning.

### ***(ii) Site visit, analysis and approval***

Our senior management will visit the potential new location himself/herself, and will survey the area nearby as well as speak to other tenants or store owners. Afterwards, if we are interested in that particular location, we will go through a financial analysis to work out the rental expenses, set-up costs, staff costs, revenue projection, estimated monthly breakeven and investment payback period. Our senior management will approve the new location if we consider that it is commercially sound to open a new store at the relevant location.

### ***(iii) Lease negotiation and execution***

We will negotiate lease terms with the landlord for our new retail store. In negotiating the rent, we will take into account factors including the potential rent increase at expiry of the lease and the rents of comparable sites, mandatory building management fees or marketing charges, and size in the neighbouring areas. In general and subject to the negotiation with the landlord, we generally require an initial lease term of two to five years, and a rent-free period of one month for renovation.

Further, we will perform due diligence procedures before we enter into any tenancy agreement for our new retail store. Such procedures include engaging third parties to perform title searches of the targeted property including items such as occupation permits in ensuring the compliance with the use of the premises, searches on landlord's background, investigating any existing building order or defect and inspecting the condition of the building.

***(iv) Retail store design and fitting-out***

Upon the approval of the location for our new retail store, we will begin to work on its initial layout using our own interior design and image and style teams. The design stage is expected to take approximately two to four weeks. Once the design of the layout is finalised, we will start the renovation work by engaging a suitable external fitting out contractor. We expect the renovation to take three to eight weeks. During the renovation period, we will also apply for all the necessary licences for our new retail store.

***(v) Staffing***

We will plan for the staffing of our new store during the renovation process by considering the number of staff required, their respective positions and duties, level of experience, recruitment and training timeline and salary structure. We will deploy existing experienced staff to new stores. Before any new staff is deployed to the new store, we will arrange training by our senior existing staff.

***(vi) Procurement and other set-up***

Before the launch of our new retail store, our senior management will decide the product categories we would like to display. Based on such plan, we will conduct the necessary transfer of stock to the new store. In addition, we will install and setup the POS system in our new retail store to track our initial stock as well as subsequent movements from sales.

***(vii) Soft and official launch***

When the above steps are completed, we will have a soft opening lasting about two to four weeks during which we will trial run the operations, systems and facilities of our new retail store. If our Directors and senior management are satisfied with the performance and operations after evaluation of our new retail store, we will proceed with the official opening.

Based on our experience, it takes us approximately six to 12 weeks from site selection to the official opening of our retail store.

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### Details of our Group's future plan to expand our retail network

Set out below are further details of the new retail stores planned to be opened by the end of 2020, all of which will be funded through the net proceeds of the Share Offer:

Location	Expected store size <i>(sq.ft.)</i>	Expected time of commencement of operation	Expected operating breakeven <i>(Note 1)</i> <i>(month(s))</i>	Expected investment payback <i>(Note 2)</i> <i>(month(s))</i>	Investment amount <i>(Note 3)</i> <i>('000)</i>
<b>China</b> . . . . . A street level store in Shanghai	10,000	October 2018	3	25	HK\$6,453
A shop within a shopping mall in Beijing	3,000	April 2019	3	18	HK\$2,975
A street level store in Beijing	10,000	July 2019	2	18	HK\$6,453
<b>UAE</b> . . . . . A store within a shopping mall in Dubai	4,400	June 2020	2	22	HK\$5,000

*Notes:*

1. Expected operating breakeven period is defined as the period required for a retail store for the first time to record a positive operating cash inflow following the month of commencement of operation of the retail store.
2. Expected investment payback period is defined as the period required for the renovation and furniture and fittings costs and initial stock costs, to be fully covered by the accumulated operating cash inflows of the retail store since its commencement of operation.
3. Investment amount comprises the capital expenditure on fitting out works and initial stock and excludes the rental deposit and ramp up capital for the relevant store.

The expected operating breakeven period for the new stores in China ranges from two to three months from the commencement of business and the expected investment payback period ranges from 18 to 25 months. The new retail stores in China has a lower expected investment payback period mainly attributable to substantially lower renovation costs compared to the existing retail store in Shanghai, being a four storey building located in Shanghai's French Concession. The historic Western-style exterior was required to be retained, resulting in substantial renovation costs being incurred. The new retail store in UAE has a longer expected operating breakeven periods for the new retail store in UAE is mainly attributable to the higher expected staff cost in 2020 comparing to the Sheikh Zayed Road retail store in 2011 as a result of a growth in the average monthly wage. The expected investment payback period for the new retail store in UAE is expected to be longer than the existing Sheikh Zayed Road retail store which was mainly attributable to a lower initial set up cost of the Sheikh Zayed Road retail store during its commencement of business. Of which the stock for initial set up was transferred from the closure of another retail store in UAE in 2011, therefore, no initial opening stock was purchased for the opening of the Sheikh Zayed Road retail store.

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For the new retail store planned to be opened in Shanghai, our first preferred location is Lujiazui in Pudong of Shanghai. Lujiazui is the major commercial area in Shanghai where there are large scale shopping malls. We believe that Lujiazui is an area where our target customers work, shop or socialise and thus will have considerable market demands for our products. After opening a retail store in Lujiazui, we will have one retail store on the west of the Huangpu River, which being our existing retail store in Xuhui district, and one retail store on the east of the Huangpu River. Apart from Lujiazui, we have also considered another region in Shanghai where we may launch our new retail store. We put this region on our radar as it is a residential area with several international schools nearby. Both the shortlisted region and Lujiazui fell within districts where we made the most deliveries in the past.

For our strategy in Beijing, though we currently have no physical presence in Beijing, it is the capital of the PRC and it is where many multi-national corporations have established their presences. Accordingly, we consider it strategically important to establish our brand awareness in this premier city and a natural step in our further expansion in the PRC following our presence in Shanghai. We currently plan to open the first retail store in Sanlitun and we have not yet shortlisted any district in Beijing for our second retail store. Given that Beijing is a new market for us, we will adopt a more cautious strategy in entering this market and we prefer to keep our mind open as to the second retail store in Beijing.

We also plan to open a new retail store in UAE in June 2020. The new store will be located in Dubai of UAE providing a reach into a new part of the city to capture new growth in Dubai and will not be competing with our existing Sheikh Zayed Road store in Dubai. The new retail store being planned will be located in a shopping mall which focuses on furniture. There is already a renowned furniture retailer operating in the said shopping mall. Given that said shopping mall is furniture focused, our Directors are of the view that there will be a clustering effect and thus sufficient customers traffic for furniture. Our Directors consider that UAE, by reason of its geographical location between the west and the east, is a major transportation hub and it's authorities have been actively promoting UAE to attract foreign investors and multi-national corporations. Accordingly, our Directors consider that there would be demand for our products or services as expatriates are relocated to UAE. We will regularly and closely monitor our businesses in UAE to ensure that our retail stores in UAE will deliver the business results as planned.

For the other new stores to be opened, we will conduct feasibility study by considering the factors set out in the paragraph headed "Site selection and new store opening" of this section.

### **Cash management at our retail stores**

As our customers have the option to settle their purchases by way of paying physical cash, we have adopted a cash management policy to ensure the authorised access to cash proceeds and proper handling of cash. Under our policy, cash received at our retail stores are deposited in the cash boxes of the respective stores with restricted access. Cash is generally deposited with our bank or passed to the accounts department once a week, or as otherwise required. We have set a maximum amount of cash which can be kept in the cash box or safe before a deposit must be made, as well as a minimum amount of cash to be maintained as a float. In addition, relevant entries are made in the point-of-sale system when cash is received from customers and are reconciled to the bank regularly by the accounting team.

During the Track Record Period and up to the Latest Practicable Date, we have not experienced any incident of cash misappropriation.

### **Online business**

We conduct our online sales via two platforms, namely our own online shop under our own domain name and a virtual shop in Tmall, a popular online retail platform operated by an Independent Third Party. Customers visiting our own online shop and our Tmall virtual shop choose the items and make payment online. The sales order will be handled by our online store where they will arrange for the delivery or pick up by the customers in our designated click and collect store locations.

According to the Ipsos Report, physical stores serve as the traditional sales channel of home furniture and accessories, allowing customers to have physical touch of the items and demonstrating the items in a home setting; and by adopting online sales channel, customers can therefore make purchase online after exploring furniture and accessories in the physical store. Likewise, our online shops provides a platform from where our customers or potential customers can look up our product information, which would help bolster the sales of our products in our physical stores. It is our observation that when customers picking up the items they purchased online at our physical stores, they often make purchase of additional items from the physical store. Further, our online shops are not subject to any limitation of business hours and thus customers can make their purchase outside our normal business hours or when our physical stores are closed such as during adverse weather conditions. For our virtual shop in Tmall, we consider it as a channel to reach our customers given its popularity and scale and to introduce to the customers our brand by promoting product at more competitive price. Our Directors are therefore of the view that there is no cannibalisation amongst our online sales platforms. In any event, since our IT system is capable of tracking each sales of via our own online stores as well as via Tmall and producing sales report based on different categories of our products, we are able to effectively manage the risk of cannibalisation among our own online stores as well as via Tmall. Our management will review the performance of own online stores as well as via Tmall and if there is sign of cannibalisation, we will adjust the product offering of the relevant online sales platform to differentiate their positioning.



### **Franchising**

For the purpose of exploring the feasibility of expanding our presence by franchising, we entered into a franchise agreement with an Independent Third Party on 14 June 2017 to operate four retail stores as well as an online shop in Saudi Arabia for a term of five years commencing from 2017. As at the Latest Practicable Date, there was one retail store in operation under the franchise agreement.

Under the franchise arrangement, the franchisee is responsible for the securing a location, financing, regulatory compliance, staffing and the operation of the franchise retail stores whereas we will assist the franchisee in procurement of home furniture and accessories to be sold.

Under the franchising agreement, we are entitled to a fixed store opening fee for each franchised retail store opened and are further entitled to a monthly royalty at an agreed percentage of the monthly gross turnover of the franchised retail store. The franchisee has also committed to a minimum seasonal purchase amount from us. The minimum purchase amount for the first season was US\$516,000 (of which approximately US\$200,000 is the initial opening stock) with the subsequent minimum purchase amount for each season to be negotiated between us and the franchisee in good faith, failing which we shall be entitled to fix the amount but subject to an increase of no more than 10% from the previous seasonal minimum purchase amount. If the franchisee fails to achieve that purchase amount, the franchisee will have to compensate us for the difference. We price our products to be sold to the franchisee on a cost-plus basis and we determine the markup based on principally our purchase price and transportation costs. The revenue generated from franchise forms part of the sale of home furniture and accessories. Therefore, such revenue is recognised in accordance with our Group's revenue recognition policy as set out in note 5(k) to the Accountants' Report set out in Appendix I to this prospectus. The franchised retail store commenced its operation in December 2017 and the revenue from franchise recognised during the year ended 31 December 2017 was approximately HK\$2.9 million. Given that (i) the products sold to the franchised outlet will be on a cost-plus basis; (ii) there is a guaranteed minimum purchase commitment from the franchisee; and (iii) we are entitled to royalty based on the revenue of the franchised store, our Directors are of the view that the franchising arrangement will have a positive impact our Group's profitability.

There are provisions in the franchise agreement by which we are able to monitor the operation of the franchisee, including but not limited to:

#### ***Business strategy***

- the franchisee is required to prepare a business plan each year or provide an updated business plan based on the previous one annually for our approval and we are entitled to insert in the business plan such objectives as we reasonably see fit taking into account local market conditions;

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- we will hold at least one formal business review with the franchisee in Hong Kong or elsewhere and discuss the performance of the franchised retail store;
- we will hold two pre-season product reviews each year and the franchisee is required to attend such reviews.

### *Operational matters*

- the franchisee shall have its annual marketing plan pre-approved by us;
- the franchisee shall maintain the franchised retail stores, the fittings, the decorations and other items used therein are in accordance with our requirement from time to time and in conformity with the colour schemes, layout and designs required by us;
- the franchisee shall develop and operate a training scheme as specified in an operating manual provided and updated by us from time to time and shall ensure all its employees are adequately trained before actually working in the franchised retail stores;
- The franchisee shall purchase, install, maintain and operate such IT and accounting systems as advised by us and compatible with our own systems so that we are in a position to track the operations of the franchised retail stores such as sales activities and stock movements.

### *Finance and audit matters*

- the franchisee is required to provide us with the following information:
  - (i) sales report on a daily basis;
  - (ii) product stock information and warehouse location on a weekly basis;
  - (iii) monthly management accounts within 10 working days after month-end;
  - (iv) on a quarterly basis, the relevant profit and loss account, balance sheets and cash flow statements;
- the franchisee is required to provide a certified audited gross turnover within 60 days after the year-end;
- during the franchise term and six years thereafter, we and our auditors will have access to, with the rights to take copies of, the books and records of the franchisee.

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### *Non-competition*

- the franchisee shall not, for the franchisee term, engage, be concerned or interested in any business similar to or in competition with the business of the franchised retail store; and the franchisee shall also ensure its directors, senior executive, ultimate beneficial owners and affiliates to comply with the same non-competition undertaking;
- the franchisee shall not allow the transfer of shares in itself or issue any new shares if such transfer of shares or issue of new shares will result in a change in control of the franchisee.

As far as the quality control on the products, since the franchisee has to procure the products from us, we are therefore able to ensure the products sold at the franchised retail store are of the same quality as products sold at our own stores.

Up to the Latest Practicable Date, there has not been any major or material dispute in relation to the performance of the franchise agreement or the operation of the franchised retail store.

In deciding whether we should open our own retail store or grant to a third party to operate a shop under our brand, we take into account a combination of factors. We will assess to what extent the local market and customer base is similar to places where we operate our own store. We will expand our presence by granting a franchise if we are not familiar with the new local market and partnering with a local partner under a franchising arrangement will reduce our risk. Also, operating our own retail stores requires us to invest in company set-up, staff recruitment, logistics and inventory.

It is our plan to grant to third parties the franchise in places where we do not have a physical retail presence. We expect that new franchise granted in the future will substantially follow the terms and conditions that we have adopted in the franchise granted in Saudi Arabia. Before we grant a franchise, we will ask the potential franchisee to provide us with a business plan in which there will be analysis on the market, the competitive landscape, the growth potential and where our brand *Indigo* fits in. We will only grant such franchise if we consider that there is a viable business case for launching a retail operation in the proposed market. We will also require the franchisee to operate the online shop using the website hosted by us and use our computer system for point-of-sale and inventory management so that we can support and control their operation.

As a measure to avoid unnecessary internal competition among our franchisees, we will undertake not to grant further franchise licenses within a particular region if the existing franchisee is able to meet agreed sales targets.

**PROCUREMENT**

It is one of our strengths that we offer not just a wide range of products for our customers but also trend-driven home furniture and accessories. To achieve that, we dedicate a considerable amount of time and resources in gathering and generating ideas for the range of products to be launched for the coming seasons and we typically launch our furniture directories, which we call the *lookbook*, twice a year, one for the Spring/Summer season and one for the Autumn/Winter season.

Our Chairman, and executive Director, Mr. McLennan, who has over 24 years of project management and design experience in Asia, is instrumental in coming up with the overall idea of the collection to be launched. In order to be able to have a good grasp of the upcoming trend, Mr. McLennan attends trade fairs for home furniture and accessories from where he can speak to designers or suppliers from time to time. He also keeps himself abreast of the market by constantly absorbing ideas from books, magazines and travel experience.

The entire process begins with a “*mood board*” where Mr. McLennan will put together the features, design, ideas or concept for the products to be launched in the coming season. Comments from our Group will be gathered to further fine-tune the content of the *mood board*.

Then, our Head of Image and Style and our Buying and Merchandising Department will work out the details for the products such as colour, material, graphic, etc. They will also review the type of products that are currently in stock and decide what products are to be sourced. A budget for procurement for the coming season will then be set by the senior management based on a revenue target for the relevant year.

Next, our Buying and Merchandising Department will source and obtain samples from the relevant suppliers. We will also have our in-house team work on the design and development of new products and then engage third party manufacturers for production. Prior to placing bulk purchase or production orders, we will obtain samples from suppliers or prototype from our manufacturers. Key personnel from Hong Kong, China and UAE will review the sample or prototype and make an estimate of the market potential of products, based upon which our Group will decide on the purchase amount for the products. At the same time, production such as photo-shooting and printing for our seasonal *lookbook* will commence.

We place orders with suppliers or manufacturers and usually we will be required to settle the full payment prior to delivery or shipment.

Throughout the year, we will also conduct replenishment programmes on a regular basis within the budget for the year set by the management.

**SALES AND MARKETING**

We are committed to enhancing our brand awareness and have invested resources in conducting advertising and other promotional efforts. We devise our marketing strategy at our headquarters in Hong Kong and we have three marketing managers, stationed in each of Hong Kong, China and UAE, respectively, to execute our marketing strategy. During the Track Record Period, our advertising and promotion expenses were approximately HK\$7.3 million and HK\$8.6 million, representing approximately 3.0% and 3.1% of our revenue, respectively.

We promote our brand and products by different marketing activities and channel, details of which are described as follows:

**(i) Print advertisements**

During the Track Record Period, we have placed print advertisements on public transit vehicles running in areas where our potential customers are located. We also advertised in selected lifestyle magazines or publications featuring interior design or decorations.

**(ii) Online marketing**

We also rely on the Internet and social media platforms such as *Facebook*, *Instagram* and *wechat* to promote ourselves and our products. These electronic channels are convenient marketing channels where quick and regular updates or illustrations can be made efficiently.

**(iii) Seasonal launch event**

Tied with the publication of our *lookbook*, we organise two launch parties each year where clients, interior designers, and representatives from the media are invited and briefed about our latest products to be launched for the seasons. We believe that regular and thematic marketing activities can maintain our media exposure and keep our customers interested in our latest offering. We also use pop-up stores in shopping mall during the holidays to showcase our products to our potential customers.

**(iv) Special purchase discount for interior designers**

We have also identified interior designers as a key customer group of our products and we maintain a registration system specifically for interior designers who will enjoy discounts on their purchases upon registering their business details with us. We provide our *lookbook* to interior designers to keep them informed of our latest product offerings.

We have two major sales events each year, which are typically the new year's sale and the summer sale in August.

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In addition to our own online shops, we also promote and sell our products through our virtual shop on Tmall in China. The virtual shop at Tmall does not compete with our own online shops or physical retail store in China. Instead, by reason of the popularity of Tmall in China, our virtual shop extends our reach to a wider pool of potential customers in China. As a marketing strategy, products offered via our Tmall virtual shop may be at a deeper discount than what is offered at our own retail store or online shop but usually just for a limited quantity. We pay Tmall a commission based on a percentage of the revenue from sales conducted via our Tmall virtual shop.

Our corporate sales team proactively approaches our corporate clients to provide innovative interior solutions that deliver against our clients business objectives, budgets and timelines.

For our rental business, apart from our own business, we are a furniture rental partner in Hong Kong and UAE of a major furniture leasing company based in the United States. Our appointment in Hong Kong and UAE is subject to annual review. Depending on the length of the rental contract, we will pay the U.S.-based furniture leasing company a commission.

Our corporate sales team as well as our senior management maintain business relationships with property developers, multi-national corporations or relocation companies to explore business opportunities for our furniture rental and/or project and hospitality services. We also have promotional booklets specifically for our rental business and our project and hospitality services. From time to time, we also receive business referrals for our furniture rental and/or project and hospitality services from existing customers.

Our Directors are of view that our business on the whole is not subject to seasonality factors though our businesses record higher retail sales during traditional retail peak seasons such as Christmas and during Summer Sales.

### **PRICING POLICY AND CREDIT CONTROL**

#### **Pricing**

We use a cost plus approach when determining the retail prices of our products based on a combination of factors, including:

- (i) our gross and net targeted profit margin;
- (ii) procurement costs from suppliers / manufacturing costs of manufacturer;
- (iii) market demand for the products; and
- (iv) inventory turnover rates of our products.

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Except for a limited range of babies and infant products and mattress offered on consignment basis and branded products in relation to which we will offer the products at the price specified by the owner or suppliers, we are not subject to any pricing restrictions and we are free to determine the prices for our products. Depending on the circumstances, we may consider passing on any increase in our procurement costs to our customers.

For our rental business, we normally set the monthly rental price based on a specific percentage of the retail price of the relevant item.

As our project and hospitality business is project-based in nature, we determine our price on a case-by-case basis with reference to a number of factors. For further details, please refer to the paragraph headed “Our business model — Project and hospitality services” of this section.

### **Credit policy**

We do not allow individual customers to make purchases on credit. For customers who take delivery of the products upon purchase, they will have to settle the full amount.

For our corporate clients such as property developers, we generally grant them a credit period, which ranges from zero to 30 days. The length of this credit period is based on commercial negotiation and we will also take into account the credit history and the business relationship with our customers.

Our retail and furniture rental customers generally settle their purchases in HKD or local currency by way of cash, credit cards, cheque or bank transfer. For clients engaging us for project and hospitality services, payments are settled in USD or HKD or in local currency by bank transfer.

### **QUALITY CONTROL AND CUSTOMER COMPLAINTS**

We take quality control seriously. Our quality control begins as early as the supplier selection stage. The majority of our products are sourced from suppliers who have long-standing business relationships with us. When we decide to procure from a new potential supplier, we will request samples from the new supplier and assess their product quality. We will also make enquiries with our peers on the reputation of new suppliers as well as inspecting our supplier’s manufacturing facilities on-site. It is our practice to place a limited amount of purchases from new suppliers at the beginning of our business relationship until we are satisfied with the quality and service.

We conduct quality checks either before or after shipment. Where the products involve high risk materials such as marble, mirror or glass or where the products itself are of high value, our quality control managers will normally attend the relevant production facilities on-site for sampling and inspection before shipment. When the products are shipped and delivered to our warehouse, we will also perform quality checks. Any quality issue or deviation

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from our specifications will be recorded in writing with a photo and we may request a replacement from, or claim against, the supplier if necessary.

For our kids' furniture collections, we request our suppliers to provide documentary proof of meeting the safety standards of UK and/or Europe.

The above quality control procedures are also adopted for customised furniture, furniture and accessories procured for clients engaging us for our project and hospitality services as well as furniture we purchased for rental purpose.

When the products are sold from our retail store, we will request the customers to check the products carefully before they take the items. Likewise, we will request customers to inspect and check the furniture delivered and installed at their properties and confirm in writing their acceptance. Customers are not allowed to return the purchased items unless in exceptional circumstances where the approval of our retail director and financial controller is required for refund. We will instead offer exchange for the same item within seven days if the returned item is unopened and re-saleable.

Given the importance we attach to our reputation and product quality, we have a written policy to guide our frontline staff at our retail stores on how they should handle enquiry or complaints from customers. The frontline staff will also report such enquiry or complaints to our headquarters and, if necessary, our senior management will be involved in handling these matters.

Since we are not involved in the manufacturing process of our products, we generally do not provide warranty for our products unless there is a warranty offered to us from our suppliers or manufacturers, in which case we will provide warranty to our customers on a back-to-back basis. For our project and hospitality services business, we may be required to provide warranty periods of various lengths during which we will assist our customers to replace or repair damaged or defective items, with or without charge. A sum of retention money may be withheld by our customers and will be released to us at the expiration of the warranty period.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we have not experienced any material product returns or product recalls due to any quality or safety issues nor have we received any material claims or complaints in relation to our products from our customers.

## INVENTORY MANAGEMENT

Our inventory consists primarily of home furniture and accessories products. As at the Latest Practicable Date, we as tenant rented two warehouses for storage of our inventories, one in Hong Kong and one in UAE. We also use three warehouse storage services provided by Independent Third Parties in Shenzhen and Shanghai, in the PRC.



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Under our inventory policy, we generally maintain a stock level sufficient for at least six months' supply of products to our customers. The inventory level is set based on our historical sales, market conditions and consumer demand.

We have a centralised and computerised inventory management system through which we can track our inventory real-time. The centralised inventory management system is linked up with the point-of-sale system installed at each of our retail stores and thus stock movement resulted from each sales at each retail store is recorded. Each individual item coming into our warehouses or retail stores will be labelled with a barcode and therefore our inventory management system enables us to track our inventory level by location or by product type. An inventory level analysis will be performed once every two weeks where slow moving or high inventory stock will be identified. The senior management will discuss this data with the business unit to formulate a sales plan such as offering discounts or adjusting the retail price to clear slow-moving and ageing inventories. On a monthly basis, the management will review past sales, future planned sales and decide on the details of replenishment procurement.

We have a written inventory policy and our management regularly reviews the carrying amounts of inventories with reference to ageing analysis, projection of expected future saleability of goods based on historical sales patterns and other factors such as damaged and defective products as well as our management experience and judgement. Based on such review, write-down of inventories will be made when the carrying amounts of inventories fall below their estimated net realisable values.

The average inventory turnover days of our merchandise goods in respect of the years ended 31 December 2016 and 2017 were, respectively, 157 days and 133 days. During the Track Record Period, we made inventory provision and adjustment of HK\$1.2 million and HK\$1.4 million for slow-moving stock for the years ended 31 December 2016 and 2017, respectively.

## LOGISTICS

Our suppliers or manufacturers usually require a free-on-board (commonly abbreviated as "FOB") shipping arrangement under which they will be responsible for transportation of the products to the port of shipment and loading of products and we are responsible for the marine freight transport of the products to Hong Kong or to the port where our warehouse is located. We engage third party shipping agents and transportation companies for such logistics arrangements.

When we have to deliver products to our customers or from our warehouses to our retail stores, we use our in-house delivery team and external services including Winford in Hong Kong and UAE. If necessary, for example during our clearance sales, we will engage third party transportation companies for delivery services. For our operations in China, we rely on external services providers for delivery services.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material disruption or delay in the delivery of our products.

### SUPPLIERS

During the Track Record Period, our major suppliers are companies who principally engage in manufacturing or wholesaling of home furniture and accessories. We purchase our products from suppliers or manufacturers located in different regions such as China, Vietnam and India. Generally, we do not enter into long-term agreements with our suppliers. Our purchase orders with them generally specify major terms of our purchase including price and payment terms. We also engage certain ancillary service providers such as trucking companies during the ordinary and usual course of our businesses.

For provision of furniture and accessories, we select our suppliers principally based on the following criteria:

- quality;
- pricing;
- reputation in the industry;
- production design capability and uniqueness (if applicable);
- product design capability; and
- order lead time and minimum order quantities.

Our purchase orders placed with our suppliers will set out the description of the products, quantity, unit price, shipping arrangement, delivery time, payment terms and, if applicable, warranty period.

Generally, our suppliers do not grant any credit terms to us. For our major suppliers for provision of furniture and accessories, we are generally required to pay deposit and/or settle the full purchase costs prior to the shipment of goods under the FOB basis. We generally settle the invoices of our major suppliers by way of bank transfer.

We also use external delivery services and we have entered into services agreements with external delivery services providers where it sets out a pre-agreed fee schedule and the standard of services but there is no minimum amount to be charged to us under those service agreements. During the Track Record Period, we have engaged Winford, a company connected with Mr. McLennan, for delivery services. Details of the historical transaction volume and the commercial terms of the future transactions between our Group and the company which Mr. McLennan has interest are set out in the paragraph headed “Connected transactions — (1) Fully exempted continuing connected transaction — Corporate sales delivery service by Winford” in this prospectus.

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For the years ended 31 December 2016 and 2017, purchases from our five largest suppliers accounted for approximately 28.3% and 34% of our total costs of merchandise goods and outsourced costs, respectively. For the years ended 31 December 2016 and 2017, purchases from our largest supplier accounted for approximately 7.5% and 11.8% of our total cost of merchandise goods and outsourced costs, respectively. Our Directors consider that the concentration risk of our suppliers is low as we review our inventory level regularly and generally maintain a rolling three-month replenishment programme of products from our suppliers, and we are not reliant on any particular supplier. During the Track Record Period, we have not encountered any material difficulties in our procurement and we have not experienced any significant delay in delivery by our suppliers which caused material disruption to our businesses.

Our five largest suppliers during the Track Record Period have been in a business relationship with us for between one to 10 years.

We set out below the details of our top five suppliers, all of which supply furniture to us, for the years ended 31 December 2016 and 2017, respectively:

### For the year ended 31 December 2016

Ranking	Name of supplier	Business nature	Location	Number of year of relationship	Purchase amount	Approximate percentage of purchase to cost of merchandise goods and outsourced costs
					<i>HKS'000</i>	%
1	Supplier A	Furniture manufacturer	China	5	6,845	7.5
2	Supplier B	Furniture manufacturer	China	10	5,669	6.2
3	Supplier C	Furniture manufacturer	China	9	4,770	5.2
4	Supplier D	Furniture manufacturer	China	5	4,347	4.8
5	Supplier E	Design and distribution of home furnishings	Hong Kong	4	4,232	4.6

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**For the year ended 31 December 2017**

Ranking	Name of supplier	Business nature	Location	Number of year of relationship	Purchase amount	Approximate percentage of purchase to cost of merchandise goods and outsourced costs
					<i>HK\$'000</i>	<i>%</i>
1	Supplier A	Furniture manufacturer	China	5	13,146	11.8
2	Supplier B	Furniture manufacturer	China	10	9,502	8.6
3	Supplier E	Design and distribution of home furnishings	Hong Kong	4	6,756	6.1
4	Supplier D	Furniture manufacturer	China	5	4,857	4.4
5	Supplier F	Furniture manufacturer	China	1	3,427	3.1

Our Directors confirm that we are not subject to any laws and regulations in the place of origin of our products or in the countries where the products are to be sold which apply to us for purchasing from our suppliers, except that products sold in UAE shall not be manufactured in Israel.

Our five largest suppliers during the Track Record Period are Independent Third Parties. Our Directors confirm that none of our Directors, their respective close associates or any Shareholder (which to the knowledge of our Directors owns more than 5% of our Company's share capital as at the Latest Practicable Date) had any interest, directly or indirectly in any of our five largest suppliers during the Track Record Period. None of our suppliers were our five largest customers during the Track Record Period.

### CUSTOMERS

The majority of our customers consist of retail customers who purchase our products at our retail stores and they are members of the general public. Generally, we do not enter into long term contracts with our retail customers and our terms and conditions of sale are set out in the notes to our commercial invoices. Customers for our furniture rental services are property developers, expatriates and corporate clients relocating their staff to places where we operate. Our rental agreements will set out the items to be rented, length of rental period, rental payable, payment arrangement and provisions for deposit and its return. The customers engaging us for our project and hospitality services include property developers, hotel owners and private individuals. The salient terms of the contract for our project and hospitality services typically include the scope of services to be provided by us, the requirements of the customers, contract price and payment terms, delivery timeframe and, if required, warranty or after-sale services.

For the years ended 31 December 2016 and 2017, revenue from our five largest customers amounted to approximately HK\$37.6 million and HK\$72.2 million, representing approximately 15.4% and 25.9% of our total revenue, respectively, and revenue attributable to our Group's largest customer amounted to approximately HK\$9.2 million and HK\$27.0 million, representing approximately 3.8% and 9.7% of our total revenue, respectively, during the same periods.

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Our top five customers during the Track Record Period were corporate clients who engaged us for our project and hospitality services as well as an individual customer purchasing furniture and interior design services from us.

The details of our top five clients for the years ended 31 December 2016 and 2017 respectively are as follows:

### For the year ended 31 December 2016

Ranking	Name of customer	Business nature	Number of year of relationship	Service or product provided	Revenue	Approximate percentage of revenue to total revenue
					<i>HK\$'000</i>	<i>%</i>
1.	Customer A	Property development	6	Showflat styling	9,169 <i>(Note)</i>	3.8
2.	Customer B	Airline	12	Furnishing of staff quarters	7,665	3.1
3.	Customer C	Property development	10	Provision of furniture packages for home buyers	7,578 <i>(Note)</i>	3.1
4.	Customer D	N/A (private individual in UAE)	1	Renovation of residential premises and provision of home furniture and accessories	7,279	3.0
5.	Customer E	Property Investment and Development	1	Furnishing of serviced apartments	5,874 <i>(Note)</i>	2.4

### For the year ended 31 December 2017

Ranking	Name of customer	Business nature	Number of year of relationship	Service or product provided	Revenue	Approximate percentage of revenue to total revenue
					<i>HK\$'000</i>	<i>%</i>
1.	Customer C	Property development	10	Provision of furniture packages for home buyers	27,020 <i>(Note)</i>	9.7
2.	Customer F	Property investment and development	1	Provision of furniture, fixtures and home furnishings	17,300	6.2
3.	Customer B	Airline	12	Furnishing of staff quarters	13,560 <i>(Note)</i>	4.9

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Ranking	Name of customer	Business nature	Number of year of relationship	Service or product provided	Approximate percentage of revenue to total revenue	
					Revenue	
					<i>HK\$'000</i>	<i>%</i>
4.	Customer G	Property development	8	Design, supply and installation of furniture package for on-site showflat in Hong Kong	7,313 <i>(Note)</i>	2.6
5.	Customer A	Property development	6	Showflat styling	7,017 <i>(Note)</i>	2.5

*Note:* Revenue included revenue generated from related companies of the same group.

The profile of our top five clients during the Track Record Period are set out as follows:

### Customer A

Customer A is part of a local major property developer in a Hong Kong group with over 50 years of operating history. It develops residential, commercial, retail and industrial buildings for sale or lease, as well as hotels. Our business relationship started in 2011 when we were engaged for provision and relocation of an Indigo rental showflat to a penthouse suite. During the Track Record Period, we have been engaged for showflat styling services in Hong Kong.

### Customer B

Customer B is the operator of the national carrier of UAE and has a fleet of more than 230 aircrafts. It operates flights to over 150 destinations in more than 80 countries around the world. Our business relationship with Customer B started in 2006 when we were engaged for the furnishing of staff and management quarters. In 2016, we were awarded a three-year master contract pursuant to which we are to furnish apartments as staff quarters for the air-crew members of the airline as requested. During the Track Record Period, we continued to render our services pursuant to the said master contract and we have furnished over 650 apartments across two apartment blocks during the Track Record Period.

### Customer C

Customer C is a company which is part of a major property development group in Hong Kong listed in 1972. It is one of the largest property development companies in Hong Kong. It specialises in developing premium-quality residential projects, offices and shopping centres. The parent group to which Customer C belongs employs over 37,000 people. Our business relationship started in 2008 when we were engaged for rental of showflat furniture for high end residences. During the Track Record Period, we have been engaged for the provision of furniture packages in Hong Kong.

**Customer D**

Customer D is a private individual in UAE and an Independent Third Party. Our relationship with Customer D began in 2016 for renovation and sale of home furniture and accessories in Dubai.

**Customer E**

Customer E has invested or developed various residential properties, luxurious houses and commercial buildings since the 80's. It also holds investment properties in Shanghai. Our business relationship started in 2016 when we were engaged for procurement, delivery and assembly, and layout setting of soft furnishings, and the management of its overall process. During the Track Record Period, we have been engaged for the furnishing of serviced apartments in Shanghai, PRC.

**Customer F**

Customer F is part of the listed group which has a diversified properties portfolio including residential properties, hotels, casino and offices in different parts of the world. Our business relationship started in 2016 when we were engaged for the provision of soft furnishings for their residential development. During the Track Record Period, we have been engaged for the provision of procurement, and assembly and layout of home furniture and accessories for serviced apartments in the PRC.

**Customer G**

Customer G is part of a listed major property developer in Hong Kong and its core business is developing properties for sale and investment. Its property portfolio encompasses residential properties, offices, industrial buildings and shopping malls. The group to which Customer G belongs has developed more than 200 projects in Hong Kong, China and Singapore, spanning a total attributable plot ratio area of over 76.5 million sq.ft. Our business relationship started in 2010 when we were engaged for the supply and set up of complete home furniture and accessories package for one of the customer's properties. During the Track Record Period, we have been engaged for the design, supply and installation of furniture package for on-site showflat in Hong Kong.

Our Directors confirm that none of our Directors or their respective close associates or any Shareholders (which to the knowledge of our Directors owns more than 5% of our Company's share capital as at the Latest Practicable Date) had any interest, directly or indirectly in any of our five largest customers during the Track Record Period. None of our customers were our five largest suppliers during the Track Record Period.

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### PROPERTIES

As at the Latest Practicable Date, we do not own any real property. In addition to the retail stores described in the paragraph headed “Our retail network and operation” in this section, our warehouses and offices are also leased properties. The table below sets out the details of our warehouses and offices leased by us as at the Latest Practicable Date:

Location	Address	Property use	Term of lease	Area <i>(sq.ft)</i>
(1) Hong Kong	Units 1202–1204, Level 12, Cyberport 2, 100 Cyberport Road, Hong Kong	Office	14 May 2016 to 13 May 2019	6,168
(2) Hong Kong <i>(Note 1)</i>	Units D, E, F and G on 10th Floor, whole 11th Floor and Unit B on 12th Floor, 111 Lee Nam Road, Ap Lei Chau, Hong Kong	Warehouse	15 May 2017 to 14 May 2020	70,441
(3) Hong Kong <i>(Note 1)</i>	Units E and G, 13th Floor, 111 Lee Nam Road, Ap Lei Chau, Hong Kong	Warehouse	15 September 2015 to 14 September 2018	11,281
(4) Shanghai	Room 3006, No. 599 Pudong Road, Pudong District, Shanghai Municipal	Office	22 January 2018 to 23 January 2021	609
(5) Dubai	Unit 120, Oasis Center, 3rd Floor, Plot No. 378 Al Quoz 1, Sheikh Zayed Road, Dubai, UAE	Office	1 May 2018 to 31 July 2018 <i>(Note 2)</i>	1,706
(6) Dubai <i>(Note 3)</i>	Shed Unit 03 on Plot 364–203 (B144), Al Quoz Industrial Area, Dubai, UAE	Warehouse	15 May 2018 to 14 June 2019	7,500
(7) Dubai <i>(Note 3)</i>	Shed Unit 06 on Plot 364–203 (B144), Al Quoz Industrial Area, Dubai, UAE	Warehouse	15 June 2017 to 14 June 2019 <i>(Note 4)</i>	4,500
(8) Dubai <i>(Note 3)</i>	Shed Unit 09 on Plot 364–203 (B144), Al Quoz Industrial Area, Dubai, UAE	Warehouse	1 May 2018 to 14 June 2019	5,500



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*Notes:*

1. The warehouse location in Hong Kong comprises units leased under two tenancy agreements but operating as a single warehouse.
2. Our Group is currently searching for a new office to move to after the tenancy expires.
3. The warehouse location in Dubai comprises units leased under three tenancy agreements but operating as a single warehouse.
4. The lease has been renewed, and the term of the renewed tenancy will run from 15 June 2018 to 14 June 2019.

We also use warehouse services provided by Independent Third Parties pursuant to written services agreements, pursuant to which the service providers provide us with warehouses for stocking our inventory as well as other ancillary warehouse management services such as inventory movement records and transportation services in Shenzhen and Shanghai. Our total expenses incurred for the rental payment of our offices, warehouses, retail stores, services fees paid to warehouses and ancillary services providers during the Track Record Period amounted to HK\$40.2 million and HK\$40.8 million, respectively.

Regarding our retail store in Repulse Bay, there is a cockloft in the relevant premises. We used to showcase our kids products in the cockloft area. Our Directors confirm that the cockloft has been in existence before our Controlling Shareholders acquired the controlling stake in our businesses in July 2006. However, the cockloft area is not identified or referred to in the relevant tenancy agreement. According to Ravia Global Appraisal Advisory Limited (“**Ravia**”), the registered architect engaged by us, the cockloft is an unauthorised building work. Ravia is of the view that the cockloft is causing no imminent danger to the retail store and no imminent risk to the public. Given the long history of the existence of the cockloft, the information in relation to the erection of the cockloft is limited and incomplete. Based on Legal Counsel's opinion, any person who carry out or commence building works without having first obtained the approval from the Building Authority may be liable to a fine of HK\$400,000 and to imprisonment for two years; and to a fine of HK\$20,000 for each day during which it is proved to the satisfaction of the court that the offence has continued. Our Directors confirm that they were not involved in the erection the cockloft. Based on Legal Counsel's opinion, according to section 24(1) of the Buildings Ordinance, the Buildings Department has the statutory power to serve an order on the property owner to order the demolition of unauthorised building works, and the cost of such demolition works would be required to be settled by the owner of the premises or any person being required to carry out the demolition works. In the event if our Group is required to pay any fine or penalty or cost of such demolition works, our Controlling Shareholders will indemnify us in full. If for whatever reasons the landlord is ordered by the government authority to demolish the cockloft, our operation of the Repulse Bay retail store will be affected. Our Directors do not consider such incident will result in any material impact on our Group as a whole. Our Directors confirm that the unauthorised building work has not caused any physical injury to any person since our Controlling Shareholder acquired the controlling stake in our businesses in July 2006. We have ceased using the cockloft since March 2018. We will closely monitor the status of the cockloft and will engage professional authorised person to inspect the cockloft and the physical status of our Repulse Bay store on an annual basis. If the cockloft causes any danger to the physical status of the store or if there is imminent risk that the cockloft will

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collapse, we will suspend our business at the Repulse Bay store immediately. Further, we will take into consideration the opinion of the professional authorised person engaged by us when we consider the renewal of the tenancy for the Repulse Bay store at this current location, which is due to expire in October 2019. For the years ended 31 December 2016 and 2017, revenue generated from our kids products at the cockloft was approximately HK\$724,000 and HK\$539,000 respectively. Our Directors do not consider such incident will result in any material impact on our Group as a whole.

With respect to our retail store in Shanghai, the permitted use of the relevant premises is for education purpose. According to our legal advisers as to PRC laws, the relevant government authority may request us to vacate from the relevant premises, in which case we will have to relocate our Shanghai retail operation to a new location. Based on enquiries made with local property agents, our Directors are of the view that there should not be material obstacles in securing a new location nearby of similar size and at approximately the same monthly rental. We estimate that it will take us approximately three months to complete the entire relocation exercises from identifying a suitable location to re-opening of the Shanghai retail store. We anticipate the said relocation exercises will cost us approximately HK\$1.0 million, which our Directors do not consider to be material.

The tenancy agreement for our headquarters at Cyberport contains an option exercisable by us to renew for a further three years after the expiration of the current term. We have registered the relevant tenancy agreement at the Land Registry of Hong Kong.

## COMPETITION

Hong Kong is our major market. According to the Ipsos Report, there were approximately 1,140 home furniture and accessories retailers in Hong Kong in 2016 and the top five players accounted for approximately 39.7% of the total market share. The Hong Kong market is considered to be a mature market with CAGR of approximately 1.8% from 2012 to 2016 while rental rate rose at a CAGR of approximately 3.8% from 2012 to 2017. Accordingly, we consider that the operating environment of the Hong Kong market challenging. For further details about competitive landscape of the Hong Kong market as well as the details of the China and UAE markets, please refer to the section headed “Industry overview” of this prospectus.

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### AWARDS AND RECOGNITIONS

Our Group has received the following awards and recognitions:

<u>Year</u>	<u>Awards</u>	<u>Organisers</u>
2010	The Best Interior Design and Home Décor Company Award	squarefoot.com.hk
2013	Best Home Décor — Readers' Choice Awards	The List Magazine
2013–2017	Best Lifestyle and Interior Store	Southside Magazine
2015	Favourite Home Décor Store	Sassy Mama Hong Kong
2015	Best Home Furnishing Shop	That's Magazine
2016	Quality Shop for 15 consecutive years	Hong Kong Tourism Board
2016	Home Décor Store of the Year	That's Magazine
2017	Home Décor Store of the Year	That's Magazine
2017	Outstanding Boutique — Readers' Choice Awards	City Weekend
2017	Metro Creative Awards 2017 — The Best Strategic Event	Metro Daily
2017	Homestore of the Year — Gold Award 2017	Mother Baby & Child

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### INSURANCE

As at the Latest Practicable Date, our insurance coverage in Hong Kong included a property all risks insurance in respect of items such as plant machinery, equipment, fixtures, fittings and stock in trade, insurance against increased cost of working in respect of any business interruption at our business premises, money and assault insurance (including loss of money or damage to safes caused by theft or attempted theft), public liability insurance (in respect of the legal liability for injury caused to third parties or damage to property owned by third parties resulting from accidents), employee's compensation insurance against employer's liability arising under the Employee's Compensation Ordinance (Chapter 282 of the Laws of Hong Kong), as well as employees medical insurance, up to the sum specified in the insurance policies.

Further, as at the Latest Practicable Date, we also maintained motor vehicle insurance for our motor vehicles, as well as material damage insurance (in respect of loss or damage directly caused by subsidence of the site or landslip) and public liability insurance in relation to an advertisement banner. We also maintain insurance for our products during their delivery by air, sea or land to Hong Kong on a per container basis.

In both China and UAE, we have maintained insurance to various levels and extents for medical, employer's liability or worker's compensation, property, public liability and third party liability.

We also maintained life insurance policies for Mr. McLennan and Ms. Fitzpatrick with Indigo HK as the policy holder and beneficiary and travel insurance for our staff members for their business travel.

Our Directors consider that our Group's insurance coverage is sufficient for our operations and in line with the general industry practice. Our Group does not maintain any product liability insurance as our Directors believe that it is not the general industry practice to take out such insurance. For risks related to product liability, please refer to the paragraph headed "Risk factors — We may not be able to detect quality issues in our products and we are exposed to product liability claims and litigation risks for defective products or unsafe products" in this prospectus. Our Directors confirm that during the Track Record Period, we did not receive any claims from customers relating to any liability in relation to our products. Our Directors will review our insurance policies and insurance coverage from time to time to ensure our insurance coverage remains adequate in light of our business growth. We will arrange appropriate insurance cover in respect of legal action against our Directors which will be effective upon the Listing.

For the years ended 31 December 2016 and 2017, we paid insurance expenses of approximately HK\$880,000 and HK\$762,000, respectively.

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### INTELLECTUAL PROPERTY

We believe that our trademarks are important to our business as these trademarks enable customers to differentiate our business from our competitors. As at the Latest Practicable Date, we are the registered owners of one trademark in Hong Kong, three trademarks in the PRC and four trademarks in UAE. Details of our intellectual property rights are set out under the paragraph headed “B. Further information about the business of our Group — 2. Intellectual property rights — (a) Trademarks” in Appendix IV to this prospectus.

During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that there have not been any pending or threatened claims against us, nor has any claim made by us against third parties, with respect to the infringement of any intellectual property rights owned by us or by third parties. Please refer to the section headed “Risk factors — Risks relating to our business — We may not be able to adequately protect our intellectual property rights and there may be replica of our products” for more details of the risks in relation to our intellectual property rights.

### EMPLOYEES

As at the Latest Practicable Date, our Group had 202 employees located in Hong Kong, China and UAE. We may rotate some of our staff between retail stores from time to time. Our Directors are of the opinion that our staff is one of the most valuable assets and have contributed to the success of our Group.

As at the Latest Practicable Date, the employees of our Group were categorised as follows:

<b>Functions</b>	<b>Number of employees</b>
Accounts	9
Buying and merchandising	11
Corporate sales	19
Interior design	10
E-commerce	4
Human resources and administration	7
Information technology	3
Management	4
Marketing	8
Project management	9
Retail	65
Supply chain and operations	6
Image and style	9
Warehouse	38
<b>Total</b>	<b>202</b>

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Of our 202 employees, 132 of them are based in Hong Kong, 29 of them are based in China and 41 of them are based in UAE. Four of the 202 employees are engaged on a contract or part time basis, whilst the remaining 198 are full time permanent staff.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, there has not been any labour strike within our Group and we did not experience any material labour dispute with our employees. We have not set up any trade union and our Directors believe that we have maintained a good working relationship with our employees.

### **Recruitment and training**

We recruit our employees based on a number of factors such as work experience, communication skills, language skills, knowledge of job and qualifications possessed. We may recruit our employees by placing recruitment advertisements or engaging recruitment agents. We typically pay our recruitment agent a fee based on certain percentage of the annual remuneration in the first year of the candidate referred by our recruitment agent. Upon employment by us, we will provide new staff with a copy of our employee manual, covering areas including house rules for our retail stores and warehouses, our employment policies and our internal review system.

On a case-by-case basis, we sponsor our employees on their continued learning by reimbursing them for payment of courses undertaken externally which we consider as valuable to our business. For example, employees may undertake English or interior design courses.

### **Remuneration**

The remuneration package for our employees generally include salary and bonuses. We incurred employee benefit expense (including Directors' remuneration) of approximately HK\$62.5 million and HK\$68.1 million for the years ended 31 December 2016 and 2017, respectively. We review the performance of our employees from time to time and make reference to such performance reviews in our discretionary performance bonus, salary review and promotional appraisal in order to attract and retain talented employees.

### **Environmental, health and occupational safety**

We place emphasis on the health and safety of our employees in our operation. Our employee manual provides guidelines in relation to handling accidents and injuries sustained at work or in the case of any fire incident.

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We have in place an accident handling policy and claim-making procedures. Under our policy, any employees who are injured during work should inform the respective department manager of the injury immediately. We have safety measures including fire extinguishers and first-aid kits at our retail stores and warehouses for employees' use. To facilitate our monitoring of our work injuries, we maintain a record of work injuries sustained by our staff. Please refer to the paragraph headed "Litigation and legal compliance — Litigation" of this section for further details of litigation arising from work-related injuries against us.

Our Directors confirm that there was no material accident at our retail stores or warehouses during the Track Record Period and up to the Latest Practicable Date.

Our Directors confirmed that during the Track Record Period, we were not subject to any major environmental claims, lawsuits, penalties or disciplinary actions.

### LITIGATION AND LEGAL COMPLIANCE

A summary of the key laws and regulations which are applicable to our Group's operations is set out in the section headed "Regulatory overview" in this prospectus. During the Track Record Period and up to the Latest Practicable Date, our Directors confirmed that we had complied with the relevant laws and regulations in relation to our business in all material respects and there were no material breaches or violations of the laws and regulations applicable to our Group that would have a material adverse effect on our business or financial condition taken as a whole.

#### Litigation

As at the Latest Practicable Date, there was an outstanding claim involving our Group.

In May 2017, Indigo China entered into an agreement with a customer based in Beijing under which Indigo China leased furniture to the customer in Shanghai. The customer refused to pay rent for the furniture leased under the contract after paying first month's rent and returned the furniture to Indigo China after 3 months. In March 2018, the customer sought to invalidate a clause of the contract to the effect that it should not be bound by the agreed terms to pay a minimum rental period of 12 months and one month deposit in case of early termination by such customer. If the customer succeeds in its claim, our Group will not be able to ask for liquidated damages in the amount of RMB90,000, which equals to the payment for nine months rental and one month deposit. Indigo China subsequently made a counterclaim against the customer for unpaid rents, interests accrued to such unpaid rents and design consulting fees under the contract in the aggregate amount of approximately RMB179,000. The claims were heard on 17 May 2018. No notice or judgment has been ordered by the court as at the Latest Practicable Date. As advised by our PRC Legal Advisers, as at the Latest Practicable Date, it was not possible to estimate when this case would be

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resolved because there is a dispute between the parties as to the most appropriate court to hear the case. The incident arose out of our usual and ordinary business, and our Directors believe that it will not cause material disruption to our Group's business.

As at the Latest Practicable Date, our Directors confirmed that, save as disclosed above, no member of our Group was engaged in any litigation, claim or arbitration of material importance nor is any litigation, claim or arbitration of material importance pending or threatened against any member of our Group. In addition, our Directors confirmed that none of our Directors were involved in any material litigation, arbitration or administrative proceeding as at the Latest Practicable Date.

During the Track Record Period, there have been claims against us by our employees arising from work-related injuries incidents. All those claims have been settled and covered under our insurance. Our Directors are of the view that the occurrence of personal injury claims and employees' compensation claims is not uncommon in the industry and that we have taken out insurance for work-related injuries of our employees and we have not incurred any material liabilities as a result thereof. Our Directors consider that the employee compensation claims have been substantially covered by the insurance taken out by our Group, and did not have a material adverse impact on our Group's operations. For further details of our insurance policies, please refer to the paragraph headed "Insurance" in this section.

No provision has been made in the financial statements of our Group in respect of the aforementioned ongoing claim, having taken into account (i) the coverage by the relevant insurance as mentioned above; and (ii) the indemnity given by our Controlling Shareholders as mentioned in the paragraph headed "E. Other information — 1. Tax and other indemnities" in Appendix IV of this prospectus.

### **Legal compliance**

Set out below is a summary of certain incidents of our non-compliance incidents with applicable laws and regulations which resulted in penalties against us during the Track Record Period:



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### *Non-compliance with the Enterprise Income Tax Law of the PRC (企業所得稅法) and its implementing rules*

Indigo China and Indigo Shanghai inadvertently breached certain sections of the Enterprise Income Tax Law of the PRC and its implementing rules. The table below summarises the non-compliance with the requirements of the Enterprise Income Tax Law of the PRC and its implementing rules by Indigo China and Indigo Shanghai during the Track Record Period and up to the Latest Practicable Date:

Group companies involved	Particulars of non-compliance	Reason(s) for non-compliance	Remedial actions taken	Legal consequences and potential maximum penalty	Measures to prevent future breaches and ensure on-going compliance
(i) Indigo China	Failure to pay tax on time for the period between 1 to 31 January 2016	Due to a delay in depositing sufficient funds into the tax settlement bank account.	For the period between 1 January 2016 and 31 January 2016, the tax overdue includes value added tax, urban maintenance tax, education tax and urban education tax with the amount of RMB226,074.2, RMB15,825.19, RMB6,782.23 and RMB4,521.48, respectively, by Indigo China. According to the tax payment receipt dated 26 February 2016, Indigo China paid overdue fine of RMB113.04, RMB7.91, RMB3.39 and RMB2.26 in respect of value added tax, urban maintenance tax, education tax and urban education tax for the period between 1 January 2016 to 31 January 2016.	According to PRC laws on Administrative Penalty, for the same illegal act committed by a party, the party shall not be given an administrative penalty of fine for more than once. Therefore, our PRC Legal Advisers are of the view that, as Indigo China has paid overdue fine for late tax payment for the period between 1 January 2016 and 31 January 2016, the risk of being fined twice is minimal. As such, the above non-compliance would not have any material adverse effect on our operations.	Indigo China has provided staff training in relation to the laws and regulation for tax matters in order to raise the staff awareness of the compliance issues in relation to tax matters. Our tax agent in China handling tax filing for Indigo China will send monthly reminder in advance to the finance personnel of Indigo China to deposit sufficient tax fund into the tax settlement account. Besides, our operational manager in China will monitor the bank account from time to time to ensure there is sufficient fund to settle the tax payment.

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Group companies involved	Particulars of non-compliance	Reason(s) for the non-compliance	Remedial actions taken	Legal consequences and potential maximum penalty	Measures to prevent future breaches and ensure on-going compliance
(ii) Indigo Shanghai	Failure to pay tax on time for the period between 1 January 2017 and 31 January 2017	<p>Due to a supplier erroneously cancelling two value added tax invoices issued to Indigo Shanghai after Indigo Shanghai had submitted those invoices to the tax bureau for verification and claimed for input value added tax in January 2017.</p> <p>Indigo Shanghai was subsequently notified by the tax bureau in March 2017 that the input value added tax claim in respect of the two aforementioned value added tax invoices was invalidated as the value added tax invoices had been cancelled by the supplier.</p> <p>The cancellation of the two value added tax invoices was caused by miscommunication between the supplier and the tax agent who was handling tax filing.</p>	<p>For the period between 1 January 2017 and 31 January 2017, the tax overdue includes value added tax and urban maintenance tax with the amount of RMB4,930.49 and RMB345.13, respectively by Indigo Shanghai. According to the electronic payment voucher dated 6 March 2017, Indigo Shanghai paid overdue fine of RMB39.44 and RMB2.76 in respect of value added tax and urban maintenance tax for the period between 1 January 2017 and 31 January 2017.</p>	<p>According to PRC laws on Administrative Penalty, for the same illegal act committed by a party, the party shall not be given an administrative penalty of fine for more than once. Therefore, our PRC Legal Advisers are of the view that, as Indigo Shanghai has paid overdue fine for late tax payment for the period between 1 January 2017 and 31 January 2017, the risk of being fined twice is minimal.</p> <p>As such, the above non-compliance would not have any material adverse effect on our operations.</p>	<p>Indigo Shanghai has provided staff training in relation to the laws and regulation for tax matters in order to raise the staff awareness of the compliance issues in relation to tax matters.</p>

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Group companies involved	Particulars of non-compliance	Reason(s) for the non-compliance	Remedial actions taken	Legal consequences and potential maximum penalty	Measures to prevent future breaches and ensure on-going compliance
(iii) Indigo China	Underpayment of value added tax in respect of rental income for rental of furniture at the rate of 6% rather than 17%	An external accounting service provider we engaged interpreted the tax rules incorrectly.	<p>The under-reporting of value added tax rate of 17% was declared to the tax bureau and additional value added tax of RMB31,156.61 was paid back to the tax bureau.</p> <p>The tax bureau has not imposed penalty on us and our Group considers that the non-compliance of value added tax underpayment has been rectified.</p>	<p>According to PRC laws on the Administration of Tax Collection (稅收徵收管理辦法), where a taxpayer fails to pay the amount of tax within the specified time limit, the taxation authorities shall, in addition to ordering the taxpayer to pay the tax within a time limit, impose a penalty for late payment on a daily basis at the rate of 0.05% of the amount of tax in arrears, from the date the tax payment is defaulted. Where the taxpayer fails to pay within the time limit, the taxation authority may impose a fine of not less than 50 percent but not more than five times the amount of tax failed to pay.</p> <p>As advised by our PRC Legal Advisers, the maximum potential liability is estimated to be RMB12,151.</p>	<p>Since December 2017, Indigo China used 17% value added tax rate to calculate the tax for rental income of furniture when filing the value added tax return.</p> <p>Since January 2018, we have issued value added tax invoices on furniture rental at 17% value added tax rate.</p> <p>Indigo China has provided staff training in relation to the laws and regulation for tax matters in order to raise the staff awareness of the compliance issues in relation to tax matters.</p>

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### *Conducting furniture leasing business in Dubai outside the business scope of the commercial license of Indigo Dubai*

Group company involved	Particulars of non-compliance	Reason(s) for the non-compliance	Remedial actions taken	Legal consequences and potential maximum penalty	Measures to prevent future breaches and ensure on-going compliances
(iv) Indigo Dubai	<p>Conducting furniture leasing business while such business activity is not included in the commercial license of Indigo Dubai until March 2018.</p> <p>During the Track Record Period, Indigo Dubai generated the revenue of approximately HK\$4.9 million and HK\$6.1 million, and the gross profit of approximately HK\$3.5 million and HK\$4.4 million, respectively, for the years ended 31 December 2016 and 2017, from furniture leasing business.</p>	<p>Due to an inadvertent oversight of the limitation of the business activity in the commercial license of Indigo Dubai.</p> <p>Our UAE Legal Advisers advised that the amendment of commercial license was administrative and procedural, and should be renewed upon completion of the reorganisation in the UAE.</p>	<p>Indigo Dubai has updated its commercial license to include furniture leasing business in March 2018.</p>	<p>A fine of AED2,000 may be imposed against Indigo Dubai.</p> <p>As advised by our UAE Legal Adviser, such fine shall not be retrospectively applied.</p>	<p>Our Group will seek legal advice where required when it commences any new operating activity.</p>

Our Directors confirmed that save as disclosed above, our Group has complied with the laws and regulations applicable to our Group in all material respects during the Track Record Period and up to the Latest Practicable Date.

**Internal control measures designed to prevent future non-compliance and improve corporate governance**

In order to maintain an effective internal control system, we engaged Baker Tilly Hong Kong Risk Assurance Limited (the “**Internal Control Consultant**”) in July 2017, to independently perform an internal control review and a subsequent follow-up review of our Group’s internal control system, covering areas including but not limited to corporate governance, operations, management, human resources and finance.

Based on the Internal Control Consultant’s review and recommendations, our Group has adopted measures and policies to improve our internal control systems, to prevent incidents of non-compliance and to ensure our compliance with the GEM Listing Rules and relevant regulatory requirements (including corporate governance compliance). After the Internal Control Consultant performed their follow-up review in December 2017, they did not identify any material deficiencies in our internal control system. All the remedial measures to rectify any previous non-compliance of our Group and any deficiency in our internal control system have been or will be fully implemented by us before the Listing Date.

In order to ensure continued compliance with the above non-compliance incidents, our Group has adopted the following key measures as recommended by the Internal Control Consultant:

- (i) our Group will provide staff training in relation to the tax laws and regulations in order to raise the staff awareness of the compliance issues in relation to tax matters;
- (ii) our operational manager of Shanghai Office closely monitors the tax settlement account on a bi-weekly basis to ensure that there is sufficient fund to settle the tax payment, and liaises with and requests the supplier to notify our Group in a timely manner in case of tax issue relating to the supplier’s invoice being identified;
- (iii) our operational manager of Shanghai Office reviews and signs off the draft tax form prepared by the external accounting service company before its submission to the tax authority in order to ensure that no understatement of tax is reported to the tax authority on a monthly basis;
- (iv) our Group will seek for legal advice from the local lawyer before start of a new business line. Our Group will also engage local lawyer or other professional firms for the application made to the relevant government bodies for updating business/commercial license and related government registration (if necessary) as for the new business line. Any new business line will be commenced upon the completion of all relevant registration and approval by the government authorities;

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- (v) our business unit manager will check the land use purpose, title ownership and other documents evidencing right to lease the relevant premises before entering a new lease. Our Group shall seek for the opinion from the local lawyer, if necessary; and
- (vi) our business unit manager will check if there is any unauthorised building work at the target property before entering a new lease by physical inspection and performing land search. Our Group shall seek for the professional opinion from the relevant professionals, e.g. surveyors or engineers, if necessary.

The internal control measures for the non-compliance incidents were provided to our Group in January 2018. Our Directors confirm that such measures were complied with in March 2018.

We have taken additional internal control measures to improve our corporate governance and internal controls to ensure ongoing compliance with applicable laws and regulations. Our Group has adopted or intends to adopt the following measures:

- (i) our Directors attended training sessions conducted by our Company's Hong Kong legal advisers on the ongoing obligations and duties of a director of a company whose shares are listed on the Stock Exchange;
- (ii) our Company has appointed Mr. Fu Chi Wing Jason as our company secretary. Mr. Fu will act as the principal channel of communication between our Group and our Board 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 recommendations from professional advisers before reporting to relevant members of our Group and/or our Board. Details of Mr. Fu's qualifications and experience are set out in the section headed "Directors and senior management" of this prospectus;
- (iii) our Group has appointed Ms. Fitzpatrick as our compliance officer. The role of the compliance officer includes the following: (a) to advise on the implementation of procedures to ensure that our Group complies with the GEM Listing Rules and other relevant laws and regulations applicable to our Group; (b) to carry out the day-to-day implementation and monitoring of our internal control system; (c) to oversee the risk management and implement the risk management policies and procedures; and (d) to respond promptly and efficiently to all enquiries directed at him by the Stock Exchange;
- (iv) our Company has appointed Altus Capital Limited as our compliance adviser to advise our Group on compliance matters upon Listing in accordance with Rule 6A.19 of the GEM Listing Rules;

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- (v) our Group will establish the Audit Committee with written terms of reference in accordance with Appendix 15 to the GEM Listing Rules to review the internal control system and procedures for compliance with the requirements of the GEM Listing Rules, the Companies Ordinance and other applicable laws, rules and regulations; and
- (vi) our Company proposes to appoint external Hong Kong legal advisers, where applicable to advise us on compliance with and to provide us with updates on the changes in the GEM Listing Rules and the applicable Hong Kong laws, rules and regulations from time to time to see if any change is required to be made with our operation and internal control system. With regard to our operations in China and the UAE, we will seek such professional advice as and when necessary.

With the assistance of our external legal advisers as to Hong Kong law, the compliance adviser, our company secretary and compliance officer, we aim to ensure that our Group's operations are in compliance with the applicable laws, rules and regulations with respect to our business operations.

### **Views of our Directors and the Sole Sponsor**

Our Directors are of the view that (i) the non-compliance incidents are not related to the character of our Directors and do not raise any serious concern on the integrity of them as such incidents did not involve any fraudulent or dishonest acts by our Directors; and (ii) we have taken all reasonable steps to establish a proper internal control system to prevent future non-compliance with the relevant laws and regulations.

Our Directors are satisfied and the Sole Sponsor concurs that having considered our Group's internal control measures to avoid recurrence of the non-compliance incidents, and the preventative measures disclosed in this prospectus, we had adequate and effective internal control procedures in place and the non-compliance incidents described above would not affect the suitability of our Directors under Rules 5.01, 5.02 and 11.07 of the GEM Listing Rules and the suitability for Listing of our Company under Rule 11.06 of the GEM Listing Rules on the following basis:

- (i) we have taken steps to improve our internal control and corporate governance system as referred to above;
- (ii) the occurrence of the abovementioned non-compliance incidents did not involve dishonesty or fraud of our Directors;
- (iii) the non-compliance incidents are not expected to have any material adverse impact on us and our Directors as each of our Controlling Shareholders has given us an indemnity in favour of our Group against, among others, all losses, liabilities, damages, costs, claims and expenses incurred by our Group in relation to any non-compliance occurring on or before the date of Listing;

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- (iv) as a result of the occurrence of the abovementioned non-compliance incidents, our Directors confirm that they are aware of and are alert to any issues that might result in any non-compliance and that there are measures in place for preventing recurrence of non-compliance as disclosed above and consider such measures to be adequate and effective; and
- (v) our Directors are aware of their responsibilities and obligations as directors of a listed issuer pursuant to the GEM Listing Rules and have undertaken to observe and comply with all the relevant laws, rules and regulations.

### INTERNAL CONTROL AND RISK MANAGEMENT

Our Directors are responsible for formulating and implementing risk management policies to address various potential risks we may face in relation to our operations, including operational risks, credit risks and market risks. Key risks relating to our business are set out in the section headed “Risk factors” in this prospectus. The following sets out our risk management measures for some of the more particular risks:

#### Operational risks

**Products delivery delay risk** – as our products are mostly sourced from other countries or from PRC, we are under the risk of delay in delivery of products which may affect our sales. In view of this, we maintain regular communication with our suppliers in order to keep us updated as to any possibility of delay in delivery and we also monitor the performance of the shipping agents we engage. We also regularly monitor our sales data and inventory level and in general, we maintain an inventory level which our Directors expect to be sufficient for our operation for six months and we will adjust the inventory level if necessary.

**Loss of key personnel** – our executive Directors will ensure that we have suitable and sufficient number of staff necessary to operate our business in order to ensure that loss of any particular personnel will have a limited impact to our operations.

#### Market risks

As part of our businesses is retail in nature, we are exposed to market risks relating to changes in the economic, policy and social conditions in Hong Kong, China and UAE. Any downturn to the economy locally or globally can adversely affect the demand for our products. Our Directors regularly monitor the market conditions and adjust our pricing and promotion strategies.



### Foreign exchange risk

In light of the nature of our Group's business, we are exposed to various foreign currencies including RMB, USD, HKD and AED, which being the currencies mostly used in our business. Nevertheless, since HKD and AED are currently pegged to USD, our operations are predominately subject to the fluctuations of RMB. Please refer to note 25 to the financial information in the Accountants' Report for details of our Group's policy on the financial risk management policies.

Our Directors expect that HKD, RMB, AED and USD will continue to be mostly used in our business in the foreseeable future. During the Track Record Period, net exchange loss of approximately HK\$236,000 and HK\$166,000 were recorded, respectively, for the years ended 31 December 2016 and 2017. The net foreign exchange loss recorded during the Track Record Period were mainly due to the effect of appreciation of RMB against HKD.

Having considered the level of our current exposures to risks related to foreign exchange, we currently do not have any hedging activities nor relevant hedging policy to eliminate relevant risks exposures. Internal control procedures mitigating the foreign exchange risks of our Group are set out below:

- our financial controller would closely monitor the movement of exchange rates in which our Group has relevant risk exposures to ensure that the net exposure is kept to an acceptable level and minimise our foreign exchange exposures by buying or selling foreign currencies at spot rate based on the expected usage of currencies for daily business operations;
- the quarterly analysis from our financial controller will be submitted to our executive Directors for review;
- our Directors would assess whether there is any material and adverse impact on our financial performance and whether we may enter into any hedging or derivative financial instruments to manage such foreign currency risk exposures.

As at the Latest Practicable Date, we did not intend to enter into any foreign exchange hedge transaction. For details regarding the risks involved in our operations, please refer to the section headed "Risk factors" in this prospectus.

### **Ongoing risk management**

Under our risk management policy, our Directors are responsible for reviewing and updating our risk management policy which includes:

- holding at least two meetings in a financial year to discuss the current risk and any additional new risks our Group may face;
- an annual review of the risk management policy and update if necessary;
- identifying and developing risk management policies for different types of risks;
- accessing and prioritising the identified risks;
- continuously monitoring and managing the risks our Group faces and assess the risk tolerance level;
- ensuring the implementation and execution of the risk response measures; and
- establishing the Audit Committee which consists of our independent non-executive Directors, namely, Ms. Elaine June Cheung, Mr. Roderick Donald Nichol and Ms. Li Yan Yan which will review and supervise our financial reporting and internal control system. For the qualifications and experience of these members, please refer to the section headed “Directors and senior management” in this prospectus.

### **Indemnity given by our Controlling Shareholders**

Our Controlling Shareholders have entered into the Deed of Indemnity to indemnify our Group on a joint and several basis, in respect of, amongst others, all damages, losses, claims, fines and penalties that may be imposed, charges, fees, costs, interests and expenses (including all legal costs and expenses) together with all reasonable costs and other liabilities which our Company and/or any of our subsidiaries may sustain, suffer, incur or be imposed by any regulatory authorities or courts in Hong Kong or any applicable jurisdiction as a result of any violation or non-compliance by any members of our Group with any applicable laws, rules or regulations of any jurisdiction or as a result of any breach of our tenancy or lease on or before the date of Listing. For details, please refer to the paragraph headed “E. Other information — 1. Tax and other indemnities” in Appendix IV of this prospectus.

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## FINANCIAL INFORMATION

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*You should read the following discussion and analysis of our Group's financial condition and results of operations together with our Group's audited combined financial statements as and for the financial years ended 31 December 2016 and 31 December 2017 and the accompanying notes included in the Accountants' Report set out in Appendix I to this prospectus. The combined financial statements of our Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA, which may differ in material respects from generally accepted accounting principles in other jurisdictions.*

*The following discussion and analysis contains forward-looking statements that reflect the current views with respect to future events and financial performance. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and projections depends on a number of risks and uncertainties over which we do not have control or foresee. You should carefully consider the information provided under the sections headed "Risk factors", "Forward-looking statements" and elsewhere in this prospectus.*

*Our financial year begins from 1 January and ends on 31 December. All references to "FY2016" and "FY2017" mean the financial years ended 31 December 2016 and 31 December 2017, respectively.*

### OVERVIEW

Following over 30 years of dedication, development and expansion, we have been trading under our current brand *Indigo* since 2004. According to the Ipsos Report, we ranked fifth in the home furniture and accessories industry in 2016 in terms of sales revenue, accounted for approximately 1.5% in market value. In addition to the Hong Kong market, we also have established subsidiaries in China and UAE for conducting business in the respective regions. We primarily provide the followings business lines to retail and corporate clients:

- *Sale of home furniture and accessories:* We conduct sale of our home furniture and accessories through several distribution channels, including our retail stores, online shops, corporate sales, wholesale and franchise.
- *Rental of home furniture and accessories:* We rent home furniture and accessories to customers in return for monthly rental payment.
- *Project and hospitality services:* We provide designing, styling, decorating and furnishing services for commercial and residential properties such as hotel, serviced apartments and showflats.

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## FINANCIAL INFORMATION

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For FY2016 and FY2017, we generated revenue of approximately HK\$244.4 million and HK\$278.6 million, respectively. Our net profit amounted to approximately HK\$5.4 million and HK\$3.1 million for FY2016 and FY2017, respectively. Our adjusted net profit (excluding the Listing expenses) was approximately HK\$5.4 million and HK\$9.7 million for FY2016 and FY2017, respectively. Our net profit adjusted by the exclusion of the Listing expenses is non-HKFRS measures.

### **BASIS OF PRESENTATION**

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law on 1 September 2017, and became the holding company of our Group pursuant to the Reorganisation completed on 1 May 2018. Details of the Reorganisation are set out in the section headed “History, development and Reorganisation” in this prospectus. The financial information has been prepared as if our Company had been the holding company of our Group throughout the Track Record Period. Preparation of the financial information of our Group was in accordance with HKFRSs.

For more details of the basis of presentation of financial information, please refer to note 3 to the Accountants’ Report set out in Appendix I to this prospectus.

### **KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS**

Our financial conditions and results of operation have been and will continue to be affected by a number of factors, including those factors set out in the section headed “Risk factors” in this prospectus, some of which are beyond our control:

#### **Economic condition and market demand**

Our results of operations are directly affected by our revenue which depends on the market demand for our products and services. Market demand for our products and services is driven by the need for well-designed residential homes, serviced apartment and hotel rooms for our clients and other macroeconomic factors. Our Directors are of the view that the demand for our products and services, in particular the home furniture and accessories retail business, is highly correlated with the economic conditions and the purchasing power of the consumers in Hong Kong, China and UAE. Revenue contributed by the sale of home furniture and accessories accounted for approximately 71.6% and 68.4% of our total revenue for FY2016 and FY2017, respectively. Revenue contributed by the project and hospitality services significantly increased from approximately HK\$35.9 million to HK\$59.9 million for FY2016 and FY2017, respectively, for which our corporate clients are mostly well established property developers, hospitality management companies and general corporate clients. In the event that demand for residential and commercial properties is reduced as a result of an economic downturn and expenditure on home furniture and accessories drop, our business, financial condition and results of operation may be materially and adversely affected.

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## FINANCIAL INFORMATION

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### **Brand image and recognition**

A major portion of the revenue of our Group was mainly derived from the sale of home furniture and accessories which depends on the level of customer loyalty and our brand awareness in Hong Kong, China and UAE. Our business has been and will be subject to our ability to maintain and enhance our brand image and recognition in the home furniture and accessories industry in Hong Kong, China and UAE.

### **Market competition**

According to the Ipsos Report, the home furniture and accessories industry in Hong Kong, China and UAE is fragmented with many market players. The top five players have accounted for around 39.7% of the market share in Hong Kong during 2016. Barriers to entry for new players are low and do not hinder potential operators from entering the industry. However, the industry's major players are large, well-known businesses that operate in a competitive environment. The market value of the home furniture and accessories industry in Hong Kong increased from approximately HK\$7,471.0 million in 2012 to approximately HK\$8,025.6 million in 2016, with a CAGR of approximately 1.8%. The industry in Hong Kong, in which our Company ranked the fifth in 2016, is primarily led by the top two players in the market with an aggregate market share of approximately 29.4% and accounted for approximately 1.5% in market share. The home furniture and accessories industry in UAE shares a similar industry structure with Hong Kong, in which its market value rose from approximately AED5,450.4 million in 2012 to approximately AED 6,481.1 million in 2016, representing a CAGR of approximately 4.4%. The home furniture and accessories industry in China is highly fragmented, with its market value rising from approximately RMB160.4 billion in 2012 to approximately RMB278.1 billion in 2016, representing a CAGR of approximately 14.7%.

Our ability to keep abreast with the latest trends of the consumer market and home furniture and accessories industry, our level of innovation and the ability to present our product offerings attractively are key for us to remain competitive. Should we fail to stay ahead of the industry trend or to rapidly respond to cater to the changing needs of our clients, our business may be adversely affected.

### **Depreciation**

During the Track Record Period, our Group incurred significant amounts of depreciation expenses relating to our inventory portfolio of home furniture and accessories for our rental business. Our total depreciation expenses amounted to approximately HK\$9.6 million and HK\$7.8 million for FY2016 and FY2017, respectively, of which (i) depreciation expenses on furniture held for rental was approximately HK\$5.3 million and HK\$4.3 million; and (ii) depreciation expenses recognised under administrative and other operating expenses was approximately HK\$4.3 million and HK\$3.5 million for FY2016 and FY2017, respectively.

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According to our Group's accounting policy, our furniture held for rental is classified as part of the property, plant and equipment, and is fully depreciated on a straight-line basis over one year from the commencement of rental period. Further details of the depreciation of the property, plant and equipment are set out in notes 6(b) and 14 to the Accountants' Report in Appendix I to this prospectus. However, the expected useful life of our furniture held for rental is usually longer than one year under the depreciation policy, and certain furniture held for rental may remain useful subsequent to repairs and maintenance. Our Directors consider this is a prudent approach and therefore applied such policy consistently throughout the Track Record Period. As at 31 December 2016 and 2017, the average useful life of furniture held for rental was approximately 2.55 years and 3.03 years, respectively.

We anticipate that our future capital expenditures will increase as we intend to open new retail stores. Our planned capital expenditures for the years ending 31 December 2018, 2019 and 2020 are approximately HK\$6.5 million, HK\$9.5 million and HK\$6.5 million, respectively. Such capital expenditures may result an increase in depreciation expenses, which may adversely affect our results of operations.

### **Fluctuation in major cost and expenses**

The major cost and expenses for our business operations are (i) cost of merchandise goods; (ii) rental and related expenses; and (iii) total staff costs. We engage in sale and rental of home furniture and accessories and project and hospitality service business in Hong Kong, China and UAE. Please refer to the section headed "Business" in this prospectus for further details.

Our cost of merchandise goods includes purchase of home furniture and accessories and associated freight charges. During the Track Record Period, cost of merchandise goods was approximately HK\$86.8 million and HK\$105.3 million, respectively, representing approximately 88.6% and 90.2% of our Group's cost of sales for FY2016 and FY2017, respectively. We manage cost fluctuations by (i) obtaining quotations from different suitable suppliers when placing purchase orders; and (ii) buffering for inflation and possible cost increases.

During the Track Record Period, rental and related expenses and total staff costs were the largest component of our total expenses. All of our retail stores, warehouses and offices are leased premises. The rental and related expenses were approximately HK\$36.7 million and HK\$37.8 million, respectively, representing approximately 25.9% and 25.0% of our total expenses for FY2016 and FY2017, respectively. In addition, our business relies on our experienced management team and staff to operate. The total staff costs were approximately HK\$62.5 million and HK\$68.1 million, respectively, representing approximately 44.1% and 45.0% of our total expenses for FY2016 and FY2017, respectively. Other than Listing expenses, total expenses of our Group include, among others, administrative and other operating expenses and selling and distribution costs.

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## FINANCIAL INFORMATION

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The following sensitivity analysis illustrates the impact of hypothetical fluctuations of (i) cost of merchandise goods; (ii) rental and related expenses; and (iii) total staff costs on our profit before taxation and profit for the year, assuming all other variables remained constant, during the Track Record Period.

The hypothetical fluctuation rates for cost of merchandise goods is set at 7% and 14%, which corresponds to the historical growth rate of average selling price of furniture of approximately 6.6% during the Track Record Period, and are therefore considered reasonable for the purpose of the sensitivity analysis.

<b>Hypothetical fluctuations in the cost of merchandise goods</b> .....	+/- 7%	+/- 14%
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>(Decrease)/increase in profit before taxation</i>		
Year ended 31 December 2016 .....	-/+ 6,073	-/+ 12,146
Year ended 31 December 2017 .....	-/+ 7,371	-/+ 14,742
<i>(Decrease)/increase in profit for the year</i>		
Year ended 31 December 2016 .....	-/+ 4,342	-/+ 8,684
Year ended 31 December 2017 .....	-/+ 4,644	-/+ 9,288

The hypothetical fluctuation rates for rental and related expenses is set at 4% and 8%, which corresponds to (i) the average rent for retail space in Hong Kong, China and UAE recorded at a CAGR ranging from approximately -1.1% to 6.4% during the period from 2012 to 2016/2017 according to the Ipsos Report; and (ii) the historical growth rate of rental and related expenses during the Track Record Period of approximately 2.8%, and are therefore considered reasonable for the purpose of the sensitivity analysis.

<b>Hypothetical fluctuations in rental and related expenses</b> .....	+/- 4%	+/- 8%
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>(Decrease)/increase in profit before taxation</i>		
Year ended 31 December 2016 .....	-/+ 1,469	-/+ 2,938
Year ended 31 December 2017 .....	-/+ 1,510	-/+ 3,020
<i>(Decrease)/increase in profit for the year</i>		
Year ended 31 December 2016 .....	-/+ 1,050	-/+ 2,100
Year ended 31 December 2017 .....	-/+ 951	-/+ 1,902

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The hypothetical fluctuation rates for the total staff costs is set at 10% and 15%, which corresponds to (i) the median/average wages per month per employee in Hong Kong, China and UAE recorded at a CAGR ranging from approximately 4.8% to 14.4% during the period from 2012 to 2016/2017 according to the Ipsos Report; and (ii) the historical growth rate of total staff cost during the Track Record Period of approximately 9.0%, and are therefore considered reasonable for the purpose of the sensitivity analysis.

<b>Hypothetical fluctuations in total staff costs</b> . . . . .	+/- 10%	+/- 15%
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>(Decrease)/increase in profit before taxation</i>		
Year ended 31 December 2016 . . . . .	-/+ 6,247	-/+ 9,371
Year ended 31 December 2017 . . . . .	-/+ 6,807	-/+ 10,211
<i>(Decrease)/increase in profit for the year</i>		
Year ended 31 December 2016 . . . . .	-/+ 4,467	-/+ 6,700
Year ended 31 December 2017 . . . . .	-/+ 4,288	-/+ 6,433

### **Breakeven analysis**

For FY2016, it is estimated that, holding all other variables constant, our Group would arrive at breakeven point with (i) a decrease in revenue of approximately 3.1%; (ii) an increase in cost of merchandise goods of approximately 8.7%; (iii) an increase in rental and related expenses of approximately 20.6%; or (iv) an increase in total staff costs of approximately 12.1%.

For FY2017, it was estimated that, holding all other variables constant, our Group would arrive at breakeven point with (i) an increase in revenue of approximately 1.8%; (ii) a decrease in cost of merchandise goods of approximately 4.7%; (iii) a decrease in rental and related expenses of approximately 13.1%; or (iv) a decrease in total staff costs of approximately 7.3%.

### **CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS**

The financial information of our Group has been prepared in accordance with HKFRSs. The significant accounting policies adopted by our Group are set forth in details in note 5 to the Accountants' Report set out in Appendix I to this prospectus.

Some of the accounting policies involve judgements, estimates and assumptions made by our management. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Further information regarding the significant judgements and estimates made in applying our accounting policies are set forth in note 6 to the Accountants' Report set out in Appendix I to this prospectus.



## FINANCIAL INFORMATION

### SUMMARY RESULTS OF OPERATIONS

The following table sets out a summary of the results of our Group for the Track Record Period, details of which are set out in the Accountants' Report in Appendix I to this prospectus.

	Year ended 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Revenue</b> .....	244,441	278,628
Cost of sales .....	(97,873)	(116,733)
<b>Gross profit</b> .....	146,568	161,895
Other income and gains .....	2,810	899
Selling and distribution costs .....	(47,674)	(53,331)
Administrative and other operating expenses .....	(94,123)	(97,947)
Listing expenses .....	–	(6,556)
<b>Profit before taxation</b> .....	7,581	4,960
Income tax expenses .....	(2,161)	(1,837)
<b>Profit for the year attributable to equity shareholders of our Company</b> .....	5,420	3,123
<b>Other comprehensive (loss)/income</b>		
Item that may be classified subsequently to profit or loss:		
– Exchange differences on translation of financial statements of overseas subsidiaries, net of nil tax .....	(55)	720
<b>Total comprehensive income for the year attributable to equity shareholders of our Company</b> .....	<u>5,365</u>	<u>3,843</u>

## FINANCIAL INFORMATION

### PRINCIPAL COMPONENTS OF COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The following discussion introduces certain principal components of the combined statements of profit or loss and other comprehensive income statements and compares the major components of our operating results in FY2016 and FY2017.

#### Revenue

During the Track Record Period, our revenue primarily consists of (i) sale of home furniture and accessories; (ii) rental of home furniture and accessories; and (iii) project and hospitality services. For FY2016 and FY2017, our revenue amounted to approximately HK\$244.4 million and HK\$278.6 million respectively, representing an increase of approximately HK\$34.2 million or 14.0% as compared to FY2016.

The following tables set forth our revenue attributable to each of our business lines and geographical locations during the Track Record Period:

	Year ended 31 December			
	2016		2017	
	<i>HK\$'000</i>	Approximate percentage of total revenue %	<i>HK\$'000</i>	Approximate percentage of total revenue %
Sale of home furniture and accessories	175,117	71.6	190,497	68.4
– Hong Kong	116,404	47.6	139,011	50.0
– China	12,566	5.1	14,039	5.0
– UAE	46,147	18.9	37,447	13.4
Rental of home furniture and accessories	33,399	13.7	28,280	10.1
– Hong Kong	28,273	11.6	21,803	7.8
– China	201	0.1	394	0.1
– UAE	4,925	2.0	6,083	2.2
Project and hospitality services	35,925	14.7	59,851	21.5
– Hong Kong	7,642	3.1	21,881	7.9
– China	20,557	8.4	23,270	8.3
– UAE	7,726	3.2	14,700	5.3
<b>Total</b>	<b>244,441</b>	<b>100</b>	<b>278,628</b>	<b>100</b>

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In addition to the Hong Kong market, we also established subsidiaries in China and UAE for conducting business operations locally. We categorise our revenue by geographical locations in which we operated during the Track Record Period. The following tables set forth the revenue attributable to each of our geographical locations during the Track Record Period:

	Year ended 31 December			
	2016		2017	
	<i>HK\$'000</i>	Approximate percentage of total revenue  <i>%</i>	<i>HK\$'000</i>	Approximate percentage of total revenue  <i>%</i>
Hong Kong .....	152,319	62.3	182,695	65.6
China .....	33,324	13.6	37,703	13.5
UAE .....	58,798	24.1	58,230	20.9
<b>Total</b> .....	<b>244,441</b>	<b>100</b>	<b>278,628</b>	<b>100</b>

During the Track Record Period, the Hong Kong market was our largest market, contributing approximately HK\$152.3 million and HK\$182.7 million for FY2016 and FY2017, respectively, representing approximately 62.3% and 65.6% of our total revenue, respectively. For FY2016 and FY2017, our revenue derived from the China market was approximately HK\$33.3 million and HK\$37.7 million, respectively, representing approximately 13.6% and 13.5% of our total revenue for the corresponding years. For FY2016 and FY2017, our revenue derived from the UAE market contributed approximately HK\$58.8 million and HK\$58.2 million, respectively, representing approximately 24.1% and 20.9% of our total revenue, respectively.

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### *Sale of home furniture and accessories*

Our revenue was predominantly contributed by sale of home furniture and accessories of approximately HK\$175.1 million and HK\$190.5 million for FY2016 and FY2017, respectively, which accounted for approximately 71.6% and 68.4% of our total revenue, respectively. The following tables set forth our revenue from sale of home furniture and accessories by distribution channels during the Track Record Period:

	Year ended 31 December			
	2016		2017	
	<i>HK\$'000</i>	Approximate percentage of sale of home furniture and accessories	<i>HK\$'000</i>	Approximate percentage of sale of home furniture and accessories
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Retail stores	119,711	68.4	124,418	65.4
Corporate sales	50,034	28.6	53,578	28.1
Online shops	4,616	2.6	9,210	4.8
Wholesale	756	0.4	378	0.2
Franchise	–	–	2,913	1.5
<b>Total</b>	<b>175,117</b>	<b>100</b>	<b>190,497</b>	<b>100</b>

During the Track Record Period, revenue generated from retail stores increased by approximately 3.9% from approximately HK\$119.7 million for FY2016 to HK\$124.4 million for FY2017, which was primarily due to an increase in revenue contributed by retail stores in Hong Kong from approximately HK\$85.4 million for FY2016 to HK\$88.5 million for FY2017 and partially set off by the closing down of the retail store in Yas Mall in UAE in June 2016. Revenue generated from corporate sales increased by approximately 7.1% from approximately HK\$50.0 million for FY2016 to HK\$53.6 million for FY2017, which was primarily contributed by the provision of property styling services for showflats in Hong Kong from Customer C of approximately HK\$6.4 million for FY2017. Revenue generated from online shops increased by approximately 99.5% from approximately HK\$4.6 million for FY2016 to HK\$9.2 million for FY2017, which was mainly contributed by (i) the engagement of a digital marketing company to provide PRC online marketing strategies in July 2017; and (ii) the implementation of the new online system in Hong Kong and UAE, including (i) a more user-friendly online payment system launched in September 2016; and (ii) the upgraded online customer service system (including live chat) which was launched in June 2017 and September 2017 in Hong Kong and UAE, respectively. Revenue generated from the wholesale business decreased by approximately 50.0% from approximately HK\$756,000 for FY2016 to approximately HK\$378,000 for FY2017, which was mainly due to a decrease in demand from wholesale customers as well as less focus in wholesale business pursuant to our Group's business strategy in FY2017. Further, we entered into a franchise agreement with a third party on 14 June 2017 and commenced the first pilot franchised retail store in Saudi Arabia. Revenue generated from franchise amounted to approximately HK\$2.9 million for FY2017.

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During the Track Record Period, we operated a total of 11 retail stores through our brand *Indigo*, of which eight were in Hong Kong, one in China and two in UAE. The table below sets out a breakdown of revenue, operating profit/(loss) and operating profit/(loss) margin from each of our retail stores during the Track Record Period:

		Year ended 31 December							
		2016				2017			
Lease term		Approximate percentage of revenue contributed by our retail stores		Operating profit/(loss) at store level		Approximate percentage of revenue contributed by our retail stores		Operating profit/(loss) at store level	
		Revenue	%	Operating profit/(loss) (Note 4)	margin at store level (Note 4)	Revenue	%	Operating profit/(loss) (Note 4)	margin at store level (Note 4)
		HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
<b>Hong Kong</b>									
Horizon Plaza	1 October 2016 to 30 September 2019	32,982	27.6	15,179	46.0	35,107	28.2	16,704	47.6
Horizon Plaza (Discount store)	(i) Unit 1004: 2 April 2017 to 31 August 2018 (ii) Unit 1005: 6 June 2016 to 31 August 2018	4,133	3.5	1,311	31.7	4,829	3.9	1,393	28.8
Cyberport (Note 1)	1 August 2016 to 31 July 2019	4,687	3.9	1,605	34.2	4,201	3.4	1,561	37.2
Cyberport (Kids) (Note 1)		1,611	1.3	364	22.6	1,233	1.0	271	22.0
Caine Road	1 April 2017 to 31 March 2020	6,638	5.5	2,233	33.6	6,640	5.3	2,375	35.8
Prince's Building (Note 2)	1 October 2015 to 30 September 2018	15,274	12.8	4,806	31.5	14,948	12.0	4,764	31.9
Shatin	1 April 2016 to 14 September 2018	14,620	12.2	4,231	28.9	16,657	13.4	4,853	29.1
Repulse Bay	7 October 2016 to 6 October 2019	5,462	4.6	2,185	40.0	4,844	3.9	1,844	38.1
<b>Sub-total</b>		<b>85,407</b>	<b>71.4</b>	<b>31,914</b>	<b>37.4</b>	<b>88,459</b>	<b>71.1</b>	<b>33,765</b>	<b>38.2</b>
<b>China</b>									
Shanghai	15 September 2013 to 14 September 2021	9,000	7.5	3,009	33.4	11,559	9.3	3,384	29.3
<b>UAE</b>									
Sheikh Zayed Road	1 May 2018 to 30 April 2019	24,314	20.3	9,328	38.4	24,400	19.6	9,006	36.9
Yas Mall (Note 3)	N/A	990	0.8	(2,717)	(274.4)	–	–	–	–
<b>Sub-total</b>		<b>25,304</b>	<b>21.1</b>	<b>6,611</b>	<b>26.1</b>	<b>24,400</b>	<b>19.6</b>	<b>9,006</b>	<b>36.9</b>
<b>Total</b>		<b>119,711</b>	<b>100</b>	<b>41,534</b>	<b>34.7</b>	<b>124,418</b>	<b>100</b>	<b>46,155</b>	<b>37.1</b>

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*Notes:*

1. Cyberport and Cyberport (Kids) are catered for as two adjoined and connected stores under a single lease.
2. During the Track Record Period, revenue generated from pop-up store in Prince's building was included, which was operated during the periods of January to February 2016 and October 2016 to April 2017.
3. During the Track Record Period, the Yas Mall retail store in Abu Dhabi of UAE was closed in June 2016.
4. Operating profit/(loss) at store level is calculated by deducting cost of inventories sold, selling and distribution costs and administrative and other operating expenses that are directly attributable to respective stores (including store level rental and related expenses, store level staff costs, store level depreciation expenses, store level credit card commission, store level utilities expenses and other store level administrative and operating expenses). Other income and expenses that are not directly attributable to respective stores (including rentals and related expenses not related to store level, staff benefit expenses not related to store level, advertising and promotion expenses, transportation and delivery costs, warehouse expenses, sundry income, expenses relating to rental and project businesses, expenses relating to employee training/recruitment, bank charges, entertainment expenses, foreign exchange differences, and professional fees) are excluded in the calculation of operating profit/(loss) at store level.

Operating profit/(loss) margin at store level of each store is the percentage arrived at by dividing operating profit/(loss) at store level by revenue of each respective store.

Operating profit/(loss) at store level and operating profit/(loss) margin at store level are not HKFRS items/measures. We have presented these non-HKFRS items/measures as supplemental measures of our operating performance at store level. Other companies in our industry might calculate these non-HKFRS items/measures differently than we do and, accordingly, might not be directly comparable. These non-HKFRS items/measures are not measures of financial performance or operating cash flows under HKFRSs and should not be considered as a substitute for, or superior to, profit before tax or cash flows from operating activities determined in accordance with HKFRSs. These non-HKFRS items/measures have limitations as analytical tools/measures, and you should not consider them in isolation or as substitutes for analysis of our financial performance and operating cash flows as reported under HKFRSs. Each of these non-HKFRS items/measures should be read in conjunction with this footnote with due consideration of their calculation basis, limitations, appropriateness and relevancy. Our presentation of these non-HKFRS items/measures should not be construed as an inference/indication that our future operating results, financial performance and operating cash flows will be unaffected by unusual or non-recurring items.

The largest contribution to revenue was derived from our retail store located in Horizon Plaza, which contributed to approximately 27.6% and 28.2% of the total revenue of our retail stores in Hong Kong, respectively, and approximately 6.4% increase in revenue from FY2016 to FY2017. It was mainly attributable to the launching of our in-store design consultancy service the “design studio”, which was incorporated into the store in July 2017. Our retail store located in Shatin recorded approximately 13.9% increase in revenue from FY2016 to FY2017, which was mainly due to the change of furniture mix focusing on home furniture and reducing the kids line, and the particular marketing and promotion activities in the Shatin store during FY2017. Our retail store located in Prince's Building accounted for approximately 12.8% and 12.0% of the total revenue of our retail stores in Hong Kong for FY2016 and FY2017 respectively, representing approximately 2.1% decrease in revenue. The decrease was mainly due to the end of the leasing period of a pop-up store in Prince's Building from January to February 2016 and October 2016 to April 2017.

Revenue derived from our China retail store recorded an increase of approximately 28.4% from FY2016 to FY2017. The increase was mainly due to the launching of the “design studio” and its incorporation into the retail store in China since late 2016.

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During the Track Record Period, our Group recorded an operating loss of approximately HK\$2.7 million and negative operating margin of approximately 2.7 times for Yas Mall store in UAE for FY2016. Due to unsatisfactory performance as a result of insufficient customer traffic, we closed Yas Mall store in June 2016. We incurred approximately HK\$1.8 million in connection with such closure. Such expenses were for compensation to the landlord for early termination of the relevant tenancy, cancellation of trade license, reinstatement of the premises and loss on writing off the leasehold improvement of the retail store. The Sheikh Zayed Road retail store in UAE has recorded steady revenue during FY2016 and FY2017.

Save and except for the above, there was no store opening or closure in China or UAE during the Track Record Period. There were no new stores opened or existing stores closed after the end of the Track Record Period and up to the Latest Practicable Date.

As at the Latest Practicable Date, we operated a total of 11 retail stores, including one retail store in Yuen Long of Hong Kong which commenced operation in May 2018, of which nine were in Hong Kong, one in China and one in UAE.

Our Group experiences higher sales in January and August arising from the increase in domestic consumption following our promotion activities of winter sales and summer sales in every July and December.

The table below sets out the revenue, sales volume and average selling price attributable to each of our business lines of (i) furniture; (ii) home accessories; and (iii) kids products during the Track Record Period:

	Year ended 31 December					
	2016			2017		
	Revenue	Sales volume	Average selling price (Note 1)	Revenue	Sales volume	Average selling price (Note 1)
	<i>HK\$'000</i>	<i>Unit</i>	<i>HK\$</i>	<i>HK\$'000</i>	<i>Unit</i>	<i>HK\$</i>
Furniture . . . . .	93,786	47,134	1,990	105,301	49,647	2,121
Home accessories . . . . .	57,171	185,982	307	61,792	207,553	298
Kids products . . . . .	11,176	28,704	389	8,942	16,711	535
<b>Sub-total</b> . . . . .	<b>162,133</b>			<b>176,035</b>		
Others (Note 2) . . . . .	12,984			14,462		
<b>Total</b> . . . . .	<b>175,117</b>			<b>190,497</b>		

*Notes:*

1. Based on the revenue over the sales volume of each line of products.
2. Others primarily include delivery changes, styling fees, gift vouchers, etc.

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### *Rental of home furniture and accessories*

Our revenue was partially contributed by rental of home furniture and accessories which amounted to HK\$33.4 million and HK\$28.3 million, respectively, and accounted for approximately 13.7% and 10.1% of our total revenue, for FY2016 and FY2017, respectively.

The table below sets out a breakdown of our revenue generated from the rental of home furniture and accessories by length of rental contract during the Track Record Period:

	Year ended 31 December			
	2016		2017	
	<i>HK\$'000</i>	Approximate percentage of revenue from rental of furniture and accessories and customers' buy back	<i>HK\$'000</i>	Approximate percentage of revenue from rental of furniture and accessories and customers' buy back
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
<b>Rental income</b>				
Less than six months . . . . .	8,720	26.1	6,359	22.5
Six months to less than				
12 months . . . . .	2,514	7.5	1,173	4.2
12 months or above . . . . .	20,457	61.3	19,606	69.3
<b>Sub-total</b> . . . . .	<u>31,691</u>	<u>94.9</u>	<u>27,138</u>	<u>96.0</u>
Buy back by customer . . . . .	1,708	5.1	1,142	4.0
<b>Total</b> . . . . .	<u><u>33,399</u></u>	<u><u>100</u></u>	<u><u>28,280</u></u>	<u><u>100</u></u>



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The table below sets out a breakdown of revenue from rental of home furniture and accessories by customer types during the Track Record Period:

	Year ended 31 December			
	2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
		<b>Approximate percentage of revenue from rental of home furniture and accessories</b>		<b>Approximate percentage of revenue from rental of home furniture and accessories</b>
Property developer . . . . .	12,744	38.1	8,164	28.8
Individual . . . . .	10,280	30.8	8,624	30.5
General corporate . . . . .	9,755	29.2	9,433	33.4
Others ( <i>Note</i> ) . . . . .	620	1.9	2,059	7.3
<b>Total</b> . . . . .	<b>33,399</b>	<b>100</b>	<b>28,280</b>	<b>100</b>

*Note:* Others include consulates and embassies.

During the Track Record Period, our corporate clients in property development contributed the largest portion of our revenue from rental of home furniture and accessories of approximately HK\$12.7 million and HK\$8.2 million for FY2016 and FY2017, respectively, representing approximately 38.1% and 28.8% of our rental revenue respectively. The decrease was mainly due to the shifting from rental of home furniture and accessories to purchase of home furniture and accessories for showflats in FY2017. For FY2016 and FY2017, our revenue derived from the second largest customer type, being individual client amounted to approximately HK\$10.3 million and HK\$8.6 million, respectively, representing approximately 30.8% and 30.5% of our rental revenue for the corresponding years. The decrease was mainly due to a decrease in the number of rental contracts with a rental period of less than six months from 789 in FY2016 to 694 in FY2017, as well as a decrease in the average contract value from approximately HK\$12,855 per contract in FY2016 to HK\$10,243 per contract in FY2017. For FY2016 and FY2017, our revenue derived from the third largest type of customers, being general corporate (including financial institutions, insurance companies, beverage companies and recreational companies), which contributed revenue in the amounts of approximately HK\$9.8 million and HK\$9.4 million, respectively, accounting for approximately 29.2% and 33.4% of our rental revenue respectively.

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### *Project and hospitality services*

Our revenue also incorporates that from our project and hospitality service business which amounted to approximately HK\$35.9 million and HK\$59.9 million and accounted for approximately 14.7% and 21.5% of our total revenue for FY2016 and FY2017, respectively.

The table below sets out a breakdown of revenue from project and hospitality services by customer types during the Track Record Period:

	Year ended 31 December			
	2016		2017	
	Approximate percentage of revenue from project and hospitality services	Approximate percentage of revenue from project and hospitality services	Approximate percentage of revenue from project and hospitality services	Approximate percentage of revenue from project and hospitality services
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Property developer . . . . .	24,868	69.2	37,908	63.3
General corporate . . . . .	7,683	21.4	17,449	29.2
Hospitality management company . . . . .	3,313	9.2	2,205	3.7
Individual . . . . .	61	0.2	1,481	2.5
Others ( <i>Note</i> ) . . . . .	–	–	808	1.3
<b>Total</b> . . . . .	<b>35,925</b>	<b>100</b>	<b>59,851</b>	<b>100</b>

*Note:* Others include schools and hospitals.

During the Track Record Period, the property development corporate clients contributed the largest portion of our revenue from project and hospitality services of approximately HK\$24.9 million and HK\$37.9 million for FY2016 and FY2017, respectively, and accounted for approximately 69.2% and 63.3% of our revenue from project and hospitality services, respectively. The increase was mainly due to an increase in revenue generated from Customer C, a property developer in Hong Kong, which amounted to approximately HK\$1.7 million for FY2016 and HK\$18.7 million for FY2017 for the provision of total design and styling of furniture package for home buyers in Hong Kong. For FY2016 and FY2017, our revenue derived from general corporates (including Customer B) was approximately HK\$7.7 million and HK\$17.4 million, respectively, and accounted for approximately 21.4% and 29.2% of our revenue from project and hospitality services for the corresponding years. The increase was mainly attributed to the completion of the apartment project involving property design, styling and the provision of a furniture package for Customer B in UAE. For FY2016 and FY2017, our revenue derived from hospitality management companies which was the third largest contribution of this business line and contributing approximately HK\$3.3 million and HK\$2.2 million, respectively, representing approximately 9.2% and 3.7% of our revenue from

## FINANCIAL INFORMATION

project and hospitality services respectively. The decrease was mainly attributed to the completion of the property design and styling project of a 5-star luxury hotel in London by one of our major customers in the hospitality management customer segment.

Please refer to the paragraph headed “Year to year comparison of results of operations” in this section for a discussion of material fluctuations in our revenue during the Track Record Period.

### Cost of sales

The table below sets out a breakdown of our cost of sales by business segments during the Track Record Period:

	Year ended 31 December			
	2016		2017	
	<i>HK\$'000</i>	Approximate percentage of cost of sales %	<i>HK\$'000</i>	Approximate percentage of cost of sales %
Sale of home furniture and accessories .....	68,595	70.1	72,133	61.8
Rental of home furniture and accessories .....	6,954	7.1	5,777	4.9
Project and hospitality services	22,324	22.8	38,823	33.3
<b>Total</b> .....	<b>97,873</b>	<b>100</b>	<b>116,733</b>	<b>100</b>

Our cost of sales was approximately HK\$97.9 million and HK\$116.7 million for FY2016 and FY2017, being equivalent to approximately 40.0% and 41.9% of our total revenue respectively, representing an increase of approximately HK\$18.9 million or approximately 19.3 % as compared to FY2016. The cost of sales was positively correlated to a change in the revenue of our Group which substantially contributed to by all the cost of sales attributable to revenue generated from the sale of home furniture and accessories, rental of home furniture and accessories and project and hospitality services.

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

	Year ended 31 December			
	2016		2017	
	<i>HK\$'000</i>	Approximate percentage of cost of sales %	<i>HK\$'000</i>	Approximate percentage of cost of sales %
Cost of merchandise goods (Note 1) .....	86,754	88.6	105,297	90.2
Outsourced costs (Note 2) .....	4,628	4.7	5,710	4.9
Depreciation of furniture leased to customers .....	5,317	5.5	4,307	3.7
Inventory provision and adjustment .....	1,174	1.2	1,419	1.2
<b>Total</b> .....	<b>97,873</b>	<b>100</b>	<b>116,733</b>	<b>100</b>

*Notes:*

1. Cost of merchandise goods include the freight charges, which could not be segregated in certain billing records of the cost of merchandise goods.
2. Outsourced costs include installation, demolition, fit-out works.

### ***Cost of merchandise goods***

Our cost of merchandise goods was approximately HK\$86.8 million and HK\$105.3 million for FY2016 and FY2017 respectively, representing approximately 88.6% and 90.2% of our cost of sales, respectively. The increase was in line with the revenue growth in FY2017.

### ***Outsourced costs***

Our outsourced costs were approximately HK\$4.6 million and HK\$5.7 million for FY2016 and FY2017 respectively, representing approximately 4.7% and 4.9% of our cost of sales, respectively. The increase was in line with the revenue growth of project and hospitality services in FY2017.

### ***Depreciation of furniture leased to customers***

Depreciation of furniture leased to customers were approximately HK\$5.3 million and HK\$4.3 million for FY2016 and FY2017, respectively, representing approximately 5.5% and 3.7% of our cost of sales, respectively. According to our Group's accounting policy furniture held for rental is classified as part of the property, plant and equipment, and is fully depreciated on a straight line basis over one year from the commencement of rental period.

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### *Inventory provision and adjustment*

Inventory provision and adjustment include the provision for slow-moving stock and the inventory adjustment for loss, breakages and errors. Our inventory provision was approximately HK\$1.2 million and HK\$1.4 million for FY2016 and FY2017 respectively, representing approximately 1.2% and 1.2% of our cost of sales, respectively. For FY2016 and FY2017, the inventory provision was approximately HK\$456,000 and HK\$871,000, respectively, and the stock adjustment was approximately HK\$718,000 and HK\$548,000, respectively.

### **Gross profit**

The table below sets out a breakdown of our gross profit and gross profit margin during the Track Record Period:

	Year ended 31 December			
	2016		2017	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Sale of home furniture and accessories .....	106,522	60.8	118,364	62.1
Rental of home furniture and accessories .....	26,445	79.2	22,503	79.6
Project and hospitality services	13,601	37.9	21,028	35.1
<b>Total</b> .....	<b>146,568</b>	<b>60.0</b>	<b>161,895</b>	<b>58.1</b>

Our gross profit was approximately HK\$146.6 million and HK\$161.9 million, representing gross profit margins of approximately 60.0% and 58.1% for FY2016 and FY2017, respectively.

Please refer to the paragraph headed “Year to year comparison of results of operations” in this section for a discussion of the material fluctuations in our other gross profits during the Track Record Period.

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### Other income and gains

Our other income and gains mainly consisted of (i) interest from finance lease; (ii) reversal of provisions for long service payments; (iii) reversal of accrued withholding tax and (iv) sundry income. The following table sets forth a breakdown of our other revenue from continuing operations during the Track Record Period:

	Year ended 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Reversal of provision for long service payments . . . . .	1,915	–
Sundry income . . . . .	357	299
Interest from financial leases . . . . .	269	249
Reversal of accrued withholding tax . . . . .	263	–
Bank interest income . . . . .	6	15
Store opening fee income . . . . .	–	195
Gain on disposal of property, plant and equipment . . . . .	–	141
	2,810	899

For FY2016 and FY2017, our other income and gains amounted to approximately HK\$2.8 million and HK\$899,000 respectively, representing a decrease of approximately HK\$1.9 million or approximately 68.0% as compared to FY2016. This was primarily due to the one off event of the reversal of provision for long service payments of approximately HK\$1.9 million in FY2016, as a result of the over-provision for long service payments in prior years. The over-provision arose from the difference between our Group's own estimates of accrued benefits of our employees in their respective MPF account and the relevant actual value, the actual figures of which was obtained during a review undertaken by our Group in FY2016.

The reversal of accrued withholding tax was approximately HK\$263,000 for FY2016, was a result of the over-provision in a project in UAE in 2015.

Pursuant to the franchise agreement, our Group has received a store opening fee income of approximately HK\$195,000 for FY2017 from the franchisee relating to the first pilot franchise retail store opening in Saudi Arabia in 2017.

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### Selling and distribution costs

Our selling and distribution costs mainly consisted of (i) staff costs; (ii) staff commission; (iii) advertising and promotion; (iv) transportation and delivery cost; (v) credit card commission; and (vi) agency fee. The table below sets out a breakdown of selling and distribution costs during the Track Record Period:

	Year ended 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Staff costs .....	16,431	18,910
Staff commission .....	12,481	13,486
Advertising and promotion .....	7,250	8,638
Transportation and delivery costs .....	7,041	8,327
Credit card commission .....	2,386	2,599
Agency fee .....	1,412	934
Other selling and distribution costs .....	673	437
	47,674	53,331

Our selling and distribution costs increased by approximately HK\$5.7 million or 11.9%, from HK\$47.7 million for FY2016 to HK\$53.3 million for FY2017. This was primarily the result of an increase in staff costs and commission, which was in line with the revenue growth in FY2017.

Please refer to the paragraph headed “Year to year comparison of results of operations” in this section for a discussion of material fluctuation in our other income and gains during the Track Record Period.

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### Administrative and other operating expenses

Our administrative and other operating expenses mainly consisted of (i) rental and related expenses; (ii) staff costs; (iii) general office expenses; (iv) depreciation; and (v) warehouse expenses. The table below sets out a breakdown of administrative expenses during the Track Record Period:

	Year ended 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental and related expenses .....	36,713	37,752
Staff costs .....	33,561	35,675
General office expenses .....	7,891	8,852
Depreciation .....	4,270	3,503
Warehouse expenses .....	3,478	3,013
Legal and professional fees .....	3,177	4,026
Staff benefits .....	2,204	2,726
Others .....	1,623	2,400
Loss on disposal of property, plant and equipment ..	1,206	–
	<u>94,123</u>	<u>97,947</u>

Our administrative and other operating expenses increased by approximately HK\$3.8 million or 4.1%, from HK\$94.1 million for FY2016 to HK\$97.9 million for FY2017. This was primarily due to an increase in rental and related expenses and staff costs in FY2017.

Please refer to the paragraph headed “Year to year comparison of results of operations” in this section for a discussion of material fluctuation in our administrative and other operating expenses during the Track Record Period.

### Listing expenses

For FY2017, the Listing expenses of approximately HK\$6.6 million had been charged to our profit or loss and no listing expense was incurred for FY2016.



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### **Income tax expenses**

Our income tax expenses decreased by approximately HK\$324,000 or 15.0%, from approximately HK\$2.2 million for FY2016 to approximately HK\$1.8 million for FY2017. The decrease was primarily due to a decrease in taxable income of the PRC entities for FY2017, which was partially set off by the non-tax deductible item of Listing expenses of approximately HK\$6.6 million in FY2017. Our effective tax rate was approximately 28.5% for FY2016 and 37.0% for FY2017, such increase was mainly due to the non-tax deductible item of Listing expenses for FY2017, on the other hand, our Group's profit before tax in FY2017 was approximately HK\$2.6 million lower than FY2016.

### ***Cayman Islands, BVI and UAE***

Our Group is not subject to any income tax in the Cayman Islands or the BVI pursuant to the rules and regulations in those jurisdictions. The UAE levies corporate tax on oil companies and foreign banks only. It has not yet applied corporate tax on other industries.

According to our UAE Legal Advisers, our Group is currently not subject to any income tax in UAE pursuant to the rules and regulation in the UAE.

### ***Hong Kong***

Hong Kong profits tax has been provided for at the rate of 16.5% on the estimated assessable profits during the Track Record Period.

### ***PRC***

Our Group is subject to PRC Enterprise Income Tax (“**PRC EIT**”) at the rate of 25%, and dividend withholding tax at the rate of 10% for the Track Record Period.

During the Track Record Period, our Group has made adequate tax provisions on the assessable profit based on the tax rates prevailing in the jurisdictions in which our Group operates. Payments of taxes are made in accordance with the payment schedule stipulated by the relevant tax authorities. As at 31 December 2016 and 2017, our tax payables amounted to approximately HK\$1.2 million and HK\$2.1 million, respectively.

For details, please refer to the note 10 to the Accountants' Report in Appendix I to this prospectus.

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### REVIEW OF HISTORICAL RESULTS OF OPERATIONS

#### Year to year comparison of results of operations

##### *FY2016 compared to FY2017*

##### *Revenue*

Our revenue for FY2017 increased by approximately 14.0% to approximately HK\$278.6 million from approximately HK\$244.4 million for FY2016. Such increase was mainly due to an increase in (i) revenue generated from the Hong Kong market from approximately HK\$152.3 million for FY2016 to HK\$182.7 million for FY2017; and (ii) revenue generated from the China market from approximately HK\$33.3 million for FY2016 to HK\$37.7 million for FY2017, which partially set off by a slight decrease in revenue generated from the UAE market from approximately HK\$58.8 million for FY2016 to HK\$58.2 million for FY2017.

The revenue from the sale of home furniture and accessories increased by approximately 8.8% from approximately HK\$175.1 million for FY2016 to HK\$190.5 million for FY2017. The increase was mainly as a result of an increase in revenue in sale of home furniture and accessories in Hong Kong from approximately HK\$116.4 million for FY2016 to HK\$139.0 million for FY2017, which in turn was due to an increase in revenue contributed by retail stores in Hong Kong from approximately HK\$85.4 million for FY2016 to HK\$88.5 million for FY2017 as well as an increase in revenue contributed by corporate sales in Hong Kong from approximately HK\$26.5 million for FY2016 to HK\$41.2 million for FY2017 which was mainly contributed by two of our major customers in the provision of styling and furniture package for the property showflats. However, such increase was partially set off by a decrease in revenue contributed by corporate sales in UAE from approximately HK\$20.2 million for FY2016 to HK\$11.9 million for FY2017.

The revenue from the rental of home furniture and accessories decreased by approximately 15.3% from approximately HK\$33.4 million for FY2016 to approximately HK\$28.3 million for FY2017. The decrease was mainly due to a decrease in revenue from rental of home furniture and accessories in Hong Kong from approximately HK\$28.3 million for FY2016 to HK\$21.8 million for FY2017, as a result of the decrease in revenue generated from Customer C due to the shifting from rental of home furniture and accessories to purchase of home furniture and accessories for the showflats, which partially was set off by an increase in revenue contributed by rental business in UAE from approximately HK\$4.9 million for FY2016 to HK\$6.1 million for FY2017.

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The revenue from the project and hospitality services increased by approximately 66.6% from approximately HK\$35.9 million for FY2016 to HK\$59.9 million for FY2017. The increase was mainly as a result of (i) an increase in revenue in project and hospitality services in Hong Kong from approximately HK\$7.6 million for FY2016 to HK\$21.9 million for FY2017 owing to an increase in revenue generated from Customer C, a property developer in Hong Kong for the provision of total design and styling and furniture package for home buyers in Hong Kong; (ii) an increase in revenue contributed by project and hospitality services in China from approximately HK\$20.6 million for FY2016 to HK\$23.3 million for FY2017, which was due to an increase in revenue generated from the provision of the hotel room design and styling services in China of approximately HK\$3.1 million for FY2017; and (iii) an increase in revenue from the project and hospitality services in UAE from approximately HK\$7.7 million for FY2016 to HK\$14.7 million for FY2017, owing to the completion of an apartment project involving the provision of property design, styling and furniture package for Customer B in UAE.

### *Cost of sales*

Our cost of sales increased by approximately 19.3% from approximately HK\$97.9 million for FY2016 to approximately HK\$116.7 million for FY2017. Such increase was mainly due to an increase in cost of sales for project and hospitality services from approximately HK\$22.3 million for FY2016 to approximately HK\$38.8 million for FY2017.

For FY2016 and FY2017, our cost of sales for sale of home furniture and accessories amounted to approximately HK\$68.6 million and HK\$72.1 million respectively, representing an increase of approximately HK\$3.5 million or 5.2% as compared to FY2016. The increase in cost of sales for sale of home furniture and accessories was largely in line with our revenue growth in sale of home furniture and accessories for FY2017.

For FY2016 and FY2017, our cost of sales for rental of home furniture and accessories amounted to approximately HK\$7.0 million and HK\$5.8 million respectively, representing a decrease of approximately HK\$1.2 million or 16.9% as compared to FY2016. The cost of sales for rental of home furniture and accessories is mainly the depreciation expenses for the furniture for rental. The decrease was mainly due to the decrease in the home furniture and accessories used for rental, as a result of the decrease in depreciation expenses on furniture for rental from approximately HK\$5.3 million for FY2016 to HK\$4.3 million for FY2017.

For FY2016 and FY2017, our cost of sales for project and hospitality services amounted to approximately HK\$22.3 million and HK\$38.8 million respectively, representing an increase of approximately HK\$16.5 million or 73.9% as compared to FY2016. Such increase in the cost of sales of approximately 73.9% was higher than the increase in the respective revenue of approximately 66.6% and was mainly due to an increase in the outsourced costs incurred for the projects in this business line.

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### *Gross Profit*

Our gross profit was approximately HK\$146.6 million and HK\$161.9 million, representing gross profit margins of approximately 60.0% and 58.1% for FY2016 and FY2017, respectively.

Our gross profit varied principally as a result of the composition of our sale of home furniture and accessories, rental of home furniture and accessories and project and hospitality services, revenue, changing conditions of the markets, and their effect on product pricing, product mix and our cost of sales. Generally, the gross profit margins of our sale and rental of home furniture and accessories businesses are higher than the gross profit margin of our project and hospitality services due to the provision of design and styling and custom furniture, requiring more resources in the project, i.e. provision of design and styling services by our in-house designer.

Our gross profit margin of sale of home furniture and accessories increased from approximately 60.8% for FY2016 to 62.1% for FY2017. This was primarily due to an increase in revenue from sale of home furniture and accessories by approximately 8.8% outweighed an increase in respective cost of sales by approximately 5.2% from FY2016 to FY2017. In addition, the average selling price of furniture increased by approximately 6.6% from FY2016 to FY2017.

Our gross profit margin of rental of home furniture and accessories remained stable of approximately 79.2% for FY2016 and 79.6% for FY2017, which was due to the stable cost structure, mainly the depreciation expenses on the furniture for rental during the Track Record Period.

Our gross profit margin of project and hospitality services decreased from approximately 37.9% for FY2016 to 35.1% for FY2017. This was primarily due to the decrease in gross profit margin of project and hospitality services contributed by the customer type of property developer in China from approximately 39.4% for FY2016 to 15.6% for FY2017, as a result of the increase in the outsourced costs incurred for the projects in this business line.

### *Other income and gains*

Our other income and gains decreased by approximately 68.0% from approximately HK\$2.8 million for FY2016 to HK\$899,000 for FY2017. This was primarily due to the one-off event of the reversal of provision for long service payments of approximately HK\$1.9 million in FY2016, as a result of the over-provision for long service payments in prior years.

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### *Selling and distribution costs*

Our selling and distribution costs increased by approximately 11.9% from approximately HK\$47.7 million for FY2016 to HK\$53.3 million for FY2017. This was primarily as a result of the increase in staff costs and staff commission, which was in line with the revenue growth for FY2017.

Our staff cost increased by approximately 15.1% from approximately HK\$16.4 million for FY2016 to HK\$18.9 million for 2017. This was primarily due to the salary increment and additional headcount for FY2017.

Our staff commission increased by approximately 8.1% from approximately HK\$12.5 million for FY2016 to HK\$13.5 million for FY2017. Such increase was in line with the revenue growth for FY2017.

Our advertising and promotion increased by approximately 19.1% from approximately HK\$7.3 million for FY2016 to approximately HK\$8.6 million for FY2017. This was primarily as a result of the increase in expenses on online advertising activities by approximately HK\$1.6 million, which was partially set off by the decrease in the expenses on the magazine by approximately HK\$820,000 for FY2017.

Our transportation and delivery costs increased by approximately 18.3% from approximately HK\$7.0 million for FY2016 to HK\$8.3 million for FY2017. This was primarily in line with an increase of revenue growth for FY2017.

Our credit card commission increased by approximately 8.9% from approximately HK\$2.4 million for FY2016 to HK\$2.6 million for FY2017. This was in line with the revenue growth for FY2017.

Our agency fee decreased by approximately 33.9% from approximately HK\$1.4 million for FY2016 to HK\$934,000 for FY2017. This was in line with the decrease in the revenue derived from rental of home furniture and accessories for FY2017.

Our other selling and distribution costs decreased by approximately 35.1% from approximately HK\$673,000 for FY2016 to HK\$437,000 for FY2017.

### *Administrative and other operating expenses*

Our administrative and other operating expenses increased by approximately 4.1% from approximately HK\$94.1 million for FY2016 to HK\$97.9 million for FY2017. During the Track Record Period, our staff costs, staff benefits, rental and related expenses and depreciation expenses were the key components of our administrative and other operating expenses.

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Our rental and related expenses increased by approximately 2.8 % from approximately HK\$36.7 million for FY2016 to HK\$37.8 million for FY2017. This was primarily due to an increase in rental of warehouse in Hong Kong by approximately HK\$1.9 million, which was partially set off by the decrease in rental expenses as a result of the closure of Yas Mall store in UAE in June 2016.

Our staff costs for administrative and other operating expenses increased by approximately 6.3 % from approximately HK\$33.6 million for FY2016 to HK\$35.7 million for FY2017. This was primarily as a result of an increase in number of staff by 20 staff for replacement and additional headcount in FY2017.

Our depreciation expenses includes depreciation on decoration and fitting, furniture and fixtures, office equipment and motor vehicles. Our depreciation expenses decreased by approximately 18.0 % from approximately HK\$4.3 million for FY2016 to HK\$3.5 million for FY2017. This was primarily due to an increase in the addition of property, plant and equipment by approximately HK\$907,000, partially set off by the disposal of property, plant and equipment of approximately HK\$1.9 million for FY2016.

Our staff benefit includes staff training, insurance, long service payments and staff welfare. Our staff benefit increased by approximately 23.7% from approximately HK\$2.2 million for FY2016 to HK\$2.7 million for FY2017. This was primarily due to an increase in long service payments and insurance for staff for FY2017.

Others include other tax expenses and provision for bad debt and bad debt written off. The provision for bad debts was nil and HK\$679,000, respectively and the bad debt written off was approximately HK\$64,000 for FY2017 but reversed of bad debt written off of approximately HK\$1,000 for FY2016.

### *Listing expenses*

For FY2017, the Listing expenses in the amount of approximately HK\$6.6 million had been charged to profit and loss of our Group and no listing expense was incurred for FY2016.

### *Income tax expenses*

Our income tax expenses decreased by approximately 15.0% from approximately HK\$2.2 million for FY2016 to HK\$1.8 million for FY2017. This was primarily a decrease in taxable income for the PRC entities for FY2017, which was partially set off by the non-tax deductible item of Listing expenses of approximately HK\$6.6 million in FY2017.

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### *Profit after tax for the year and net profit margin*

Our profit after tax for the year decreased by approximately 42.4% from approximately HK\$5.4 million for FY2016 to HK\$3.1 million for FY2017. Our net profit margin decreased from approximately 2.2% for FY2016 to 1.1% for FY2017. Such decrease was mainly due to the significant increase in administration and other operating expenses from approximately HK\$94.1 million for FY2016 to HK\$97.9 million for FY2017 and the Listing expenses of approximately HK\$6.6 million in FY2017, which was set off an increase in revenue and gross profit for FY2017.

### *Adjusted net profit and adjusted net profit margin*

Our adjusted net profit (excluding the Listing expenses) increased from approximately HK\$5.4 million for FY2016 to HK\$9.7 million for FY2017. Our adjusted net profit margin increased from approximately 2.2% for FY2016 to 3.5% for FY2017, respectively. It was mainly attributable to the fact that the revenue increased from approximately HK\$244.4 million for FY2016 to HK\$278.6 million for FY2017; and partially set off by a slight decrease in the gross profit margin from approximately 60.0% for FY2016 to 58.1% for FY2017.

## LIQUIDITY AND CAPITAL RESOURCES

Historically, we have funded our operations primarily through net cash flow generated from our operations. Our primary uses of cash have been, and are expected to continue to be, operational costs and capital expenditures for business expansion. We currently expect that there will not be any material change in the sources and uses of cash of our Group, except for the additional funds from proceeds of the Share Offer for implementing our future plans as detailed in the section headed “Future plans and use of proceeds” in this prospectus. During the Track Record Period, cash and cash equivalent increased from approximately HK\$43.6 million for FY2016 to approximately HK\$45.9 million for FY2017.

The following table sets forth a breakdown of cash flow statements from our continuing operation during the Track Record Period:

	Year ended 31 December	
	2016	2017
	HK\$'000	HK\$'000
<b>Operating profit before changes in working capital</b> . . . . .	16,879	14,712
Net cash generated from operating activities . . . . .	23,325	9,980
Net cash used in investing activities . . . . .	(7,165)	(7,825)
<b>Net increase in cash and cash equivalents</b> . . . . .	16,160	2,155
<b>Cash and cash equivalents at the beginning of the year</b> . . . . .	27,515	43,607
<b>Effect of foreign exchange rate changes</b> . . . . .	(68)	120
<b>Cash and cash equivalents at the end of the year</b> . . . . .	<u>43,607</u>	<u>45,882</u>

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### *Cash flows from operating activities*

The cash generated from operating activities were primarily derived from our sale and rental of home furniture and accessories and project and hospitality services.

For FY2016, our net cash generated from operating activities amounted to approximately HK\$23.3 million, primarily reflecting cash generated from operating profit before working capital changes of approximately HK\$16.9 million, as adjusted by (i) depreciation of property, plant and equipment of approximately HK\$9.6 million; (ii) loss on write-off or disposals of property, plant and equipment of approximately HK\$1.2 million; (iii) increase in project contracts of approximately HK\$4.2 million; (iv) increase in trade and other receivables of approximately HK\$3.2 million. This was partially offset by an increase in trade and other payables of approximately HK\$16.1 million.

For FY2017, our net cash generated from operating activities amounted to approximately HK\$10.0 million, primarily reflecting cash generated from operating profit before working capital changes of approximately HK\$14.7 million, as adjusted by (i) depreciation of property, plant and equipment of approximately HK\$7.8 million; (ii) increase in inventories of approximately HK\$2.2 million; (iii) increase in trade and other receivables of approximately HK\$2.9 million; and (iv) decrease in trade and other payables of approximately HK\$7.0 million. This was partially set off by (i) gain on write-off or disposals of property, plant and equipment of approximately HK\$141,000; and (ii) decrease in project contracts of approximately HK\$8.3 million, mainly due to increase in the amount billed in respect of project revenue recognised in FY2017.

### *Cash flows from investing activities*

During the Track Record Period, our cash outflows from investing activities reflected purchases of property, plant and equipment and advance to a related company, and interest income. Our cash inflows from investing activities reflected interest received, proceeds from disposal of subsidiaries and net of cash and cash equivalents.

For FY2016, we recorded net cash used in investing activities of approximately HK\$7.2 million, reflecting the purchase of property, plant and equipment of approximately HK\$7.2 million, which was partially offset by (i) the proceeds from disposals of property, plant and equipment of approximately HK\$21,000; and (ii) and the interest received of approximately HK\$6,000.

For FY2017, we recorded net cash used in investing activities of approximately HK\$7.8 million, reflecting (i) the purchase of property, plant and equipment of approximately HK\$5.9 million; and (ii) the increase in pledged bank deposits of approximately HK\$2.1 million, which was partially offset by (i) the proceeds from disposals of property, plant and equipment of approximately HK\$151,000; and (ii) the interest received of approximately HK\$15,000.

No cash was used in or generated from financing activities for FY2016 and FY2017.



## FINANCIAL INFORMATION

### NET CURRENT ASSETS

The table below sets out our net current assets and current liabilities from the combined statements of financial position as at the respective dates indicated:

	As at 31 December		As at 30 April
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (unaudited)
<b>Current assets</b>			
Inventories	41,889	43,212	43,998
Trade and other receivables	41,945	44,126	49,173
Current portion of finance lease receivables	3,157	2,673	3,393
Amounts due from customers for contract work	9,214	4,455	5,988
Amount due from a director	436	1,603	–
Pledged bank deposits	3,098	5,164	5,370
Cash and cash equivalents	43,607	45,882	14,833
Tax recoverable	95	–	–
	<u>143,441</u>	<u>147,115</u>	<u>122,755</u>
<b>Current liabilities</b>			
Trade and other payables	47,639	40,656	42,511
Amounts due to customers for contract work	104	3,647	3,549
Amount due to a related company	199	213	213
Tax payable	1,203	2,127	2,086
	<u>49,145</u>	<u>46,643</u>	<u>48,359</u>
<b>Net current assets</b>	<u><u>94,296</u></u>	<u><u>100,472</u></u>	<u><u>74,396</u></u>

Our net current assets increased from approximately HK\$94.3 million as at 31 December 2016 to approximately HK\$100.5 million as at 31 December 2017, representing an increase of approximately HK\$6.2 million or 6.5%. The increase was mainly attributable to (i) increase in inventory by approximately HK\$1.3 million; (ii) increase in cash and cash equivalents by approximately HK\$2.3 million and increase in pledged bank deposits by approximately HK\$2.1 million; and (iii) decrease in trade and other payables by approximately HK\$7.0 million. This was partially offset by a decrease in amounts due from customers for contract work by approximately HK\$4.8 million and an increase in the amounts due to customers for contract work by approximately HK\$3.5 million.

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## FINANCIAL INFORMATION

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Our net current assets decreased from approximately HK\$100.5 million as at 31 December 2017 to HK\$74.4 million as at 30 April 2018, representing a decrease of HK\$26.1 million or 26.0%. The decrease was mainly attributable to (i) decrease in cash and cash equivalents by approximately HK\$31.1 million, as a result of the declaration of dividend by our Company of HK\$26.3 million in January 2018; and (ii) increase in trade and other receivables by approximately HK\$5.0 million, which was mainly attributable to (a) the increase in trade receivables by approximately HK\$1.3 million as a result of the increase in the amount of billed invoice from a customer in project and hospitality services; and (b) the increase in deposits and prepayments by approximately HK\$3.0 million, which was primarily due to the deposit in retail store in Yuen Long of approximately HK\$1.0 million; and the refundable deposit in material supplier and external contractor for potential projects of approximately HK\$1.3 million.

### DISCUSSION ON SELECTED COMBINED STATEMENTS OF FINANCIAL POSITION ITEMS

#### Property, plant and equipment

Our property, plant and equipment are (i) decoration and fittings; (ii) furniture and fixtures; (iii) office equipment; (iv) motor vehicles; and (v) furniture for rental, which decreased by approximately HK\$1.8 million or 17.2% from approximately HK\$10.3 million as at 31 December 2016 to approximately HK\$8.6 million as at 31 December 2017, which was primarily due to (i) the disposal of decoration and fittings of approximately HK\$1.2 million due to the closure of Yas Mall store in UAE in June 2016; and (ii) a decrease in replenishment of furniture for rental approximately from HK\$5.6 million for FY2016 to HK\$3.4 million for FY2017, which was in line with the decrease in revenue generated from rental of home furniture and accessories.

#### Finance lease receivables

The following table sets forth a breakdown of finance lease receivables from our continuing operation during the Track Record Period:

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current finance lease receivables . . . . .	3,157	2,673
Non-current finance lease receivables . . . . .	1,028	764
	<u>4,185</u>	<u>3,437</u>

Our finance lease receivables decreased from approximately HK\$4.2 million as at 31 December 2016 to approximately HK\$3.4 million as at 31 December 2017, representing a decrease of approximately HK\$748,000 or 17.9%. The decrease was mainly due to a decrease in rental contracts, in particular, those with a contract period of 12 months or above.

## FINANCIAL INFORMATION

### Inventories

Our inventories are merchandise goods. Our management closely monitors our inventory level by performing regular review of the carrying amounts of inventories with reference to ageing analysis and other specific assessments of our Group's inventories, projections of expected future saleability of goods based on historical sales patterns and other specific attributes, and management experience and judgement, to ensure maintenance of sufficient level of inventories for our business operations. The value of our inventories accounted for approximately 29.2% and 29.4% of our total current assets as at 31 December 2016 and 31 December 2017, respectively.

The following table sets forth the details of our inventories from our continuing operations during the Track Record Period:

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Merchandise goods .....	41,889	43,212

Our inventories increased by approximately HK\$1.3 million or 3.2% from approximately HK\$41.9 million as at 31 December 2016 to approximately HK\$43.2 million as at 31 December 2017, which was primarily due to an increase in stock levels with reference to the revenue growth during the Track Record Period.

The table below sets out the ageing of our Group's inventories (before inventory provisions, written off and exchange realignment):

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
0–180 days .....	26,895	30,488
181–365 days .....	6,815	7,304
1 to 2 year(s) .....	6,132	3,736
Over 2 years .....	4,018	4,207
	43,860	45,735
Less: Inventory provisions, written off and exchange realignment .....	1,971	2,523
	41,889	43,212

As at 31 December 2016 and 2017, the inventory provisions, written off and exchange realignment was approximately HK\$2.0 million and HK\$2.5 million, respectively, of which the inventory provision was approximately HK\$456,000 and HK\$871,000, respectively.

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## FINANCIAL INFORMATION

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Our inventories remained stable over the Track Record Period. Of which (i) inventories aged between 0–180 days increased from approximately HK\$26.9 million as at 31 December 2016 to HK\$30.5 million as at 31 December 2017 primarily due to the increase in stock level of current season items in 2017 in particular those popular items; (ii) inventories aged between 181–365 days increased from approximately HK\$6.8 million as at 31 December 2016 to HK\$7.3 million as at 31 December 2017 primarily due to the stock up of a designer’s collection which was launched in spring 2017; and (iii) inventories aged between 1–2 year(s) decreased from approximately HK\$6.1 million as at 31 December 2016 to HK\$3.7 million as at 31 December 2017 primarily due to the marketing efforts on stock clearance of previous seasons.

Inventories aged over two years represented approximately 9.2% and 9.2% of our Group’s inventories before inventory provisions, written off and exchange realignment as at 31 December 2016 and 2017, respectively. As at the Latest Practicable Date, approximately HK\$30.1 million or 66.0% of our inventories as at 31 December 2017 had been used or consumed.

The table below sets out our average inventory turnover days as at the periods indicated:

	Year ended 31 December	
	2016	2017
Average inventory turnover days ( <i>days</i> ) <sup>(Note)</sup> . . . . .	157	133

*Note:* Average inventory turnover days is calculated as the average of the beginning and ending inventory balances for the year, divided by the cost of sales for that period, multiplied by 365 days.

For FY2016 and FY2017, our average inventory turnover days were approximately 157 days and 133 days, respectively. The decrease in our average inventory turnover days for FY2017 as compared to FY2016 was primarily due to the increase in sale of home furniture and accessories in FY2017.

## FINANCIAL INFORMATION

### Trade and other receivables

The following table sets forth a breakdown of our Group's trade and other receivables as at the dates indicated:

	Year ended 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables .....	15,960	12,981
Less: allowances for doubtful debts .....	(148)	(829)
	<u>15,812</u>	<u>12,152</u>
Other receivables .....	3,522	3,287
Deposits and prepayments .....	22,611	28,687
	<u>41,945</u>	<u>44,126</u>

At as 31 December 2016 and 2017, apart from certain deposits totalling HK\$8,590,000 and HK\$8,563,000 respectively, all trade and other receivables are expected to be recovered or recognised as expenses within one year.

### Trade receivables

Our trade receivables represent receivables from our customers. Based on our assessment of our clients' historical settlement pattern, creditworthiness and working relationship with us, at the request of our clients and/or upon review of the profiles of our clients and the sizeable contract sum, we may, on a case-by-case basis, agree to a longer credit period. We generally grant our customers a credit terms ranging of 0–30 days from the date of billing.

Our trade receivables decreased from approximately HK\$15.8 million as at 31 December 2016 to approximately HK\$12.2 million as at 31 December 2017, representing a decrease of approximately HK\$3.7 million or 23.1%. This was primarily attributable to (i) the settlement of an outstanding debt of more than 12 months from 2016 of a corporate customer in FY2017; and (ii) the settlement from Customer B as a result of the completion of a significant project in Dubai in FY2017.

The following table sets forth the breakdown of our trade receivables based on due date as at the dates indicated:

	Year ended 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Neither past due nor impaired .....	2,177	990
Within 1 month .....	7,498	4,582
More than 1 month but less than 3 months .....	4,564	4,510
More than 3 months but less than 12 months .....	636	2,067
More than 12 months .....	937	3
	<u>13,635</u>	<u>11,162</u>
Amounts past due .....	15,812	12,152

## FINANCIAL INFORMATION

As at 31 December 2016 and 2017, trade receivables with an aggregate carrying amount of approximately HK\$13.6 million and HK\$11.2 million was overdue but not impaired. Our Directors are of the view that such trade receivables related to clients for whom there is no significant financial difficulty and based on our experience, no impairment allowance was necessary in respect of these overdue balances as there had not been a significant change in credit quality of those clients and such amounts were still considered recoverable based on historical experience. Our Directors further confirm that we did not hold any collateral as security over these debtors.

Our policy for impairment on trade receivables is to record such amounts using an allowance account unless our Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. Provisions for trade receivables would be made if management considers their collectibility is at risk. Our management reviews the trade receivable balances and any overdue balances periodically on an ongoing basis, and assessments are made by our management on the collectibility of overdue balances.

The carrying amount of trade receivables of FY2016 and FY2017, of approximately HK\$148,000 and HK\$829,000 were individually determined to be impaired, respectively. Such increase was mainly attributable to approximately HK\$433,000 of the amount due from a PRC agent on sales of furniture items who has not paid its long overdue fees. The individually impaired receivables related to customers that were in financial difficulties and their recoveries are in doubt. Our Group does not hold any collateral over these balances. Save for the impairment losses as disclosed, we did not experience any material payment defaults from our clients during the Track Record Period.

The ageing analysis of trade receivables, based on invoice date and net of allowances for doubtful debts, is as follows:

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month . . . . .	9,177	5,260
More than 1 month but less than 3 months . . . . .	4,485	4,813
More than 3 months but less than 12 months . . . . .	776	2,076
More than 12 months . . . . .	1,374	3
	15,812	12,152

As at the Latest Practicable Date, approximately HK\$10.1 million or 83.3% of our trade receivables as at 31 December 2017 had been settled.

## FINANCIAL INFORMATION

The table below sets out the average turnover days of trade receivables for the period indicated:

	Year ended 31 December	
	2016	2017
Average trade receivable turnover days ( <i>days</i> ) <sup>(Note)</sup> . .	23	18

*Note:* Trade receivable turnover days for the year is derived by dividing the arithmetic mean of the opening and closing balances of trade receivables for the relevant period by revenue and multiplying by 366 days and 365 days for FY2016 and FY2017, respectively.

Our trade receivable turnover days decreased from approximately 23 days for FY2016 to approximately 18 days for FY2017, primarily due to a decrease in trade receivables from approximately HK\$15.8 million for FY2016 to HK\$12.2 million for FY2017. Our average trade receivable turnover days, excluding those sales without credit period granted, were approximately 48 days for FY2016 and 36 days for FY2017. Save for our business of the sale of home furniture and accessories, we intend to maintain our trade receivable turnover days at a level of less than approximately 30 days and have undertaken measures aimed at reducing our trade receivable turnover days. We regularly review our customers' payment history and also review the ageing of our trade receivables on a monthly basis. We believe that our credit control policy is appropriate.

Having considered that (i) less than half of our trade receivables was past due but not impaired as at 31 December 2017; and (ii) our trade receivables decreased by approximately 23.1% despite the increase in our revenue from continuing operation for FY2017, our Directors are of the view that there is no trade receivable recovery problem. Accordingly, our Directors are of the view that our credit policy currently in place is effective.

### Project contracts

The following table sets forth a breakdown of our Group's project contracts as at the dates indicated:

	Year ended 31 December	
	2016	2017
	HK\$'000	HK\$'000
Project contract costs incurred plus recognised profits		
less recognised losses to date . . . . .	28,245	52,527
Less: progress billings . . . . .	(19,135)	(51,719)
	9,110	808

Our amount due from customers for contract work decreased from approximately HK\$9.1 million as at 31 December 2016 to approximately HK\$808,000 as at 31 December 2017, representing a decrease of approximately HK\$8.3 million or 91.1%. The decrease was mainly attributable to an increase in the amounts billed in respect of the projects recognised in FY2017.

## FINANCIAL INFORMATION

### Trade and other payables

Our trade payables mainly comprise amounts due to suppliers in relation to our purchase of merchandise good and outsourced products and services. The table below sets forth the breakdown of our trade and other payables as of the dates indicated:

	Year ended 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	3,674	2,120
Deposits received	19,205	15,594
Other payables and accruals	24,760	22,942
	<u>47,639</u>	<u>40,656</u>

### *Trade payables*

Our trade payables consisted of amounts due to suppliers of merchandise goods and outsourced products and services. As at 31 December 2016 and 2017, our trade payables amounted to approximately HK\$3.7 million and HK\$2.1 million, respectively.

Our trade payables are due according to the terms on the relevant invoices and are payable on demand. In general, we settle our payment by cheque or bank transfer. The following table sets forth the ageing analysis of our trade payables based on invoice date at the respective dates as indicated:

	Year ended 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables:		
Within 1 month	2,402	355
More than 1 month but less than 3 months	385	267
More than 3 months	887	1,498
	<u>3,674</u>	<u>2,120</u>

As at the Latest Practicable Date, approximately HK\$810,000 or 38.2% of our trade payables as at 31 December 2017 had been settled.



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## FINANCIAL INFORMATION

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The table below sets out the average trade payable turnover days for the period indicated:

	Year ended 31 December	
	2016	2017
Average trade payable turnover days ( <i>days</i> ) <sup>(Note)</sup> . . . .	14	10

*Note:* Trade payable turnover days for the period is derived by dividing the arithmetic mean of the opening and closing balances of trade payables for the relevant period by the sum of cost of merchandise goods and outsourced costs and multiplying by 366 days and 365 days for FY2016 and 2017, respectively.

Our trade payables turnover days decreased from approximately 14 days for FY2016 to approximately 10 days for FY2017, primarily owing to our Group's policy of settling the trade payables within 14 days.

### *Deposit received*

Our deposits received from our customers mainly resulted from retail sales, corporate sales, securities deposits under rental contracts and deposits for projects. Our deposits received amounted to approximately HK\$19.2 million and HK\$15.6 million as at 31 December 2016 and 31 December 2017, respectively, representing a decrease of approximately HK\$3.6 million. Such decrease was mainly due to the decrease in (i) rental deposits by approximately HK\$1.4 million, which was as a result of the decrease in the revenue generated from rental business; (ii) project deposits of approximately HK\$1.0 million, which was due to the completion of several projects in FY2017; and (iii) from retail sales by approximately HK\$1.1 million for FY2017.

### *Other payables and accruals*

Our other payables and accruals mainly comprised provision of sales commissions, salaries and bonuses, project costs accruals, receipts in advance and general accrued expenses, (i.e. utilities accrued expenses). Our other payables amounted to approximately HK\$24.8 million and HK\$22.9 million as at 31 December 2016 and 31 December 2017 respectively representing a decrease by approximately HK\$1.8 million or 7.3%. Such decrease was mainly due to the decrease in project cost accruals by approximately HK\$4.6 million, which was partially set off by the increase in sales commission by approximately HK\$1.6 million.

### **Amount due to a related company**

Our amounts due to a related company increased from approximately HK\$199,000 as at 31 December 2016 to approximately HK\$213,000 as at 31 December 2017, representing an increase of approximately HK\$14,000 or 7.0%. These represents the amount due to Winford which is trade related, unsecured, interest-free and repayable on demand. Mr. McLennan, has a 50% equity interest in Winford.

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## FINANCIAL INFORMATION

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### Amount due from director

The amount due from Mr. McLennan comprises:

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Advances ·····	222	1,375
Trade balance ·····	214	228
	<u>436</u>	<u>1,603</u>

All balances are unsecured, interest free and repayable on demand. The maximum amount outstanding during FY2016 and FY2017 was approximately HK\$440,000 and HK\$1,714,000, respectively.

As at the Latest Practicable Date, the amount due from a Director has been settled.

### Provisions

Our provisions comprised (i) provision for long service payments; (ii) provision for employees' end-of-service benefits; and (iii) provision for reinstatement costs for rented premises. Our provisions amounted to approximately HK\$6.7 million and HK\$7.0 million as at 31 December 2016 and 31 December 2017 respectively representing an increase of approximately HK\$289,000. Such increase was mainly due to an increase in the provision for employees' end-of-service benefits from approximately HK\$3.6 million as at 31 December 2016 to HK\$3.8 million as at 31 December 2017.

For details of the provisions, please refer to note 22 to the Accountants' Report in Appendix I to this prospectus.

### INDEBTEDNESS

#### Pledge of assets

As at 31 December 2016, pledged bank deposits of HK\$3,098,000 were applied as security for the general banking facilities granted to a subsidiary of our Group.

As at 31 December 2017 and 30 April 2018, a pledged bank deposit of HK\$3,000,000 was applied as security for the general banking facilities (including corporate credit card facilities) granted to a subsidiary. These facilities were also secured by a personal guarantee of HK\$8,000,000 from Mr. McLennan, our Controlling Shareholder. The personal guarantee will be released upon Listing. As at the Latest Practicable Date, our Group had total unutilised banking facilities of approximately HK\$5,709,180.

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## FINANCIAL INFORMATION

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In addition, as at 31 December 2017 and 30 April 2018, pledged bank deposits of HK\$2,164,000 and HK\$2,370,000, respectively, were applied as security for performance guarantees of HK\$2,164,000 and HK\$2,370,000, respectively, issued by a bank in favour of customers in respect of projects undertaken by our Group.

### Contingent liabilities

During the Track Record Period and as at the Latest Practicable Date, our Group did not have any material contingent liabilities and was not involved in any material legal proceedings, except that our Group had contingent liabilities in respect of performance guarantees of HK\$2,164,000 as at 31 December 2017 and HK\$2,370,000 as at 30 April 2018, as disclosed in the paragraph headed “Pledge of assets” in this section. As at the Latest Practicable Date, our Directors were not aware of any pending or potential material legal proceedings involving our Group.

Save for the aforesaid or as otherwise disclosed in this prospectus, and apart from intra-group liabilities and normal trade payables in the ordinary course of business, our Group did not have any debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, mortgages, charges, finance lease or hire purchases commitments, guarantees or other material contingent liabilities as at 30 April 2018, being the latest practicable date for this indebtedness statement.

Our Directors confirmed that we had neither experienced any difficulties in obtaining or repaying banking facilities, nor breached any major covenants or restrictions of our bank borrowings or other bank facilities during the Track Record Period. Our Directors confirm that there has been no material change in the contingent liabilities of our Group since 31 December 2017 and up to the Latest Practicable Date.

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

### Capital commitments

As at 31 December 2016 and 2017, our Group did not have any material capital commitments.

### Operating lease commitments

As at 31 December 2016 and 2017, our Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Year ended 31 December	
	2016	2017
	HK\$'000	HK\$'000
Within one year	18,682	23,813
In the second to fifth year inclusive	20,588	22,717
	<u>39,270</u>	<u>46,530</u>

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## FINANCIAL INFORMATION

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Our Group is the lessee in respect of certain properties under operating leases. The leases typically run for an initial period of one to eight year(s), at the end of which all terms are renegotiated. The operating lease rentals are based on the higher of a minimum guaranteed rental or a sales level based rental. The minimum guaranteed rental has been used to arrive at the above commitments. Our operating lease commitments increased from approximately HK\$39.3 million to HK\$46.5 million for FY2016 and FY2017, respectively, which was mainly due to the renewal of warehouse leasing agreements for terms of three years in May 2017.

### CAPITAL EXPENDITURES

Our capital expenditures for FY2016 and FY2017 amounted to approximately HK\$7.2 million and HK\$5.9 million, respectively, which was mainly contributed by the addition of furniture for rental. We anticipate that our future capital expenditures will be increased in line with the expansion of our operations. We expect that our planned capital expenditures will be primarily used for (i) decoration and fitting for the new retail stores; (ii) furniture and fixtures for the new retail stores; and (iii) information technology under office equipment for the years ending 31 December 2018, 2019 and 2020, respectively.

The planned capital expenditures under our Group's implementation plans is expected to be approximately HK\$22.5 million for the period from the Latest Practicable Date up to 31 December 2020. In addition, it is expected to be financed by the net proceeds from the Share Offer. Please refer to the paragraph headed "Future plans and use of proceeds — Implementation plans" in this prospectus for a detailed description of our expansion plans.

### WORKING CAPITAL

Our Directors confirm that, taking into account the financial resources presently available to our Group including internal resources, available banking facilities, our cash flows from operating activities, bank balances and cash and estimated net proceeds of the Listing, our Group has sufficient working capital for our present capital requirements and for at least the next 12 months from the date of this prospectus. Our Directors further confirm that they are not aware of any other factors that would have a material impact on our Group's liquidity.

### OFF-BALANCE SHEET ARRANGEMENTS

During the Track Record Period and up to the Latest Practicable Date, we did not have any material off-balance sheet arrangements or contingencies except as disclosed under the paragraph headed "Indebtedness" in this section.

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## FINANCIAL INFORMATION

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### EVENTS AFTER THE REPORTING PERIOD

The companies in our Group underwent the Reorganisation in preparation for the Listing of Shares in our Company on GEM of the Stock Exchange. Further details of the Reorganisation are set out in the paragraph headed “History, development and Reorganisation — Reorganisation”. Further events after the reporting period are set out in note 32 to Accountants’ Report in Appendix I to this prospectus.

### PROPERTY INTERESTS

During the Track Record Period and up to the Latest Practicable Date, we did not own any real property. For further details, please refer to the paragraph headed “Business — Properties” in this prospectus.

### KEY FINANCIAL RATIOS

The following table sets forth our Group’s key financial ratios for the dates/periods indicated below:

	As at/ for the year ended 31 December	
	2016	2017
Return on total assets (%) (Note 1) .....	3.5	2.0
Return on equity (%) (Note 2) .....	5.5	3.0
Current ratio (times) (Note 3) .....	2.9	3.2
Quick ratio (times) (Note 4) .....	2.1	2.2

*Notes:*

1. Return on total assets is calculated based on the net profit after tax for the year divided by the total assets at the end of the respective year and multiplied by 100%.
2. Return on equity is calculated based on the net profit after tax for the year divided by the total equity at the end of the respective year multiplied by 100%.
3. Current ratio is calculated based on the total current assets at the end of the respective year divided by the total current liabilities at the end of the respective year.
4. Quick ratio is calculated based on the total current assets (excluding inventories) at the end of the respective year divided the total current liabilities at the end of the respective year.

### Return on total assets

Our return on total assets decreased from approximately 3.5% for FY2016 to approximately 2.0% for FY2017. Such decrease was mainly due to a decrease in our net profit after tax as a result of the non-recurring Listing expenses of approximately HK\$6.6 million incurred in FY2017 and the total assets of our Group was increased by approximately HK\$1.6 million as at FY2017.

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## FINANCIAL INFORMATION

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### Return on equity

Our return on equity decreased from approximately 5.5% for FY2016 to approximately 3.0% for FY2017. Such decrease was mainly due to a decrease in our net profit after tax as a result of the non-recurring Listing expenses of approximately HK\$6.6 million incurred in FY2017 and the equity of our Group was increased by approximately HK\$3.8 million as at FY2017.

### Current ratio

Our current ratio increased from approximately 2.9 times as at 31 December 2016 to 3.2 times as at 31 December 2017. Such increase was mainly due to (i) an increase in trade and other receivables by approximately 5.2% from FY2016 to FY2017; and (ii) a decrease in trade and other payables by approximately 14.7% from FY2016 to FY2017, which was partially set off by a decrease in the amounts due from customers from contract work by approximately 51.6% from FY2016 to FY2017.

### Quick ratio

Our quick ratio increased from approximately 2.1 times as at 31 December 2016 to approximately 2.2 times as at 31 December 2017. The increase in quick ratio was in line with the reason for the increase in current ratio as mentioned above.

### Gearing ratio

During the Track Record Period, our Group did not have any interest expenses incurred from the banking facilities and outstanding bank borrowing, therefore, the gearing ratio is not applicable.

## RELATED PARTY TRANSACTIONS

### Compensation of key management personnel

The remuneration for key management of our Group, including amounts paid to our Directors and certain of the highest paid employees during the Track Record Period were as follows:

	Year ended 31 December	
	2016	2017
	HK\$'000	HK\$'000
Salaries and allowance . . . . .	12,686	14,126
Mandatory provident fund contribution . . . . .	144	162
Provision for long service payments . . . . .	143	218
	<u>12,973</u>	<u>14,506</u>

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## FINANCIAL INFORMATION

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### Other related party transactions

Save as disclosed, our Group had the following material transactions with related parties during the Track Record Period:

	Year ended 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Winford Inc. Limited		
– Management fee expense .....	55	–
– Commission expense .....	187	–
– Delivery charge expense .....	2,483	2,940
– Manpower support expense .....	257	175
Mr. McLennan		
– Sale of home furniture and accessories .....	157	14
Mrs. McLennan, spouse of Mr. McLennan		
– Consultancy fee expense .....	–	384

Winford is a company incorporated in Hong Kong with limited liability. As at the Latest Practicable Date, Winford is owned as to 50% by Mr. McLennan and 50% by an Independent Third Party, and is engaged in the provision of delivery service and manpower support.

During the Track Record Period, the transactions with Mr. McLennan and Mrs. McLennan mainly represented the sale of home furniture and accessories and consultancy services. As at the Latest Practicable Date, our Group has ceased any transactions with Mr. McLennan and Mrs. McLennan.

For details of the related party transactions, please refer to the sections headed “Relationship with Controlling Shareholders” and “Connected transactions” and note 31 to the Accountants’ Report in Appendix I to this prospectus. It is the view of our Directors that each of such related party transactions were conducted in our ordinary and usual course of business and on normal commercial terms between the related parties and us or on terms no less favourable than terms available from independent third parties, and were fair and reasonable and in the interest of our Group and our Shareholders as a whole, and would not distort our results during the Track Record Period.

### CAPITAL RISK MANAGEMENT AND FINANCIAL RISK MANAGEMENT

#### Capital management

Our Group manages its capital to ensure that entities in our Group will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance. Our Group’s overall strategy remains unchanged throughout the Track Record Period.

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## FINANCIAL INFORMATION

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The capital structure of our Group consists of amount due to a related party and equity of our Group, comprising issued share capital, other reserves and accumulated profits.

The management of our Group reviews the capital structure regularly taking into account the cost of capital and the risks associated with the capital. Our Group will balance its overall capital structure through issuance of new shares and the raising of funds through borrowings.

### **Financial risk management**

Our Group is exposed to credit, liquidity, interest rate and foreign currency risks arising in the normal course of our Group's business. Further details on financial instruments are disclosed in respective notes to the Accountants' Report in Appendix I of this prospectus. The risks associated with the financial instruments and the policies on how to mitigate the risks are set out in note 25 to the Accountants' Report in Appendix I to this prospectus.

### **DIVIDENDS**

No dividend was paid or declared by our Company since its incorporation and during the Track Record Period.

Subsequent to the Track Record Period, on 4 January 2018, Pacific Legend Development declared interim dividends totalling HK\$26,250,000 and such dividends were moved up through our Group as successive dividend payments where they ultimately ended up as dividend payment by our Company to the then sole shareholder, Double Lions. All such dividends had been fully paid and we financed the payment of such dividends by internal resources. Save and except for the declaration of the above dividends, as at the Latest Practicable Date, we had no intention to pay dividends prior to the Listing.

The Directors consider that, subsequent to the Track Record Period, the declaration of interim dividends is commercially justifiable, taking into consideration:

- (i) no dividends were paid or declared by our Company during the Track Record Period;
- (ii) the Controlling Shareholders were entitled a reasonable return of their financial contributions to our Group in the past prior to the change in their shareholdings due to the Reorganisation;
- (iii) to finance the Reorganisation among the Controlling Shareholders; and
- (iv) our Group will be able to maintain a sufficient cash level to support the existing operations after the payment of interim dividend.



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## **FINANCIAL INFORMATION**

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We may distribute dividends by way of cash or by other means that we consider appropriate. A decision to declare and pay any dividends would require the approval of our Board and will be at its discretion. In addition, any final dividend for a financial year will be subject to the Shareholders' approval. Our Board will consider the distribution of dividends from time to time in light of the following factors in determining whether dividends are to be declared and paid:

- our results of operations;
- our cash flows;
- our financial condition;
- our Shareholders' interests;
- general business conditions and strategies;
- our capital requirements;
- payment by our subsidiaries of cash dividends to us; and
- other factors our Board may deem relevant.

Our Board has absolute discretion as to whether to declare any dividend for any year end and, if any, the amount of dividend and the means of payment. Such discretion is subject to any applicable laws and regulations including the Companies Law, and our Articles which also require the approval of our Shareholders. The amount of any dividends to be declared and paid in the future will depend on, among other things, our dividend policy, results of operations, cash flows and financial condition, operating and capital requirements and other relevant factors. Our Board has not adopted any dividend policy for the time being and does not have any pre-determined dividend ratio. Our Board will consider the relevant factors when determining the dividends to be declared if any. There is no assurance that our Company will be able to declare or distribute any dividend in the amount set out in any plan of our Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Board in the future.

### **DISTRIBUTABLE RESERVES**

Our Company was incorporated on 1 September 2017 and has not carried out any activities since the date of incorporation, save for the transactions related to the Reorganisation. As at 31 December 2017, our Company had no distributable reserves available for distribution to our Shareholders.

### **FOREIGN EXCHANGE LIABILITIES**

As at the Latest Practicable Date, our Group had no material exposure to foreign exchange liabilities.

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## FINANCIAL INFORMATION

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### DISCLOSURES REQUIRED UNDER THE GEM LISTING RULES

Save as disclosed in this prospectus, our Directors confirmed that, as at the Latest Practicable Date, there were no circumstances which would give rise to a disclosure as required under Rules 17.15 to 17.21 of the GEM Listing Rules.

### UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

Please refer the section headed “Unaudited pro forma financial information” in Appendix II to this prospectus for details.

### LISTING EXPENSES

Assuming the Offer Price of HK\$0.35 per Offer Share, being the mid-point of the indicative range of the Offer Price stated in this prospectus, the Listing expenses, which are non-recurrence in nature, are estimated to be approximately HK\$25.2 million (including the underwriting commission).

Approximately HK\$8.0 million of our estimated Listing expenses is directly attributable to the issue of the Offer Shares and is to be accounted for as a deduction from equity in accordance with the relevant accounting standard. The remaining amount of approximately HK\$17.2 million has been or will be charged to profit or loss, of which (i) approximately HK\$6.6 million was recognised for FY2017 (as set out in Appendix I to this prospectus); and (ii) the balance of approximately HK\$10.6 million is expected to be charged for the year ending 31 December 2018.

Our Directors would like to emphasise that the Listing expenses stated above are the current estimation purely for the purpose of reference, and the actual amount to be recognised is subject to adjustments based on changes in variables and assumptions. Expenses in relation to the Listing are non-recurring in nature. Prospective investors should note that the financial performance of our Group for the year ending 31 December 2018 would be materially and adversely affected by the Listing expenses mentioned above.

### RECENT DEVELOPMENT SUBSEQUENT TO THE TRACK RECORD PERIOD

Subsequent to the Track Record Period and up to the Latest Practicable Date, our Directors confirm that there had not been any material changes to our business model, revenue structure and cost structure. Our principal business continued to include the sale of home furniture and accessories, rental of home furniture and accessories, and project and hospitality services. As at the Latest Practicable Date, we operated a total of 11 retail stores including one store in Yuen Long in Hong Kong which commenced operations in May 2018, of which nine were in Hong Kong, one in China and one in UAE.

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## FINANCIAL INFORMATION

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As at the Latest Practicable Date, we rely on the New Contractual Arrangements for our control over Indigo Dubai. It was announced by the UAE Cabinet that it had decided to allow 100% foreign ownership in companies registered in UAE and a detailed study expected to be published in the third quarter of 2018 with global investor ownership expected to reach 100% by the end of 2018. It is our Company's intention that, in the event it becomes legally feasible for us to hold our interest in Indigo Dubai ourselves without reliance on the Contractual Arrangements, our Company will act to exercise our rights under the New Contractual Arrangement to secure such interests. However, as at the Latest Practicable Date, as advised by our UAE Legal Advisers, the enactment timetable, interpretation and implementation of such proposed changes to the UAE law is currently uncertain. Please refer to the sections headed "Risk factors" and "Contractual Arrangements" of this prospectus.

According to the unaudited management accounts of our Group, our unaudited revenue amounted to approximately HK\$62.8 million for the three months ended 31 March 2018, representing an increase of approximately 35.8% compared to approximately HK\$46.2 million for the three months ended 31 March 2017. Such increase was mainly due to (i) an increase in corporate sales in Hong Kong and UAE; (ii) a significant increase in project and hospitality services business for the provision of total design and styling and furniture package for home buyers in Hong Kong; and (iii) partially set off by the decrease in retail business in UAE due to the introduction of 5% VAT since 1 January 2018. Our unaudited gross profit margin was decreased from approximately 64.3% for the three months ended 31 March 2017 to approximately 60.1% for the three months ended 31 March 2018, which was mainly due to (i) the higher discount offered during the New Year sales for the clearance of aged stock and display items in January 2018; and (ii) the decrease in gross profit margin in rental business, as a result of the decrease in short term rental business with higher gross profit margin than that of long term rental business; and (iii) a significant increase in revenue in project and hospitality services business with lower gross profit margin compared to other business lines, which lower the overall gross profit margin of our Group. The above represents our management's analysis on our results of operations for the three months ended 31 March 2018. Our Directors are responsible for the preparation and fair presentation of the unaudited consolidated financial statements of our Group for the three months ended 31 March 2018 in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the HKICPA. Our consolidated financial statements for the three months ended 31 March 2018 are unaudited but have been reviewed by our reporting accountants, Baker Tilly Hong Kong Limited, in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

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## FINANCIAL INFORMATION

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As at 30 April 2018, the outstanding project value on hand of our rental of home furniture and accessories amounted to approximately HK\$13.3 million. Subsequent to the Track Record Period, from 1 January 2018 to 31 May 2018, the recognised project value was approximately HK\$14.8 million and the outstanding project value on hand for our project and hospitality services amounted to approximately HK\$27.8 million as at 31 May 2018. To the best estimation of our Directors, we expect to recognise such revenue in the years ending 31 December 2018 and 2019. In view of the completion of an apartment project involving the provision of property design, styling and furniture package for Customer B in UAE for the year ended 31 December 2017, it is expected that the revenue generated from the project and hospitality services business in UAE from Customer B may decrease.

Prospective investors are specifically warned that given (i) the estimated non-recurring Listing expenses of our Group, of which approximately HK\$10.6 million are expected to be charged to profit or loss of our Group for the year ending 31 December 2018; and (ii) the increase in administrative and other operating expenses due to the opening of new stores in Yuen Long in May 2018 and in Shanghai in the second half of 2018 according to our Group's future plans prior to achieve an operating breakeven, our Group's profit for the year ending 31 December 2018 may show a substantial decline as compared to that of the previous financial year. Prospective investors are specifically warned that, given the aforesaid expenses, our Group's financial performance for the year ending 31 December 2018 may not be comparable to that of the previous year.

### **NO MATERIAL ADVERSE CHANGE**

Our Directors confirmed that, save for the non-recurring Listing expenses as disclosed above, up to the date of this prospectus, there had been no material adverse change in the financial or trading position of our Group after 31 December 2017 (being the latest reporting date of the Accountants' Report in Appendix I to this prospectus) and there has been no occurrence of any event after 31 December 2017 which would materially affect the information shown in the Accountants' Report in Appendix I to this prospectus.

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## DIRECTORS AND SENIOR MANAGEMENT

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### SUMMARY OF DIRECTORS AND SENIOR MANAGEMENT

Our Board consists of seven Directors, including three executive Directors, one non-executive Director and three independent non-executive Directors. Our Board is responsible for and has general powers for the management and conduct of our business. Our senior management consists of seven members. The following table sets forth certain information in respect of our Directors and senior management:

#### Directors

Name	Age	Present position	Date of joining our Group	Date of appointment as Director	Roles and responsibilities	Relationship with other Directors and senior management
<i>Executive Directors</i>						
Mr. John Warren McLennan	55	Executive Director and chairman	July 2002	1 September 2017	Responsible for overall strategic, creative vision and project business of our Group.	Spouse of Mrs. McLennan
Ms. Tracy-Ann Fitzpatrick	51	Executive Director, chief executive officer and vice-chairman	February 2007	4 February 2018	Responsible for the day to day operation of the global business of our Group	None
Ms. Mok Lai Yin Fiona	45	Executive Director	December 1999	4 February 2018	Responsible for corporate sales of our Group	None

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## DIRECTORS AND SENIOR MANAGEMENT

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Name	Age	Present position	Date of joining our Group	Date of appointment as Director	Roles and responsibilities	Relationship with other Directors and senior management
<i>Non-executive Director</i>						
Mrs. Jennifer Carver McLennan	55	Non-executive Director	4 February 2018	4 February 2018	Responsible for assisting our Group in financial strategic planning	Spouse of Mr. McLennan
<i>Independent non-executive Directors</i>						
Ms. Elaine June Cheung	51	Independent non-executive Director	19 June 2018	19 June 2018	Responsible for giving independent advice to our Board	None
Mr. Roderick Donald Nichol	50	Independent non-executive Director	19 June 2018	19 June 2018	Responsible for giving independent advice to our Board	None
Ms. Li Yan Yan	53	Independent non-executive Director	19 June 2018	19 June 2018	Responsible for giving independent advice to our Board	None

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## DIRECTORS AND SENIOR MANAGEMENT

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### Senior management

Name	Age	Present position	Date of joining our Group	Roles and responsibilities	Relationship with other Directors and senior management
Mr. Fu Chi Wing Jason	43	Financial controller	January 2009	Responsible for overseeing the financial and accounting functions of our Group	None
Ms. Leung Po Ling Sally	51	Retail sales director	May 2000	Responsible for overseeing all the retail sales operations in Hong Kong	None
Ms. Au Ching Wai Anya	43	China general manager	April 2011	Responsible strategic development and operations in the PRC	None
Mr. Omar Adra	38	General manager – UAE	January 2012	Responsible for all operations in the UAE	None
Ms. Ana Maria Olazabal Cunha-Reis	41	Head of image and style	April 2012	Responsible for overseeing the visual merchandising across our Group and producing catalogues	None
Ms. Young Chiu Yee Mary	39	Head of project management	April 2011	Responsible for residential and hospitality projects	None
Ms. Yvonne Louise Lacey	34	Senior buyer	March 2014	Responsible for overseeing the buying, merchandise, quality control and furniture design team	None

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## DIRECTORS AND SENIOR MANAGEMENT

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### DIRECTORS

#### Executive Directors

**Mr. John Warren McLennan**, aged 55, is our executive Director and chairman. He is our founder and joined our Group in July 2002 as managing director of Options Home Furnishings Limited, which is the predecessor of Indigo HK. Mr. McLennan is also our creative director and responsible for the overall strategic and creative development of our Group. Furthermore, Mr. McLennan specifically oversees the project businesses of our Group. He is the spouse of Mrs. McLennan.

Mr. McLennan has more than 15 years of experience in the home furnishing industry. Between 1987 and 2002, Mr. McLennan worked at a number of companies in Taiwan and Hong Kong which businesses were related to children toys, premium gifts, education contents and interior design; he gained experience in setting up a business, staff management, quality control, sourcing materials and distribution.

In 1987, Mr. McLennan graduated from the University of British Columbia, Vancouver, Canada with a degree of bachelor of arts majoring in geography.

**Ms. Tracy-Ann Fitzpatrick**, aged 51, is our executive Director, chief executive officer and vice-chairman. She joined our Group in February 2007 as the director of operations. Ms. Fitzpatrick is responsible for the day to day operations of the global business of our Group.

Ms. Fitzpatrick has more than 11 years of experience in the home furnishing industry in Asia. Between 1989 and 2007, Ms. Fitzpatrick worked at a number of companies in New Zealand, Australia, and Hong Kong which businesses were related to shipping and logistics; she gained experience in general management, operation, project management and marketing.

In December 1988, Ms. Fitzpatrick graduated from the University of Otago, Otago, New Zealand with a degree of bachelor of arts.

**Ms. Mok Lai Yin Fiona**, aged 45, is our executive Director. Ms. Mok joined our Group in December 1999 as our wholesale manager, and has been our rental and project sales director since February 2007. Ms. Mok is responsible for our corporate sales and in particular, working with property developers and hospitality groups to supply, design and furnish showflats, serviced apartments and hotel rooms across Asia.

Ms. Mok has more than 18 years of experience in the home furnishing industry.

In April 2009, Ms. Mok graduated from Curtin University of Technology (now called Curtin University), Western Australia, Australia with a degree of bachelor of commerce in marketing and advertising through long-distance learning. In August 2005, Ms. Mok obtained a professional diploma in business logistics from the University of Hong Kong, School of Professional and Continuing Education.



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## DIRECTORS AND SENIOR MANAGEMENT

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### Non-executive Director

**Mrs. Jennifer Carver McLennan**, aged 55, is our non-executive Director. From April 2017 to February 2018, Mrs. McLennan acted as a consultant to our Group. Mrs. McLennan is responsible for assisting our Group in financial strategic planning. She is the spouse of Mr. McLennan and a niece of Mr. Rinderknecht.

Mrs. McLennan has more than 10 years of experience in asset management, investment advisory and technology. The following table sets forth the working experience of Mrs. McLennan:

Company name	Principal business or function	Last position(s) held	Period	Responsibilities
Atta Capital Limited (formerly called IHM Capital Limited)	An investment management firm	Responsible officer and consultant	October 2016–Present	Provision of portfolio management services
Nest Ventures Limited (formerly called Nest HK Limited)	A venture capital investment company	Investment advisor	October 2013–Present	Overseeing the vetting for startups entering the company's co-branded accelerator programmes and investing the firm's assets
Syz Asset Management (Asia) Limited (formerly called Oria Capital Limited, 3A Asia Limited and Syz & Co (Hong Kong) Limited)	A fund of hedge funds firm	Chief executive officer	July 2004–June 2010	Overseeing all operations and investment processes

In May 1985, Mrs. McLennan graduated from Pomona College in Claremont, California, USA with a degree in international relations.

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## DIRECTORS AND SENIOR MANAGEMENT

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Mrs. McLennan was a director of the following dissolved private companies incorporated in Hong Kong:

<u>Name</u>	<u>Nature of business</u>	<u>Means of dissolution</u>	<u>Date of dissolution</u>
Asianinvestor.com Limited	Provision of information about listed companies in Hong Kong to investors	Deregistration under section 291AA of the Predecessor Companies Ordinance	8 April 2004
Choice Travel Limited (formerly known as J.W. McLennan Group Limited)	Travel agency	Striking off under section 291 of the Predecessor Companies Ordinance	27 January 2006

Mrs. McLennan confirmed that, to the best of her knowledge, Asianinvestor.com Limited was solvent at the time it was dissolved. Mrs. McLennan confirmed that there was no fraudulent act or misfeasance on her part leading to the deregistration and striking off of Asianinvestor.com Limited and Choice Travel Limited, respectively, and she was not aware of any actual or potential claim which had been or would be made against her as a result of the registration and striking off of Asianinvestor.com Limited and Choice Travel Limited, respectively.

From August 2002 to July 2004, Mrs. McLennan was a director of Charles Schmitt & Associates Limited (“CSAL”). CSAL was a limited company incorporated in Hong Kong and its principal businesses were advising on corporate finance, advising on securities and asset management. A creditor of CSAL sought compulsory winding up against CSAL in September 2004. By a court order in April 2005, a liquidator was appointed to liquidate CSAL. CSAL was dissolved in March 2011.

Mrs. McLennan confirmed that there was no wrongful act on her part leading to CSAL’s liquidation and dissolution and is not aware of any actual or potential claim which has been or will be made against her as a result of such liquidation or dissolution, and that no misconduct or misfeasance on her part had been involved in the liquidation and dissolution of CSAL. Our Directors are of the view that Mrs. McLennan’s involvement with CSAL does not affect her suitability to act as a director of a listed issuer.

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## DIRECTORS AND SENIOR MANAGEMENT

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### Independent non-executive Directors

**Ms. Elaine June Cheung**, aged 51, was appointed as our independent non-executive Director on 19 June 2018. She is also a member of our Audit, Remuneration and Nomination Committees. She is responsible for giving independent advice to our Board.

Ms. Cheung has more than 16 years of experience in accounting and finance. The following table sets forth the working experience of Ms. Cheung:

Company name	Principal business or function	Last position(s) held	Period	Responsibilities
Regal Springs AG Group	A global vertically integrated aquaculture company	Chief financial officer	June 2016– Present	Overseeing financial and accounting matters
VF Corporation (NYSE stock code: VFC)	An international apparel, footwear and accessories company	Vice-president and chief financial officer	August 2013– May 2016	Overseeing financial and accounting matters
Alliance Boots Sourcing (Hong Kong) Limited	Pharmaceutical wholesaling and distribution and health and beauty retailing	Regional chief financial officer – Asia	April 2011– January 2012	Overseeing financial matters, strategy development and acquisitions
Zuellig Pharma Asia Pacific Limited (formerly called Interpharma (Asia Pacific) Limited)	Providing pharmaceutical distribution services to international healthcare corporations	Chief financial officer	October 2001– December 2010	Overseeing financial matters, risk management and strategy development and acquisitions

Ms. Cheung has extensive experience and expertise in the accounting field having served a number of sizable companies including a multinational company in wholesaling and distribution of pharmaceutical, health and beauty products, a listed international apparel, a footwear and accessories company and a company engaged in the global cultivation and distribution of agricultural products. Ms. Cheung's experience enables her to support our operations through providing advice on our financial reporting process, risk management and internal control measures and overall corporate governance. In addition, Ms. Cheung's professional accounting qualification and substantial experience in reviewing and analysing audited financial statements of public companies gained from her position as chief financial officer of a subsidiary of a listed company in the U.S., our Directors believe that Ms. Cheung would be able to discharge her duty as chairlady of the Audit Committee.

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## DIRECTORS AND SENIOR MANAGEMENT

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In 1990, Ms. Cheung graduated from San Francisco State University, California, USA with a bachelor of science degree, majoring in business administration (accounting). She has been a member of the American Institute of Certified Public Accountants since 1994. Ms. Cheung is a member of the audit committee for the United Nations World Food Programme since 2015. She serves on the Board of Governors for the American Chamber of Commerce in Hong Kong since January 2016 and is also serving as a member of its Finance Committee since then.

**Mr. Roderick Donald Nichol**, aged 50, was appointed as our independent non-executive Director on 19 June 2018. He is also a member of our Audit, Remuneration and Nomination Committees. He is responsible for giving independent advice to our Board.

Mr. Nichol has more than 19 years of experience in the private investments, consulting and investment banking industries. The following table sets forth the working experience of Mr. Nichol:

Company name	Principal business or function	Last position(s) held	Period	Responsibilities
Lionsgate Capital Limited	Private investment and advisory	Director	May 2010–Present	Overseeing consulting mandates and investment matters
Dresdner Kleinwort Limited	An investment bank	Director	July 2006–September 2009	Originating and executing financing and advisory mandates
Lionsgate Finance Limited	A debt advisory firm	Director	November 2002–June 2006	Advising on debt financing and private placements of debt securities
Bank of America Merrill Lynch International Limited	A global investment bank	Senior originator	July 1997–September 1997 and August 1998–May 2001	Originating and executing financing and advisory mandates

In 1990, Mr. Nichol received a bachelor of commerce degree from the University of British Columbia, Vancouver, Canada. In 1998, Mr. Nichol graduated from the London Business School, the University of London, the United Kingdom with a master of business administration degree.

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## DIRECTORS AND SENIOR MANAGEMENT

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Mr. Nichol was a director of Lionsgate Finance Limited, a private limited company incorporated in the United Kingdom whose principal business was the provision of debt advisory services. Lionsgate Finance Limited was dissolved by striking off on 1 May 2007. Mr. Nichol confirmed that, to the best of his knowledge, Lionsgate Finance Limited was solvent at the time it was struck off. Mr. Nichol confirmed that there was no fraudulent act or misfeasance on his part leading to the striking off of Lionsgate Finance Limited, and he was not aware of any actual or potential claim which had been or would be made against him as a result of the striking off of Lionsgate Finance Limited.

**Ms. Li Yan Yan**, aged 53, was appointed as our independent non-executive Director on 19 June 2018. She is also a member of our Audit, Remuneration and Nomination Committees. She is responsible for giving independent advice to our Board.

Ms. Li has around 20 years of experience in legal and compliance in the asset management, consulting and investment banking industries. The following table sets forth the working experience of Ms. Li:

Company name	Principal business or function	Last position(s) held	Period	Responsibilities
SAIL Advisors Limited	A fund of hedge funds firm	Responsible officer	May 2018– Present	Discharge the functions and responsibilities of a Responsible Officer of the firm
		Managing director, head of legal and compliance, Chief operating officer and responsible officer	April 2007– April 2018	Responsible for the operations of the business and the legal and compliance matters of the firm and the funds managed by the firm
State Street Global Advisors (Hong Kong) Limited	An investment management firm	Head of legal and compliance	February 2000– April 2007	Responsible for the legal and compliance matters
Dresdner Bank AG Hong Kong Branch	An international investment bank	Compliance officer	June 1998– February 2000	Responsible for the legal and compliance matters

In May 1989, Ms. Li graduated from the University of British Columbia, Vancouver, Canada with a bachelor of laws degree. She was also admitted to practise law as a solicitor in British Columbia, Canada in August 1990, in England and Wales in March 1992 and in Hong Kong in June 1992.

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## DIRECTORS AND SENIOR MANAGEMENT

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Ms. Li was a director of State Street Mansion House Investment Management Services Limited (“**State Street Mansion House**”), a private limited company incorporated in Hong Kong. State Street Mansion House never commenced business and was deregistered on 17 October 2003. Ms. Li confirmed that, to the best of her knowledge, State Street Mansion House was solvent at the time it was deregistered. Ms. Li confirmed that there was no fraudulent act or misfeasance on her part leading to the deregistration of State Street Mansion House, and she was not aware of any actual or potential claim which had been or would be made against her as a result of the deregistration of State Street Mansion House.

### **DISCLOSURE REQUIRED UNDER RULE 17.50(2) OF THE GEM LISTING RULES**

Save as disclosed above, each of our Directors confirms with respect of himself/herself that: (i) he/she has not held any directorship in the three years prior to the Latest Practicable Date in other public companies, the securities of which are listed on any securities market in Hong Kong or overseas; (ii) he/she does not hold other positions in our Company or other members of our Group; (iii) he/she is independent from and he/she does not have any relationship with other Directors, senior management, substantial Shareholders or Controlling Shareholders of our Company; (iv) he/she does not have any interest in our Shares within the meaning of Part XV of the SFO, save as disclosed in the paragraph headed “C. Further information about Directors and substantial Shareholders — 1. Directors” in Appendix IV of this prospectus; (v) he/she does not have any interest in any business which competes or may compete, directly or indirectly, with us, which is discloseable under the GEM Listing Rules; and (vi) to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no additional information relating to our Directors that is required to be disclosed pursuant to Rule 17.50(2) of the GEM Listing Rules and no other matter with respect to their appointments that needs to be brought to the attention of our Shareholders.

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## DIRECTORS AND SENIOR MANAGEMENT

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### SENIOR MANAGEMENT

**Mr. Fu Chi Wing Jason**, aged 43, is the finance controller of our Group. He is responsible for overseeing the financial and accounting functions of Hong Kong and UAE regions of our Group.

Mr. Fu has over 21 years of experience in auditing and accountancy. The following table sets forth the working experience of Mr. Fu before he joined our Group as financial controller in January 2009:

<u>Company name</u>	<u>Principal business or function</u>	<u>Last position(s) held</u>	<u>Period</u>	<u>Responsibilities</u>
Hong Kong Carpet (Holdings) Limited (a wholly-owned subsidiary of Tai Ping Carpets International Limited which is listed on the Main Board of the Stock Exchange (Stock code: 0146))	Manufacturing carpets	Finance manager	June 1999– December 2008	Financial and accounting matters of the group
PricewaterhouseCoopers	Providing audit and assurance, tax and consulting services	Associate	September 1996– April 1999	Audit and accounting works

In November 1996, Mr. Fu graduated from the Hong Kong Polytechnic University with a degree of bachelor of arts in accountancy. He also graduated from the University of London, London, the United Kingdom, with a degree of bachelor of law as an external student through distance learning.

Mr. Fu has become a member of the Hong Kong Institute of Certified Public Accountants since January 2001. He has become a fellow member of the Association of Chartered Certified Accountants since August 2005. He has been an associate of the Hong Kong Institute of Chartered Secretaries since May 2003.

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## DIRECTORS AND SENIOR MANAGEMENT

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**Ms. Leung Po Ling Sally**, aged 51, is the retail sales director of our Group. She is responsible for overseeing all the sales operations relating to our retail stores in Hong Kong and looking for opportunities for expansion of our network of retail stores in Hong Kong.

Ms. Leung joined our Group in May 2000 and has over 17 years of experience in the furniture retail industry.

**Ms. Au Ching Wai Anya**, aged 43, is the China general manager of our Group. She is also the executive director and legal representative of Indigo China and Indigo Shanghai and a director of Deep Blue. She is responsible for strategic development and day to day operation of our Group in the PRC.

Ms. Au has over 8 years of experience in the furniture retail industry. Before joining our Group as business development manager in April 2011, she worked at Tree Limited (an indirect wholly-owned subsidiary of Tree Holdings Limited which is listed on GEM (Stock code: 8395) from 2008 to 2010.

Ms. Au completed Form 7 of secondary education in Hong Kong.

**Mr. Omar Adra**, aged 38, is the general manager of the UAE operation of our Group. He is responsible for implementing brand-recognition strategies for our brands, business development, expansion, strategic and operation development of our Group in the UAE.

Mr. Adra has over 11 years of experience in the retail industry. The following table sets forth his experience before he joined our Group in January 2012:

<u>Company name</u>	<u>Principal business or function</u>	<u>Last position(s) held</u>	<u>Period</u>	<u>Responsibilities</u>
The Landmark Group	An retail and hospitality conglomerate	Brand manager	April 2008– December 2011	Overseeing nine stores across the Middle East region
Next Retail Limited	Retailing consumer products	Sales manager	December 2003– August 2005	Coaching and training, floor planning and organising seasonal launches



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## DIRECTORS AND SENIOR MANAGEMENT

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Mr. Adra graduated from the Lebanese American University, Beirut, Lebanon with a degree of bachelor of science in business in June 2003.

**Ms. Ana Maria Olazabal Cunha-Reis**, aged 41, is the Head of Image and Style of our Group. She is responsible for overseeing the visual merchandising across our Group for all stores including new store design and layout and responsible for producing our semi-annual catalogues “*Lookbook*” and other projects including showflats styling.

Ms. Olazabal Cunha-Reis has more than 11 years in the visual merchandising industry. Before joining our Group as head of visual merchandising in April 2012, she worked in Homes in Heaven from 2006 to 2011 with her last position as buyer and creative director.

Ms. Olazabal Cunha-Reis obtained a postgraduate diploma from the University of Manchester in February 2003.

**Ms. Young Chiu Yee Mary**, aged 39, is the Head of Project Management of our Group. She is responsible for leading our project division and managing an international portfolio of residential & hospitality projects across Asia, Europe and the Middle East.

Ms. Young has over 15 years of experience in quantity surveying and project management. Before joining our Group as senior project manager in April 2011, Ms. Young worked at the London office of Tweeds, a construction consultancy company, from 2003 to 2010 with her last position as a senior quantity surveyor.

Ms. Young graduated from University College London, the University of London, London, the United Kingdom, with a bachelor degree of science in architecture, planning, building and environmental studies in August 2000. In November 2002, Ms. Young obtained a master degree of science in housing (international) from The London School of Economics and Political Science, the University of London, London, the United Kingdom.

Ms. Young is a qualified chartered surveyor and has been a professional member of the Royal Institution of Chartered Surveyors since December 2009.

**Ms. Yvonne Louise Lacey**, aged 34, is the senior buyer of our Group. She is responsible for overseeing the buying, merchandise, quality-control and overseeing our furniture design team and coordinating different departments in developing our products. She joined our Group as accessories buyer in January 2014.

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## DIRECTORS AND SENIOR MANAGEMENT

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Ms. Lacey has over 10 years of buying experience. The following table sets forth her experience before joining our Group in January 2014:

<u>Company name</u>	<u>Principal business or function</u>	<u>Last position(s) held</u>	<u>Period</u>	<u>Responsibilities</u>
British Home Stores Limited	A department store chain selling clothing and household items	Junior buyer	January 2013– December 2013	Buying upholstery and garden furniture.
Next Retail Limited	Retailing consumer products	Junior buyer	October 2007– December 2012	Buying downstairs furniture — Garden and dining

Ms. Lacey graduated from University of Strathclyde, Glasgow, the United Kingdom with a master of engineering/diploma in management of engineers in product design engineering in July 2007.

Each of the senior management of our Group confirmed that he/she had not held any directorship in the last three years in other public companies, the securities of which are listed on any securities market in Hong Kong or overseas.

### COMPANY SECRETARY

Mr. Fu Chi Wing Jason is our company secretary. For details of his biography, please refer to the paragraph headed “Senior management” in this section.

### COMPLIANCE OFFICER

Ms. Tracy-Ann Fitzpatrick is our compliance officer. For details of her biography, please refer to the paragraph headed “Directors — Executive Directors” in this section.

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## DIRECTORS AND SENIOR MANAGEMENT

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### BOARD COMMITTEES

#### **Audit Committee**

We established our Audit Committee with written terms of reference in compliance with Rule 5.29 of the GEM Listing Rules and paragraph C3.3 of the Code on Corporate Governance Practices pursuant to a resolution of our Directors passed on 19 June 2018. The primary duties of our Audit Committee are, among other things, to make recommendations to our Board on the appointment, reappointment and removal of external auditors, review the financial statements and provide advice in respect of financial reporting, oversee our financial reporting process, internal control, risk management systems and audit process, and perform other duties and responsibilities assigned by our Board.

At present, our Audit Committee comprises Ms. Elaine June Cheung, Mr. Roderick Donald Nichol and Ms. Li Yan Yan, all being our independent non-executive Directors. Ms. Elaine June Cheung is the chairlady of our Audit Committee.

#### **Remuneration Committee**

We established our Remuneration Committee with written terms of reference in compliance with Rule 5.35 of the GEM Listing Rules and paragraph B1.2 of the Code on Corporate Governance Practices pursuant to a resolution of our Directors passed on 19 June 2018. The primary duties of our Remuneration Committee are to review and approve the management's remuneration proposals, make recommendations to our Board on the remuneration package of our Directors and senior management and ensure none of our Directors determines his/her own remuneration.

At present, our Remuneration Committee comprises Mr. McLennan, being our executive Director, and Ms. Elaine June Cheung, Mr. Roderick Donald Nichol and Ms. Li Yan Yan of our independent non-executive Directors. Mr. Roderick Donald Nichol is the chairman of our Remuneration Committee.

#### **Nomination Committee**

We established our Nomination Committee with written terms of reference in compliance with paragraph A5.2 of the Code on Corporate Governance Practices pursuant to a resolution of our Directors passed on 19 June 2018. The primary duties of our Nomination Committee are to review the structure, size and composition of our Board, and select or make recommendations on the selection of individuals nominated for directorships.

At present, our Nomination Committee comprises Ms. Tracy-Ann Fitzpatrick, being our executive Director, and Ms. Elaine June Cheung, Mr. Roderick Donald Nichol and Ms. Li Yan Yan of our independent non-executive Directors. Ms. Li Yan Yan is the chairlady of our Nomination Committee.

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## DIRECTORS AND SENIOR MANAGEMENT

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### CORPORATE GOVERNANCE

Our Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. Our Group is expected to comply with the Code on Corporate Governance Practices after the Listing.

### REMUNERATION POLICY

Our Directors and senior management receive compensation in the form of salaries, benefits in kind and discretionary share options or bonuses relating to our performance. We also reimburse them for expenses which are necessary and reasonably incurred in relation to all business and affairs carried out by us from time to time or for providing services to us or executing their functions in relation to our business and operations. We regularly review and determine the remuneration and compensation package of our Directors and senior management, by reference to, among other things, market level of salaries paid by comparable companies, the respective responsibilities of our Directors and senior management and our performance.

### REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

For the years ended 31 December 2016 and 2017, the aggregate remuneration, including directors' fees, basic salaries, allowances, retirement benefit contribution and share-based compensation, paid or payable by us to our Directors was approximately HK\$6.5 million and HK\$6.8 million, respectively.

For the years ended 31 December 2016 and 2017, the aggregate amount of contributions to retirement benefit schemes for our Directors was approximately HK\$54,000 and HK\$54,000, respectively.

For the years ended 31 December 2016 and 2017, the aggregate of bonus paid to or receivable by our Directors was approximately HK\$627,000 and HK\$1.6 million, respectively.

For the years ended 31 December 2016 and 2017, the aggregate remuneration, including basic salaries and allowances, discretionary bonus and retirement benefits scheme contributions, paid or payable to the five highest paid individuals (excluding our Directors) by our Group was approximately HK\$2.7 million and HK\$3.0 million, respectively.

Save as disclosed above, no other emoluments have been paid, or are payable by us to our Directors and the five highest paid individuals during the Track Record Period.

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## DIRECTORS AND SENIOR MANAGEMENT

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Under the arrangements currently in force, we estimate the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding discretionary bonus) for the year ending 31 December 2018 will be approximately HK\$5.6 million. Following the Listing, our Remuneration Committee will make recommendations on the remuneration of our Directors taking into account the performance of our Directors and market standards and the remuneration will be subject to approval by our Shareholders. Accordingly, the historical remuneration to our Directors during the Track Record Period may not reflect the future levels of remuneration of our Directors.

During the Track Record Period, no remuneration was paid by us to, or received by, our Directors or the five highest paid individuals as an inducement to join or upon joining us or as compensation for loss of office. There was no arrangement under which any of our Directors waived or agreed to waive any remuneration during the Track Record Period.

For additional information on our Directors' remuneration during the Track Record Period as well as information on the highest paid individuals, please refer to note 11 to the Accountants' Report set out in Appendix I to this prospectus.

### COMPLIANCE ADVISER

We have appointed Altus Capital Limited as our compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules for the term commencing on the Listing Date and ended on the date on which we comply with Rule 18.03 of the GEM Listing Rules in respect of our financial results for the second full year after the Listing Date, or until the agreement is terminated, whichever is earlier.

Pursuant to Rule 6A.23 of the GEM Listing Rules, we shall consult and, if necessary, seek advice from our compliance adviser on a timely basis 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 under the GEM Listing Rules, is contemplated by our Group, including share issues and share repurchases;
- (iii) where we propose to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate to a material extent from any forecast, estimate, or other information in this prospectus; and
- (iv) where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### OVERVIEW

Upon the completion of the Share Offer and the Capitalisation Issue (taking no account of any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme), Double Lions will be interested in 63.45% of the enlarged issued share capital of our Company. The shareholders of Double Lions are as follows:

<b>Name of shareholder</b>	<b>Shareholding</b>
Mr. McLennan	40.48%
Ms. Fitzpatrick	20.00%
Ms. Bailey	14.88%
Mr. Rinderknecht	14.88%
Mr. Leach	9.76%
<b>Total</b>	<b>100.00%</b>

As explained below, Double Lions, Mr. McLennan, Ms. Fitzpatrick, Ms. Bailey, Mr. Rinderknecht and Mr. Leach executed the Deed of AIC and are deemed to be the group of Controlling Shareholders within the meaning of the GEM Listing Rules.

For the background of each of the Controlling Shareholders, please refer to the sections headed “Directors and senior management — Directors” and “History, development and Reorganisation” in this prospectus.

### ACTING IN CONCERT ARRANGEMENT

The group of Controlling Shareholders has been acting in concert with each other to exercise and implement the management and operations of our subsidiaries. On 12 February 2018, in preparation for the Listing, the group of Controlling Shareholders executed the Deed of AIC whereby they have confirmed their acting in concert arrangements in the past, as well as their intention to continue to act in the above manner (as long as they remain as Shareholders) upon Listing to consolidate their control over our Group until and unless the Deed of AIC is terminated in writing. The Deed of AIC covers our Group and contains the following salient terms:

With respect to the business of our Group, each of the Controlling Shareholders confirmed to each other that, for the entire duration when they were/are contemporaneously the Shareholders:

- a) they have agreed to, and shall continue until the termination of the Deed of AIC, consult each other and reach an unanimous consensus among themselves on such matters being the subject matters of any shareholders’ resolution, prior to putting forward such resolution to be passed at any shareholders’ meeting of any entity of our Group, and have historically voted on such resolutions in the same way; and

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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- b) they have centralised and shall continue to centralise, until the termination of the Deed of AIC, the ultimate control and right to make final decisions with respect to their interests in the business and projects of our Group.

Hence, pursuant to the Deed of AIC, the group of Controlling Shareholders will together be entitled to control 63.45% of our entire issued share capital immediately upon the completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued pursuant to the exercise of any options which have been granted under the Share Option Scheme).

### EXCLUDED BUSINESS ENGAGED BY OUR CONTROLLING SHAREHOLDERS

Notwithstanding that the principal business venture of our Controlling Shareholders is our Group, Mr. McLennan, one of our Controlling Shareholders, has interests in Winford, a company which its principal business is the provision of delivery services. Winford is separated, distinct and clearly delineated from our core business. Our Controlling Shareholders currently have no intention to include Winford into our Group.

Winford is a company incorporated in Hong Kong with limited liability. As at the Latest Practicable Date, Winford was owned as to 50% by Mr. McLennan and 50% by an Independent Third Party. Winford is primarily engaged in the provision of delivery service in Hong Kong and will continue after the Listing. Since the beginning of the Track Record Period, Winford has been providing corporate sales delivery service to Indigo HK from time to time. For details of the transactions between Indigo HK and Winford, please refer to the section headed “Connected transactions” in this prospectus.

Save and except for Winford, the group of Controlling Shareholders did not have interests in other excluded businesses.

### Delineation of business

Our Directors are of the view that Winford differs from our Group’s business based on the followings:

- Different business nature

Our Group’s principal business is to sell and lease furniture to retail and corporate customers in Hong Kong, PRC and UAE. Winford’s principal business is to provide delivery services to corporate customers in Hong Kong. Save for the delivery services provided by Winford to our Group, there is no business overlap between our Group and Winford of our Director are of the view that the business of Winford has no competition either directly or indirectly between Winford and our Group. Accordingly there is a clear delineation between the business of our Group and Winford.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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- Segregated management

Mr. McLennan, along with another Independent Third Party, form the board of directors of Winford. Despite being a director of Winford, Mr. McLennan has rarely taken part in the management of Winford. Winford is mainly managed by an Independent Third Party, who holds 50% of issued share capital of Winford. The Independent Third Party is responsible for the daily management and operation of Winford. The Independent Third Party has no intention to sell Winford to our Group.

### INDEPENDENCE OF OUR GROUP

Our Directors are of the view that we will be able to operate independently from and without undue reliance on our Controlling Shareholders and their respective close associates (other than our Group) after the Listing for the following reasons:

#### (i) Management independence

Our Board comprises three executive Directors, one non-executive Director and three independent non-executive Directors. Our Directors are of the view that we are able to operate independently from our Controlling Shareholders notwithstanding that Mr. McLennan and Ms. Fitzpatrick are executive Directors and Mrs. McLennan who is the spouse of Mr. McLennan, is a non-executive Director for the following reasons:

- a) our executive Directors, supported by our experienced full-time senior management team, oversee the day-to-day management of our Group and are responsible for the operation of our Group's business;
- b) each of our Directors is fully aware of their fiduciary duties as Directors and will dedicate their time to the management of our Group;
- c) we believe our independent non-executive Directors bring independent judgement to the decision-making process of our Board;
- d) our Directors shall not vote in any Board resolution approving any contract or arrangement or any other proposal in which he/she or any of his/her close associates has a material interest and shall not be counted in the quorum present at the particular Board meeting; and
- e) each of our Directors has undertaken that if a conflict of interest situation arises, he shall (i) not vote or be counted in the quorum of any resolution of the Board unless so authorised by the Articles, (ii) refrain from being present during the relevant discussions at Board meetings, and (iii) play no part in the decision-making process of the Board.



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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### **(ii) Operational independence**

Although our Controlling Shareholders will retain a controlling interest in our Company after the Listing, we have full rights to make all decisions regarding, and to carry out, our own business operations independently. We do not rely on our Controlling Shareholders for our supply, business development, staffing, capital, equipment, intellectual properties or marketing and sales activities upon Listing. We have independent access to suppliers and customers and an independent management team to handle our day-to-day operations. Our Company (through our subsidiaries) holds or enjoys the benefit of all relevant assets and resources necessary to carry on our businesses.

Apart from the transaction set out in the section headed “Connected transactions” in this prospectus, our Directors do not expect that there will be any other significant transactions between our Group and our Controlling Shareholders upon or shortly after the Listing.

Having considered the above, our Directors are satisfied that they are able to perform their roles in our Group independently, and our Group is capable to operate independently from our Controlling Shareholders after the Listing.

### **(iii) Financial independence**

During the Track Record Period and up to the Latest Practicable Date, our Group had its own internal control, accounting and financial management system and function, independent treasury functions for cash receipts and payment and we make financial decisions according to our own business needs.

There is no outstanding amount due from or to our Controlling Shareholders and their respective close associates as at the Latest Practicable Date. Our Directors believe that we have sufficient capital to operate our business independently, have adequate resources to support our daily operation, are capable of obtaining financing from external sources without reliance on our Controlling Shareholders after the Listing.

Based on the above, our Directors are satisfied that we have the ability to operate independently from our Controlling Shareholders and their respective close associates from a financial perspective and are able to maintain financial independence from our Controlling Shareholders and their respective close associates after the Listing.

### **(iv) Independence from our Controlling Shareholders**

Our Controlling Shareholders and Directors confirm that they and their respective close associates do not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 11.04 of the GEM Listing Rules.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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Based on the above, our Directors are satisfied that we have been operating independently from our Controlling Shareholders and their respective close associates during the Track Record Period and will continue to operate independently.

### DEED OF NON-COMPETITION

Each of our Controlling Shareholders has given certain non-competition undertakings in favour of our Company under the Deed of Non-competition, pursuant to which each of the Controlling Shareholders, jointly and severally, warrants and undertakes with our Company that, from the Listing Date and ending on the occurrence of the earlier of:

- a) any of our Controlling Shareholders and his/her/its close associates and/or successor, individually and/or collectively, cease to own 30% (or such percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) or more of the then issued share capital of our Company directly or indirectly or ceases to be deemed as our Controlling Shareholder; or
- b) the Shares cease to be listed on the Stock Exchange (except for temporary suspension of the Shares due to any reason),

he/she/it will not procure any Controlling Shareholder and his/her/its close associates (collectively, “**Controlled Persons**”) and any company directly or indirectly controlled by him/her/it (which for the purpose of the Deed of Non-competition, shall not include any member of our Group) (the “**Controlled Company**”) to: either on his/her/its own or in conjunction with any body, corporate, partnership, joint venture or other contractual agreement, whether directly or indirectly, whether for profit or not, carry on, participate in, hold, engage in, acquire or operate, or provide any form of assistance to any person, firm or company (except members of our Group) to conduct any business which, directly or indirectly, competes or may compete with the business presently carried on by our Company or any of our subsidiaries or any other business that may be carried on by any of them from time to time during the term of the Deed of Non-competition, in Hong Kong or such other places as our Company or any of our subsidiaries may conduct or carry on business from time to time, including but not limited to (i) sale of home furniture and accessories; (ii) rental of home furniture and accessories; and (iii) project and hospitality services, which typically involve designing, styling, decorating and furnishing commercial or residential properties such as hotels, serviced apartments and show flats (the “**Restricted Business**”). Such non-competition undertakings do not apply to:

- a. the holding of Shares or other securities issued by our Company or any of our subsidiaries from time to time;
- b. the holding of shares or other securities in any company which has an involvement in the Restricted Business, provided that such shares or securities are listed on a recognised stock exchange and the aggregate interest of our Controlling Shareholders and his/her/its associates (as “interest” is construed in accordance with the provisions contained in Part XV of the SFO) does not amount to more than 10% of the relevant share capital of the company in question;

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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- c. the contracts and other agreements entered into between our Group and our Controlling Shareholders and/or his/her/its close associates; and
- d. the involvement, participation or engagement of our Controlling Shareholders and/or his/her/its close associates in the Restricted Business in relation to which our Company has agreed in writing to such involvement, participation or engagement, following a decision by our independent non-executive Directors to allow such involvement, participation or engagement subject to any conditions our independent non-executive Directors may require to be imposed.

### Options for New Business Opportunities

If any Controlling Shareholder, any of his/her/its close associates and/or any Controlled Company is offered or becomes aware of any business opportunity directly or indirectly to engage in or own the Restricted Business (the “**New Business Opportunity**”):

- (i) he/she/it shall promptly notify our Company of such New Business Opportunity in writing and refer the same to our Company for consideration and shall give written notice to our Company containing all information reasonably necessary for our Company to consider whether (i) the New Business Opportunity would constitute competition with the Restricted Business; and (ii) it is in the interest of our Group to pursue the New Business Opportunity; and
- (ii) he/she/it shall not, and shall procure that his/her/its Controlled Persons or Controlled Companies not to, invest or participate in any New Business Opportunity, unless such New Business Opportunity is rejected by the independent committee of our Board (the “**Independent Board Committee**”) comprising of our independent non-executive Directors from time to time who do not have any material interest in the Restricted Business and/or the New Business Opportunity and the principal terms of which our Controlling Shareholder or his/her/its Controlled Persons or Controlled Companies invest or participate in are no more favourable than those made available to our Company.

Our Controlling Shareholder may only engage in the New Business Opportunity if a notice is received from the Independent Board Committee confirming that the New Business Opportunity is not accepted by our Company and/or does not constitute competition with the Restricted Business.

### General undertakings

To ensure the performance of the above non-competition undertakings given under the Deed of Non-Competition, our Controlling Shareholders shall, among others:

- (i) keep the Board informed of any matter of potential conflicts of interest between the Controlling Shareholders and our Group;
- (ii) when required by our Company, provide all information necessary for the Independent Board Committee to conduct annual examination, including all relevant financial, operational and market information and other necessary information, with regard to the compliance of the terms of the Deed of Non-competition and the enforcement thereof;

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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- (iii) procure our Company to disclose to the public either in the annual, interim or quarterly report of our Company or issuing a public announcement in relation to any decisions made by our Independent Board Committee with regard to the compliance of the GEM Listing Rules and the terms of the Deed of Non-competition and the enforcement thereof;
- (iv) where our Independent Board Committee shall deem fit, make a declaration in relation to the compliance of the terms of the Deed of Non-competition in the annual, interim or quarterly report of our Company, and ensure that the disclosure of information relating to compliance with the terms of the Deed of Non-competition and the enforcement of it are in accordance with the requirements of the GEM Listing Rules;
- (v) where our Independent Board Committee has rejected the New Business Opportunity referred to by any Controlling Shareholder, any of his/her/its close associates and/or any Controlled Company regardless of whether he/she/it would thereafter invest or participate in such New Business Opportunity, procure our Company to disclose to the public either in the annual, interim or quarterly report of our Company or an announcement of the decision of our Independent Board Committee regarding the decision on the New Business Opportunity and the basis thereof; and
- (vi) during the period when the Deed of Non-competition is in force, fully and effectually indemnify our Company against any losses, liabilities, damages, costs, fees and expenses as a result of any breach on the part of our Controlling Shareholders of any statement, warrant or undertaking made under the Deed of Non-competition.

### **CORPORATE GOVERNANCE MEASURES FOR RESOLVING ACTUAL AND/OR POTENTIAL CONFLICTS OF INTERESTS**

Our Directors recognise the importance of good corporate governance in protecting our Shareholders' interests as well as resolving actual and/or potential conflicts of interests between our Company and our Controlling Shareholders and Directors. Upon the Listing, we would have adopted the following measures to safeguard good corporate governance standards and to avoid potential conflict of interests between our Group and our Controlling Shareholders and Directors:

- (i) where a Shareholders' meeting is to be held for considering proposed transactions in which any of our Controlling Shareholders or any of their associates has a material interest, the relevant Controlling Shareholder(s) will abstain from voting on the relevant resolutions and shall not be counted in the quorum in the voting;

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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- (ii) our Company has established internal control mechanisms to identify connected transactions. Upon the Listing, if our Company enters into connected transactions with our Controlling Shareholders or any of their associates, our Company will comply with the applicable GEM Listing Rules;
- (iii) the independent non-executive Directors will review, on an annual basis, whether there are any conflicts of interests between our Group and our Controlling Shareholders to ensure compliance with the Deed of Non-competition by our Controlling Shareholders (the “**Annual Review**”) and provide impartial and professional advice to protect the interests of our minority Shareholders;
- (iv) each of our Controlling Shareholders will undertake to provide all information necessary, including all relevant financial, operational and market information and any other necessary information as required by the independent non-executive Directors for the Annual Review;
- (v) our Company will disclose decisions on matters reviewed by the independent non-executive Directors on:
  - (a) reasons why the New Business Opportunity is not taken up; and
  - (b) the compliance with, and the enforcement of, the Deed of Non-competition, in our annual reports, interim reports, quarterly reports or by way of announcements in compliance with the requirements of the GEM Listing Rules;
- (vi) where our Directors reasonably request the advice of independent professionals, such as financial advisers, the appointment of such independent professionals will be made at our Company’s expenses; and
- (vii) we have appointed Altus Capital Limited as our compliance adviser to provide advice and guidance to us in respect of compliance with the applicable laws and regulations, as well as the GEM Listing Rules, including various requirements relating to corporate governance.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest that may arise between our Group and our Controlling Shareholders, and to protect our minority Shareholders’ interests after the Listing.

### LOCK-UP UNDERTAKINGS

Each of our Controlling Shareholders has given certain undertakings to our Company, the Sole Sponsor, the Joint Lead Managers and the Underwriters, details of which are set out under the paragraph headed “Underwriting — Undertakings pursuant to the Public Offer Underwriting Agreement” in this prospectus.

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## CONNECTED TRANSACTIONS

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### OVERVIEW

During the Track Record Period, our Group entered into a transaction and a series of transactions with connected persons of our Company, namely (i) Winford; and (ii) the UAE Nominee and its shareholders, respectively, in the ordinary and usual course of business of our Group which are expected to continue and will constitute continuing connected transactions (as defined under Chapter 20 of the GEM Listing Rules) of our Company upon the Listing. The continuing connected transaction with Winford is expected to be fully exempt from the reporting, announcement, annual review and independent Shareholders' approval requirements under the GEM Listing Rules for the three years ending 31 December 2020.

### The view of our Directors

Our Directors, including our independent non-executive Directors, consider that the continuing connected transactions under the 2018 Delivery Service Contract as disclosed above and their annual caps are fair and reasonable, and that such transaction has been entered into in the ordinary and usual course of business of our Group, on normal commercial terms and is fair and reasonable and is in the interests of our Company and our Shareholders as a whole.

### (1) FULLY EXEMPTED CONTINUING CONNECTED TRANSACTION – CORPORATE SALES DELIVERY SERVICE BY WINFORD

#### Relationship between our Group and the connected person

Winford is a company incorporated in Hong Kong and owned as to 50% by Mr. McLennan and 50% by an Independent Third Party. Winford is an associate of Mr. McLennan (being an executive Director and a Controlling Shareholder) and hence is a connected person of our Company under Chapter 20 of the GEM Listing Rules. As at the Latest Practicable Date, Winford is principally engaged in the provision of delivery service.

#### Historical transaction

From 1 January 2016 to 31 May 2016, Indigo HK and Winford had unwritten arrangement whereby Winford provided corporate sales delivery service to fulfill the orders of Indigo HK and Indigo HK paid delivery charges, logistic management fees and commission to Winford.

On 1 June 2016, Indigo HK and Winford entered into a corporate sales delivery service contract (the “**2016 Delivery Service Contract**”) for Winford to provide corporate sales delivery service to fulfill the orders of Indigo HK; in return, Indigo HK paid the relevant delivery charges. The 2016 Delivery Service Contract will be terminated on the Listing Date and replaced by the 2018 Delivery Service Contract (as defined below).

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## CONNECTED TRANSACTIONS

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The historical aggregate transaction amounts between our Group and Winford for the provision of the corporate sales delivery service for each of the years ended 31 December 2016 and 31 December 2017 amounted to approximately HK\$2,483,000 and HK\$2,940,000, respectively and the manpower support expense amounted to HK\$257,000 and HK\$175,000 for the years ended 31 December 2016 and 31 December 2017, respectively. The transactions with Winford during the Track Record Period were (i) conducted on normal commercial terms or better to our Group; (ii) carried out in our Group's ordinary and usual course of business; and (iii) fair and reasonable, and in the interest of our Company and our Shareholders as a whole.

### **Future services**

In anticipation of the Share Offer, on 22 June 2018, Indigo HK and Winford entered into a corporate sales delivery service contract (the "**2018 Delivery Service Contract**"), pursuant to which Winford agreed to provide delivery service and manpower support to Indigo HK from time to time. The 2018 Delivery Service Contract will commence on the Listing Date and will expire on 31 December 2020. Each Party may terminate the 2018 Delivery Service Contract by serving a written notice of 90 days to the other party.

### **Reasons for and benefits of entering into the 2018 Delivery Service Contract**

Winford had been one of the main service providers providing delivery service to our Group since 2010. We normally choose our delivery service provider by taking into account various factors including service charge, delivery schedule, payment terms and the overall terms offered by different service providers.

Having considered (i) the service provided by Winford in the past were of satisfactory quality; (ii) the prices were reasonable compared to prevailing market prices; and (iii) our Group has a regular demand for the delivery service in the operation of our business, our Directors consider that the entering into the 2018 Delivery Service Contract would allow our Group to deliver our products and services safely and stably which is necessary to our business. Further, our Directors (including our Independent Non-executive Directors) confirmed that the terms of the 2018 Delivery Service Contract are fair and reasonable, on normal commercial terms or better to our Group and in the interest of our Company and the Shareholders as a whole.

### **Annual caps in respect of the 2018 Delivery Service Contract**

Our Directors estimate that the maximum aggregate annual amount payable by our Group under the 2018 Delivery Service Contract for each of the three financial years ending 31 December 2020 will be less than HK\$3,000,000.

The above annual amounts were determined with reference to (i) the historical transaction amounts set out above; and (ii) keeping our options open to introduce more delivery service providers to support the development of our business.

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## CONNECTED TRANSACTIONS

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### **GEM Listing Rules Implications in respect of the 2018 Delivery Service Contract**

As disclosed above, Winford is a connected person of our Company for the purpose of the GEM Listing Rules. Accordingly, the 2018 Delivery Service Contract will constitute a continuing connected transaction of our Company under Chapter 20 of the GEM Listing Rules upon Listing.

As the annual consideration for the transactions contemplated under the 2018 Delivery Service Contract for each of the three financial years ending 31 December 2020 will be limited to less than HK\$3,000,000 per annum and it is estimated all percentage ratios under Rule 19.07 of the GEM Listing Rules in respect of the annual consideration for such transactions for each of the three financial years ending 31 December 2020 will be less than 5%, the transaction contemplated under the 2018 Delivery Service Contract will constitute *de minimis* transaction under Rule 20.74 of the GEM Listing Rules and thus will be exempted from all the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

### **Pricing policies and internal control**

To ensure that the transactions under the continuing connected transactions of our Company will be on normal commercial terms or better to our Group, our Company has adopted the following pricing policies and internal procedures:

- (a) the management of our Group has compared services fees from at least two suppliers which are independent third parties for transactions in similar type and quantities to determine if the price and terms offered under the 2018 Delivery Service Contract are fair and reasonable and comparable to those offered by independent suppliers;
- (b) our accounts department will supervise and monitor transaction amounts under the 2018 Delivery Service Contract and will regularly review the quotations and transaction records in respect of the 2018 Delivery Service Contract to ensure that the transactions are on normal commercial terms or better to our Group;
- (c) our Audit Committee will conduct annual review on the pricing and the annual caps of the continuing connected transactions of our Company; and
- (d) our Independent Non-executive Directors will conduct an annual review on the continuing connected transactions of our Company to ensure that the transactions are entered into on normal commercial terms, are fair and reasonable and are carried out pursuant to the 2018 Delivery Service Contract.



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## CONNECTED TRANSACTIONS

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### The view of our Directors

Our Directors, including our independent non-executive Directors, consider that the continuing connected transactions under the 2018 Delivery Service Contract as disclosed above and their annual caps are fair and reasonable, and that such transaction has been entered into in the ordinary and usual course of business of our Group, on normal commercial terms and is fair and reasonable and is in the interests of our Company and our Shareholders as a whole.

### (2) NON-EXEMPTED CONTINUING CONNECTED TRANSACTIONS – CORPORATE NOMINEE SERVICE AGREEMENT AND CONTRACTUAL ARRANGEMENTS

Certain transactions have been carried out by our Group and connected persons of our Group and are expected to continue after the Listing, which will constitute continuing connected transactions and will not be exempt from all reporting, announcement and/or independent Shareholders' approval requirements set out in Chapter 20 of the GEM Listing Rules upon the Listing.

As disclosed in the section headed "Contractual Arrangements" of this prospectus, the UAE laws limits non-Gulf Cooperation Council/UAE Entities to owning no more than 49% of the share capital in a UAE limited company, and the Anti-Fronting Law, on its face, has the effect of prohibiting situations where companies seek to circumvent the 51/49 foreign ownership restrictions. As a result, in order to protect our Group's interests in the UAE, our Group, the UAE Nominee and its shareholders entered into the following two transactions (collectively, the "UAE Transactions"):

#### (i) Service Agreement

Pursuant to the terms of a service agreement (the "Service Agreement") dated 29 March 2018, the UAE Nominee will assist Deep Ocean SPV and/or Indigo Dubai to obtain and maintain company registration and licenses, apply visas for employees of Indigo Dubai and their respective family members to work and stay in the UAE and assist with other company secretarial and legal matters necessary for Deep Ocean SPV and Indigo Dubai to operate in the UAE.

For each of the two years ended 31 December 2016 and 31 December 2017, our Group paid the UAE Nominee approximately AED295,000 (approximately HK\$628,000) and AED356,000 (approximately HK\$758,000), respectively for the corporate nominee services in relation to Indigo Dubai. The transactions with the UAE Nominee during the Track Record Period were necessary for Indigo Dubai to operate.

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## CONNECTED TRANSACTIONS

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### (ii) New Contractual Arrangements

There are a series of agreements narrowly tailored to provide our Group with control and ownership over Indigo Dubai, achieve the business purposes of our Group, minimise the potential for conflict with relevant UAE laws and regulations and grant our Group the right to acquire the equity interests of Indigo Dubai when permitted by the UAE laws and regulations.

The New Contractual Arrangements consist of: (a) the New Loan Agreement; (b) the Share Charge; (c) the proxy dated 7 March 2018 entered into by Deep Ocean SPV in favour of Pacific Legend Development; (d) the SPOA; (e) the undertaking dated 7 March 2018 entered into by the UAE Nominee, Deep Ocean SPV and the shareholders of the UAE Nominees in favour of Pacific Legend Development; and (f) the GPOA. Please refer to the paragraph headed “Contractual Arrangements — New Contractual Arrangements” in this prospectus for further details. Our UAE Legal Advisers confirmed that the New Contractual Arrangements as a whole and each of the agreements comprising the New Contractual Arrangements are/is valid and enforceable under applicable UAE laws and regulations.

Under the New Loan Agreement, Pacific Legend Development lends the UAE Nominee US\$10,000 (approximately HK\$78,200) (for subscribing the entire share capital of Deep Ocean SPV) and approximately AED13.9 million (approximately HK\$29.6 million) (for paying 51% of Indigo Dubai, which value was by reference to the unaudited net asset value of Indigo Dubai as at 31 December 2017). Under the Share Charge, the UAE Nominee charges the entire share capital of Deep Ocean SPV to Pacific Legend Development as security for the repayment of the loans pursuant to the New Loan Agreement.

There is no additional payment from our Group to the UAE Nominee in respect of the New Contractual Arrangements.

### Relevant connected persons

The table below sets forth the connected persons of our Company involved in the UAE Transactions and the nature of their respective connections with our Group:

<u>Name of connected person</u>	<u>Connected relationship</u>
UAE Nominee	The UAE Nominee is a corporate nominee service provider. The UAE Nominee owns 51% legal interests in Indigo Dubai and, through the New Contractual Arrangements, has enabled our Group to have 100% control over Indigo Dubai. The UAE Nominee is regarded as a connected person of our Company.

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## CONNECTED TRANSACTIONS

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<u>Name of connected person</u>	<u>Connected relationship</u>
Mr. Mohamed Ameen Hasan Mohamed Mubasheri Almarzooqi	Mr. Mohamed Ameen Hasan Mohamed Mubasheri Almarzooqi owns 90% of the UAE Nominee and is therefore a connected person of our Company.
Ms. Maimoona Abdulla Ali Ahmed Alrais	Ms. Maimoona Abdulla Ali Ahmed Alrais is the spouse of Mr. Mohamed Ameen Hasan Mohamed Mubasheri Almarzooqi and is therefore a connected person of our Company.

### **Reasons for and benefits of entering into the UAE Transactions**

According to our UAE Legal Advisers, it is a common and widely accepted practice (both by the advisory community and the UAE regulators) for the shareholders of limited liability companies established in the UAE to enter into a suite of contractual documents, the effect of which is to permit the non-GCC/UAE Entities to retain 100% of the economic and beneficial interests in as well as control over in the limited liability company. It was on this basis only that the Service Agreement and the New Contractual Arrangements were drawn up. Our Group worked with the UAE Nominee since 2006.

Having considered (i) the quality of service provided by the UAE Nominee in the past 12 years; (ii) the prices were reasonable compared to prevailing market prices; and (iii) there is a need for our Group to continue working with the UAE Nominee, our Directors consider entering into the Service Agreement and the Contractual Arrangements allows our Group to continue retaining control over Indigo Dubai.

### **The view of our Directors**

For the reasons stated above, our Directors (including our independent non-executive Directors) are of the view that the UAE Transactions and the transactions contemplated thereunder are fundamental to our Group's legal structure and operation of its business in the UAE. Such transactions have been and will continue to be entered into in the ordinary and usual course of business of our Group on normal commercial terms and are fair and reasonable to our Company and in the interests of our Company and our Shareholders as a whole.

Our Directors also believe that the structure allows Indigo Dubai to be accounted for as a wholly owned subsidiary of our Group. Accordingly, notwithstanding that the UAE Transactions technically constitute non-exempt continuing connected transactions for the purposes of Chapter 20 of the GEM Listing Rules, our Directors consider that it would be unduly burdensome and impracticable and would impose unnecessary administrative costs on us to be subject to strict compliance with the requirements set out under Chapter 20 of the GEM Listing Rules in respect of these continuing connected transactions.

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## CONNECTED TRANSACTIONS

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Our Directors further confirm that it is a normal business practice and in the best interests of our Company and our Shareholders as a whole for the New Contractual Arrangements and the Service Agreement to be of a duration longer than three years.

### **GEM Listing Rules implication and waiver application**

The UAE Transactions constitute continuing connected transactions for our Company which are subject to the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

Accordingly, pursuant to Rule 20.100 of the GEM Listing Rules, we have applied for and the Stock Exchange has agreed to grant a waiver from (i) strict compliance with the announcement and independent Shareholders' approval under Chapter 20 of the GEM Listing Rules in respect of the UAE Transactions; (ii) setting a maximum aggregate annual value, i.e. an annual cap, for the fees payable to the UAE Nominee under the UAE Transactions; and (iii) fixing the term of the New Contractual Arrangements and/or the Service Agreement to three years or less, for so long as the Shares are listed on the Stock Exchange and subject to the following conditions:

- (i) no changes without independent non-executive Directors' approval: except as described below, no changes to the terms of the UAE Transactions will be made without the approval of our independent non-executive Directors;
- (ii) no changes without independent Shareholders' approval: no changes to the terms of the UAE Transactions will be made without the approval of independent Shareholders;
- (iii) economic benefits flexibility: the New Contractual Arrangements shall continue to enable our Group to receive the relevant economic benefits derived by Indigo Dubai through: (i) the business structure under which the revenue generated from the operation of Indigo Dubai is substantially retained by our Group; and (ii) the right to govern the financial and operating policies as well as, in substance, the voting rights sufficient to control Indigo Dubai;
- (iv) renewal and cloning: on the basis that the New Contractual Arrangements provide an acceptable framework for the relationship between our Company and our subsidiaries, on one hand, and the UAE Nominee and its shareholders, on the other hand, the framework of the New Contractual Arrangements may be renewed and/or cloned upon the expiry of the existing arrangements or, in relation to any existing or new special purpose vehicle or operating company engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of our Shareholders, on substantially the same terms and conditions under the New Contractual Arrangements. Such new special purpose vehicle or

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## CONNECTED TRANSACTIONS

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operating company may be established by our Group for expansion into the market due to potential business growth. If and when the term of operation of Indigo Dubai as set out in its business license comes to an end in future, our Group may also establish new companies as and when considered necessary. The directors, chief executive or substantial shareholders (as defined in the GEM Listing Rules) of any existing or new special purpose vehicle or operating company that our Group may establish upon renewal and/or cloning of the New Contractual Arrangements will be treated as connected persons of our Company and transactions between these connected persons and our Company other than those under the same or substantially similar contractual arrangements shall comply with Chapter 20 of the GEM Listing Rules. This condition is subject to relevant UAE laws, regulations and approvals; and

- (v) ongoing reporting and approvals: our Company will disclose details relating to the UAE Transactions on an ongoing basis as follows:
  - (a) details of the UAE Transactions will be disclosed in our Company's annual reports and accounts in accordance with the relevant provisions of the GEM Listing Rules;
  - (b) our independent non-executive Directors will review the UAE Transactions annually, and confirm in our Company's annual reports and accounts for the relevant year that: (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the UAE Transactions so that the revenue generated by Indigo Dubai have been mainly retained by our Group; (ii) no dividends or other distributions have been made by Indigo Dubai to the holders of its equity interests which are not retained by or assigned or transferred to our Group; and (iii) any new contractual arrangements entered into, renewed or reproduced between the UAE Nominee and our Group during the relevant financial period are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of our Company and our Shareholders as a whole;
  - (c) our auditor will carry out review of procedures annually on the transactions under the UAE Transactions and will provide a letter to our Directors with a copy to the Stock Exchange, at least ten Business Days before the bulk-printing of our Company's annual report, reporting their findings as to whether the transactions have received the approval of our Directors, have been entered into in accordance with the relevant UAE Transactions and that no dividends or other distributions have been made by Indigo Dubai to the holders of its equity interests which are not retained by or assigned or transferred to our Group;

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## CONNECTED TRANSACTIONS

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- (d) for the purposes of Chapter 20 of the GEM Listing Rules, Indigo Dubai will be treated as our Company's wholly owned subsidiary, and the directors, chief executives or substantial shareholders of Indigo Dubai and their respective associates will be connected persons, and transactions between these connected persons and our Group, other than those under the UAE Transactions or any substantially similar arrangements, will be subject to requirements under Chapter 20 of the GEM Listing Rules; and
- (e) Deep Ocean SPV and Indigo Dubai will undertake to provide our Company's management and auditor full access to their relevant records for the purpose of our auditor's review of the connected transactions.

### **Sole Sponsor's confirmation**

The Sole Sponsor has reviewed the relevant documents and information provided by our Group, has participated in the due diligence and discussions with our management and our UAE Legal Advisers and has obtained necessary representations and confirmations from our Company and our Directors. Based on the above, the Sole Sponsor is of the view that the UAE Transactions are fundamental to our Group's legal structure and business operations.

The Sole Sponsor has confirmed to our Company that the Sole Sponsor is of the opinion that the non-exempt continuing connected transactions have been entered into in the ordinary and usual course of business of our Company on normal commercial terms and are fair and reasonable to our Company and in the interests of our Company and our Shareholders as a whole. With respect to the terms of the relevant agreements constituting the UAE Transactions which term is of a duration longer than three years, it is a justifiable and normal business practice to ensure that (i) the financial and operational policies of Indigo Dubai can be effectively controlled by our Group; (ii) our Group can obtain the economic benefits from the operation of Indigo Dubai; and (iii) any possible dissipation of assets and values of Indigo Dubai can be prevented.

## SUBSTANTIAL AND SIGNIFICANT SHAREHOLDERS

Immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Share which may be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme), the following persons and/or entities will have an interest or a short position in our Shares or the underlying Shares, which would be required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group and are therefore regarded as significant shareholders under the GEM Listing Rules:

Name of Shareholder	Capacity/Nature of interest	Immediately upon the completion of the Capitalisation Issue and the Share Offer	
		Number of Shares held/interested	Percentage of shareholding
		<i>(Note 1)</i>	<i>(Note 2)</i>
Double Lions	Beneficial interest	634,500,000 (L)	63.45%
Mr. McLennan	Interest in a controlled corporation and interest held jointly with other persons <i>(Note 3)</i>	634,500,000 (L)	63.45%
Mrs. McLennan	Interest of spouse <i>(Note 4)</i>	634,500,000 (L)	63.45%
Ms. Fitzpatrick	Interest in a controlled corporation and interest held jointly with other persons <i>(Note 3)</i>	634,500,000 (L)	63.45%
Mr. David Frances Bulbeck	Interest of spouse <i>(Note 5)</i>	634,500,000 (L)	63.45%
Ms. Bailey	Interest in a controlled corporation, interest held jointly with other persons <i>(Note 3)</i> and interest of spouse <i>(Note 6)</i>	634,500,000 (L)	63.45%
Mr. Leach	Interest in a controlled corporation, interest held jointly with other persons <i>(Note 3)</i> and interest of spouse <i>(Note 7)</i>	634,500,000 (L)	63.45%
Mr. Rinderknecht	Interest in a controlled corporation and interest held jointly with other persons <i>(Note 3)</i>	634,500,000 (L)	63.45%
Great Metro	Beneficial interest	75,075,000 (L)	7.51%
Mr. Kwan	Interest in a controlled corporation <i>(Note 8)</i>	75,075,000 (L)	7.51%

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## SUBSTANTIAL AND SIGNIFICANT SHAREHOLDERS

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*Notes:*

1. The letter “L” denotes the entity/person’s long position in the Shares.
2. The calculation is based on the total number of 1,000,000,000 Shares in issue immediately following the completion of the Capitalisation Issue and the Share Offer (without taking into account any Share which may be issued upon exercise of any option which may be granted under the Share Option Scheme).
3. Double Lions is owned as to 40.48% by Mr. McLennan, 20.00% by Ms. Fitzpatrick, 14.88% by Ms. Bailey, 14.88% by Mr. Rinderknecht and 9.76% by Mr. Leach. Each of the Controlling Shareholders executed the Deed of AIC and are deemed to be interested in all the Shares owned by Double Lions.
4. Mrs. McLennan is the spouse of Mr. McLennan and is deemed to be interested in the Shares held by Mr. McLennan by virtue of the SFO.
5. Mr. David Frances Bulbeck is the spouse of Ms. Fitzpatrick and is deemed to be interested in the Shares held by Ms. Fitzpatrick by virtue of the SFO.
6. Ms. Bailey is the spouse of Mr. Leach and is deemed to be interested in the Shares held by Mr. Leach via Double Lions by virtue of the SFO.
7. Mr. Leach is the spouse of Ms. Bailey and is deemed to be interested in the Shares held by Ms. Bailey by virtue of the SFO.
8. Mr. Kwan is interested in the entire issued share capital of Great Metro. Mr. Kwan is deemed to be interested in the Share held by Great Metro by virtue of the SFO.

Save as disclosed above, our Directors are not aware of any person who will, immediately following the completion of the Capitalisation Issue and the Share Offer (assuming no Shares are to be issued upon the exercise of any options which may be granted under the Share Option Scheme), have an interest or short position in our Shares or the underlying Shares, which would be required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group and are therefore regarded as significant shareholders under the GEM Listing Rules.

### UNDERTAKINGS

Each of our Controlling Shareholders has jointly and severally given certain undertaking in respect of the Shares held by them to our Company, the Sole Sponsor, the Joint Lead Managers, the Joint Bookrunners, and the Underwriters, details of which are set out in the section headed “Underwriting” in this prospectus. Our Controlling Shareholders have also given undertakings in respect of the Shares to our Company and the Stock Exchange as required by Rules 13.16A(1) and 13.19 of the GEM Listing Rules.



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## SHARE CAPITAL

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### SHARE CAPITAL

As at the Latest Practicable Date, our Company had issued 1,000 Shares.

Without taking into account any options that may be granted under the Share Option Scheme, the number of Shares issued by our Company immediately upon completion of the Capitalisation Issue and the Share Offer will be as follows:

	<i>HK\$</i>
<b>Authorised share capital</b>	
10,000,000,000 Shares of HK\$ 0.01 each	<u>100,000,000</u>
<b>Issued and to be issued:</b>	
1,000 Shares in issue immediately prior to the completion of the Share Offer	10
749,999,000 Shares to be issued under the Capitalisation Issue	7,499,990
<u>250,000,000</u> Shares to be issued under the Share Offer	<u>2,500,000</u>
<u>1,000,000,000</u> <b>Total</b>	<u>10,000,000</u>

### Assumptions

The above table assumes the Share Offer becomes unconditional and the issue of Shares pursuant to the Capitalisation Issue and the Share Offer are made as described herein. It does not take 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 or any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate given to our Directors to allot and issue or repurchase Shares referred to in the paragraph headed “Share capital — General mandate to issue Shares” or the paragraph headed “Share capital — General mandate to repurchase Shares” in this prospectus, as the case may be.

### Minimum public float

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of the Listing and at all times thereafter, our Company must maintain the minimum prescribed percentage of 25% of the issued share capital of our Company in the hands of the public (as defined in the GEM Listing Rules).

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## SHARE CAPITAL

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### Ranking

The Offer Shares will rank *pari passu* in all respects with all Shares in issue or to be issued as set out in the above table, and will qualify in full for all dividends and other distributions hereafter declared, made or paid on the Shares after the date of this prospectus other than participation in the Capitalisation Issue.

### SHARE OPTION SCHEME

Pursuant to the written resolutions of our Shareholders passed on 19 June 2018, our Company has conditionally adopted the Share Option Scheme, the principal terms of which are summarised in the paragraph headed “D. Share Option Scheme” in Appendix IV to this prospectus.

### GENERAL MANDATE TO ISSUE SHARES

Conditional on the conditions as stated in the paragraph headed “Structure and conditions of the Share Offer — Conditions of the Share Offer” in this prospectus being fulfilled, our Directors have been granted a general unconditional mandate to allot, issue and deal with the Shares with a total nominal value of not more than the sum of:

- (a) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Share Offer (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 aggregate nominal value of the share capital of our Company repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares granted to our Directors as referred to below.

Our Directors may, in addition to our 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 which may be granted under the Share Option Scheme.

This general mandate to issue Shares will remain in effect until whichever is the earliest of:

- (a) the conclusion of our Company’s next annual general meeting;
- (b) the expiration of the period within which our Company’s next annual general meeting is required to be held by any applicable laws or the Articles; and
- (c) it is varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting.

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## SHARE CAPITAL

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For further details of this general mandate, please refer to the paragraph headed “A. Further information about our Company and our subsidiaries — 3. Written resolutions of our Shareholders passed on 19 June 2018” in Appendix IV to this prospectus.

### **GENERAL MANDATE TO REPURCHASE SHARES**

Conditional on the conditions as stated in the paragraph headed “Structure and conditions of the Share Offer — Conditions of the Share Offer” in this prospectus being fulfilled, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares which may be listed on the Stock Exchange or on any other stock exchange which is recognised by the SFC and the Stock Exchange for this purpose with an aggregate nominal value of not more than 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Share Offer (excluding the Shares which may be 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 made in accordance with all applicable laws, rules and regulations and the requirements of the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the paragraph headed “A. Further information about our Company and our subsidiaries — 6. Repurchase by our Company of our own securities” in Appendix IV to this prospectus.

The general mandate to repurchase Shares will remain in effect until whichever is the earliest of:

- (a) the conclusion of our Company’s next annual general meeting;
- (b) the expiration of the period within which our Company’s next annual general meeting is required to be held by any applicable laws or the Articles; and
- (c) it is varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting.

For further details of this general mandate, please refer to the paragraph headed “A. Further information about our Company and our subsidiaries — 3. Written resolutions of our Shareholders passed on 19 June 2018” in Appendix IV to this prospectus.

### **CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED**

As a matter of the Companies Law, an exempted company is not required by law to hold any general meetings or class meetings. The holding of general meeting or class meeting is prescribed for under the articles of association of a company. Accordingly, our Company will hold general meetings as prescribed for under the Articles, a summary of which is set out in paragraph headed “2. Articles of Association” in Appendix III to this prospectus.

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## FUTURE PLANS AND USE OF PROCEEDS

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### OUR BUSINESS OBJECTIVES AND STRATEGIES

Our business objectives are to gain market share progressively and to expand our business overseas, thereby creating long-term shareholder's value. For a detailed description of our Group's future plans, please refer to the paragraph headed "Business — Our business strategies" of this prospectus.

### USE OF PROCEEDS

The net proceeds to our Company from the issue of the Offer Shares, after deducting the underwriting fees and estimated total expenses in the aggregate amount of approximately HK\$25.2 million paid and payable by our Company in connection thereto, are estimated to be approximately HK\$62.3 million (assuming an Offer Price of HK\$0.35, being the mid-point of the proposed Offer Price range of HK\$0.30 to HK\$0.40 per Offer Share). We intend to apply the net proceeds as follows:

- approximately 58.6% of the net proceeds, or approximately HK\$36.5 million, for expansion of our retail network by opening four additional retail stores by the end of 2020, of which three new stores will be in China and one new store will be in UAE;
- approximately 8.0% of net proceeds, or approximately HK\$5.0 million, for enhancing our online shop and our information technology capability;
- approximately 11.4% of the net proceeds, or approximately HK\$7.1 million, for recruiting additional staff;
- approximately 3.2% of the net proceeds, or approximately HK\$2.0 million, for recruiting additional staff for our planned new stores;
- approximately 10.4% of the net proceeds, or approximately HK\$6.5 million, for increasing our inventory; and
- approximately 8.4% of the net proceeds, or approximately HK\$5.2 million, as general working capital for our Group.

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## FUTURE PLANS AND USE OF PROCEEDS

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The net proceeds from the issue of the Offer Shares will be fully utilised by 31 December 2020 according to our current business plans. Our Directors consider that the net proceeds from the Share Offer will be sufficient to finance our business plans as scheduled up to 31 December 2020. In the event that the net proceeds from the Share Offer is insufficient to finance the capital expenditures as mentioned above, we will finance our remaining business plans up to 31 December 2020 from internal resources. We will finance any of our plans after 31 December 2020 by our internal resources.

If the Offer Price is set at the high-end or low-end of the proposed Offer Price range, the net proceeds to be received by our Company will increase to approximately HK\$12.0 millions or decrease to HK\$12.0 million, respectively. In such event, we will increase or decrease the allocation of the net proceeds to the above purposes on a pro-rata basis.

To the extent that the net proceeds from the issue of the Offer Shares are not immediately required for the purposes above, it is the present intention of our Directors that such net proceeds will be placed on short-term interest bearing deposits with authorised financial institutions in Hong Kong.

The possible use of proceeds outlined above may change in light of our evolving business needs and conditions, management requirements together with prevailing market circumstances. Should our Directors decide to re-allocate the proceeds to other business plans and/or new projects of our Group to a material extent and/or there is to be any material modification to the use of proceeds as described above, our Group will issue an announcement and make disclosure in our annual report in accordance with the GEM Listing Rules.

## FUTURE PLANS AND USE OF PROCEEDS

### IMPLEMENTATION PLANS

The total amount of listing expenses in connection with the Listing is estimated to be approximately HK\$25.2 million and will be settled from the proceeds of the Share Offer. Accordingly, the net proceeds from the Share Offer are estimated to amount to approximately HK\$62.3 million, assuming an Offer Price of HK\$0.35 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$0.30 to HK\$0.40 per Offer Share. Our Group intends to apply such net proceeds from the Share Offer as follows:

	From the Latest Practicable Date to 31 December 2018	For the six months ending 30 June 2019	For the six months ending 31 December 2019	For the six months ending 30 June 2020	For the six months ending 31 December 2020	Total	Approximate percentage of net proceeds
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	%
Expand our retail network by opening additional retail stores . . . . .	11,487	6,413	9,891	8,684	–	36,475	58.6
Enhance our online shop and our information technology capability . . . . .	1,000	500	1,050	1,400	1,050	5,000	8.0
Recruitment of additional staff . . . . .	–	700	1,300	2,562	2,562	7,124	11.4
Recruitment for our planned new retail stores . . . . .	465	301	473	381	381	2,001	3.2
Increasing our inventory . . . . .	1,300	1,300	1,300	1,300	1,300	6,500	10.4
General working capital . . . . .						5,193	8.4
<b>Total . . . . .</b>						<u>62,293</u>	<u>100</u>

Our Group's implementation plans are set forth below for the period from the Latest Practicable Date up to 31 December 2020. Investors should note that the implementation plans are drawn up based on the current economic status and the assumptions as set out in the paragraph headed "Bases and assumptions" of this section. These bases and assumptions are inherently subject to many uncertainties and unpredictable factors, in particular the risk factors as set out in the section headed "Risk factors" of this prospectus. Our Group's actual course of business may vary from the business objectives set out in this prospectus. Therefore,

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## FUTURE PLANS AND USE OF PROCEEDS

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there is no assurance that our business plans will materialise in accordance with the estimated time frame and that our future plans will be accomplished at all.

### From the Latest Practicable Date to 31 December 2018

Objective	Use of proceeds	Implementation plan
	<i>HK\$'000</i>	
Expand our retail network by opening additional retail stores	3,384	• Rental and utility deposit for the new retail store to be opened in Shanghai
	5,500	• Fitting out the new retail store to be opened in Shanghai
	953	• Procurement of initial stock for the new retail store to be opened in Shanghai
	1,650	• Ramp up capital for the new retail store to be opened in Shanghai
Enhance our information technology capability, our online shop, warehouse and logistics system, mobile application development and digital marketing	1,000	• Engaging consultant for development of mobile application for accessing our online shops, online platform, revamp and enhance our website eg. function and multiple languages
Recruitment of staff for our planned new stores	465	• Recruitment of new staff for our planned new retail store in Shanghai. The new staff to be recruited are one shop manager, one assistant shop manager, two senior sales staff, six sales staff and two design consultants whose salaries range from HK\$4,400 to HK\$17,600 per month
Increasing inventory	1,300	• Increase our inventory level for our operation, including products for kids, products exclusive for our Tmall and our product under our owned label

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## FUTURE PLANS AND USE OF PROCEEDS

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**For the six months ending 30 June 2019**

Objective	Use of proceeds	Implementation plan
	<i>HK\$'000</i>	
Expand our retail network by opening additional retail stores	1,788	• Rental and utility deposit for a new retail store to be opened in Beijing
	2,500	• Fitting out the new retail store to be opened in Beijing
	475	• Procurement of initial stock for the new retail store to be opened in Beijing
	1,650	• Ramp up capital for the new retail store to be opened in Beijing
Enhance our information technology capability, our online shop, warehouse and logistics system, mobile application development and digital marketing	500	• Engaging consultant for development of mobile application for accessing our online shops, online platform, revamp and enhance our website eg. function and multiple languages
Recruitment of staff	700	• Recruitment of three staff comprising one digital support, one accounting function and one operational staff for our PRC and Hong Kong operations who salaries range from HK\$33,000 to HK\$42,000 per month
Recruitment of staff for our planned new stores	301	• Recruitment of new staff for our planned new retail store in Beijing. The new staff to be recruited are one shop manager, one assistant shop manager, one senior sales staff, three sales staff and two design consultants whose salaries range from HK\$4,400 to HK\$17,600 per month
Increasing inventory	1,300	• Increase our inventory level for our operation, including products for kids and products exclusive for our Tmall



## FUTURE PLANS AND USE OF PROCEEDS

**For the six months ending 31 December 2019**

Objective	Use of proceeds	Implementation plan
	<i>HK\$'000</i>	
Expand our retail network by opening additional retail stores	1,788	• Rental and utility deposit for a new retail store to be opened in Beijing
	5,500	• Fitting out the new retail store to be opened in Beijing
	953	• Procurement of initial stock for the new retail store to be opened in Beijing
	1,650	• Ramp up capital for the new retail store to be opened in Beijing
Enhance our information technology capability, our online shop, warehouse and logistics system, mobile application development and digital marketing	450	• Engaging consultant for development of mobile application for accessing our online shops, online platform, revamp and enhance our website eg. function and multiple languages
	100	• Development and ongoing licenses for the radio frequency identification system for our warehouses and logistics system
	500	• Digital marketing
Recruitment of staff	1,300	• Recruitment of one managerial staff for our PRC and Hong Kong operations, and payment for three staff including one accounting function, one operational staff and one digital support who salaries range from HK\$33,000 to HK\$100,000 per month
Recruitment of staff for our planned new stores	473	• Recruitment of new staff for our planned new retail store in Beijing. The new staff to be recruited are one shop manager, one assistant shop manager, two senior sales staff, six sales staff and two design consultant whose salaries range from HK\$4,400 to HK\$17,600 per month
Increasing inventory	1,300	• Increase our inventory level for our operation, including products for kids and products exclusive for our Tmall

## FUTURE PLANS AND USE OF PROCEEDS

**For the six months ending 30 June 2020**

Objective	Use of proceeds	Implementation plan
	<i>HK\$'000</i>	
Expand our retail network by opening additional retail stores	2,034	• Rental and utility deposit for the new retail store to be opened in UAE
	4,000	• Fitting out the new retail store to be opened in UAE
	1,000	• Procurement of initial stock for the new retail store to be opened in UAE
	1,650	• Ramp up capital for the new retail store to be opened in UAE
Enhance our information technology capability, our online shop, warehouse and logistics system, mobile application development and digital marketing	700	• Ongoing license fees for the mobile application for accessing our online shops and the chatbot function in our websites
	500	• Ongoing license fees for the radio frequency identification system for our warehouses and logistics system
	200	• Digital marketing
Recruitment of staff	2,562	• Recruitment of seven staff comprising one digital support, two design consultants, and four operational staff, and payment for four staff comprising one accounting function, one operational staff, one digital support and one managerial staff for our PRC and Hong Kong operations whose salaries range from HK\$9,500 to HK\$100,000 per month
Recruitment of staff for our planned new stores	381	• Recruitment of new staff for our planned new retail store in UAE. The new staff to be recruited are one shop manager, one assistant shop manager, one senior sales staff, three sales staff and one design consultant whose salaries range from HK\$4,400 to HK\$17,600 per month
Increasing inventory	1,300	• Increase our inventory level for our operation, including products under our own label

## FUTURE PLANS AND USE OF PROCEEDS

**For the six months ending 31 December 2020**

Objective	Use of proceeds	Implementation plan
	<i>HK\$'000</i>	
Enhance our information technology capability, our online shop, warehouse and logistics system, mobile application development and digital marketing	300	• Ongoing license fees for the mobile application for accessing our online shops and the chatbot function in our websites
	500	• Ongoing license fees for the radio frequency identification system for our warehouses and logistics system
	250	• Digital marketing
Recruitment of staff	2,562	• Payment for 11 staff comprising two digital support, one accounting function, five operational staff, two design consultants and one managerial staff for our PRC and Hong Kong operations whose salaries range from HK\$9,500 to HK\$100,000 per month
Recruitment of staff for our planned new stores	381	• Payment for staff for our planned new retail store in UAE
Increasing inventory	1,300	• Increase our inventory level for our operation, including products under our own label

### BASES AND ASSUMPTIONS

The business objectives and strategies set out by our Directors are based on the following general bases and assumptions:

- our Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the business objectives relate;
- there will be no significant economic change in respect of inflation, interest rate, tax rate and currency exchange rate in Hong Kong, the PRC, the UAE or any countries or territories in which we plan to carry on business which will adversely affect our Group's business;
- there will be no material adverse changes in the existing laws and regulations, policies or industry or regulatory treatment relating to our Group, or in the political, economic, fiscal or market conditions in which our Group operates;

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## FUTURE PLANS AND USE OF PROCEEDS

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- our Directors and key senior management will continue to be involved in the development of our existing and future development and we will be able to retain our senior management team and key staff in our operations;
- we will be able to recruit additional key management personnel and staff when required;
- there will be no significant change in the business relationships with our major clients and suppliers;
- there will be no disasters, natural, political or otherwise, which would materially disrupt the business or operations of our Group or cause substantial loss, damage or destruction to its property or facilities;
- there will be no change in the effectiveness of the licences, permits and qualifications obtained by our Group;
- our Group will not be adversely affected by the risk factors as set out under the section headed “Risk factors” of this prospectus; and
- we will be able to continue our operations in substantially the same manner as it has been operating during the Track Record Period and our Group will be able to carry out the development plans without disruptions adversely affecting its operations or business objectives in any way.

### REASONS FOR THE SHARE OFFER

Our Directors believe that the listing of the Shares on GEM will facilitate the implementation of our business strategies by accessing the capital market for raising funds both at the time of the Listing and at the later stage. Currently, our Group relies on our internal funding, cash generated from its operation and bank borrowing for existing business operations and we have been maintaining a healthy cash level to support our Group’s existing operations. We believe that the net proceeds from the Share Offer are necessary for the implementation of our future plans which requires considerable additional financial resources. Our Directors believe that our Group and its shareholders will benefit as a whole from the Share Offer for the following reasons:

#### **(i) Funding our expansion plans**

Based on our current estimate, our expansion plans will involve a total investment of approximately HK\$66.6 million, of which (i) the investment cost of new retail store in Hong Kong of approximately HK\$4.3 million will be financed by our Group’s internal resources, as detailed in the paragraph headed “Business — Details of our Group’s future plan to expand our retail network”; and (ii) the implementation plan of approximately HK\$62.3 million will be financed by the net proceeds from the Share Offer, as detailed in the paragraph headed

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## FUTURE PLANS AND USE OF PROCEEDS

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“Implementation plans” in this section. Such expansion plans will equip our Group to cater for our business growth opportunities in the future, especially in the PRC and the UAE, which our Directors foresee to have a considerable growth prospect. Our Directors expect that our Group’s business growth will require us to incur considerable expenses in opening a new retail store for leasing the new premises, procurement, staff recruitment and other administrative support. Although our Group has declared a dividend of HK\$26,250,000 in January 2018 as we have not distributed of dividend to our Shareholders during the Track Record Period, our Directors consider that additional funding from the net proceeds from the Share Offer are still required and necessary to finance our business as our existing capital structure without external capital will limit the scale and pace of our growth in the future. In view of the above, our Directors considered that it is in the best interest of our Group to seek further investments from a broad shareholders’ base instead of primarily from a small group of private individual or private equity investors. Accordingly, our Directors consider it to be more cost efficient for our Group to raise funds from the capital market through the Share Offer and in the secondary market post Listing, to allow our Group’s long-term interest to be pursued.

### **(ii) Alternative to debt financing**

As at the Latest Practicable Date, save as the unutilised banking facilities of approximately of HK\$5,709,180, our Group had no bank borrowings and it is anticipated that this remains to be the case after Listing. It is anticipated that if we are to rely on bank borrowings to fund our operation and expansion, we would need to substantially increase our banking borrowings and such bank borrowings to our Group would require our shareholders to provide guarantees as security if our Company was not listed. Further, we do not have any property, plant and equipment that can be sufficiently used as collateral, our Directors consider that it would not be easy for our Group to obtain the sufficient banking facilities to fund our operation and expansion at a competitive rate in the absence of such collateral or personal guarantees from the shareholders. Although our Group was able to successfully expand our business using internally generated funds during the Track Record Period, and obtained banking facilities of HK\$8.0 million from a licensed bank in Hong Kong in 2017, our Group still plans to seek equity fund raising instead of continuing to use the historical capital structure to fund our future growth, as it will place undue financial burden on our Group in terms of cash flow if we are to apply all our internal capital resources for growth purposes. Our Directors consider that it is important for us to maintain a health cashflow to settle our trade payables and operating expenses such as rental and salaries. Our average monthly operating expenses of our Group was approximately HK\$12.2 million during the Track Record Period. Accordingly, we do not consider it preferable to utilise a significant portion of our existing cash balances without external fund raising to support our expansion plan. By contrast, equity financing does not involve recurring interest expenses and funds raised through equity financing is a committed source of capital without maturity and poised to be utilised anytime. Debt financing may, on the other hand, subject our Group to lengthy due diligence review and negotiations with the banks in respect of a private company.

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## FUTURE PLANS AND USE OF PROCEEDS

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The Share Offer, which allows us to access the capital market for fund raising, will assist our future business development and strengthen our competitiveness. Our Directors believe that the listing of the Shares on GEM will facilitate the implementation of our business strategies by accessing the capital market for raising funds both at the time of the Listing and at the later stage. While we have been maintaining a healthy cash level to support our Group's existing operations, we believe that the net proceeds from the Share Offer are necessary for the implementation of our future plans which requires considerable additional financial resources.

### **(iii) Enhance our brand awareness and publicity**

Our Directors believe that the Listing on GEM will raise our Group's brand awareness and publicity in Hong Kong and overseas, making our Group's range of services known to new potential local and overseas customers and business partners, in the hope of leading to an increase in market share. Our Directors also believe that customers and suppliers may prefer to deal with listed corporation given their reputation, listing status, public financial disclosures and enhanced internal control system and corporate governance. Thus, the publicity from the Listing would be beneficial to our Group and our Directors believe a public listing status will enhance our corporate profile and recognition and assist us in reinforcing our corporate image.

### **(iv) Meaningful incentive scheme to retain talents**

In addition, a public listing status may also enable us to attract and retain talents. We have, as part of the Listing, adopted the Share Option Scheme as our incentives to our employees. The Listing enables us to adopt a meaningful stock options programme for our employees to drive their performance and commitment. This is because when our Shares are publicly traded, the share price hinges on our performance, which indirectly is attributable to the employees' efforts and yet at the same time this enables employees who acquire our Shares pursuant to the Share Option Scheme to trade their Shares in an open market.

### **(v) Broader shareholder base**

A public listing status on GEM may also offer our Company a broader shareholder base which can potentially lead to a more liquid market in the trading of our Shares. We also believe that our internal control and corporate governance practices can be further enhanced following the Listing.

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## UNDERWRITING

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### UNDERWRITERS

#### Public Offer Underwriters

Aristo Securities Limited  
Supreme China Securities Limited  
Opus Capital Limited  
Success Securities Limited

#### Placing Underwriters

Aristo Securities Limited  
Supreme China Securities Limited  
Opus Capital Limited  
Success Securities Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Public Offer

##### *Public Offer Underwriting Agreement*

Pursuant to the Public Offer Underwriting Agreement, our Company is offering 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.

The Public Offer Underwriting Agreement is conditional upon and subject to, amongst others, the Offer Price having been agreed between the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) and our Company.

Subject to, among other conditions, the Listing Division granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriters have agreed to subscribe or procure subscribers to subscribe for the Public Offer Shares which are not taken up under the Public Offer.

##### *Grounds for termination*

The Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) shall have the right upon giving a written notice to our Company to terminate the Public Offer Underwriting Agreement with immediate effect if any of the following events occur at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (which is expected to be on 18 July 2018):

- (A) if it has come to the notice of the Joint Lead Managers:

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## UNDERWRITING

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- (i) any matter or event showing any of the representations, warranties and undertakings contained in the Public Offer Underwriting Agreement to be untrue, inaccurate or misleading in any material aspect when given or repeated or there has been a breach of any of such representations, warranties and undertakings or any other provision of the Public Offer Underwriting Agreement by any party to the Public Offer Underwriting Agreement other than the Public Offer Underwriters which, in any such cases, is considered, in the absolute opinion of the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters), to be material in the context of the Public Offer; or
- (ii) any matter which, had it arisen immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted a material omission in the absolute opinion of the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) in the context of the Public Offer; or
- (iii) any statement contained in this prospectus considered to be material by the Joint Lead Managers in its absolute opinion which is discovered to be or becomes untrue, incorrect or misleading in any respect is considered in the absolute opinion of the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) to be material; or
- (iv) any event, act or omission which gives rise or is likely to give rise to any liability of any of our Company, the executive Directors and our Controlling Shareholders pursuant to the indemnities contained in the Public Offer Underwriting Agreement; or
- (v) any breach by any party to the Public Offer Underwriting Agreement other than the Public Offer Underwriters of any provision of the Public Offer Underwriting Agreement which is considered in the absolute opinion of the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) to be material; or
- (vi) any adverse change or a prospective adverse change in the business, results of operation, financial or trading position, or prospects of our Group as a whole the effect of which is, in the absolute opinion of the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters), so material and adverse as to make it impracticable or inadvisable to proceed with the Share Offer; or
- (vii) approval by the Stock Exchange of the listing of, and permission to deal in, the Shares is refused or not granted, or if granted, the approval is subsequently withdrawn, qualified or withheld; or



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## UNDERWRITING

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(viii) any person (other than the Joint Lead Managers and the Public Offer Underwriters) has withdrawn or sought to withdraw its consent to being named in this prospectus or to the issue of this prospectus; or

(B) if there develops, occurs, exists or comes 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:

(i) any new law or regulation or any material 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 Cayman Islands, the BVI, the UAE, the PRC or any other jurisdiction relevant to any member of our Group (the “**Relevant Jurisdictions**”); or

(ii) any change (whether or not permanent) in local, national or international stock market conditions; or

(iii) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange or other major stock exchanges in the United States, the United Kingdom or the PRC due to exceptional financial circumstances or otherwise; or

(iv) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in any of the Relevant Jurisdictions; or

(v) any change or development or event involving a prospective change in our Group’s assets, liabilities, profit, losses, performance, condition, business, financial, earnings, trading position or prospects; or

(vi) any change or development (whether or not permanent), or any event or series of events resulting in any change in local, national, regional or international financial, political, military, industrial, legal, economic, currency market, fiscal or regulatory or market matters or conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong and/or United Arab Emirates currency is linked to that of the currency of the United States or a devaluation of the Renminbi against any foreign currencies) in or affecting any of the Relevant Jurisdictions; or

(vii) a general moratorium on commercial banking business activities in any of the Relevant Jurisdictions declared by the relevant authorities; or

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## UNDERWRITING

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- (viii) any event of force majeure including but without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, tsunami, explosion, epidemic, pandemic, act of terrorism, earthquake, strike or lock-out; or
- (ix) any litigation or claim of any third party being threatened or instigated against any member of our Group, our executive Directors and/or our Controlling Shareholders; or
- (x) any change or development involving a prospective change, or materialisation of, any of the risks set out in the section headed “Risk factors” in this prospectus; or
- (xi) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any of the Relevant Jurisdictions; or
- (xii) any imposition of economic or other sanctions, in whatever form, directly or indirectly, by or to any of the Relevant Jurisdictions; or
- (xiii) a petition is presented for the winding up or liquidation of any member of our Group, or any member of our Group makes any compromise or arrangement with our Company or its creditors or enter into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or
- (xiv) a valid demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which such member of our Group is liable prior to its stated maturity, or any loss or damage sustained any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person); or
- (xv) any judicial, regulatory or governmental authority or political body or organisation in any of the Relevant Jurisdictions commencing any investigation, action, claim or proceedings, or announcing an intention to investigate or take any action, against any Director; or
- (xvi) any Director being charged with an indictable offence or prohibited by the operation of law or otherwise disqualified from taking part in the management of a company; or

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## UNDERWRITING

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- (xvii) the chairperson or chief executive officer of our Company vacating his/her office; or
- (xviii) any prohibition on our Company for whatever reason from allotting or selling the Offer Shares pursuant to the Share Offer and the terms set out in the Public Offer Underwriting Agreement and this prospectus; or
- (xix) other than with the approval of the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters), the issue or the requirement to issue by our Company of any supplement or amendment to this prospectus (or to any documents used in connection with the Share Offer) pursuant to the Companies (Miscellaneous Provisions) Ordinance or the GEM Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (xx) any event which gives rise or would give rise to any liability on the part of our Company and/or the Controlling Shareholders pursuant to the indemnity provisions contained in the Public Offer Underwriting Agreement; or
- (xxi) a breach of any of the representations, warranties and undertakings contained in the Public Offer Underwriting Agreement or of any of the other obligations imposed upon or undertakings given by our Company under the Public Offer Underwriting Agreement,

which, individually or in the aggregate, in the sole and absolute opinion of the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters):

- (a) is or will or is likely to be materially adverse to the business, financial condition or prospects of our Company and/or our Group taken as a whole; or
- (b) has or will have or is likely to have a material adverse effect on the success of the Share Offer; or
- (c) makes or will make or is likely to make it inappropriate, inadvisable or inexpedient to proceed with the Share Offer; or
- (d) has or will have the effect of making any part of the Public Offer Underwriting Agreement incapable of performance in accordance with its terms or which presents the processing of applications and/or payment pursuant to the Public Offer or pursuant to the Public Offer Underwriting Agreement.

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## UNDERWRITING

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### **Undertakings to the Stock Exchange pursuant to the GEM Listing Rules by our Company**

#### ***By our Company***

Pursuant to Rule 17.29 of the GEM Listing Rules, we have undertaken to the Stock Exchange that, no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except for the circumstances as prescribed under Rule 17.29 of the GEM Listing Rules.

#### ***By our Controlling Shareholders***

Pursuant to Rule 13.16A(1) of the GEM Listing Rules, the group of Controlling Shareholders has undertaken to the Stock Exchange and our Company respectively that, except pursuant to the Share Offer, the group of Controlling Shareholders shall not and shall procure that the relevant registered shareholder(s) shall not:

- (a) in the period commencing on the date by reference to which disclosure of its/his/her/their shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those Shares in respect of which it/he/she/they is/are shown by this prospectus to be the beneficial owners; or
- (b) in the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, the group of Controlling Shareholders would cease to be controlling shareholders (as defined in the GEM Listing Rules).

Pursuant to Rule 13.19 of the GEM Listing Rules, the group of Controlling Shareholders has also undertaken to the Stock Exchange and our Company that, within the period commencing on the date by reference to which disclosure of its/his/her/their shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, it/he/she/they will:

- (a) when it/he/she/they pledge(s) or charge(s) any Shares or other securities or interests in any securities of our Company beneficially owned by it/him/her/their in favour of any authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) pursuant to Rule 13.18(1) of the GEM Listing Rules, immediately inform us of such pledge or charge together with the number of Shares so pledged or charged; and

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## UNDERWRITING

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- (b) when it/he/she/their receive(s) indications, either verbal or written, from the pledgee or charge that any of the pledged or charged Shares or securities or interests in any securities of our Company will be disposed of, immediately inform us and the Joint Lead Managers of such indications.

Our Company shall inform the Stock Exchange in writing as soon as it has been informed of any of the matters referred to above (if any) by our Controlling Shareholders and disclose such matters by way of an announcement to be published in accordance with the GEM Listing Rules as soon as possible.

### **Undertakings pursuant to the Public Offer Underwriting Agreement**

#### ***By our Company***

Except pursuant to the Capitalisation Issue, the Share Option Scheme and the Share Offer, during the period commencing on the date of this prospectus and ending on, and including, the date that is six months after the Listing Date (the “**First Six-Month Period**”), our Company has undertaken to each of the Joint Lead Managers, the Public Offer Underwriter and the Sole Sponsor not to, and to procure each other member of our Group not to, without the prior written consent of the Joint Lead Managers (such consent not to be unreasonably withheld or delayed) and the Sole Sponsor and unless in compliance with the requirements of the GEM Listing Rules:

- (i) offer, allot, issue or sell, or agree to allot, issue or sell, hedge, grant or agree to grant any option, right or warrant over, or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by our Company or any of its affiliates), either directly or indirectly, conditionally or unconditionally, any Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or any securities convertible into or exchangeable for such Shares (or any interest in any Shares or any voting or other right attaching to any Shares); or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or such securities; or
- (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above; or

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## UNDERWRITING

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- (iv) offer or agree to do any of the foregoing transactions and publicly disclose any intention to effect such transaction, in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period).

### *By our Controlling Shareholders*

Each of our Controlling Shareholders has also undertaken to each of our Company, the Joint Lead Managers, the Public Offer Underwriters and the Sole Sponsor that, save as (i) pursuant to the Share Offer; or (ii) permitted under the GEM Listing Rules, without the prior written consent of the Joint Lead Managers (such consent not to be unreasonably withheld or delayed) and the Sole Sponsor:

- (1) he/she/it will not, at any time during the First Six-Month Period, (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable), 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 Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above, or (iv) offer to or agree to or announce any intention to effect any transaction specified in (i), (ii) or (iii) above, in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period);
- (2) he/she/it will not, during the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), enter into any of the transactions specified in subparagraphs (i), (ii) or (iii) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, he/she/it will cease to be a “controlling shareholder” (as defined in the GEM Listing Rules) of our Company; and

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## UNDERWRITING

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- (3) without prejudice to the undertakings as referred to in paragraphs (1) and (2) above, during the period commencing on the date by reference to which disclosure of its direct or indirect shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, he/she/it shall:
- (i) when he/she/it pledges or charges or otherwise creates any rights of encumbrances over any Shares or other securities of our Company beneficially owned by him/her/it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) pursuant to Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to rule 13.18(4) of the GEM Listing Rules, immediately inform our Company, the Sole Sponsor and the Joint Lead Managers of such pledge or charge or creation of the rights of encumbrances together with the number of the securities so pledged or charged and all other information as may be reasonably requested by our Company, the Sole Sponsor and/or the Joint Lead Managers; and
  - (ii) subsequent to the pledge or charge or creation of rights or encumbrances over the Shares (or interest therein) or other shares or interests as mentioned in subparagraph (i) above, when he/she/it receives any indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged or encumbered securities as referred to in sub-paragraph (i) above will be disposed of, immediately inform our Company of such indications, and inform the Sole Sponsor and the Joint Lead Managers as soon as practicable thereafter (taking into account the requirements of applicable laws, rules and regulations) of such indications.

### **Placing**

#### ***Placing Underwriting Agreement***

In connection with the Placing, it is expected that our Controlling Shareholders, executive Directors and our Company will enter into the Placing Underwriting Agreement with the Joint Lead Managers and the Joint Bookrunners and the Placing Underwriters, on the 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, subject to the conditions set forth therein, the Placing Underwriters are expected to severally, but not jointly, procure subscribers to subscribe for, or failing which they shall subscribe for, 225,000,000 Placing Shares initially being offered pursuant to the Placing.

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## UNDERWRITING

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The Placing Underwriting Agreement may be terminated on similar grounds as the Public Offer Underwriting Agreement. The Placing Underwriting Agreement is conditional on and subject to the Public Offer Underwriting Agreement having been executed, becoming unconditional and not having been terminated. Pursuant to the Placing Underwriting Agreement, our Company and our Controlling Shareholders have made similar undertakings as those given pursuant to the Public Offer Underwriting Agreement as described in the paragraph headed “Undertakings pursuant to the Public Offer Underwriting Agreement” above.

### **Commission and expenses**

The Underwriters will receive a commission of 4.0% on the aggregate Offer Price of all the Offer Shares, out of which will, as the case may be, be applied to any sub-underwriting commissions and selling concession. Assuming the Offer Price of HK\$0.35 per Offer Share, being the mid-point of the indicative range of the Offer Price stated in this prospectus, the underwriting commission will be approximately HK\$3.5 million. The underwriting commission, Stock Exchange listing fees, brokerage, Stock Exchange trading fee, SFC transaction levy, legal and other professional fees together with applicable printing and other expense relating to the Share Offer are estimated to be approximately HK\$25.2 million, which will be borne by us.

### **Underwriters’ interests in our Company**

Save for its interests and obligations under the Underwriting Agreements and save as disclosed in this prospectus, none of the Underwriters or any of its close associates is interested beneficially or non-beneficially in any shares in any member of our Group nor has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any shares of any member of our Group.

### **Compliance Adviser’s agreement**

Under the Compliance Adviser’s agreement, our Company appoints Altus Capital Limited and Altus Capital Limited agrees to act as the compliance adviser to our Company for the purpose of the GEM Listing Rules for a fee from the Listing Date and ending on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year commencing after the Listing Date or until the agreement is terminated, whichever is earlier.

### **Sponsor’s interest in our Company**

Success New Spring Capital Limited, being the Sole Sponsor, has declared its independence pursuant to Rule 6A.07 of the GEM Listing Rules. Save for the advisory and documentation fees to be paid to Success New Spring Capital as the Sole Sponsor to the Listing, its obligations under the Underwriting Agreements and any interests in securities that may be subscribed by it pursuant to the Share Offer, neither Success New Spring Capital nor any of its associates has or may, as a result of the Share Offer, have any interest in any class of securities of our Company or any other company in our Group (including options or rights to subscribe for such securities).



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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. The Share Offer consists of:

- (i) the Public Offer of 25,000,000 Shares (subject to reallocation as mentioned below) in Hong Kong as described below in the paragraph headed “The Public Offer” in this section; and
- (ii) the Placing of 225,000,000 Shares (subject to reallocation as mentioned below) to selected professional, institutional and other investors as described below in the paragraph headed “The Placing” in this section.

Investors may apply for the Shares under the Public Offer or indicate an interest, if qualified to do so, for the Shares under the Placing, but may not do both.

The Offer Shares will represent 25% of the enlarged total issued shares of our Company immediately after completion of the Share Offer and Capitalisation Issue.

The Public Offer is fully underwritten by the Public Offer Underwriters and the Placing is fully underwritten by the Placing Underwriters, in each case, on a several basis, and each being subject to the conditions set out in the section headed “Underwriting” in this prospectus.

### THE PUBLIC OFFER

#### Number of Shares initially offered

We are initially offering 25,000,000 Public Offer Shares at the Offer Price, representing 10% of the Shares initially available under the Share Offer, for subscription by the public in Hong Kong. Subject to reallocation of Offer Shares between the Placing and the Public Offer, the number of Shares initially offered under the Public Offer will represent 2.5% of our Company’s enlarged issued share capital immediately after completion of the Share Offer and the Capitalisation Issue. The Public Offer is open to members of the public in Hong Kong as well as to institutional or professional investors. Professional investors generally include brokers, dealers and companies (including fund managers) whose ordinary business involves dealing of 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” in this section.

#### Allocation

Allocation of 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

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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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.

An applicant for Shares under the Public Offer will be required to give an undertaking and confirmation in the application submitted by him/her/it that he/she/it has not applied for nor taken up any Shares under the Placing nor otherwise participated in the Placing. Applicants should note that if such undertaking and/or confirmation given by an applicant is breached and/or is untrue (as the case may be), such applicant's application under the Public Offer is liable to be rejected.

Multiple or suspected multiple applications and any application for more than 25,000,000 Public Offer Shares (being 100% of the Public Offer Shares initially comprised in the Public Offer) will be rejected.

### **Reallocation**

The allocation of 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 Lead Managers (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 Lead Managers (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 25,000,000 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 50,000,000, representing 20% of the 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 50,000,000 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 75,000,000, representing 30% of the 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 75,000,000 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 100,000,000, representing 40% of the 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 100,000,000 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 125,000,000, representing 50% of the 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 the 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 25,000,000 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 50,000,000, representing 20% of the Offer Shares initially available under the Share Offer.

In the event of reallocation of Offer Shares between the Public Offer and the Placing in the circumstances where (xx) the Placing Shares are fully subscribed or oversubscribed and the Public Offer Shares are oversubscribed by less than 15 times under paragraph (a)(ii) above or (yy) the Placing Shares are not fully subscribed and the Public Offer Shares are oversubscribed under paragraph (b)(ii) above, the final Offer Price shall be fixed at the low-end of the indicative Offer Price range (i.e. HK\$0.30 per Offer Share) stated in this prospectus.

In addition, the Joint Lead Managers 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 6 of the GEM 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. 50,000,000 Offer Shares).

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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In all cases, the number of Offer Shares allocated to the Placing will be correspondingly reduced. In addition, the Joint Lead Managers may in their sole and absolute discretion reallocate Offer Shares of the Placing to the Public Offer to satisfy valid applications under the Public Offer. The Offer Shares to be offered in the Public Offer and the Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Lead Managers.

If the Public Offer is not fully subscribed, the Joint Lead Managers 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 Lead Managers 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 initially offered

Subject to the reallocation as described above, the number of Offer Shares to be initially offered under the Placing will be 225,000,000 Shares (comprising new Shares only), 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 22.5% of our Company's enlarged issued share capital immediately after the completion of the Share Offer and the Capitalisation Issue, but without taking into account Shares which may be upon exercise of options granted under the Share Option Scheme.

#### Allocation

Pursuant to the Placing, the Placing Shares will be conditionally placed on behalf of our Company by the Placing Underwriters or through selling agents appointed by them. Placing Shares will be selectively placed to certain professional and institutional and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States. The Placing is subject to the Public Offer becoming unconditional.

Allocation of Offer Shares pursuant to the Placing will be effected in accordance with the book-building process described in the paragraph headed "Pricing and allocation" in this section and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our Shareholders as a whole.

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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The Joint Lead Managers may require any investor who has been offered Offer Shares under the Placing, and who has made an application under the Public Offer, to provide sufficient information to the Joint Lead Managers 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.

### PRICING AND ALLOCATION

#### Determining the Offer Price

The Placing Underwriters are soliciting from prospective investors indications of interest in acquiring the Shares in the Placing. Prospective investors will be required to specify the number of Shares under the Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around, the last day for lodging applications under the Public Offer.

Pricing for the Offer Shares for the purpose of the Share Offer will be fixed on the Price Determination Date, by agreement between the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company, which is expected to be on or about Friday, 6 July 2018 or such later date as may be agreed between our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters).

If, for any reason, the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price by that date or such later date as agreed by our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters), the Share Offer will not become unconditional and will lapse.

Prospective investors should be aware that the Offer Price to be determined on or before the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range as stated in this prospectus.

#### Offer Price range

The Offer Price will be not more than HK\$0.40 per Share and is expected to be not less than HK\$0.30 per Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Public Offer. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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### **Reduction in Offer Price range and/or number of Offer Shares**

If, based on the level of interest expressed by prospective investors during the book-building process (for instance, if the level of interest expressed by prospective investors is below the indicative Offer Price range as stated in this prospectus), the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company may reduce the number of Offer Shares and/or the indicative Offer Price range below that as stated in this prospectus at any time no later than the morning of the day which is the last day for lodging applications under the Public Offer.

In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Public Offer, cause to be published on our Company's website at [www.pacificlegendgroup.com](http://www.pacificlegendgroup.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) an announcement of such reduction. Upon issue of such announcement, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed among the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company, will be fixed within such revised Offer Price range. Such announcement will also include confirmation or revision, as appropriate, of the working capital statement, the statistics of Share Offer as set out in the section headed "Summary", the use of proceeds from the Share Offer as set out in the section headed "Future Plan and Use of Proceeds" in this prospectus and any other financial information which may change as a result of such reduction. Applicants who have submitted their applications for Public Offer Shares before an announcement for a reduction in the Offer Price range and/or Offer Shares is made may subsequently withdraw their applications in the event that such an announcement is subsequently made.

In the absence of any such announcement being published on our Company's website at [www.pacificlegendgroup.com](http://www.pacificlegendgroup.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) of a reduction in the number of Offer Shares and/or the indicative Offer Price range as stated in this prospectus on or before the morning of the last day for lodging applications under the Public Offer, the Offer Price, if agreed among the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

### **Price payable on application**

Applicants for Public Offer Shares under the Public Offer are required to pay, on application, the maximum Offer Price of HK\$0.40 for each Public Offer Share (plus brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% and subject to refund) amounting to a total of HK\$4,040.31 for one board lot of 10,000 Shares. If our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters) are unable to reach agreement on the Offer Price on the Price Determination Date or such later date as may be agreed between the parties, the Share Offer will not become unconditional and will lapse immediately.

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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### **Announcement of Offer Price and basis of allocations**

Our Company expects to announce the final Offer Price and the level of indication of interests in the Share Offer on Tuesday, 17 July 2018 on our Company's website at [www.pacificlegendgroup.com](http://www.pacificlegendgroup.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk). If for any reason the Price Determination Date is changed, our Company will as soon as practicable cause to be published on the website of the Stock Exchange a notice of the change and if applicable the revised date.

### **UNDERWRITING**

The Share Offer is fully underwritten by the Underwriters under the terms of the Underwriting Agreements and is subject to our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters), agreeing on the Offer Price. These underwriting arrangements and the Underwriting Agreements are summarised in the section headed "Underwriting" in this prospectus.

### **CONDITIONS OF THE SHARE OFFER**

The Share Offer is conditional upon, among other things:

**(a) Listing**

The Listing Division granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein including any Shares which may fall to be issued pursuant to the exercise of the options that may be granted under the Share Option Scheme or the general mandate to issue Shares referred to in Appendix IV to this prospectus;

**(b) Price Determination Agreement**

The Price Determination Agreement having been executed by our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters) and becoming effective on the Price Determination Date; and

**(c) Underwriting Agreements**

The obligations of the Underwriters under each of the Public Offer Underwriting Agreement and the Placing Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Sole Sponsor and the Joint Lead Managers (for themselves and on behalf of the Underwriters) and the Underwriting Agreements not being terminated in accordance with its terms or otherwise prior to 8:00 a.m. (Hong Kong time) on the Listing Date). Details of the Underwriting Agreements, the conditions and grounds for termination, are set out in the section "Underwriting" in this prospectus, in each case, on or before the dates and times specified in the

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## **STRUCTURE AND CONDITIONS OF THE SHARE OFFER**

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Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the 30th day from the date of this prospectus.

If such conditions have not been fulfilled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Share Offer will be published by our Company at the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company's website at [www.pacificlegendgroup.com](http://www.pacificlegendgroup.com) on the next Business Day following such lapse.

### **COMMENCEMENT OF DEALINGS IN THE SHARES**

Dealings in the Shares on GEM are expected to commence on Wednesday, 18 July 2018. Shares will be traded in board lots of 10,000 Shares each. The GEM stock code for the Shares is 8547.

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

Application has been made to the Stock Exchange for listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus. 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, under contingent situation, 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 necessary arrangements have been made for the Shares to be admitted into CCASS.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbrokers or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interest.

Details of the Share Offer will be announced in accordance with Rules 10.12(4), 16.08 and 16.16 of the GEM Listing Rules.



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## HOW TO APPLY FOR THE 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;
- apply online via **HK eIPO White Form** service at [www.hkeipo.hk](http://www.hkeipo.hk); or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Lead Managers, the Joint Bookrunners 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 not a United States Person (as defined in Regulation S under the U.S. Securities Act);
- are outside the U.S.; and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** Service Provider, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact phone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application 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 Joint Lead Managers and the Joint Bookrunners may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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The number of joint applicants may not exceed four for the Public Offer Shares.

Unless permitted by the GEM 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;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- a connected person (as defined in the GEM Listing Rules) of our Company or any its subsidiaries or will become a connected person of our Company immediately upon completion of the Share Offer;
- an associate (as defined in the GEM Listing Rules) of any of the above; or
- have been allocated or have applied for any Placing Shares or otherwise participated in the Placing.

### 3. APPLYING FOR PUBLIC OFFER SHARES

#### **Which application channel to use**

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply through [www.hkeipo.hk](http://www.hkeipo.hk).

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### **Where to collect the Application Forms**

You can collect a **WHITE** Application Form and a prospectus during normal business hours between 8:00 a.m. from Friday, 29 June 2018 until 12:00 noon on Friday, 6 July 2018 from:

- (i) any of the following offices of the Public Offer Underwriters:

**Aristo Securities Limited**  
Room 101, 1st Floor  
On Hong Commercial Building  
145 Hennessy Road, Wanchai  
Hong Kong

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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**Supreme China Securities Limited**  
Suites 2701-2, 27/F, Everbright Centre  
108 Gloucester Road, Wanchai  
Hong Kong

**Opus Capital Limited**  
18/F, Fung House  
19-20 Connaught Road Central  
Central  
Hong Kong

**Success Securities Limited**  
Suite 1603-7, 16/F, Great Eagle Centre  
23 Harbour Road, Wanchai  
Hong Kong

(ii) any of the following branches of the receiving bank:

Industrial and Commercial Bank of China (Asia) Limited

<u>District</u>	<u>Branch Name</u>	<u>Address</u>
Hong Kong	Queen's Road Central Branch	Basement, Ground Floor and First Floor 122 QRC, 122-126 Queen's Road Central Hong Kong
	Wanchai Branch	117-123 Hennessy Road Wanchai, Hong Kong
Kowloon	Yaumatei Branch	542 Nathan Road Yaumatei, Kowloon
	Prince Edward Branch	777 Nathan Road Mongkok, Kowloon
	Kwun Tong Branch	Shop 5 & 6 1/F, Crocodile Centre 79 Hoi Yuen Road Kwun Tong, Kowloon
New Territories	Shatin Branch	Shop 22J, Level 3 Shatin Centre, New Territories

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 29 June 2018 until 12:00 noon on Friday, 6 July 2018 from the Depository Counter of HKSCC at 1st Floor, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

### **Time for lodging Application Forms**

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "ICBC (ASIA) NOMINEE LIMITED – PACIFIC LEGEND GROUP PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

**Friday, 29 June 2018 — 9:00 a.m. to 5:00 p.m.**  
**Saturday, 30 June 2018 — 9:00 a.m. to 1:00 p.m.**  
**Tuesday, 3 July 2018 — 9:00 a.m. to 5:00 p.m.**  
**Wednesday, 4 July 2018 — 9:00 a.m. to 5:00 p.m.**  
**Thursday, 5 July 2018 — 9:00 a.m. to 5:00 p.m.**  
**Friday, 6 July 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 Friday, 6 July 2018 the last application day or such later time as described in "10. Effect of bad weather on the opening of the applications lists" in this section. No proceedings will be taken on the application lists for the Public Offer Shares and no allotment of any such Public Offer Shares will be made after the closing of the application lists.

#### **4. TERMS AND CONDITIONS OF AN APPLICATION**

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, 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 from whom you act:

- (i) undertake to execute all relevant documents and instruct and authorise our Company, the Joint Lead Managers and/or the Joint Bookrunners (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies (Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Articles of Association;

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Share Offer in this prospectus;
- (vi) agree that none of our Company, the Sole Sponsor, the Joint Lead Managers, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing nor participated in the Placing;
- (viii) agree to disclose to our Company, the Sole Sponsor, our Hong Kong Branch Share Registrar, the receiving bank, the Joint Lead Managers, the Joint Bookrunners, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Joint Lead Managers, the Joint Bookrunners and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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- (xii) represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S under the Securities Act of the United States) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S under the Securities Act of the United States;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any refund cheque(s) and/or e-Auto Refund payment instructions 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 Lead Managers, the Joint Bookrunners and the Underwriters, any of their respective directors, officers or representatives or any other person or party involved in the Share Offer will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to **HK eIPO White Form** Service Provider by you or by anyone as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form to HKSCC 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.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### **Additional instructions for YELLOW Application Form**

You may refer to the **YELLOW** Application Form for details.

## **5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE**

### **General**

Individuals who meet the criteria in the paragraph headed “Who can apply” in this section, may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the designated website [www.hkeipo.hk](http://www.hkeipo.hk).

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

### **Time for submitting applications under the HK eIPO White Form**

You may submit your application to the **HK eIPO White Form** Service Provider at [www.hkeipo.hk](http://www.hkeipo.hk) (24 hours daily, except on the last application day) from 9:00 a.m. on Friday, 29 June 2018 until 11:30 a.m. on Friday, 6 July 2018 and the latest time for completing full payment of application monies in respect of such application will be 12:00 noon on Friday, 6 July 2018 or such later time under the paragraph headed “10. Effect of bad weather on the opening of the applications lists” in this section.

### **No multiple applications**

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### Section 40 of the Companies (Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Miscellaneous Provisions) Ordinance).

### 6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

#### General

General CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these electronic application instructions through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System <https://ip.ccass.com> (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input electronic application instructions for you if you go to:

**Hong Kong Securities Clearing Company Limited**  
1/F, One & Two Exchange Square, 8 Connaught Place  
Central  
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Lead Managers, the Joint Bookrunners and our Hong Kong Branch Share Registrar.



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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### Giving electronic application instructions to HKSCC via CCASS

Where you have given electronic application instructions to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Public Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;
  - (if the **electric application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
  - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
  - confirm that you understand that our Company, our Directors, the Joint Lead Managers, the Joint Bookrunners and the Underwriters, any of their respective directors, the Sole Sponsor, officers or representatives or any other person or party involved in the Share Offer 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;

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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- 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 Lead Managers, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sole Sponsor, the Joint Lead Managers, the Joint Bookrunners, 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 a public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give 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 (Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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- 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 (Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

### **Effect of giving electronic application instructions to HKSCC via CCASS**

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum 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.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### Minimum purchase amount and permitted numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 10,000 Public Offer Shares. Instructions for more than 10,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

### Time for inputting electronic application instructions

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

<b>Friday, 29 June 2018</b>	—	<b>9:00 a.m. to 8:30 p.m.</b> <sup>(1)</sup>
<b>Saturday, 30 June 2018</b>	—	<b>8:00 a.m. to 1:00 p.m.</b> <sup>(1)</sup>
<b>Tuesday, 3 July 2018</b>	—	<b>8:00 a.m. to 8:30 p.m.</b> <sup>(1)</sup>
<b>Wednesday, 4 July 2018</b>	—	<b>8:00 a.m. to 8:30 p.m.</b> <sup>(1)</sup>
<b>Thursday, 5 July 2018</b>	—	<b>8:00 a.m. to 8:30 p.m.</b> <sup>(1)</sup>
<b>Friday, 6 July 2018</b>	—	<b>8:00 a.m.</b> <sup>(1)</sup> <b>to 12:00 noon</b>

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*Note:*

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m., Friday, 29 June 2018 until 12:00 noon, Friday, 6 July 2018 (24 hours daily, except on the last application day). The latest time for inputting your electronic application instructions will be 12:00 noon, Friday, 6 July 2018, the last application day or such later time as described in “10. Effect of bad weather on the opening of the application lists” in this section.

### No multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of 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.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### Section 40 of the Companies (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 (Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Miscellaneous Provisions) Ordinance).

### Personal data

The section of the Application Form headed “Personal data” applies to any personal data held by our Company, our Hong Kong Branch Share Registrar, the receiving banks, the Sole Sponsor, the Joint Lead Managers, the Joint Bookrunners, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

## 7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Public Offer Shares through the **HK eIPO White Form** service is only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Joint Lead Managers, the Joint Bookrunners and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, 6 July 2018.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code, for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner.

If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC, is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions).

It will be a term and condition of all applications that by completing and delivering an Application Form, you:

- (if the application is made for your own benefit) **warrant** that this is the only application which has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form;
- (if you are an agent for another person) **warrant** that reasonable enquiries have been made with that other person that this is the only application which has been or will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form, and that you are duly authorised to sign the Application Form as that other person’s agent;

Multiple applications or suspected multiple applications will be rejected and all of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly with others) on a **WHITE** and/or **YELLOW** Application Form; or
- apply (whether individually or jointly with others) on one **WHITE** or **YELLOW** Application Form for more than 25,000,000 Public Offer Shares; or
- apply for, take up, indicate an interest (whether individually or jointly with others) for any Placing Shares or otherwise participate in the Placing; or

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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- both apply on one **WHITE** Application Form and one **YELLOW** Application Form; or receive any Placing Shares under the Placing.

All of your applications will also be rejected as multiple applications if more than one application is made for your benefit or for the benefit of any of your joint applicant(s).

If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“*Unlisted company*” means a company with no equity securities listed on the Stock Exchange.

“*Statutory control*” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### 9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for the Public Offer Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form in respect of a minimum of 10,000 Public Offer Shares. Each application or electronic application instruction in respect of more than 10,000 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 (as defined in the GEM Listing Rules), 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 — Pricing and allocation”.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### 10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 6 July 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 Friday, 6 July 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” in this prospectus and the related Application Forms and other dates mentioned in this prospectus (including, without limitation, the latest time for the exercise of termination rights under the Underwriting Agreements), an announcement will be made.

### 11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the number of Offer Shares re-allocated between the Public Offer and the Placing on Tuesday, 17 July 2018 on our Company’s website at [www.pacificlegendgroup.com](http://www.pacificlegendgroup.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.pacificlegendgroup.com](http://www.pacificlegendgroup.com) and the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) no later than 9:00 a.m. on Tuesday, 17 July 2018;
- results of allocations will also be available from the website at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) on a 24-hour basis from 8:00 a.m. on Tuesday, 17 July 2018 to 12:00 midnight on Monday, 23 July 2018. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration certificate number provided in his/her/its Application Form to search for his/her/its own allocation result;



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- by telephone enquiry line by calling +852 3691 8488 between 9:00 a.m. and 6:00 p.m. from Tuesday, 17 July 2018 to Friday, 20 July 2018 (excluding Saturday and Sunday);
- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, 17 July 2018 to Thursday, 19 July 2018 at 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” in this prospectus. You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

**(i) If your application is revoked:**

By completing and submitting an Application Form or giving electronic application instructions to HKSCC or to the **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or a 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 (Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (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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If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

**(ii) If our Company or our agents exercise their discretion to reject your application:**

Our Company, the Joint Lead Managers, the Joint Bookrunners, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(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 of the Stock Exchange 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;
- your electronic application instructions through the **HK eIPO White Form** Service Provider are not completed in accordance with the instructions, terms and conditions on the designated website;
- 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;

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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- our Company, the Joint Lead Managers or the Joint Bookrunners believe(s) 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 100% of the Public Offer Shares initially offered under the Public Offer.

### 13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$0.40 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with the paragraph headed “Structure and conditions of the Share Offer — The Public Offer” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy 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 Tuesday, 17 July 2018.

### 14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by electronic application instructions to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Tuesday, 17 July 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's order(s).

Share certificates will only become valid at 8:00 a.m. on Wednesday, 18 July 2018 provided that the Share Offer has become unconditional and the right of termination described in the section headed "Underwriting" in this prospectus has not been exercised. Investors who trade shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

### **Personal Collection**

#### ***(i) If you apply 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 at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 17 July 2018 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to our 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 Tuesday, 17 July 2018, by ordinary post and at your own risk.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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***(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 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 Tuesday, 17 July 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 Tuesday, 17 July 2018, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

For Public Offer shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS Participant.

- *If you are applying as a CCASS Investor Participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 17 July 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.

***(iii) If you apply through HK eIPO White Form service***

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from our Hong Kong Branch Share Registrar at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 17 July 2018, or such other date as notified by our Company in the newspapers as the date of despatch/collection of share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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If you apply for less than 1,000,000 Public Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Tuesday, 17 July 2018 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

*(iv) If you apply via electronic application instructions to HKSCC*

*Allocation of Public Offer Shares*

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

*Deposit of Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, 17 July 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 allotment of the Public Offer in the manner specified in "11. Publication of results" above on Tuesday, 17 July 2018. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 17 July 2018 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, 17 July 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 Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, 17 July 2018.

### 15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the GEM 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-40, received from the reporting accountants, Baker Tilly Hong Kong Limited, Certified Public Accountants, Hong Kong, for the purposes of inclusion in this Prospectus.*



## ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF PACIFIC LEGEND GROUP LIMITED AND SUCCESS NEW SPRING CAPITAL LIMITED

### Introduction

We report on the historical financial information of Pacific Legend Group Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) set out on pages I-4 to I-40, which comprises the combined statements of financial position as at 31 December 2016 and 2017, the statement of financial position of the Company as at 31 December 2017, and the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the years then ended (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-40 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 29 June 2018 (the “**Prospectus**”) in connection with the initial listing of shares of the Company on GEM of The Stock Exchange of Hong Kong Limited.

### Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 3 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 3 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 Company's financial position as at 31 December 2017 and the Group's financial position as at 31 December 2016 and 2017 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 3 to the Historical Financial Information.

**REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED 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 12 to the Historical Financial information which contains information about the dividends declared or paid by the group entities and states that no dividends have been paid by the Company in respect of the Track Record Period.

**No historical financial statements for the Company**

No financial statements have been prepared for the Company since its date of incorporation.

**Baker Tilly Hong Kong Limited**

*Certified Public Accountants*

Hong Kong, 29 June 2018

Chan Kwan Ho, Edmond

Practising certificate number P02092

**A HISTORICAL FINANCIAL INFORMATION****Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The combined financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by Baker Tilly Hong Kong Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Hong Kong dollar ("HK\$"), which is also the functional currency of the Company and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

## 1. Combined statements of profit or loss and other comprehensive income

	Note	Year ended 31 December	
		2016	2017
		<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Revenue</b> .....	7	244,441	278,628
Cost of sales .....		(97,873)	(116,733)
<b>Gross profit</b> .....		146,568	161,895
Other income and gains .....	8	2,810	899
Selling and distribution costs .....		(47,674)	(53,331)
Administrative and other operating expenses .....		(94,123)	(97,947)
Listing expenses .....		–	(6,556)
<b>Profit before taxation</b> .....	9	7,581	4,960
Income tax expense .....	10	(2,161)	(1,837)
<b>Profit for the year attributable to equity shareholders of the Company</b> .....		5,420	3,123
<b>Other comprehensive (loss)/income</b>			
Item that may be classified subsequently to profit or loss:			
– Exchange differences on translation of financial statements of overseas subsidiaries, net of nil tax .....		(55)	720
<b>Total comprehensive income for the year attributable to equity shareholders of the Company</b> .....		5,365	3,843

## 2. Statements of financial position

	Note	The Group as at 31 December		The Company as at 31 December
		2016	2017	2017
		HK\$'000	HK\$'000	HK\$'000
<b>Non-current assets</b>				
Property, plant and equipment	14	10,348	8,568	–
Finance lease receivables	15	1,028	764	–
Investment in a subsidiary	29	–	–	1
		<u>11,376</u>	<u>9,332</u>	<u>1</u>
<b>Current assets</b>				
Inventories	16	41,889	43,212	–
Trade and other receivables	17	41,945	44,126	–
Current portion of finance lease receivables	15	3,157	2,673	–
Amounts due from customers for contract work	18	9,214	4,455	–
Amount due from a director	19	436	1,603	–
Pledged bank deposits		3,098	5,164	–
Cash and cash equivalents		43,607	45,882	–
Tax recoverable		95	–	–
		<u>143,441</u>	<u>147,115</u>	<u>–</u>
<b>Current liabilities</b>				
Trade and other payables	20	47,639	40,656	–
Amounts due to customers for contract work	18	104	3,647	–
Amount due to a related company	21	199	213	–
Amounts due to subsidiaries		–	–	6,557
Tax payable		1,203	2,127	–
		<u>49,145</u>	<u>46,643</u>	<u>6,557</u>
<b>Net current assets/(liabilities)</b>		<u>94,296</u>	<u>100,472</u>	<u>(6,557)</u>
<b>Total assets less current liabilities</b>		<u>105,672</u>	<u>109,804</u>	<u>(6,556)</u>
<b>Non-current liabilities</b>				
Provisions	22	6,698	6,987	–
<b>NET ASSETS/(LIABILITIES)</b>		<u>98,974</u>	<u>102,817</u>	<u>(6,556)</u>
<b>Capital and reserves</b>				
Share capital	23	789	779	–
Reserves		98,185	102,038	(6,556)
<b>TOTAL EQUITY/(DEFICIT)</b>		<u>98,974</u>	<u>102,817</u>	<u>(6,556)</u>

## 3. Combined statements of changes in equity

	Share capital	Exchange reserve	Other reserve	Accumulated profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Balance at 1 January 2016</b> . . . . .	789	(537)	–	93,357	93,609
Profit for the year . . . . .	–	–	–	5,420	5,420
Other comprehensive loss . . . . .	–	(55)	–	–	(55)
Total comprehensive income for the year . . . . .	–	(55)	–	5,420	5,365
<b>Balance at 31 December 2016</b> . . . . .	789	(592)	–	98,777	98,974
Profit for the year . . . . .	–	–	–	3,123	3,123
Other comprehensive income . . . . .	–	720	–	–	720
Total comprehensive income for the year . . . . .	–	720	–	3,123	3,843
Effect of reorganisation ( <i>note 2</i> ) . . . . .	(10)	–	10	–	–
<b>Balance at 31 December 2017</b> . . . . .	<u>779</u>	<u>128</u>	<u>10</u>	<u>101,900</u>	<u>102,817</u>

Other reserve represented the difference between the issued share capital of Pacific Legend Development Limited (“**Pacific Legend Development**”) and that of the Company.

## 4. Combined statements of cash flows

	Year ended 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Operating activities</b>		
Profit before taxation	7,581	4,960
Adjustments for:		
– Bank interest income	(6)	(15)
– (Reversal of allowance)/allowance for doubtful debts	(3)	679
– Bad debts written off	2	64
– Depreciation	9,587	7,810
– Loss/(gain) on write-off/disposals of property, plant and equipment	1,206	(141)
– Provision for inventories	456	871
– Reversal of provision for long service payments	(1,915)	–
– Reversal of accrued withholding tax	(263)	–
– Exchange realignment	234	484
<b>Operating profit before changes in working capital</b>	16,879	14,712
(Increase)/decrease in finance lease receivables	(339)	748
Increase in inventories	(252)	(2,194)
Increase in trade and other receivables	(3,228)	(2,924)
(Increase)/decrease in project contracts	(4,190)	8,302
Increase in amount due from a director	(153)	(1,167)
Increase/(decrease) in trade and other payables	16,102	(6,983)
(Decrease)/increase in amount due to a related company	(237)	14
Increase in provisions	512	289
<b>Cash generated from operations</b>	25,094	10,797
Income tax paid	(1,769)	(817)
<b>Net cash generated from operating activities</b>	23,325	9,980
<b>Investing activities</b>		
Purchase of property, plant and equipment	(7,192)	(5,925)
Proceeds from disposals of property, plant and equipment	21	151
Bank interest received	6	15
Increase in pledged bank deposits	–	(2,066)
<b>Net cash used in investing activities</b>	(7,165)	(7,825)
<b>Net increase in cash and cash equivalents</b>	16,160	2,155
<b>Cash and cash equivalents at 1 January</b>	27,515	43,607
<b>Effect of foreign exchange rate changes</b>	(68)	120
<b>Cash and cash equivalents at 31 December</b>	43,607	45,882

**B NOTES TO HISTORICAL FINANCIAL INFORMATION****1. GENERAL**

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands on 1 September 2017. The registered office of the Company is Cricket Square Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is Units 1202-04, Level 12, Cyberport 2, 100 Cyberport Road, Hong Kong.

The Company is an investment holding company. The Group is principally engaged in the sale of home furniture and accessories, leasing of home furniture and accessories and provision of design consultancy services for fitting out interiors with furnishings. During the Track Record Period, these principal activities were carried out by Pacific Legend Development, Deep Blue Living Limited (“**Deep Blue**”) and their subsidiaries.

**2. REORGANISATION**

Prior to the completion of the group reorganisation as detailed in the section headed “History, Development and Reorganisation — Reorganisation” of the Prospectus (the “**Reorganisation**”), Pacific Legend Development and Deep Blue are owned and controlled by Mr. John Warren McLennan (“**Mr. McLennan**”), Ms. Alison Siobhan Bailey, Mr. James Seymour Dickson Leach, RAM Far East, LLC and Ms. Tracy-Ann Fitzpatrick (“**Ms. Fitzpatrick**”) (collectively referred to as the “**Controlling Shareholders**”).

In preparation for listing of the shares of the Company on GEM of The Stock Exchange of Hong Kong Limited, the companies now comprising the Group underwent the Reorganisation which principally involved the following steps:

- (a) On 9 June 2017, Double Lions Limited (“**Double Lions**”) was incorporated in the British Virgin Islands (the “**BVI**”) with an authorised share capital of United States dollar (“**US\$**”) 50,000 divided into 50,000 shares of par value of US\$1 each. Double Lions is owned and controlled by the Controlling Shareholders.
- (b) On 9 June 2017, Raeford Holdings Limited (“**Raeford**”) was incorporated in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of par value of US\$1 each. On 1 September 2017, 100 shares of Raeford were allotted and issued, as fully paid, to the Company, and Raeford became a wholly-owned subsidiary of the Company.
- (c) On 1 September 2017, the Company was incorporated in the Cayman Islands with an authorised capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. Upon incorporation, 1 nil paid new share of HK\$0.01 was allotted and issued to the subscriber and was transferred to Mr. McLennan at nil consideration on the same date. On 3 October 2017, Mr. McLennan transferred the nil-paid subscriber share of the Company to Double Lions at a consideration of HK\$0.01.
- (d) On 28 December 2017, the entire issued share capital in Pacific Legend Development held by the Controlling Shareholders was transferred to Raeford in consideration of the Company (i) allotting and issuing 499 shares, credit as fully paid, to Double Lions; and (ii) credit as fully paid the subscriber share issued upon the incorporation of the Company and subsequently held by Double Lions.
- (e) On 11 January 2018, the entire issued capital in Deep Blue held by the Controlling Shareholders was transferred to Raeford in consideration of the Company allotting and issuing 346 shares, credit as fully paid, to Double Lions.

Upon the completion of the Reorganisation, the Company has become the holding company of the companies now comprising the Group.



### 3. BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The companies now comprising the Group were under the common control of the Controlling Shareholders before or after the Reorganisation. Accordingly, for the purpose of this report, the Historical Financial Information has been prepared on a combined basis by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Track Record Period. The net assets of the companies taking part in the Reorganisation are combined using the book values from the perspective of the Controlling Shareholders.

The combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows for the Track Record Period include the financial performance, changes in equity and cash flows of the companies comprising the Group as if the current group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation, where there is a shorter period.

The combined statements of financial position of the Group as at 31 December 2016 and 2017 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 those dates taking into account the respective dates of incorporation, where applicable.

The Historical Financial Information has been prepared on the historical cost basis and in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the HKICPA. A summary of the significant accounting policies adopted by the Group is set out in note 5.

The HKICPA has issued certain new and revised HKFRSs. For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently adopted the HKFRSs issued by the HKICPA that are effective for the Group’s financial year beginning on 1 January 2016 throughout the Track Record Period. The Group has not applied any new standard or interpretation that is not yet effective for the accounting period ended 31 December 2017 (see note 4).

The Historical Financial Information includes the applicable disclosures required by the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited.

### 4. APPLICATION OF NEW AND REVISED TO HKFRSs

At date of issue of this Historical Financial Information, the HKICPA has issued the following new standards, amendments and interpretations which are not yet effective for the Track Record Period and which have not been adopted in the Historical Financial Information.

HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>1</sup>
HKFRS 16	Leases <sup>2</sup>
HKFRS 17	Insurance Contracts <sup>3</sup>
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments <sup>2</sup>
Amendments to HKAS 40	Transfers of Investment Property <sup>1</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to HKFRS 4	Applying HKFRS 9 “Financial Instruments” with HKFRS 4 “Insurance Contracts” <sup>1</sup>
Amendments to HKFRS 9	Prepayment Features with Negative Compensation <sup>2</sup>
Amendments to HKFRS 15	Clarifications to HKFRS 15 “Revenue from Contracts with Customers” <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>4</sup>
Amendments to HKFRS 1 and HKAS 28	As part of Annual Improvements to HKFRSs 2014-2016 Cycle <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>4</sup> Effective for annual periods beginning on or after a date to be determined

The Group is in the process of making an assessment of what the impact of these new standards, amendments and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the Group's consolidated financial statements in future. Further details of the expected impacts are discussed below.

#### **HKFRS 9 "Financial Instruments"**

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39 "Financial Instruments: Recognition and Measurement". HKFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against opening balance of equity as at 1 January 2018.

Expected impacts of the new requirements on the Group's consolidated financial statements are as follows:

##### ***(a) Classification and measurement***

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised costs, (2) fair value through profit or loss and (3) fair value through other comprehensive income. The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset.

The Group has assessed that its financial assets currently measured at amortised cost will continue with their classification and measurements upon the adoption of HKFRS 9.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at fair value through profit or loss that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at fair value through profit or loss and therefore this new requirement will not have any impact on the Group on adoption of HKFRS 9.

##### ***(b) Impairment***

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. While the Group is in the process of assessing the extent of impact on the impairment provisions under HKFRS 9, it is expected that the application of the expected credit loss model may result in earlier recognition of credit losses which are not yet incurred in relation to the Group's finance lease and trade receivables. The Group anticipates that the adoption of HKFRS 9 would not have material impact on its financial position and performance based on assessment performed so far.

#### **HKFRS 15 "Revenue from Contracts with Customers"**

HKFRS 15 establishes a single comprehensive model for recognising revenue from contracts with customers. HKFRS 15 will replace the current revenue standards, HKAS 18 "Revenue" and HKAS 11 "Construction Contracts", and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces 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 principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised goods or services in the contract. HKFRS 15 identifies three situations in which control of the promised goods or services is regarded as being transferred over time:

- (i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
- (ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;
- (iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these three situations, then under HKFRS 15 the entity recognises revenue for the sale of that goods or services at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The Group has assessed that its contracts with customers fulfil the criteria for recognising revenue over time under HKFRS 15. Methods that can be used under HKFRS 15 to measure the Group's progress towards complete satisfaction of a performance obligation satisfied over time include (i) output method (i.e. recognise revenue on the basis of direct measurement of the value to the customer of the entity's performance to date) and; (ii) input method (i.e. recognise revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation). In measuring the work progress under the new revenue standard, the Group will apply output method as an output method with reference to progress agreed with customers and any adjustment, where it is necessary and can be objectively determined, on the work progress would appropriately depict the transfer of control of goods or services to customers for individual projects under the new standard. So far as the measurement of progress for the Group's typical contracts is concerned, the Group does not expect the adoption of HKFRS 15 would significantly affect its financial position and performance based on the assessment performed so far.

Under HKFRS 15, if the costs incurred in fulfilling a contract with a customer are not within the scope of another standard, assets shall only be recognised if the costs incurred (i) relate directly to a contract or an anticipated contract that can be specifically identified; (ii) generate or enhance resources of the Group that will be used in satisfying performance obligations in the future; and (iii) are expected to be recovered. Costs that relate to satisfied performance obligations (or partially satisfied performance obligations) in the contracts and costs for which the Group cannot distinguish whether the costs relate to unsatisfied performance obligations or to satisfied performance obligations shall be expensed as incurred under HKFRS 15.

The Group will adopt HKFRS 15 from 1 January 2018 and plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of accumulated profits as at 1 January 2018. In addition, the Group plans to apply the new requirements only to project contracts that are not completed before 1 January 2018. The Group anticipates that the application of HKFRS 15 in the future may result in more disclosures in its consolidated financial statements and will have no material impact on its financial position and performance.

#### **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 the 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.

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 26, operating lease commitments of the Group in respect of leased premises as at 31 December 2017 amounted to HK\$46,530,000. The Group does not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Group's financial performance, but expects that the above operating lease arrangements will meet the definition of a lease under HKFRS 16, hence the Group will recognise a right -of-use asset and a corresponding liability in respect of all those leases.

## **5. SIGNIFICANT ACCOUNTING POLICIES**

### **(a) Subsidiaries**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is included in the Historical Financial Information from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Historical Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss.

**(b) Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. (see note 5(c)(ii)).

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Decoration and fittings	Over the shorter of the unexpired term of lease or 20%
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles	20%
Furniture for rental	100%

Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

**(c) Impairment of assets*****(i) Impairment of current and non-current receivables***

Current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of finance lease and trade receivables whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against finance lease and trade receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

**(ii) Impairment of other assets**

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that property, plant and equipment may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– *Reversal of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

**(d) Inventories**

Inventories are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchases and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

**(e) Project contracts**

Project contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. When the outcome of a project contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a project contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Project contracts in progress at the end of the reporting period are recorded at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the combined statement of financial position as the "Amounts due from customers for contract work" (as an asset) or the "Amounts due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included under "Trade receivables". Amounts received before the related work is performed are included under "Deposits received".

**(f) Trade and other receivables**

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 5(c)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

**(g) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

**(h) Trade and other payables**

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting could be immaterial, in which case they are stated at cost.

**(i) Income tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and

are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

**(j) Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.



**(k) Revenue recognition**

Revenue is measured at the fair value of the consideration received and receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

**(i) Sales of goods**

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership.

**(ii) Contract revenue**

When the outcome of a project contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the value of work carried out during the year.

When the outcome of a project contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

**(iii) Rental income from operating leases**

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

**(iv) Interest income**

Interest income is recognised on a time proportion basis using effective interest method.

**(l) Leasing**

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership of the asset to the lessee. All other leases are classified as operating leases.

***The Group as lessor***

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in finance leases. Finance leases income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

***The Group as lessee***

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

**(m) Employee benefits**

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The Group's net obligation in respect of long service payments to its employees upon the termination of their employment or retirement when the employee fulfils certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their services. The long service payment liabilities are the present values of long service payment obligations less the entitlements accrued under the Group's defined contribution retirement benefit plans that is attributable to contributions made by the Group.

Payments to the state-managed retirement benefit schemes for staff in The People's Republic of China (excluding Hong Kong and Macao, the "PRC") and to the Mandatory Provident Fund Scheme for staff in Hong Kong are defined contribution retirement benefit payments and are recognised as expense when employee have rendered services entitling them to contribution.

**(n) Translation of foreign currencies**

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Hong Kong dollar at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollar at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

**(o) Related parties**

- (a) A person, or a close member of that person's family, is related to the Group if that person:
  - (i) has control or joint control of the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
  - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

## 6. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 5, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the 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 key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months are set out below.

### (a) Revenue and profit recognition

Revenue and profit recognition on a project contract is dependent on management's estimation of the outcome of the project contracts, with reference to the progress agreed with the customers. When the final contract revenue or cost is different from the amounts that were initially budgeted, such differences will impact the revenue and the profit or loss recognised in the period in which such determination is made. Based upon the Group's recent experience and the nature of the project activity undertaken by the Group, the Group reviews and revises the estimates of contract revenue and contract costs prepared for each project contract as the project progresses.

### (b) Useful lives of property, plant and equipment and depreciation

The Group's management determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment, after taking into account the estimated residual value, if any. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

**(c) Impairments**

In considering the impairment loss that may be required for certain property, plant and equipment, recoverable amount of the asset needs to be determined. The recoverable amount is the greater of its fair value less costs of disposal and the value in use. It is difficult to precisely estimate its fair value less costs of disposal because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of turnover and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as turnover and operating costs.

Impairment losses for bad and doubtful debts are assessed and provided based on the directors' regular review of ageing analysis and evaluation of the recoverability of the finance lease and trade receivables. A considerable level of judgement is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer.

An increase or decrease in the above impairment loss would affect profit or loss in the period and in future years.

**(d) Inventory provision**

The Group performs regular review of the carrying amounts of inventories with reference to ageing analyses of the Group's inventories, projections of expected future saleability of goods based on management experience and judgement. Based on this review, write down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable value. Due to changes in technological, market and economic environment and customers' preference, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

**(e) Income taxes**

The Group is subject to income taxes in Hong Kong and various jurisdictions. Judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for potential tax exposures based on its estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the taxation expense and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are recognised for deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future profit will be available against which the deductible temporary differences can be utilised, management's judgement is required to assess the probability of future taxable profits.

**(f) Provisions for long service payments and employees' end-of-service benefits**

As explained in notes 22(a) and 22(b), the Group makes provisions for long service payments and employees' end-of-service benefits in accordance with the requirements of the Hong Kong Employment Ordinance and labour laws of the United Arab Emirates ("UAE") respectively. The Group has based the estimation on its recent employee statistics and adopted certain assumptions in assessing the provisions for long service payments and employees' end-of-service benefits. It is possible that these assumptions adopted by the Group in assessing the provisions for long service payments and employees' end-of-service benefits may not be indicative of the future situation. Any increase or decrease in the provisions would affect profit or loss in future years.

**(g) Provisions for reinstatement costs for rented premises**

As explained in note 22(c), the Group makes provision for reinstatement costs based on the best estimate of the expected costs to be incurred upon expiry of the relevant rental agreements, which are subject to uncertainty and might differ from the actual costs incurred. Any increase or decrease in the provision would affect profit or loss in future years.

**(h) Subsidiary**

As set out in note 29(c), the Group is the legal owner of 49% of the issued share capital of Indigo Living L.L.C. (“**Indigo Dubai**”) and has control over it. The Group is entitled to share 80% of Indigo Dubai’s profits under the notarised memorandum of association of Indigo Dubai, and the remaining 20% under the contractual arrangements. However, due to the foreign ownership restriction under the UAE law, the relevant contractual arrangements could be unilaterally challenged before a UAE court. So far, the Group has not encountered any interference or encumbrance from any governing bodies in the UAE because of those contractual arrangements. Based upon the view of the Group’s UAE legal adviser, the directors believe that the relevant contractual arrangements are enforceable under the relevant laws and regulations in the UAE. Accordingly, Indigo Dubai has been accounted for as a wholly owned subsidiary of the Group throughout the Track Record Period.

**7. REVENUE AND SEGMENT INFORMATION**

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group’s most senior executive management for the purposes of resources allocation and performance assessment, the Group has presented the following three reportable segments:

- Sale of home furniture and accessories
- Rental of home furniture and accessories
- Project and hospitality services

Performance is based on segment gross profit. The Group’s most senior executive management does not evaluate operating segment using assets and liabilities information, so segment assets and liabilities are not reported to the Group’s most senior executive management. Accordingly, reportable segment assets and liabilities have not been presented in the Historical Financial Information.

**Segment revenue and results**

The following is an analysis of the Group's revenue and results by operating and reportable segments.

*For the year ended 31 December 2016*

	<b>Sale of home furniture and accessories</b>	<b>Rental of home furniture and accessories</b>	<b>Project and hospitality services</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue – external customers . . . . .	175,117	33,399	35,925	244,441
Segment results . . . . .	106,522	26,445	13,601	146,568
Other income and gains . . . . .				2,810
Selling and distribution costs . . . . .				(47,674)
Administrative and other operating expenses . . . . .				(94,123)
Profit before taxation . . . . .				7,581

*For the year ended 31 December 2017*

	<b>Sale of home furniture and accessories</b>	<b>Rental of home furniture and accessories</b>	<b>Project and hospitality services</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue – external customers . . . . .	190,497	28,280	59,851	278,628
Segment results . . . . .	118,364	22,503	21,028	161,895
Other income and gains . . . . .				899
Selling and distribution costs . . . . .				(53,331)
Administrative and other operating expenses . . . . .				(97,947)
Listing expenses . . . . .				(6,556)
Profit before taxation . . . . .				4,960

There was no inter-segment revenue for the Track Record Period.

**Geographical information***Revenue from external customers*

	Year ended 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong . . . . .	152,319	182,695
UAE . . . . .	58,798	58,230
PRC . . . . .	33,324	37,703
	<u>244,441</u>	<u>278,628</u>

The revenue information above is based on the locations of the customers.

*Non-current assets*

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong . . . . .	8,433	6,526
UAE . . . . .	1,174	1,579
PRC . . . . .	1,769	1,227
	<u>11,376</u>	<u>9,332</u>

The non-current asset information above is based on the locations of the assets.

**Information about major customers**

There were no single customers contributed 10% or more of the Group's revenue during the years ended 31 December 2016 and 2017.

**8. OTHER INCOME AND GAINS**

	Year ended 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank interest income . . . . .	6	15
Gain on disposals of property, plant and equipment . . . . .	–	141
Interest income from finance leases . . . . .	269	249
Reversal of provision for long service payments ( <i>note 22(a)</i> ) . . . . .	1,915	–
Reversal of accrued withholding tax . . . . .	263	–
Store opening fee income . . . . .	–	195
Sundry income . . . . .	357	299
	<u>2,810</u>	<u>899</u>

## 9. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	Year ended 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
(a) Staff costs:		
Salaries, allowances and commissions . . . . .	60,622	65,761
Retirement benefits scheme contributions . . . . .	1,851	2,310
	<u>62,473</u>	<u>68,071</u>
(b) Other items:		
Auditor's remuneration . . . . .	547	614
(Reversal of)/allowance for doubtful debts . . . . .	(3)	679
Bad debts written off . . . . .	2	64
Cost of inventories recognised as expense . . . . .	92,556	112,426
Depreciation . . . . .	9,587	7,810
Loss on disposals of property, plant and equipment . . . . .	1,206	–
Net exchange loss . . . . .	236	166
Operating lease rentals in respect of rented premises		
– Minimum lease payments . . . . .	31,486	32,505
– Contingent rent . . . . .	458	283
	<u>458</u>	<u>283</u>

## 10. INCOME TAX

## (a) Taxation in combined statements of profit or loss and other comprehensive income

	Year ended 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Current tax – provision for the year</b>		
Hong Kong Profits Tax . . . . .	869	1,837
PRC Enterprise Income Tax . . . . .	1,292	–
	<u>2,161</u>	<u>1,837</u>

The Group is not subject to any income tax in the Cayman Islands, the BVI and UAE pursuant to the rules and regulations in those jurisdictions.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the Track Record Period.

PRC Enterprise Income Tax is calculated at 25% of the estimated assessable profits in accordance with relevant rules and regulations in the PRC.



**(b) Reconciliation between tax expense and accounting profits at applicable tax rates**

	Year ended 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation	7,581	4,960
Notional tax at applicable tax rate at respective jurisdictions	963	298
Tax effect of non-taxable income	(114)	(24)
Tax effect of non-deductible expenses	65	1,127
Tax effect of temporary differences not recognised	152	246
Tax effect on unused tax losses not recognised	1,122	694
Tax effect of utilisation of previously unrecognised tax loss	(2)	(504)
Tax concession for the year	(20)	–
Others	(5)	–
Actual tax expense	2,161	1,837

**(c) Deferred taxation**

No provision for deferred tax liabilities has been made as there were no material temporary differences as at 31 December 2016 and 2017.

Under the PRC tax law, withholding tax is imposed on dividends declared in respect of the profits earned by the PRC subsidiaries from 1 January 2008 onward. No deferred tax liabilities have been provided for in respect of the temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately HK\$4,118,000 and HK\$1,429,000 as at 31 December 2016 and 2017, respectively, as the Group is in a position to control the dividend policies of the PRC subsidiaries and no distribution of such profit is expected to be declared from the PRC subsidiaries in the foreseeable future.

At 31 December 2016 and 2017, the Group has unused tax losses arising in Hong Kong of approximately HK\$318,000 and HK\$467,000, respectively, that are available indefinitely for offsetting against future taxable profits of the group company in which the losses arose. The Group also has tax losses arising in the PRC of approximately HK\$7,304,000 and HK\$7,908,000, respectively, that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses due to the unpredictability of the future profit streams.

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

## (a) Directors' emoluments

Mr. McLennan was appointed as a director of the Company on 1 September 2017 and Ms. Fitzpatrick and Ms. Mok Lai Yin, Fiona (“**Ms. Mok**”) were appointed as directors of the Company on 4 February 2018. Subsequently, on 5 February 2018, Mr. McLennan, Ms. Fitzpatrick and Ms. Mok were redesignated as executive directors. Emoluments paid or payable to the executive directors of the Company (including emoluments for services as employee/directors of the group companies prior to becoming the directors/executive directors of the Company) by the companies now comprising the Group during the Track Record Period are as follows:

*Year ended 31 December 2016*

	<b>Mr. McLennan</b>	<b>Ms. Fitzpatrick</b>	<b>Ms. Mok</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees . . . . .	–	–	–	–
Salaries and allowances . . . . .	2,161	2,010	1,631	5,802
Bonus . . . . .	–	–	627	627
Retirement benefit scheme contributions . . . . .	18	18	18	54
Total emoluments . . . . .	<u>2,179</u>	<u>2,028</u>	<u>2,276</u>	<u>6,483</u>

*Year ended 31 December 2017*

	<b>Mr. McLennan</b>	<b>Ms. Fitzpatrick</b>	<b>Ms. Mok</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees . . . . .	–	–	–	–
Salaries and allowances . . . . .	1,777	2,024	1,415	5,216
Bonus . . . . .	443	388	744	1,575
Retirement benefit scheme contributions . . . . .	18	18	18	54
Total emoluments . . . . .	<u>2,238</u>	<u>2,430</u>	<u>2,177</u>	<u>6,845</u>

No emoluments were paid or payable to non-executive directors of the Company in respect of the Track Record Period.

During the Track Record Period, no remuneration was paid by the Group to any directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived any remuneration during the Track Record Period.

**(b) Employees' emoluments**

The five highest paid individuals included Mr. McLennan, Ms. Fitzpatrick and Ms. Mok for each of the years ended 31 December 2016 and 2017 whose emoluments are included in the disclosures in (a). The emoluments of the remaining 2 individuals for each of the years ended 31 December 2016 and 2017 were as follows:

	<b>Year ended 31 December</b>	
	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and allowances . . . . .	2,439	2,752
Bonus . . . . .	219	163
Retirement benefit scheme contributions . . . . .	18	36
Total emoluments . . . . .	<u>2,676</u>	<u>2,951</u>

Their emoluments were within the following bands:

	<b>Year ended 31 December</b>	
	<b>2016</b>	<b>2017</b>
	<i>Number of employees</i>	<i>Number of employees</i>
Nil to HK\$1,000,000 . . . . .	–	–
HK\$1,000,001 to HK\$1,500,000 . . . . .	2	1
HK\$1,500,001 to HK\$2,000,000 . . . . .	–	1
	<u>–</u>	<u>1</u>

**12. DIVIDENDS**

No dividend was paid or declared by the Company since its incorporation during the Track Record Period.

Subsequent to the Track Record Period, on 4 January 2018, Pacific Legend Development declared interim dividends totalling HK\$26,250,000 and such dividends were moved up the Group as successive dividend payments where they ultimately ended up as dividend payment by the Company to the then sole shareholder, Double Lions.

The rate of dividend and the number of shares ranking for the above dividends are not presented as such information is not considered meaningful having regard to the purpose of this report.

**13. EARNINGS PER SHARE**

No earnings per share information is presented for the purpose of this report as its inclusion is not considered meaningful having regard to the Reorganisation of the Group and the results of the Group for the Track Record Period that is prepared on a combined basis as set out in note 3.

## 14. PROPERTY, PLANT AND EQUIPMENT

	Decoration and fittings	Furniture and fixtures	Office equipment	Motor vehicle	Furniture for rental	Total
	<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>At cost:</b>						
At 1 January 2016 . . . . .	25,144	1,944	11,346	1,837	37,075	77,346
Additions . . . . .	96	154	1,375	–	5,567	7,192
Disposals . . . . .	(1,911)	–	–	–	–	(1,911)
Write-off . . . . .	–	–	–	–	(21,949)	(21,949)
Exchange realignment . . . . .	(217)	(4)	(24)	–	(7)	(252)
At 31 December 2016 and 1 January 2017 . . . . .	23,112	2,094	12,697	1,837	20,686	60,426
Additions . . . . .	707	329	580	916	3,393	5,925
Disposals . . . . .	–	–	–	(412)	–	(412)
Write-off . . . . .	–	–	(1)	–	(3,189)	(3,190)
Exchange realignment . . . . .	276	13	41	9	68	407
At 31 December 2017 . . . . .	24,095	2,436	13,317	2,350	20,958	63,156
<b>Accumulated depreciation and impairment loss:</b>						
At 1 January 2016 . . . . .	17,472	1,489	7,854	1,502	34,925	63,242
Charge for the year . . . . .	2,808	186	1,133	143	5,317	9,587
Written back on disposals . . . . .	(684)	–	–	–	–	(684)
Written back on write-off . . . . .	–	–	–	–	(21,949)	(21,949)
Exchange realignment . . . . .	(100)	(2)	(12)	–	(4)	(118)
At 31 December 2016 and 1 January 2017 . . . . .	19,496	1,673	8,975	1,645	18,289	50,078
Charge for the year . . . . .	1,959	192	1,176	176	4,307	7,810
Written back on disposals . . . . .	–	–	–	(402)	–	(402)
Written back on write-off . . . . .	–	–	(1)	–	(3,189)	(3,190)
Exchange realignment . . . . .	188	8	26	8	62	292
At 31 December 2017 . . . . .	21,643	1,873	10,176	1,427	19,469	54,588
<b>Carrying amount:</b>						
At 31 December 2016 . . . . .	3,616	421	3,722	192	2,397	10,348
At 31 December 2017 . . . . .	2,452	563	3,141	923	1,489	8,568

Items of furniture held for rental are leased out under operating leases. The leases typically run for an initial period of 2 years, with an option to renew the leases after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

The Group's total future minimum lease payments receivable under non-cancellable operating leases is as follows:

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year . . . . .	6,902	4,238
After one year but within five years . . . . .	90	261
	6,992	4,499

## 15. FINANCE LEASE RECEIVABLES

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current finance lease receivables . . . . .	3,157	2,673
Non-current finance lease receivables . . . . .	1,028	764
	<u>4,185</u>	<u>3,437</u>

The total minimum lease payments receivables under finance leases and their present values are as follows:

	Minimum lease payments receivable		Present value of minimum lease payments	
	2016	2017	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year . . . . .	3,355	2,861	3,157	2,673
Later than one year and not later than five years . . . . .	1,088	877	1,028	764
	<u>4,443</u>	<u>3,738</u>	<u>4,185</u>	<u>3,437</u>
Unearned interest income . . . . .	(258)	(301)	–	–
Present value of minimum lease payments receivable . . . . .	<u>4,185</u>	<u>3,437</u>	<u>4,185</u>	<u>3,437</u>

Certain items of furniture are leased out under finance leases. The terms of finance leases range from 12 months to 36 months. The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average effective interest rates are 5% and 10.25% per annum.

Finance lease receivables are secured over the furniture leased. The Group is not permitted to sell or repledge the collateral in the absence of default by the lessee. The finance lease receivables as at 31 December 2016 and 2017 are neither past due nor impaired.

## 16. INVENTORIES

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Merchandise goods . . . . .	<u>41,889</u>	<u>43,212</u>

The analysis of the amount of inventories recognised as an expense is as follows:

	Year ended 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount of inventories sold . . . . .	92,100	111,555
Provision for write-down of inventories . . . . .	456	871
	<u>92,556</u>	<u>112,426</u>

## 17. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2016	2017
	HK\$'000	HK\$'000
Trade receivables	15,960	12,981
Less: allowances for doubtful debts	(148)	(829)
	15,812	12,152
Other receivables	3,522	3,287
Deposits and prepayments	22,611	28,687
	41,945	44,126

At 31 December 2016 and 2017, apart from certain deposits totalling HK\$8,590,000 and HK\$8,563,000 respectively, all trade and other receivables are expected to be recovered or recognised as expenses within one year.

## (a) Ageing analysis

The ageing analysis of trade receivables, based on invoice date and net of allowance for doubtful debts, is as follows:

	As at 31 December	
	2016	2017
	HK\$'000	HK\$'000
Within 1 month	9,177	5,260
More than 1 month but less than 3 months	4,485	4,813
More than 3 months but less than 12 months	776	2,076
More than 12 months	1,374	3
	15,812	12,152

Trade receivables are due within 30 days from the date of billing. Further details on the Group's credit policy are set out in note 25.

## (b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

*Movements in allowance for doubtful debts*

	As at 31 December	
	2016	2017
	HK\$'000	HK\$'000
At 1 January	1,778	148
Impairment losses recognised	617	679
Uncollectible amounts written off	(2,247)	–
Exchange realignment	–	2
At 31 December	148	829

At 31 December 2016 and 2017, trade receivables of HK\$148,000 and HK\$829,000 respectively were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and their recoveries are in doubt. The Group does not hold any collateral over these balances.

During the years ended 31 December 2016 and 2017, impairment losses of HK\$2,000 and HK\$64,000 respectively were recognised and written off against trade receivables directly.

**(c) Trade receivables that are not impaired**

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Neither past due nor impaired . . . . .	2,177	990
Within 1 month . . . . .	7,498	4,582
More than 1 month but less than 3 months . . . . .	4,564	4,510
More than 3 months but less than 12 months . . . . .	636	2,067
More than 12 months . . . . .	937	3
Amounts past due . . . . .	13,635	11,162
	<u>15,812</u>	<u>12,152</u>

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are considered fully recoverable. The Group does not hold any collateral over these balances.

**18. PROJECT CONTRACTS**

	As at 31 December	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Project contract costs incurred plus recognised profits less		
recognised losses to date . . . . .	28,245	52,527
Less: progress billings . . . . .	(19,135)	(51,719)
	<u>9,110</u>	<u>808</u>
Represented by:		
Amounts due from customers for contract work included in		
current assets . . . . .	9,214	4,455
Amounts due to customers for contract work included in current		
liabilities . . . . .	(104)	(3,647)
	<u>9,110</u>	<u>808</u>

**19. AMOUNT DUE FROM A DIRECTOR**

The amount due from Mr. McLennan comprises:

	<b>As at 31 December</b>	
	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Advances ·····	222	1,375
Trade balance ·····	214	228
	<u>436</u>	<u>1,603</u>

All balances are unsecured, interest free and repayable on demand. The maximum amount outstanding during the years ended 31 December 2016 and 2017 was HK\$440,000 and HK\$1,714,000, respectively.

The amount due from Mr. McLennan has been fully settled in February 2018.

**20. TRADE AND OTHER PAYABLES**

	<b>As at 31 December</b>	
	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables ·····	3,674	2,120
Deposits received ·····	19,205	15,594
Other payables and accruals ·····	24,760	22,942
	<u>47,639</u>	<u>40,656</u>

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

The following is an ageing analysis of trade payables presented based on the invoice date :

	<b>As at 31 December</b>	
	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month ·····	2,402	355
More than 1 month but less than 3 months ·····	385	267
More than 3 months ·····	887	1,498
	<u>3,674</u>	<u>2,120</u>

**21. AMOUNT DUE TO A RELATED COMPANY**

The amount due to Winford Inc. Limited is trade related, unsecured, interest-free and repayable on demand.

A director, Mr. McLennan, has a 50% equity interest in Winford Inc. Limited.



## 22. PROVISIONS

	Long service payments	Employees' end-of-service benefits	Reinstatement costs for rented premises	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2016 . . . . .	2,754	3,087	2,260	8,101
Provision made . . . . .	30	579	–	609
Provision reversed . . . . .	(1,915)	–	–	(1,915)
Provision utilised . . . . .	–	(97)	–	(97)
At 31 December 2016 and 1 January 2017 . . . . .	869	3,569	2,260	6,698
Provision made . . . . .	150	701	–	851
Provision utilised . . . . .	(88)	(503)	–	(591)
Exchange realignment . . . . .	–	29	–	29
At 31 December 2017 . . . . .	931	3,796	2,260	6,987

**(a) Provision for long service payments**

The Group's net obligation in respect of long service payments to its employees upon the termination of their employment or retirement when the employee fulfils certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their services.

The amount payable is dependent upon the employee's final salary and period of service, and is reduced by entitlements accrued under the Group's retirement plan that are attributable to contributions made by the Group.

During the year ended 31 December 2016, the Group assessed the entitlements accrued under the Group's retirement plan that are attributable to contributions made by the Group and noted that there was an over-provision for long service payments. Accordingly, a provision of HK\$1,915,000 was reversed and credited to profit or loss as other income (see note 8).

**(b) Provision for employees' end-of-service benefits**

Provision for the employees' end-of-service benefits is made in accordance with the labour laws of UAE, and is based on current remuneration and cumulative periods of service at the end of the reporting period.

**(c) Provision for reinstatement costs for rented premises**

Under the terms of the rental agreements signed with landlords, the Group shall remove and re-instate the rented premises at the Group's cost upon expiry of the relevant rental agreements. Provision is therefore made for the best estimate of the expected reinstatement costs to be incurred.

## 23. SHARE CAPITAL

**The Group**

The share capital as at 1 January 2016 and 31 December 2016 represented the combined issued share capital of Pacific Legend Development and Deep Blue.

The share capital as at 31 December 2017 represented the combined issued share capital of the Company and Deep Blue.

**The Company**

The Company was incorporated on 1 September 2017 with an initial authorised share capital of HK\$380,000 divided into 38,000,000 shares of a par value of HK\$0.01 each. Upon incorporation, 1 new share of HK\$0.01 was allotted and issued, as nil paid, to the subscriber and was subsequently transferred to Double Lions. On 28 December 2017, pursuant to the Reorganisation, the 1 nil paid share was credited as fully paid by the Company and the Company further allotted and issued 499 shares at HK\$0.01 each to Double Lions, credit as fully paid, in consideration for the acquisition of the entire issued share capital in Pacific Legend Development (see note 2).

**24. CAPITAL RISK MANAGEMENT**

The Group's primary objective when managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group's capital structure is regularly reviewed and managed with due regard to the capital management practices of the Group. Adjustments are made to the capital structure in light of changes in economic conditions affecting the Group, to the extent that these do not conflict with the directors' fiduciary duties towards the Group or the requirements of the Hong Kong Companies Ordinance.

The Group is not subject to externally imposed capital requirements.

**25. FINANCIAL RISK MANAGEMENT AND FAIR VALUES**

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

**Credit risk**

The Group's credit risk is primarily attributable to bank deposits, finance lease receivable and trade receivables. The Group has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Credit risk on bank deposits is limited as they are placed with financial institutions with sound credit ratings.

The Group's retail sales are usually paid in cash or via major credit/debit cards. In respect of the Group's corporate and project customers where credit periods are granted, individual credit evaluations are performed. In addition, trade receivables are monitored on an on-going basis to ensure that follow-ups actions are taken and adequate allowances are made for the amounts considered to be irrecoverable.

The average trade receivable turnover days, excluding those sales without credit period granted, were 48 days for the year ended 31 December 2016 and 36 days for the year ended 31 December 2017. At 31 December 2016 and 2017, 32% and 13% of total trade receivables was due from the largest customers respectively, and 62% and 50% of total trade receivables was due from the largest five customers respectively.

**Liquidity risk**

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of unexpected fluctuations in cash flows.

The following table details the remaining contractual maturities for the Group's financial liabilities, which are based on the undiscounted cash flows and the earliest date the Group can be required to pay.

	<u>Carrying amount</u>	<u>Total contractual undiscounted cash flows</u>	<u>Repayable on demand or within 1 year</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>As at 31 December 2016</b>			
Trade and other payables . . . . .	47,639	47,639	47,639
Amount due to a related company . . . . .	199	199	199
	<u>47,838</u>	<u>47,838</u>	<u>47,838</u>
<b>As at 31 December 2017</b>			
Trade and other payables . . . . .	40,656	40,656	40,656
Amount due to a related company . . . . .	213	213	213
	<u>40,869</u>	<u>40,869</u>	<u>40,869</u>

#### Interest rate risk

The Group's interest rate risk arises primarily from finance lease receivables and bank deposits, which are at fixed rates and expose the Group to fair value interest rate interest.

At 31 December 2016 and 2017, if interest rates on finance lease receivables and bank deposits had been 100 basis points higher/lower, with all other risk variables held constant, the Group's profit after tax for the years then ended would have been HK\$111,000 and HK\$57,000 higher/lower, respectively.

#### Foreign currency risk

The Group's sales and direct costs were primarily denominated in the functional currency of the operations to which the transactions are related. Accordingly, the management considers that the Group's exposure to foreign currency risk is minimal.

#### Fair values measurement

Management of the Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information approximate their fair values.

## 26. OPERATING LEASE COMMITMENTS

The Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<u>As at 31 December</u>	
	<u>2016</u>	<u>2017</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year . . . . .	18,682	23,813
In the second to fifth year inclusive . . . . .	20,588	22,717
	<u>39,270</u>	<u>46,530</u>

The Group is the lessee in respect of certain properties under operating leases. The leases typically run for an initial period of 1 to 8 years, at the end of which period all terms are renegotiated. The operating lease rentals are based on the higher of a minimum guarantee rental or a sales level based rental. The minimum guaranteed rental has been used to arrive at the above commitments.

**27. CONTINGENT LIABILITIES**

At 31 December 2016, the Group had no material contingent liabilities.

At 31 December 2017, the Group had contingent liabilities in respect of a performance guarantee of HK\$2,164,000 issued by a bank in favour of a customer in respect of the projects undertaken by the Group.

**28. PLEDGE OF ASSETS**

At 31 December 2016, pledged bank deposits of HK\$3,098,000 were applied as security for the general banking facilities granted to a subsidiary.

At 31 December 2017, pledged bank deposit of HK\$3,000,000 was applied as security for the general banking facilities granted to a subsidiary. These facilities were also secured by a personal guarantee of HK\$8,000,000 from Mr. McLennan.

In addition, as at 31 December 2017, pledged bank deposit of HK\$2,164,000 was applied as security for a performance guarantee of HK\$2,164,000 issued by a bank (see note 27).

**29. PARTICULARS OF SUBSIDIARIES**

Particulars of the Company's subsidiaries as at the date of this report are as follows:

Name of subsidiary	Date of incorporation/ establishment	Place of incorporation/ establishment	Issued and paid up capital	Equity interest attributable to the Company		At date of this Report	Principal activities	Notes
				At 31 December 2016	2017			
<b>Directly held</b>								
Rae ford	9 June 2017	BVI	US\$1	N/A	100%	100%	Investment holding	(a)
<b>Indirectly held</b>								
Pacific Legend Development	9 June 2006	Hong Kong	HK\$10,000	100%	100%	100%	Investment holding	(b)
Indigo Living Limited ("Indigo Hong Kong")	11 November 1986	Hong Kong	HK\$22,900,000	100%	100%	100%	Sale and leasing of home furniture and accessories and provision of design consultancy services for fitting out interiors with furnishings	(b)
Indigo Dubai	11 April 2006	Dubai, UAE	AED300,000	100%	100%	100%	Sale and leasing of home furniture and accessories and provision of design consultancy services for fitting out interiors with furnishings	(c)

Name of subsidiary	Date of incorporation/ establishment	Place of incorporation/ establishment	Issued and paid up capital	Equity interest attributable to the Company			Principal activities	Notes
				At 31 December		At date of this Report		
				2016	2017			
Deep Ocean SPV Limited (“Deep Ocean SPV”)	4 March 2018	Abu Dhabi, UAE	US\$1,000	N/A	N/A	100%	Investment holding	(d)
Deep Blue	1 May 1979	Hong Kong	HK\$779,246	100%	100%	100%	Investment holding	(b)
因邸高家居商貿(上海)有限公司 Indigo China Home Furniture Trading (Shanghai) Limited* (“Indigo China”)	1 November 2013	PRC	RMB3,483,596	100%	100%	100%	Sale and leasing of home furniture and accessories and provision of design consultancy services for fitting out interiors with furnishings	(e)
上海因邸閣裝潢設計工程有限公司 Shanghai Indigo Decoration and Design Works Limited* (“Indigo Shanghai”)	12 November 2015	PRC	–	100%	100%	100%	Provision of design consultancy services for fitting out interiors with furnishings	(e)(f)
Ocean Blue Living Limited (“Ocean Blue”)	9 May 2017	Hong Kong	HK\$1,000	N/A	100%	100%	Franchising	(g)
Indigo Living (S) Pte. Ltd. (“Indigo Singapore”)	21 August 2009	Singapore	SGD300,000	100%	100%	N/A	Inactive	(h)
Indigo Living Macau Limited (“Indigo Macao”)	14 September 2007	Macao	MOP25,000	100%	N/A	N/A	Inactive	(i)

\* For identification purpose only

All the companies now comprising the Group have adopted 31 December as their financial year end date.

*Notes:*

- (a) No statutory audited financial statements have been prepared for Raeford since its date of incorporation as it was incorporated in a jurisdiction where there are no statutory audit requirements.
- (b) The statutory financial statements of Pacific Legend Development, Indigo Hong Kong and Deep Blue for the years ended 31 December 2016 and 2017, prepared in accordance with HKFRSs, were audited by Baker Tilly Hong Kong Limited.

- (c) Pacific Legend Development is the legal owner of 49% of the issued share capital of Indigo Dubai. The notarised memorandum of association of Indigo Dubai provides that Pacific Legend Development has the sole right to control, manage and direct the financial and operating policies of Indigo Dubai and is entitled to 80% of Indigo Dubai's profits. Through the contractual arrangements (see section headed "Contractual Arrangements" of the Prospectus), Pacific Legend Development is also entitled to the remaining 20% of Indigo Dubai's profits. Accordingly, Indigo Dubai has been accounted for as a wholly owned subsidiary of the Group throughout the Track Record Period.
- The statutory financial statements of Indigo Dubai for the years ended 31 December 2016 and 2017, prepared in accordance with the International Financial Reporting Standards, were audited by Baker Tilly MKM, a firm of certified public accountants registered in Dubai, UAE.
- (d) All the issued share capital of Deep Ocean SPV is held by a corporate services provider in UAE. Pacific Legend Development, through contractual arrangements with the corporate services provider (see section headed "Contractual Arrangements – New Contractual Arrangements" of the Prospectus), has 100% control and economic interest in Deep Ocean SPV. No audited financial statements have been prepared for Deep Ocean SPV since its incorporation on 4 March 2018.
- (e) The statutory financial statements of Indigo China and Indigo Shanghai for the years ended 31 December 2016 and 2017, prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC enterprises, were audited by 上海新沃會計師事務所有限公司, a firm of certified public accountants registered in the PRC.
- (f) Indigo Shanghai has a registered capital of RMB30,000,000 and no capital has been paid up.
- (g) No statutory audited financial statements of Ocean Blue have been prepared as it was newly incorporated and is not required to issue audited financial statements under the statutory requirements of its place of incorporation.
- (h) Indigo Singapore was dissolved by striking off in April 2018. No statutory audited financial statements for the years ended 31 December 2016 and 2017 have been prepared for Indigo Singapore as it is not required to issue audited financial statements under the statutory requirements of its place of incorporation.
- (i) Indigo Macao was wound up in December 2017. No statutory audited financial statements for the year ended 31 December 2016 and for the period from 1 January 2017 to the date of winding up have been prepared for Indigo Macao as it is not required to issue audited financial statements under the statutory requirements of its place of incorporation.

### 30. RESERVE OF THE COMPANY

	<u>Accumulated loss</u>
	<i>HK\$'000</i>
At 1 September 2017 (date of incorporation) . . . . .	–
Loss and total comprehensive loss for the period . . . . .	(6,556)
At 31 December 2017 . . . . .	<u>(6,556)</u>

### 31. RELATED PARTY TRANSACTIONS

#### Compensation of key management personnel

Remuneration for key management of the Group, including amounts paid to the directors and certain of the highest paid employees as disclosed in notes 11(a) and 11(b) respectively, during the years ended 31 December 2016 and 2017 was as follows:

	Year ended 31 December	
	2016	2017
	HK\$'000	HK\$'000
Salaries, allowances and bonus . . . . .	12,686	14,126
Mandatory provident fund contribution . . . . .	144	162
Provision for long service payments . . . . .	143	218
	<u>12,973</u>	<u>14,506</u>

#### Other related party transactions

Save as disclosed elsewhere in the Historical Financial Information, the Group had the following material transactions with related parties during the Track Record Period:

	Year ended 31 December	
	2016	2017
	HK\$'000	HK\$'000
Winford Inc. Limited		
– Management fee expense . . . . .	55	–
– Commission expense . . . . .	187	–
– Delivery charge expense . . . . .	2,483	2,940
– Manpower support expense . . . . .	257	175
Mr. McLennan		
– Sales of home furniture and accessories . . . . .	157	14
Mrs. Jennifer Carver McLennan (spouse of Mr. McLennan)		
– Consultancy fee expense . . . . .	–	384

### 32. SUBSEQUENT EVENTS

Save as disclosed elsewhere in the Historical Financial Information, the following significant events took place subsequent to 31 December 2017:

- (a) On 12 January 2018, the Company allotted and issued shares, representing 15.4% of the then enlarged issued share capital of the Company, to two investors for a total cash consideration of HK\$10,000,000 (see section headed “History, Development and Reorganisation—Pre-IPO Investments” of the Prospectus).
- (b) On 4 March 2018, Deep Ocean SPV (see note 29 (d)) was incorporated as a special purpose vehicle with share capital of US\$1,000. The sole purpose of Deep Ocean SPV is holding a 51% equity interest in Indigo Dubai which was previously held by a corporate services provider in UAE for the benefit of the Group (see section headed “Contractual Arrangements—New Contractual Arrangements” of the Prospectus).
- (c) Pursuant to written resolutions of the shareholders of the Company passed on 19 June 2018 and conditional upon the share premium account of the Company being credited as a result of the share offer of the Company’s shares, the directors of the Company were authorised to capitalise the amount of HK\$7,499,990 from the amount standing to the credit of the share premium account of the Company and to apply such amount to pay up in full at par 749,999,000 shares of the Company for allotment and issue to the existing shareholders of the Company.

### 33. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Company, any of its subsidiaries or the Group have been prepared in respect of any period subsequent to 31 December 2017.

## APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set out in this Appendix does not form part of the Accountants' Report on the historical financial information of the Group for the two years ended 31 December 2016 and 2017 prepared by Baker Tilly Hong Kong Limited, Certified Public Accountants, Hong Kong, the Reporting Accountants of our Company, as set out in Appendix I to this prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

### A. STATEMENT OF UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The statement of unaudited pro forma adjusted combined net tangible assets of the Group prepared in accordance with Rule 7.31 of the GEM Listing Rules is set out below to illustrate the effect of the Share Offer on the audited combined net tangible assets of the Group attributable to equity shareholders of the Company as at 31 December 2017 as if the Share Offer had taken place on 31 December 2017.

The statement of unaudited pro forma adjusted combined net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, may not give a true picture of the financial position of the Group as at 31 December 2017 or any future date following the Share Offer and Capitalisation Issue.

The following statement of unaudited pro forma adjusted combined net tangible assets of the Group is based on the audited combined net tangible assets of the Group attributable to equity shareholders of the Company as at 31 December 2017 as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, and adjusted as follows:

	Audited combined net tangible assets of the Group attributable to equity shareholders of the Company as at 31 December 2017	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to equity shareholders of the Company as at 31 December 2017	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to equity shareholders of the Company as at 31 December 2017 per Share
	<i>HK\$'000</i> <i>(Note 1)</i>	<i>HK\$'000</i> <i>(Note 2)</i>	<i>HK\$'000</i>	<i>HK\$</i> <i>(Note 3)</i>
Based on Offer Price of HK\$0.30 per Offer Share . . . . .	102,817	56,848	159,665	0.16
Based on Offer Price of HK\$0.40 per Offer Share . . . . .	102,817	80,848	183,665	0.18



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## APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

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*Notes:*

- (1) The audited combined net tangible assets of the Group attributable to equity shareholders of the Company is 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 250,000,000 Shares at the Offer Price of HK\$0.30 and HK\$0.40 per Share, being the low-end and high-end of the stated Offer Price range, after deduction of the underwriting commissions and fees and other listing related expenses, other than those expenses which had been recognised in profit or loss prior to 31 December 2017.
- (3) The unaudited pro forma adjusted combined net tangible assets of the Group attributable to equity shareholders of the Company per Share is calculated based on 1,000,000,000 Shares in issue assuming that the Share Offer and Capitalisation Issue had been completed on 31 December 2017 and does not take into account of any Shares which may be allotted and issued under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company under the general mandates granted to the Directors.
- (4) No adjustments have been made to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2017. In particular, the unaudited pro forma adjusted combined net tangible assets of the Group attributable to equity shareholders of the Company have not been adjusted to show the effects of the payment of interim dividends totalling HK\$26,250,000 on 4 January 2018 and the issue of Shares, representing 15.4% of the then enlarged issued share capital of the Company, to the Pre-IPO Investors for a total cash consideration of HK\$10,000,000 on 12 January 2018. Have the interim dividends payment and the issue of Shares to the Pre-IPO Investors been taken into account, the unaudited pro forma adjusted combined net tangible assets of the Group attributable to equity shareholders of the Company as at 31 December 2017 per Share would be HK\$0.14 and HK\$0.17 based on the Offer Price of HK\$0.30 and HK\$0.40 per Share, respectively.

**B.    INDEPENDENT REPORTING ACCOUNTANTS’ ASSURANCE REPORT ON THE  
COMPILED OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following is the text of the assurance report received from Baker Tilly Hong Kong Limited, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, in respect of the Group’s unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.

**INDEPENDENT REPORTING ACCOUNTANTS’ ASSURANCE REPORT ON THE  
COMPILED OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION****To the Directors of Pacific Legend Group Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Pacific Legend Group Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the statement of unaudited pro forma adjusted combined net tangible assets of the Group as at 31 December 2017 and related notes (the “**Unaudited Pro Forma Financial Information**”) as set out in Part A of Appendix II to the prospectus issued by the Company dated 29 June 2018 (the “**Prospectus**”). The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described in Part A 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 placing and public offer of the shares of the Company (the “**Share Offer**”) on the Group’s financial position as at 31 December 2017 as if the Share Offer had taken place at 31 December 2017. As part of this process, information about the Group’s financial position has been extracted by the directors from the Group’s historical financial information for the two years ended 31 December 2016 and 2017 included in the Accountants’ Report as set out in Appendix I to the Prospectus.

**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 7.31 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

**Our independence and quality control**

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting accountants’ responsibilities**

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM 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 7.31 of the GEM 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 entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2017 would have been as presented.

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## APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

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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 unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the entity, 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 7.31(1) of the GEM Listing Rules.

**Baker Tilly Hong Kong Limited**

*Certified Public Accountants*

Hong Kong, 29 June 2018

Chan Kwan Ho, Edmond

Practising certificate number P02092

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 Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 1 September 2017 under the Companies Law. The Company's constitutional documents consist of its Memorandum of Association and its Articles of Association.

## 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 19 June 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 installments. 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 installments 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 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 installments 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***

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.

***(iv) Notices of meetings and business to be conducted***

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.



In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
  - (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
  - (cc) the election of directors in place of those retiring;
  - (dd) the appointment of auditors and other officers;
  - (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. 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 Islands company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

**(a) Company operations**

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

**(b) Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

**(c) Financial assistance to purchase shares of a company or its holding company**

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of

capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.



**(f) Protection of minorities and shareholders' suits**

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

**(g) Disposal of assets**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(h) Accounting and auditing requirements**

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(j) Taxation**

Pursuant to the Tax Concessions Law of the Cayman Islands, the Company has obtained an undertaking:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 19 September 2017.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

**(m) Inspection of corporate records**

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) Beneficial Ownership Register**

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

**(q) Winding up**

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official

liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

**(r) Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

**(s) Take-overs**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

**(t) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

**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 delivered to the registrar of companies and 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 OUR SUBSIDIARIES****1. Incorporation or our Company**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 1 September 2017. Our Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands (the offices of Conyers Trust Company (Cayman) Limited). We have established our principal place of business in Hong Kong at Units 1202-04, Level 12, Cyberport 2, 100 Cyberport Road, Hong Kong and was registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 7 November 2017. Mr. McLennan 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 is incorporated in the Cayman Islands, we operate subject to the Companies Law and our constitution, which comprises the Memorandum of Association and the Articles of Association. A summary of various parts of our constitution and relevant aspects of the Companies Law is set out in Appendix III to this prospectus.

**2. Changes in share capital of our Company**

At as the date of incorporation, the authorised share capital of our Company was HK\$380,000 divided into 38,000,000 shares of par value of HK\$0.01 each.

The following changes in the share capital of our Company had taken place since the date of incorporation and up to the Latest Practicable Date:

- (a) On 1 September 2017, one nil-paid subscriber Share was allotted and issued to Sharon Pierson of Conyers Trust Company (Cayman) Limited, the provider of the registered office of our Company, which was transferred to Mr. McLennan on the same date at nil consideration.
- (b) On 3 October 2017, Mr. McLennan transferred the one nil-paid subscriber Share to Double Lions at a consideration of HK\$0.01.
- (c) On 28 December 2017, our Company allotted and issued:
  - (i) 99 fully paid Shares to Double Lions and crediting as fully paid the one nil-paid subscriber Share held by Double Lions in consideration of Mr. McLennan transferring 392,100 shares of Pacific Legend Development (representing 39.21% of its entire issued share capital and valued at HK\$40,386,300) to Raeford;

- (ii) 100 fully paid Shares to Double Lions in consideration of Ms. Bailey transferring 181,800 shares of Pacific Legend Development (representing 18.18% of its entire issued share capital and valued at HK\$18,725,400) to Raeford;
  - (iii) 100 fully paid Shares to Double Lions in consideration of Mr. Leach transferring 119,300 shares of Pacific Legend Development (representing 11.93% of its entire issued share capital and valued at HK\$12,287,900) to Raeford;
  - (iv) 100 fully paid Shares to Double Lions in consideration of RAM transferring 181,800 shares of Pacific Legend Development (representing 18.18% of its entire issued share capital and valued at HK\$18,725,400) to Raeford; and
  - (v) 100 fully paid Shares to Double Lions in consideration of Ms. Fitzpatrick transferring 125,000 shares of Pacific Legend Development (representing 12.5% of its entire issued share capital and valued at HK\$12,875,000) to Raeford.
- (d) On 11 January 2018, our Company allotted and issued:
- (i) 70 fully paid Shares to Double Lions in consideration of Mr. McLennan transferring 392 shares of Deep Blue (representing 39.2% of its entire issued share capital and valued at HK\$0.392) to Raeford;
  - (ii) 70 fully paid Shares to Double Lions in consideration of Ms. Bailey transferring 182 shares of Deep Blue (representing 18.2% of its entire issued share capital and valued at HK\$0.182) to Raeford;
  - (iii) 70 fully paid Shares to Double Lions in consideration of Mr. Leach transferring 119 shares of Deep Blue (representing 11.9% of its entire issued share capital and valued at HK\$0.119) to Raeford;
  - (iv) 70 fully paid Shares to Double Lions in consideration of RAM transferring 182 shares of Deep Blue (representing 18.2% of its entire issued share capital and valued at HK\$0.182) to Raeford; and
  - (v) 66 fully paid Shares to Double Lions in consideration of Ms. Fitzpatrick transferring 125 shares of Deep Blue (representing 12.5% of its entire issued share capital and valued at HK\$0.125) to Raeford.



- (e) On 12 January 2018, our Company allotted and issued:
  - (i) 100.1 fully paid Shares to Great Metro in consideration of HK\$6,500,000; and
  - (ii) 53.9 fully paid Shares to Upperhand in consideration of HK\$3,500,000.
- (f) Pursuant to the written resolutions of our shareholders of our Company passed on 19 June 2018 referred to in the paragraph headed “A. Further information about our Company and our subsidiaries — 3. Written resolutions of our Shareholders passed on 19 June 2018” in this appendix to this prospectus, the authorised share capital of our Company was increased from HK\$380,000 to HK\$100,000,000 by the creation of a further 9,962,000,000 Shares.
- (g) A total of 250,000,000 Offer Shares will be offered to the public by way of Share Offer.
- (h) Conditional on the share premium account of our Company being credited with the proceeds from the Share Offer on GEM, HK\$7,499,990 will be capitalised from the share premium account of our Company and applied in paying up in full a total of 749,999,000 Shares for the allotment and issuance to the existing shareholders of our Company, being Double Lions as to 634,499,154 Shares, Great Metro as to 75,074,899.9 Shares and Upperhand as to 40,424,946.1 Shares, on or prior to the listing of the Shares on GEM.
- (i) Immediately following the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme), the issued share capital of our Company will be HK\$10,000,000 divided into 1,000,000,000 Shares fully paid or credited as fully paid and 9,000,000,000 Shares will remain unissued. Other than pursuant to the exercise of any options which may be granted under the Share Option Scheme, our Directors do not have any present intention to issue any part of the authorised but unissued share capital of our Company and, without prior approval of the Shareholders at general meeting, no issue of Shares will be made which would effectively alter the control of our Company.
- (j) Save as aforesaid, there has been no alteration in the share capital of our Company since its incorporation.

### 3. Written resolutions of our Shareholders passed on 19 June 2018

Pursuant to the written resolutions of our Shareholders passed on 19 June 2018:

- (a) the authorised share capital of our Company was increased from HK\$380,000 to HK\$100,000,000 by the creation of a further 9,962,000,000 Shares;
- (b) conditional on the conditions as set out in the section headed “Structure and conditions of the Share Offer” of this prospectus:
  - (i) the Share Offer was approved and our Directors were authorised to allot and issue the Offer Shares pursuant to the Share Offer;
  - (ii) conditional on the share premium account of our Company being credited as a result of the Share Offer, our Directors were authorised to capitalise an amount of HK\$7,499,990 standing to the credit of the share premium account of our Company applying such sum in paying up in full at par 749,999,000 Shares to be allotted and issued to the following Shareholders in the following manners:

<u>Shareholder</u>	<u>Number of Shares to be allotted and issued</u>
Double Lions .....	634,499,154.0
Great Metro .....	75,074,899.9
Upperhand .....	40,424,946.1

- (iii) the rules of the Share Option Scheme were approved and adopted and our Directors were authorised to implement the same, grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant thereto;
- (iv) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than pursuant to, or in consequence of a rights issues or an issue of Shares upon the exercise of any subscription rights attached to any warrants of our Company or pursuant to the exercise of any options which may be granted under the Share Option Scheme or under any other option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of our Company and/or any of our subsidiaries of shares or rights to acquire shares or 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 other similar arrangement or pursuant to a specific authority granted by the Shareholders in general meeting, Shares with a total nominal value not (1) exceeding 20% of the aggregate of the total nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme); and (2) the aggregate nominal value of Shares repurchased under the Repurchase Mandate as defined in paragraph (v) below. Such mandate shall remain in effect until whichever is the earliest of:

- (1) the conclusion of the next annual general meeting of our Company;
  - (2) the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles of Association or any applicable laws of the Cayman Islands; and
  - (3) the passing of an ordinary resolution of the Shareholders in a general meeting revoking, varying or renewing such mandate;
- (v) a general unconditional mandate (the “**Repurchase Mandate**”) was given to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares as may be repurchased will represent up to 10% of the aggregate of the total nominal value of the share capital of our Company in issue immediately following the completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), such mandate shall remain in effect until whichever is the earliest of:
- (1) the conclusion of the next annual general meeting of our Company;
  - (2) the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles of Association or any applicable law of the Cayman Islands; and
  - (3) the passing of an ordinary resolution of the Shareholders in a general meeting revoking, varying or renewing such mandate; and

- (vi) subject to the availability of authorised but unissued share capital and conditional upon paragraphs (iv) and (v) above, the aggregate nominal value of Shares which are purchased or repurchased by our Company pursuant to and in accordance with paragraph (v) above shall be added to the aggregate nominal value of Shares which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to and in accordance with paragraph (iv) above provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Share Offer;
- (c) the amended and restated Memorandum of Association and Articles of Association were conditionally approved and adopted to take effect on Listing Date.

#### **4. Corporate reorganisation**

Our Group underwent the Reorganisation in preparation for the Listing. For further details, please refer to the paragraph headed “History, development and Reorganisation — Reorganisation” in this prospectus.

#### **5. Changes in share capital of subsidiaries of our Company**

Our subsidiaries are referred to in the Accountants’ Report, the text of which is set out in Appendix I to this prospectus. Save for the subsidiaries mentioned in Appendix I to this prospectus, our Company has no other subsidiaries.

Save as disclosed in the section headed “History, development and Reorganisation” in this prospectus, there has been no alteration in the share capital of any of the subsidiaries of our Company within two years immediately prior to the date of this prospectus.

#### **6. Repurchase by our Company of our own securities**

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of our own securities.

##### ***(a) Provisions of the GEM Listing Rules***

The GEM Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

*(i) Shareholders' approval*

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in a general meeting, either by way of general mandate or by specific approval of a particular transaction.

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*Note:* Pursuant to the resolutions in writing of the Shareholders passed on 19 June 2018, a general mandate was given to our Directors to exercise all powers of our Company to repurchase Shares on the Stock Exchange or 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 up to 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Share Offer. The general mandate will expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders in general meeting revoking, varying or renewing such mandate, whichever occurs first.

*(ii) Source of funds*

Any repurchases must be financed out of funds legally available for such purpose in accordance with the Articles of Association and any applicable laws of the Cayman Islands.

*(iii) Trading restrictions*

A company is authorised to repurchase on GEM or on any other stock exchange recognised by the SFC and the Stock Exchange up to a maximum of 10% of the aggregate nominal value of the existing issued share capital of that company or warrants to subscribe for shares in the company representing up to 10% of the amount of warrants then outstanding at the date of the passing of the relevant resolution granting the repurchase mandate. A company may not issue or announce an issue of new securities of the type that have been repurchased for a period of 30 days immediately following a repurchase of securities whether on the GEM or otherwise (except pursuant to the exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to the repurchase) without the prior approval of the Stock Exchange. A company is also prohibited from making securities repurchase on GEM if the result of the repurchases would be that the number of the listed securities in hands of the public would be below the relevant prescribed minimum percentage for that company as required and determined by the Stock Exchange. A company shall not purchase its shares on GEM if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on GEM.

*(iv) Status of repurchased securities*

The listing of all repurchased securities (whether on GEM or otherwise) is automatically cancelled and the relative certificates must be cancelled and destroyed. Under the Cayman Islands law, a company's repurchased shares may be treated as cancelled and, if so cancelled, the amount of the company's issued share capital shall be reduced by the aggregate nominal value of the repurchased shares accordingly although the authorised share capital of the company will not be reduced.

*(v) Suspension of repurchase*

Any securities repurchase programme is required to be suspended after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive 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 GEM Listing Rules) for the approval of our Company's results for any year, half year, quarter-year period or any other interim period (whether or not required by the GEM Listing Rules); and (2) the deadline for our Company to publish an announcement of our results for any year, or half-year or quarter-year period under the GEM Listing Rules, or any other interim period (whether or not required under the GEM Listing Rules), and in each case ending on the date of the results announcement, our Company may not purchase its securities on GEM unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit repurchases of securities on GEM if our Company has breached the GEM Listing Rules.

*(vi) Reporting requirements*

Repurchases of securities on GEM or otherwise must be reported to the Stock Exchange no later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the Stock Exchange business day following any day on which our Company may make a purchase of Shares, reporting total number of Shares purchased the previous day, the purchase price per Share or the highest and lowest prices paid for such purchases, where relevant. In addition, a company's annual report and accounts are required to include a monthly breakdown of securities repurchases made during the financial year under review, showing the number of securities repurchased each month (whether on GEM or otherwise), the purchase price per share or the highest and lowest prices paid for all such repurchases and the total prices paid. The directors' report is also required to contain reference to the purchases made during the year and the directors' reasons for making such purchases. The company shall make arrangements with its broker who effects the purchase to provide the company in a timely

fashion the necessary information in relation to the purchase made on behalf of the company to enable the company to report to the Stock Exchange.

*(vii) Core connected persons*

Under the GEM Listing Rules, a company shall not knowingly repurchase shares on the Stock Exchange from a core connected person (as defined in the GEM Listing Rules) and a core connected person shall not knowingly sell his shares to the company.

***(b) Exercise of the Repurchase Mandate***

Exercise in full of the Repurchase Mandate, on the basis of 1,000,000,000 Shares in issue immediately after Listing, could accordingly result in up to approximately 100,000,000 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force. On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account the current working capital position of our Group, our Directors consider that, if the Repurchase Mandate were to be exercised in full, there might be a material adverse impact on the working capital and/or gearing position of our Group (as compared with the position disclosed in this prospectus). However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

***(c) Reasons for repurchases***

Our Directors believe that it is in our and our Shareholders' best interests for our Directors to have general authority from the Shareholders to enable our Company to execute repurchases of the Shares in the market. Repurchases of Shares will only be made when our Directors believe that such a repurchase will benefit our Company and the Shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value and/or earnings per Share.

***(d) Funding of repurchases***

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles of Association and the applicable laws and regulations of the Cayman Islands. A listed company is prohibited from repurchasing its own securities on GEM 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.

Under the Cayman Islands law, any repurchase of Shares by our Company must be made out of profits of our Company, out of our Company's share premium account or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if so authorised by the Articles of Association and subject to provisions of the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the Shares to be purchased must be provided for out of profits of our Company or from sums standing to the credit of the share premium account of our Company or, if authorised by the Articles of Association and subject to the provisions of the Companies Law, out of capital.

*(e) General*

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates (as defined in the GEM Listing Rules), have any present intention, if the Repurchase Mandate is exercised, to sell any Shares to our Company or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules, the Articles of Association and the applicable laws of the Cayman Islands.

No core connected person (as defined in the GEM Listing Rules) of our Company has notified our Company of intention to sell Shares to our Company, or such persons have undertaken not to do so, in the event that the Repurchase Mandate is exercised.

If as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. As a result, a Shareholder, or a group of Shareholders acting in concert (as defined in the Takeovers Code), depending on the level of increase in the Shareholder's interest, could obtain or consolidate control of our Company and become(s) obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequence which would arise under the Takeovers Code due to any repurchase of Shares made pursuant to the Repurchase Mandate immediately after the Listing.



**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 members of our Group within the two years immediately preceding the date of this prospectus and are or may be material to the business of our Group:

- (a) in connection with the acquisition of Pacific Legend Development by Raeford:
  - (i) the instrument of transfer and bought and sold notes each dated 28 December 2017 between Mr. McLennan and Raeford (Mr. McLennan transferred 392,100 shares of Pacific Legend Development to Raeford at a consideration of HK\$40,386,300);
  - (ii) the instrument of transfer and bought and sold notes each dated 28 December 2017 between Ms. Bailey and Raeford (Ms. Bailey transferred 181,800 shares of Pacific Legend Development to Raeford at a consideration of HK\$18,725,400);
  - (iii) the instrument of transfer and bought and sold notes each dated 28 December 2017 between Mr. Leach and Raeford (Mr. Leach transferred 119,300 shares of Pacific Legend Development to Raeford at a consideration of HK\$12,287,900);
  - (iv) the instrument of transfer and bought and sold notes each dated 28 December 2017 between RAM and Raeford (RAM transferred 181,800 shares of Pacific Legend Development to Raeford at a consideration of HK\$18,725,400); and
  - (v) the instrument of transfer and bought and sold notes each dated 28 December 2017 between Ms. Fitzpatrick and Raeford (Ms. Fitzpatrick transferred 125,000 shares of Pacific Legend Development to Raeford at a consideration of HK\$12,875,000);
- (b) in connection with the acquisition of Deep Blue by Raeford:
  - (i) the instrument of transfer and bought and sold notes each dated 11 January 2018 between Mr. McLennan and Raeford (Mr. McLennan transferred 392 shares of Deep Blue to Raeford at a consideration of HK\$0.392);
  - (ii) the instrument of transfer and bought and sold notes each dated 11 January 2018 between Ms. Bailey and Raeford (Ms. Bailey transferred 182 shares of Deep Blue to Raeford at a consideration of HK\$0.182);
  - (iii) the instrument of transfer and bought and sold notes each dated 11 January 2018 between Mr. Leach and Raeford (Mr. Leach transferred 119 shares of Deep Blue to Raeford at a consideration of HK\$0.119);
  - (iv) the instrument of transfer and bought and sold notes each dated 11 January 2018 between RAM and Raeford (RAM transferred 182 shares of Deep Blue to Raeford at a consideration of HK\$0.182); and








- (v) the instrument of transfer and bought and sold notes each dated 11 January 2018 between Ms. Fitzpatrick and Raeford (Ms. Fitzpatrick transferred 125 shares of Deep Blue to Raeford at a consideration of HK\$0.125);
- (c) in connection with the New Contractual Arrangements:
  - (i) the loan agreement dated 7 March 2018 between Pacific Legend Development Limited as lender, Links Commercial Brokers LLC as borrower and Deep Ocean SPV Limited, pursuant to which Pacific Legend Development Limited had advanced to Links Commercial Brokers LLC 10 shares of Deep Ocean SPV Limited amounting to US\$10,000 and 51% of the net asset value of Indigo Living (L.L.C.), being AED 27,284,762 (equivalent to approximately HK\$58,116,543 based on the exchange rate of AED1:HK\$2.13), as at 31 December 2017;
  - (ii) the share charge dated 7 March 2018 between Pacific Legend Development Limited as chargee, Links Commercial Brokers LLC as chargor and Deep Ocean SPV Limited in connection with the charging of 10 shares of Deep Ocean SPV Limited as security for obligations of Links Commercial Brokers LLC and/or Deep Ocean SPV Limited under the loan agreement dated 7 March 2018 as referred above;
  - (iii) the irrevocable proxy dated 29 March 2018 made by Deep Ocean SPV Limited appointing Mr. McLennan as the proxy of Deep Ocean SPV Limited to attend and vote at any meetings of the shareholders of Indigo Living (L.L.C.);
  - (iv) the special power of attorney notarised on 18 April 2018 and made by Links Commercial Brokers LLC appointing Pacific Legend Development Limited to, among others, receive all dividends payable in respect of the 100% shares of Deep Ocean SPV Limited;
  - (v) the undertaking dated 29 March 2018 given by, among others, (1) Links Commercial Brokers LLC and its shareholders to, among others, terminate and unwind certain documents relating to Deep Ocean SPV Limited and Indigo Living L.L.C in the circumstances stated therein, and (2) Deep Ocean SPV Limited to, among others, let Pacific Legend Development Limited exercise all the rights in respect of Deep Ocean SPV Limited or Indigo Living L.L.C that Deep Ocean SPV Limited has as shareholders of Indigo Living L.L.C in the circumstances stated therein; and
  - (vi) the general power of attorney notarised on 3 April 2018 and made by Deep Ocean SPV Limited and Pacific Legend Development Limited appointing Mr. McLennan to act as the manager of Indigo Living (LLC) for and in the name and on behalf of Indigo Living (LLC) to do and/or execute all or any of the acts and things stated therein;
- (d) the Great Metro Subscription Agreement;
- (e) the Upperhand Subscription Agreement;

- (f) the Deed of Indemnity;
- (g) the Deed of Non-Competition; and
- (h) the Public Offer Underwriting Agreement.

## 2. Intellectual property rights

### (a) Trademarks

As at the Latest Practicable Date, our Group had registered the following trademarks which, in the opinion of our Directors, are material to our business:

No.	Trademark	Place	Registration number	Trademark owner	Class	Expiry date
1.		Hong Kong	300287389	Indigo HK	20, 35, 42, 43	15 September 2024
2.		PRC	4541790	Indigo China	43	6 March 2019
3.		PRC	4541793	Indigo China	20	13 July 2018 <i>(Note)</i>
4.		U.A.E.	67940	Indigo HK	20	16 March 2025
5.		U.A.E.	67941	Indigo HK	35	16 March 2025
6.		U.A.E.	67942	Indigo HK	42	16 March 2025
7.		U.A.E.	67943	Indigo HK	43	16 March 2025

*Note:* Our Group has applied for renewal of the trademark. As at the Latest Practicable Date, the trademark renewal was pending for approval.

As at the Latest Practicable Date, our Group had applied for the registration of the following trademark:

No.	Trademark	Place	Applicant	Application number	Class	Date of application
1.	INDIGO	Hong Kong	Indigo HK	304340501	20, 28, 35, 42, 43	17 August 2017

**(b) Copyrights**

As at the Latest Practicable Date, we were the registered owner of the following copyrights registered in the PRC which we believe are material to our business:

No.	Name of copyright	Registered owner	Registered number	Registration date
1.	Logo – Indigo	Indigo China	Guo Zuo Deng Zi-2017-F- 00370864	12 June 2017
2.	Logo – Indigo (1)	Indigo China	Guo Zuo Deng Zi-2017-F- 00452265	25 August 2017

**(c) Domain names**

As at the Latest Practicable Date, our Group was the registered proprietor of the following domain names:

Domain name	Registrant	Commencement date	Expiry date
indigo-living.com	Indigo HK	12 September 2005	11 September 2020
Indigo.商標	Indigo HK	16 July 2015	1 July 2025
pacificlegendgroup.com	Our Company	4 June 2018	4 June 2028

## C. FURTHER INFORMATION ABOUT DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

### 1. Directors

#### (a) *Disclosure of interests of Directors and chief executive in our Shares, underlying shares and debentures of our Company and our associated corporation*

So far as our Directors are aware, immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account the Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), the interests or short positions of our Directors or chief executives of our Company in the Shares, underlying shares and debentures of our Company or any of 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 interests or short positions in which they are taken or deemed to have under such provisions), 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 Rules 5.46 and 5.67 of the GEM Listing Rules, will be as follows:

#### (i) *Long position in our Shares*

Name of Directors	Nature of interest	Number of Shares held upon completion of the Capitalisation Issue and the Share Offer	Approximate percentage of shareholding in our Company
Mr. McLennan	Interest in a controlled corporation; interest held jointly with other persons ( <i>Note 1</i> )	634,500,000 (L)	63.45%
Ms. Fitzpatrick	Interest in a controlled corporation; interest held jointly with other persons ( <i>Note 1</i> )	634,500,000 (L)	63.45%
Mrs. McLennan	Interest of spouse ( <i>Note 2</i> )	634,500,000 (L)	63.45%

*Notes:*

- Double Lions is the legal and beneficial owner of 634,500,000 Shares, being approximately 63.45% of the issued Shares of our Company. Double Lions is owned as to 40.48% by Mr. McLennan, 20.00% by Ms. Fitzpatrick, 14.88% by Ms. Bailey, 14.88% by Mr. Rinderknecht and 9.76% by Mr. Leach. By virtue of acting in concert arrangement as documented and confirmed under the Deed of AIC, each of Mr. McLennan and Ms. Fitzpatrick is deemed to be interested in the entire shareholding interest held by Double Lions in our Company under the SFO.
- Mrs. McLennan is the spouse of Mr. McLennan and is deemed to be interested in the Shares held by Mr. McLennan by virtue of the SFO.

*(ii) Long position in the shares of our associated corporations*

Name of Directors	Name of associated corporation	Nature of Interest	Number of shares in our associated corporation held upon completion of the Capitalisation Issue and the Share Offer	Approximate percentage of shareholding in our associated corporation
Mr. McLennan	Double Lions	Beneficial interest; interest held jointly with other persons ( <i>Note 1</i> )	6,250 (L)	100%
Ms. Fitzpatrick	Double Lions	Beneficial interest; interest held jointly with other persons ( <i>Note 1</i> )	6,250 (L)	100%
Mrs. McLennan	Double Lions	Interest of spouse ( <i>Note 2</i> )	6,250 (L)	100%

*Notes:*

- Double Lions is the legal and beneficial owner of 634,500,000 Shares, being approximately 63.45% of the issued Shares of our Company. Double Lions is owned as to 40.48% by Mr. McLennan, 20.00% by Ms. Fitzpatrick, 14.88% by Ms. Bailey, 14.88% by Mr. Rinderknecht and 9.76% by Mr. Leach. By virtue of acting in concert arrangement as documented and confirmed under the Deed of AIC, each of Mr. McLennan and Ms. Fitzpatrick is deemed to be interested in the entire issued share capital of Double Lions under the SFO. Mr. McLennan and Ms. Fitzpatrick are directors of Double Lions.
- Mrs. McLennan is the spouse of Mr. McLennan and is deemed to be interested in the shares in Double Lions held by Mr. McLennan by virtue of the SFO.

*(b) Particulars of service contracts and letters of appointment*

Each of our executive Directors, namely, Mr. McLennan, Ms. Fitzpatrick and Ms. Mok has entered into a service agreement on 19 June 2018 with our Company for an initial term of three years commencing from the Listing Date. During the initial term, either party to the service agreement shall be entitled to terminate the service agreement by serving not less than three months' written notice upon the other side.

Each of our independent non-executive Directors, namely Ms. Elaine June Cheung, Mr. Roderick Donald Nichol and Ms. Li Yan Yan, and our non-executive Director, namely Mrs. McLennan, has entered into a letter of appointment with our Company on 19 June 2018 for an initial term of three years commencing on the Listing Date. During the initial term, either party to the letter of appointment shall be entitled to terminate the letter of appointment by serving not less than three months' written notice upon the other side.

Each of our Directors is entitled to the respective basic salary set out in the paragraph headed “(c) Directors’ remuneration” in this appendix below (subject to annual adjustment after consultation with our Remuneration Committee at the discretion of our Directors, and taking no account of the discretionary bonus they may be entitled to).

Our Company shall reimburse our Directors, upon production of valid receipts and/or vouchers if requested, all necessary and reasonable expenses (including travel, hotel, meals and other out-of-pocket expenses) properly incurred by our Directors in the performance of their duties under the service agreements.

None of our Directors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by our Company or our respective subsidiary within one year without the payment of compensation (other than statutory compensation).

***(c) Directors’ remuneration***

Our Company’s policies concerning remuneration of executive Directors are (i) the amount of remuneration is determined on the basis of the relevant Director’s experience, responsibility, workload and the time devoted to our Company; and (ii) non-cash benefits may be provided to our Directors under their remuneration package.

For the years ended 31 December 2016 and 2017, the aggregate of the remuneration paid and benefits in kind granted to our Directors by our Company and our subsidiaries was approximately HK\$6.5 million and HK\$6.8 million, respectively.

Save as disclosed in the paragraph headed “Directors and senior management — Remuneration policy” in this prospectus, for the years ended 31 December 2016 and 2017, no other emoluments have been paid or are payable by our Company to our Directors. Under the arrangements currently in force, our Company estimates that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (including fee, salaries, contributions to pension scheme and other allowances and benefits in kind and excluding discretionary bonus) by our Company for the year ending 31 December 2018 would be approximately HK\$5.6 million.

There has been no arrangement under which a Director has waived or agreed to waive any emolument for the two years ended 31 December 2016 and 2017.

The basic annual salaries/service fees (excluding discretionary bonus) of each of our Directors under the service agreements or letters of appointment are as follows:

<u>Name of Director</u>	<u>Annual remuneration</u>
	<i>(HK\$)</i>
<i><b>Executive Directors</b></i>	
Mr. McLennan .....	1,800,000
Ms. Fitzpatrick .....	2,100,000
Ms. Mok .....	1,500,000
<i><b>Non-executive Director</b></i>	
Mrs. McLennan .....	60,000
<i><b>Independent non-executive Directors</b></i>	
Ms. Elaine June Cheung .....	60,000
Mr. Roderick Donald Nichol .....	60,000
Ms. Li Yan Yan .....	60,000

*(d) Disclosure of interests of our Directors in dealings with our Group*

Save for the service agreements and letters of appointment entered between our Directors and our Company and as disclosed in this prospectus, none of our Directors or their respective associates engaged in any dealing with our Group during the Track Record Period.



**2. Substantial Shareholders**

Save as disclosed in the section headed “Substantial and significant Shareholders” of this prospectus, so far as our Directors are aware, immediately following the completion of the Share Offer and the Capitalisation Issue and without taking into account any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, there are no other persons having an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

**3. Agency fees or commissions received**

Save as disclosed in this prospectus, no commissions, discounts, brokerages or other special terms were granted in connection with the issue or sale of any capital of any member of our Group within the two years preceding the date of this prospectus.

**4. Related party transactions**

Save as disclosed in the sections headed “Connected transactions” and the paragraphs headed “Financial information — Related party transactions” in this prospectus and note 31 to the Accountants’ Report included in Appendix I to this prospectus, our Group had not engaged in any other material transactions with its related parties.

**5. Disclaimers**

Save as disclosed in this prospectus:

- (a) taking no account of any Shares which may be taken up or acquired under the Share Offer or any Shares which may be allotted and issued upon the exercise of any options which have been or may be granted under the Share Option Scheme, our Directors are not aware of any person who immediately following completion of the Capitalisation Issue and the Share Offer will have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests and/or short positions which they are deemed to have under such provisions of the SFO) or who will, either directly or indirectly, be expected to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of our Company or any other members of our Group;

- (b) none of our Directors and chief executives of our Company has for the purposes of Divisions 7 and 8 of Part XV of the SFO or the GEM Listing Rules, nor is any of them taken to or deemed to have under Divisions 7 and 8 of Part XV of the SFO, an interest or short position in the shares, underlying shares and debentures of our Company or any associated corporations (within the meaning of the SFO) or any interests which will have to be entered in the register to be kept by our Company pursuant to section 352 of the SFO or which will be required to be notified to our Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules once the Shares are listed on the Stock Exchange;
- (c) none of our Directors nor the experts named in the paragraph headed “E. Other information — 8. Qualifications of experts” in this Appendix has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (d) none of our Directors 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;
- (e) none of our Directors, their respective close associates (as defined under the GEM Listing Rules) or Shareholders of our Company who are interested in more than 5% of the issued share capital of our Company had any interests in the five largest customers or the vendor of our Group;
- (f) none of our Directors nor any of the persons whose names are listed in the section headed “E. Other information — 8. Qualifications of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which was significant in relation to the business of our Group; and
- (g) none of our Directors nor any of the persons whose names are listed in the section headed “E. Other information — 8. Qualifications of experts” in this Appendix has received any agency fee, commissions, discounts, brokerage or other special terms from our Group within the two years immediately preceding the date of this prospectus in connection with the issue or sale of any capital of any member of our Group.

**D. SHARE OPTION SCHEME**

The following is a summary of the principal terms of the Share Option Scheme conditionally approved by the resolutions in writing of our Shareholders on 19 June 2018.

For the purpose of this section, unless the context otherwise requires:

“Board”	means our board of Directors from time to time or a duly authorised committee thereof;
“Commencement Date”	means in respect of any particular Option, the date upon which the Option is accepted or deemed to be accepted;
“Eligible Person”	means any full-time or part-time employee of our Company or any member of our Group, including any executive director, non-executive director and independent non-executive director, adviser and consultant of our Group;
“Offer Date”	means the date on which an Option is offered to an Eligible Person;
“Option”	means an option to subscribe for Shares granted pursuant to the Share Option Scheme;
“Option Period”	means in respect of any particular Option, the period to be determined and notified by our Board to each Participant which period may commence on a day on or after the Commencement Date but shall end in any event not later than 10 years from the Offer Date;
“Other Schemes”	means any other share option schemes adopted by our Group from time to time pursuant to which options to subscribe for Shares may be granted;
“Participant”	means any Eligible Person who accepts or is deemed to have accepted the offer of any Option in accordance with the terms of the Share Option Scheme or (where the context so permits) a person entitled to any such Option in consequence of the death of the original Participant;

“Shareholders”	means shareholders of our Company from time to time;
“Subscription Price”	means the price per Share at which a Participant may subscribe for Shares on the exercise of an Option;
“Subsidiary”	means a company which is for the time being and from time to time a subsidiary (within the meaning of the Companies Ordinance) of our Company, whether incorporated in Hong Kong or elsewhere; and
“Trading Day”	means a day on which trading of Shares take place on the Stock Exchange.

**(a) Purpose of the Share Option Scheme**

The Share Option Scheme enables our Company to grant Options to the Eligible Persons as incentives or rewards for their contributions to our Group.

**(b) Who may join**

Our Board may, at its discretion, invite any Eligible Persons to take up Options at a consideration of HK\$1.00 by letter specifying, the number of Shares under the Option, the Subscription Price and the Option Period. The Option will be offered for acceptance for a period of 28 days from the Offer Date.

**(c) Grant of Option**

Our Company may not grant any Option after inside information has come to our knowledge until such inside information has been announced in accordance with the requirements of the GEM Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (a) the date of our Board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of our Company’s results for any year, half-year, quarter-year period or any other interim period (whether or not required under the GEM Listing Rules), and (b) the deadline for our Company to publish an announcement of its results for any year, half-year, quarter-year period or any other interim period (whether or not required under the GEM Listing Rules), and ending on the date of the results announcement, no Option may be granted. The period during which no Option may be granted will cover any period of delay in the publication of results announcement. Our Board may not grant any Option to an Eligible Person who is a Director during the periods or times in which directors of the listed issuer are prohibited from dealing in shares pursuant to Rules 5.48 to 5.67 prescribed by the GEM Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

**(d) Maximum number of options to any one individual**

The total number of Shares issued and to be issued upon exercise of the options granted to a Participant under the Share Option Scheme and Other Schemes (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the Shares in issue from time to time, and provided that if separately approved by Shareholders in general meeting with such Participant and his or her close associates (or his or her associates if the participant is a connected person) abstaining from voting, our Company may make a further grant of Options to such Participant (the “**Further Grant**”) notwithstanding that the Further Grant would result in the Shares issued and to be issued upon exercise of all options granted and to be granted under the Share Option Scheme and Other Schemes to such Participant (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of the Further Grant representing in aggregate over 1% of the Shares in issue from time to time.

In relation to the Further Grant, our Company must send a circular to the Shareholders, which discloses the identity of the relevant Participant, the number and the terms of the Options to be granted (and options previously granted to such Participant under the Share Option Scheme and Other Schemes) and the information required under the GEM Listing Rules. The number and terms (including the Subscription Price) of Options which is the subject of the Further Grant shall be fixed before the relevant Shareholders’ meeting and the date of meeting of the Board for proposing the Further Grant should be taken as the Offer Date for the purpose of calculating the relevant Subscription Price.

**(e) Subscription Price**

The Subscription Price will be a price determined by our Board and notified to each Participant (subject to any adjustment made pursuant to paragraph (j) below) and shall be the highest of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the Offer Date, which must be a Trading Day; (ii) the average closing price of the Shares as stated in the Stock Exchange’s daily quotations sheets for the five Trading Days immediately preceding the Offer Date; and (iii) the nominal value of a Share. For the purpose of calculating the Subscription Price, in the event that on the Offer Date, our Company has been listed for less than five Trading Days, the Placing Price shall be used as the closing price for any Trading Day falling within the period before the Listing Date.

**(f) Maximum number of Shares**

- (i) The total number of Shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme and Other Schemes must not, in aggregate, exceed 10% of the Shares in issue as at the Listing Date (the “**Scheme Mandate Limit**”) provided that option lapsed in accordance with the terms of the Shares Option Scheme or Other Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit. On the basis of 1,000,000,000 Shares in issue on the Listing Date, the Scheme Mandate Limit will be equivalent to 100,000,000 Shares, representing 10% of the Shares in issue as at the Listing Date.
- (ii) Subject to the approval of Shareholders in general meeting, our Company may refresh the Scheme Mandate Limit to the extent that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and Other Schemes under the Scheme Mandate Limit as refreshed must not exceed 10% of the Shares in issue as at the date of such Shareholders’ approval provided that options previously granted under the Share Option Scheme and Other Schemes (including those outstanding, cancelled, exercised or lapsed in accordance with the terms thereof) will not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. Approval for listing of and permission to deal in any Shares to be issued upon the exercise of the Options granted under the refreshed 10% limit of the Share Option Scheme is required to be obtained from the Stock Exchange. In relation to the Shareholders’ approval referred to in this paragraph (ii), our Company shall send a circular to the Shareholders containing the information required by the GEM Listing Rules.
- (iii) Subject to the approval of Shareholders in general meeting, our Company may also grant Options beyond the Scheme Mandate Limit provided that Options in excess of the Scheme Mandate Limit are granted only to Eligible Persons specifically identified by our Company before such Shareholders’ approval is sought. In relation to the Shareholders’ approval referred to in this paragraph (iii), our Company shall send a circular to its Shareholders containing a generic description of the identified Eligible Persons, the number and terms of the Options to be granted, the purpose of granting Options to the identified Eligible Persons, an explanation as to how the terms of such Options serve the intended purpose and such other information required by the GEM Listing Rules.
- (iv) Notwithstanding the foregoing, our Company may not grant any Options if the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and Other Schemes exceeds 30% of the Shares in issue from time to time.

- (v) If our Company conducts a share consolidation or subdivision after the Scheme Mandate Limit has been approved by our Shareholders, the maximum number of Shares that may be issued upon exercise of all options to be granted under the Share Option Scheme and Other Schemes under the Scheme Mandate Limit as a percentage of the total number of Shares in issue at the date immediately before and after such consolidation or subdivision shall be the same.

**(g) Time of exercise of Option and performance target**

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during the Option Period. The exercise of an Option may be subject to the achievement of performance target and/or any other conditions to be notified by our Board to each Participant, which our Board may in its absolute discretion determine.

**(h) Rights are personal to grantee**

An Option shall be personal to the Participant and shall not be assignable or transferable and no Participant shall in any way sell, transfer, charge, mortgage, encumber or create any interest whether legal or beneficial in favour of any third party over or in relation to any Option. Any breach of the foregoing by the Participant shall entitle our Company to cancel any Option or any part thereof granted to such Participant (to the extent not already exercised) without incurring any liability on our Company.

**(i) Rights on death, retirement and cessation of employment**

If a Participant dies before exercising the Options in full, his or her personal representative(s) may exercise the Options in full (to the extent that it has become exercisable on the date of death and not already exercised) within a period of 12 months from the date of death, failing which such Options will lapse.

In the event that a Participant retires in accordance with his contract of employment or upon expiration of his or her contract of employment or term of directorship before exercising his or her options in full, the Participant may exercise the options (to the extent not already exercised) within a period of three months after he so retires or expiration of his contract of employment or term of directorship, failing which such Options will lapse unless our Board in its absolute discretion decides that such Options shall not lapse, and such three months period shall be extended to such period as the Board may decide.

**(j) Changes in capital structure**

In the event of any alteration in the capital structure of our Company while an Option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, consolidation, subdivision or reduction of the share capital of our Company or otherwise howsoever in accordance with the legal requirements and requirements of the

Stock Exchange, such corresponding alterations (if any) shall be made to the number of Shares (without fractional entitlements) subject to the Options so far as unexercised, and/or the Subscription Price.

Except alterations made on a capitalisation issue, any alteration to the number of Shares which is the subject of the Option and the Subscription Price shall be conditional on the auditors or an independent financial adviser appointed by our Company confirming in writing to our Board that the alteration is made on the basis that the proportion of the issued share capital of our Company to which a Participant is entitled after such alteration shall remain the same as that to which he or she was entitled before such alteration. No such alteration shall be made to the effect of which would be to enable any Share to be issued at less than its nominal value or which would result in the aggregate amount payable on the exercise of any Option in full being increased. The capacity of the auditors or an independent financial adviser appointed by our Company in this sub-paragraph (j) is that of experts and not of arbitrators and their certification shall be final and binding on our Company and the Participants in the absence of manifest error. The costs of the auditors or an independent financial adviser appointed by our Company in so certifying shall be borne by our Company.

**(k) Rights on take-over**

Subject to paragraph (n), if a general offer has been made to all the Shareholders (other than the offeror and/or any persons acting in concert with the offeror), to acquire all or part of the issued Shares, and such offer, having been approved in accordance with applicable laws and regulatory requirements, becomes or is declared unconditional, the Participants shall be entitled to exercise his or her outstanding Option in full or any part thereof within 14 days after the date on which such offer becomes or is declared unconditional. For the purposes of this sub-paragraph, “acting in concert” shall have the meaning ascribed to it under the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC as amended from time to time.

**(l) Rights on a compromise or arrangement**

Subject to paragraph (n), if an application is made to the court (otherwise than where our Company is being voluntarily wound up), pursuant to the Companies Law or the Companies Ordinance, in connection with a proposed compromise or arrangement between our Company and our creditors (or any class of them) or between our Company and our Shareholders (or any class of them), a Participant may by notice in writing to our Company, within a period of 21 days after the date of such application, exercise his or her outstanding Option in full or any part thereof specified in such notice. Upon the compromise or arrangement becoming effective, all Options shall lapse except insofar as exercised. Notice of the application referred to herein and the effect thereof shall be given by our Company to all Participants as soon as practicable.



**(m) Rights on winding-up**

Subject to paragraph (n), in the event of a notice is given by our Company to our Shareholders to convene a general meeting for the purpose of approving a resolution to voluntarily wind-up our Company when our Company is solvent, our Company shall on the day of such notice to each Shareholder or as soon as practicable, give notice thereof to all Participants. Thereupon each Participant shall be entitled to exercise all or any of his or her outstanding Options at any time no later than two business days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate Subscription Price for the Shares in respect of which the notice is given, whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot and issue the relevant Shares to the Participant credited as fully paid.

**(n) Lapse of Option**

An Option shall lapse forthwith 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 the Board;
- (ii) subject to paragraphs (g) and termination of Share Option Scheme as provided under (r), the expiry of the Option Period;
- (iii) the first anniversary of the death of the Participant;
- (iv) the commencement of the winding-up of our Company;
- (v) in the event that the Participant was an employee or director of any member of our Group at the relevant Offer Date, the date on which such member of our Group terminates the Participant's employment or removes the Participant from his or her office on the ground that the Participant has been guilty of misconduct, has committed an act of bankruptcy or has become insolvent or has made any arrangements or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty. A resolution of our Board or the board of directors of the relevant member of our Group to the effect that such employment or office has or has not been terminated or removed on one or more grounds specified in this sub-paragraph shall be conclusive;

(vi) in the event that the Participant was an employee or director of any member of our Group at the relevant Offer Date, the expiry of a period of three months from the date of the Participant ceasing to be an employee or director of such member of our Group by reason of:

- (1) his or her retirement on or after attaining normal retirement age or, with the express consent of the Board in writing for the purpose of this sub-paragraph, at a younger age;
- (2) ill health or disability recognised as such expressly by our Board in writing for the purpose of this sub-paragraph;
- (3) the company by which he or she is employed and/or of which he or she is a director (if not our Company) ceasing to be a Subsidiary;
- (4) expiry of his or her employment contract or vacation of his or her office with such member of our Group and such contract or office is not immediately extended or renewed; or
- (5) at the discretion of our Board, any reason other than death or the reasons described in sub-paragraph (v) or (vi)(1) to (4);

provided always that in each case described in this paragraph our Board may at its absolute discretion decide that such Option shall not so lapse and such period of three months shall be extended to such period as it may decide;

(vii) the expiry of any period referred to in paragraphs (l) and (m) above, provided that in the case of paragraph (l), all Options granted shall lapse upon the proposed compromise or arrangement becoming effective; and

(viii) the date the Participant commits any breach of the provisions of paragraph (h).

**(o) Ranking of Shares**

Shares allotted and issued upon the exercise of an Option will be subject to our Articles of Association and will rank *pari passu* in all respects with the fully paid or credited as fully paid Shares in issue on the date of such allotment or issue and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment and issue other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of allotment or issue.

**(p) Cancellation of Options granted**

Any cancellation of Options granted in accordance with the Share Option Scheme but not exercised must be approved by the Participant concerned in writing. In the event that our Board elects to cancel any Options and issue new ones to the same grantee, the issue of such new Options may only be made with available unissued Options (excluding the cancelled Options) within the Scheme Mandate Limit.

**(q) Period of Share Option Scheme**

Subject to the fulfilment of conditions set out in paragraph (t) and the provisions in (r), the Share Option Scheme will be valid and effective for a period of ten years commencing from the date on which the Share Option Scheme becomes unconditional, after which period no further Options may be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects and Options granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

**(r) Alteration to and termination of 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 Participants or the Eligible Persons (as the case may be) relating to matters contained in Chapter 23 of the GEM 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 where the alterations take effect automatically under the existing terms of the Share Option Scheme, shall first be approved by the Shareholders in general meeting (with the Eligible Persons, the Participants and their Associates abstaining from voting) provided that if the proposed alternative shall adversely affect any Options granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the consent or sanction of the Participants in accordance with the terms of the Share Option Scheme.

Our Company may, by ordinary resolution in general meeting, at any time terminate the operation of the Share Option Scheme before the end of its life and in such event no further Options will be offered but the provisions of the Share Option Scheme shall remain in all other respects in full force and effect in respect of Options granted prior thereto but not yet exercised at the time of termination, which shall continue to be exercisable in accordance with their terms of grant. Details of the Options granted, including Options exercised or outstanding, under the Share Option Scheme, and (if applicable) Options that become void or non-exercisable as a result of termination must be disclosed in the circular to the Shareholders seeking approval for the first new scheme to be established after such termination.

**(s) Granting of Options to a Director, chief executive of our Company or substantial Shareholder or any of their associates**

Where Options are proposed to be granted to a Director, chief executive of our Company or substantial Shareholder or any of their respective associates, the proposed grant must be approved by all independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Options).

If a grant of Options to a substantial Shareholder or an independent non-executive Director, or any of their respective associates will result in the total number of the Shares issued and to be issued upon exercise of the options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person under the Share Option Scheme or Other Schemes in any 12-month period up to and including the Offer Date (i) representing in aggregate 0.1% (or such other percentage as may from time to time specified by the Stock Exchange) of the Shares in issue from time to time, and (ii) having an aggregate value, based on the closing price of the Shares at the Offer Date, in excess of HK\$5 million, then the proposed grant of Options must be approved by the Shareholders. Our Company must send a circular to our Shareholders. The grantee, his or her associates and all core connected persons of our Company must abstain from voting in favour at such general meeting. The circular must contain the information required under the GEM Listing Rules.

Shareholders' approval will also be required for any change in terms of the Options granted to an Eligible Person who is a substantial Shareholder, an independent non-executive Director or their respective associates.

The circular must contain the following:

- (i) details of the number and terms (including the Subscription Price) of the Options to be granted to each Eligible Person, which must be fixed before the relevant Shareholders' meeting, and the date of Board meeting for proposing such further grant is to be taken as the Offer Date for the purpose of calculating the Subscription Price;
- (ii) a recommendation from our independent non-executive Directors (excluding any independent non-executive Director who is a proposed grantee of the Options in question) to independent Shareholders as to voting; and
- (iii) all other information as required by the GEM Listing Rules.

For the avoidance of doubt, the requirements for the granting of Options to a Director or chief executive of our Company set out in this paragraph (s) do not apply where the Eligible Person is only a proposed Director or proposed chief executive of our Company.

**(t) Conditions of Share Option Scheme**

The Share Option Scheme is conditional on (i) the passing of a written resolution to adopt the Share Option Scheme by the Shareholders in general meeting; and (ii) the Stock Exchange granting approval for the listing of and permission to deal in the Shares which may be issued pursuant to the exercise of Options.

Application has been made to the Stock Exchange for the listing of and permission to deal in the Shares which may be issued pursuant to the exercise of Options granted under Share Option Scheme.

**(u) Administration of the Share Option Scheme**

The Share Option Scheme will be administered by our Board whose decision (save as otherwise provided in the Share Option Scheme) shall be final and binding on all parties to the Share Option Scheme.

**(v) 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.

**E. OTHER INFORMATION****1. Tax and other indemnities**

Each of the Controlling Shareholders (collectively, the “**Indemnifiers**”) has entered into the Deed of Indemnity with and in favour of our Company (for itself and as trustee for each of our present subsidiaries) (being one of the material contracts referred in the paragraph headed “Summary of material contracts” above) to provide indemnities on a joint and several basis in respect of, among other matters:

- (a) taxation falling on any member of our Group resulting from or by reference to any revenue, income, profits or gains granted, earned, accrued or received or made (or deemed to be so granted, earned, accrued, received or made) on or before the date on which the Deed of Indemnity becomes unconditional (the “**Effective Date**”) or any transaction, matters, things, event, act or omission occurring or deemed to occur on or before such date, whether alone or in conjunction with any other transaction, matter, thing, event, act, omission or circumstance whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company; and

- (b) all costs (including all legal costs), expenses, interests, penalties, fines, charges or other liabilities which any member of our Group may reasonably incur in connection with:
  - (i) the investigation, assessment, the contesting of any claim under paragraph (a) above;
  - (ii) the settlement of any claim under paragraph (a) above;
  - (iii) any legal proceedings in which any member of our Group claims under or in respect of paragraph (a) above, and in which judgement is given for any member of our Group; or
  - (iv) the enforcement of any such settlement or judgements.

The Indemnifiers have also, under the Deed of Indemnity, agreed and undertaken to indemnify each of the members of our Group and at all times keep the same indemnified on demand from and against any losses, damages, claims or penalties that our Group may suffer or incur, as a result of our Group's outstanding litigations and non-compliance matters, including to those set out in the paragraphs headed "Business — Litigation and legal compliance" in this prospectus, which subsist prior to the Effective Date.

The Indemnifiers will, however, not be liable under the Deed of Indemnity for taxation, among others:

- (a) to the extent that provision has been made for such taxation in the audited combined financial statements of our Group or the audited financial statements of any member of our Group for the two years ended 31 December 2017;
- (b) falling on any member of our Group as a result on any transaction entered into by any member of our Group on or after the Effective Date in the ordinary course of business, or in the ordinary course of acquiring or disposing of capital assets;
- (c) to the extent that such taxation arises or is incurred as a result of any change in the law, rules or regulations, or the interpretation or practice thereof by the Inland Revenue Department or any other statutory or governmental authority in any part of the world having retrospective effect coming into force after the Effective Date or to the extent that such liability arises or is increased by an increase in rates of taxation after the Effective Date with retrospective effect (except the imposition of or an increase in the rate of Hong Kong profits tax or any tax of any part of the world on the profits of companies for the current or any earlier financial periods);

- (d) to the extent that such taxation is discharged by another person who is not a member of our Group and that none of the members of our Group is required to reimburse such person in respect of the discharge of the taxation; or
- (e) to the extent of any provision or reserve made for taxation in the audited financial statements referred to in sub-paragraph (a) above is finally established to be an over-provision or an excessive reserve, provided that the amount of any such provision or reserve applied to reduce the liability of the Indemnifiers or any of them in respect of such liability shall not be available in respect of any such liability arising thereafter.

Pursuant to the Revenue (Abolition of Estate Duty) Ordinance 2005 which came into effect on 11 February 2006 in Hong Kong, estate duty ceased to be chargeable in Hong Kong in respect of the estates of persons dying on or after that date. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of Shares whose death occur on or after 11 February 2006.

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of its subsidiaries in the Cayman Islands or the BVI, being jurisdictions in which one or more of the companies comprising our Group were incorporated. There are currently no taxes in the form of estate duties under Cayman Islands law, and no estate tax is currently payable by persons who are not resident in the BVI with respect of any shares, debt obligations or other securities of a BVI company.

## **2. Registrars of members and taxation concerning the Shareholders**

The principal register of members of our Company in the Cayman Islands will be maintained by Conyers Trust Company (Cayman) Limited, and a branch register of members of our Company in Hong Kong will be maintained by Tricor Investor Services Limited. Save when our Directors otherwise agree, all transfers and other documents of title to 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 the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted into CCASS as eligible securities.

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to stamp duty. The current rate charged on each of the purchaser and seller is 0.1% of the consideration of, if higher, of fair value of our Shares being sold or transferred. Profits from dealings in Shares arising in or derived from Hong Kong may also be subject to the profits tax in Hong Kong. Under the present Cayman Islands law, there is no stamp duty payable in the Cayman Islands on transfer of shares of companies incorporated in the Cayman Islands, except those companies which hold interests in land in the Cayman Islands. No stamp duties or similar documentary taxes imposed by or in the Cayman Islands are payable by our Company and our Company will not be required by any laws of the Cayman Islands to make any deduction or withholding from any payment it may make. Notwithstanding any provision of the Tax Concessions Law of the Cayman Islands, (a) our Company; (b) all dividends, interest, rents, royalties,

compensations and other amounts paid by our Company; and (c) capital gains realised with respect to any shares, debt obligations or other securities of our Company, are exempt from all provisions of the Tax Concessions Law of the Cayman Islands. The Cayman Islands currently levies no estate, inheritance, succession or gift tax with respect to any shares, debt obligations or other securities of our Company.

Intending holders of the Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. None of our Company, our Directors or parties involved in the Share Offer accepts responsibility for any tax effect on, or liabilities of holders of Shares resulting from their subscription for, purchase, holding or disposal or dealing in Shares.

### **3. Litigation**

To the best knowledge of our Directors, as at the Latest Practicable Date, neither our Company or any of our subsidiaries was engaged in any litigation, arbitration or claims of material importance and no litigation, arbitration or claim of material importance is known by our Directors to be pending or threatened by or against any member of our Group, that would have a material adverse effect on our financial condition and results of operations.

### **4. Sponsor and Sponsor's fees**

The Sole Sponsor has made an application for and on behalf of our Company to the Listing Department for the listing of, and permission to deal in, all the Shares in issue and to be issued as mentioned in this prospectus, including the Offer Shares and any Shares which may fall to be allotted and issued pursuant to the Capitalisation Issue and the exercise of any options which may be granted under the Share Option Scheme.

Our Company agreed to pay the Sole Sponsor a fee of HK\$4.8 million as the sponsor to our Company for the Share Offer. Such sponsor's fee relates solely to services provided by the Sole Sponsor in the capacity of a sponsor, and not other services which it may provide, such as, but without limitation, book building, pricing and underwriting.

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 6A.07 of the GEM Listing Rules.

### **5. Compliance adviser**

In accordance with the requirements of the GEM Listing Rules, our Company will appoint Altus Capital Limited as its compliance adviser to provide advisory services to our Company to ensure compliance with the GEM Listing Rules for a period commencing on the Listing Date and ending on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full year commencing after the Listing Date or until the agreement is terminated, whichever is the earlier.



**6. Preliminary expenses**

The preliminary expenses incurred and paid by our Company were approximately HK\$43,000.

**7. Promoters**

Our Company has no promoter for the purposes of the GEM Listing Rules. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Share Offer and the related transactions described in this prospectus.

**8. Qualifications of experts**

The qualifications of the experts who have given reports, letter or opinions (as the case may be) in this prospectus are as follows:

<b>Name</b>	<b>Qualification</b>
Success New Spring Capital Limited	A licensed corporation under the SFO to carry on Type 6 (advising on corporate finance) of the regulated activities as defined under the SFO
AllBright Law Offices	PRC lawyers
Baker Tilly Hong Kong Limited	Certified public accountants
Baker Tilly Hong Kong Risk Assurance Limited	Internal control consultant
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Ipsos Limited	Independent industry consultant
Trench & Associates	UAE lawyers
Ravia Global Appraisal Advisory Limited	Authorised persons (List of Architects)
Ms. Kate Poon	barrister-at-law in Hong Kong

**9. Consents of experts**

Each of the experts named in paragraph “E. Other information — 8. Qualifications of experts” of this Appendix has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or opinion and/or the references to its name included herein in the form and context in which they are respectively included.

**10. Interests of experts in our Company**

None of the persons named in paragraph “E. Other Information — 8. Qualifications of experts” of this Appendix is interested beneficially or otherwise in any Shares or share of any member of our Group or has any right or option or any shareholding interests (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any shares or securities in any member of our Group.

**11. Binding effect**

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penalty provisions) of sections 44A and 44B of the Companies (Miscellaneous Provisions) Ordinance so far as applicable.

**12. No material adverse change**

Our Directors confirmed that, up to the Latest Practicable Date, there had been no material adverse change in financial or trading position or prospects of our Group since 31 December 2017, being the date on which the latest audited financial information of our Group was reported in the Accountants’ Report included in Appendix I to this prospectus.

**13. Miscellaneous**

- (a) Save as disclosed in this prospectus, within the two years preceding the date of this prospectus:
  - (i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash; and
  - (ii) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares in our Company or any of our subsidiaries.

- (b) No share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.
- (c) No founder, management or deferred shares nor any debentures in our Company or any of our subsidiaries have been issued or agreed to be issued.
- (d) There has not been any interruption in the business of our Group which may have or has had a material adverse effect on the financial position of our Group in the 24 months preceding the date of this prospectus.
- (e) No company within our Group is presently listed on any stock exchange or traded on any trading system.
- (f) Our Company has no outstanding convertible debt securities.
- (g) The register of members of our Company will be maintained in Hong Kong by the Hong Kong Branch Share Registrar. 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 share registrar in Hong Kong and may not be lodged in the Cayman Islands.
- (h) All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.
- (i) There are no arrangements in existence under which future dividends are to be or agreed to be waived.

#### **14. Bilingual prospectus**

Pursuant to the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), the English language and Chinese language versions of this prospectus are being published separately. In case of any discrepancies between the English language version and Chinese language version, the English language version shall prevail.

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of each of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) the written consents referred to in the section headed “Statutory and general information — E. Other information — 9. 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 office of Stevenson, Wong & Co. at 39/F, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and Articles;
- (b) the Accountants’ Report prepared by Baker Tilly Hong Kong Limited, the text of which is set out in Appendix I to this prospectus;
- (c) the report prepared by Baker Tilly Hong Kong Limited in respect of the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this prospectus;
- (d) the audited combined financial statements of our Group for the two years ended 31 December 2017;
- (e) the letter of advice prepared by Conyers Dill & Pearman, our legal counsel on Cayman Islands law, summarising certain aspects of the Companies Law referred to in Appendix III to this prospectus;
- (f) the Companies Law;
- (g) 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;

- (h) the service agreements and letters of appointment entered into between our Company and each of our Directors referred to in the section headed “Statutory and general information — C. Further information about Directors and substantial Shareholders — 1. Directors — (b) Particulars of service contracts and letters of appointment” in Appendix IV to this prospectus;
- (i) the legal opinion issued by AllBright Law Offices, the legal advisers to our Company as to PRC law, in respect of certain aspects including due incorporation and compliance of Indigo China and Indigo Shanghai;
- (j) the Ipsos Report;
- (k) the written consents referred to in the section headed “Statutory and general information — E. Other information — 9. Consents of experts” in Appendix IV to this prospectus;
- (l) the rules of the Share Option Scheme;
- (m) the legal opinion issued by Trench & Associates, the legal advisers to our Company as to UAE law, in respect of certain aspects including the corporate structure of Indigo Dubai;
- (n) the legal opinion issued by Ms. Kate Poon, the legal counsel to our Company;
- (o) the report issued by Ravia Global Appraisal Advisory Limited in respect of certain aspects including the unauthorised building work at our retail store in Repulse Bay; and
- (p) the internal control review report issued by Baker Tilly Hong Kong Risk Assurance Limited.

