

# FOURACE

科利

## FOURACE INDUSTRIES GROUP HOLDINGS LIMITED

### 科利實業控股集團有限公司

Incorporated in the Cayman Islands with limited liability  
Stock Code: 1455

# GLOBAL OFFERING



Sole Sponsor



Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers  
(in alphabetical order)



# IMPORTANT

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



## FOURACE INDUSTRIES GROUP HOLDINGS LIMITED

科利實業控股集團有限公司

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

### GLOBAL OFFERING

**Number of Offer Shares : 312,500,000 Shares**  
(subject to the Over-allotment Option)  
**Number of International Placing Shares : 281,250,000 Shares** (subject to reallocation and the Over-allotment Option)  
**Number of Hong Kong Offer Shares : 31,250,000 Shares** (subject to reallocation)  
**Offer Price : Not more than HK\$0.60 per Offer Share and expected to be not less than HK\$0.40 per Offer Share plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars based on the maximum Offer Price and subject to refund)**  
**Nominal Value : HK\$0.01 per Share**  
**Stock Code : 1455**

Sole Sponsor



Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

(in alphabetical order)



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

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

The Offer Price is expected to be fixed by the Price Determination Agreement between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the Price Determination Date, which is expected to be on or around Friday, 4 September 2020 or such later date as may be agreed among the Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) but no later than Sunday, 6 September 2020. The Offer Price will not be more than HK\$0.60 per Offer Share and is expected to be not less than HK\$0.40 per Offer Share, unless otherwise announced. If our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) are unable to reach an agreement on the Offer Price on or before Sunday, 6 September 2020, the Global Offering will not proceed and will lapse immediately. The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, with our consent, reduce the indicative Offer Price range and/or the number of Offer Shares stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. If this occurs, notice of reduction of the indicative Offer Price range and/or the number of Offer Shares will be published on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at [www.fourace.com](http://www.fourace.com) as soon as practicable but in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

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

Prospective investors of the Offer Shares should note that under the Hong Kong Underwriting Agreement in respect of the Hong Kong Public Offering, the Sole Sponsor and/or the Joint Global Coordinators (for themselves and on behalf of Hong Kong Underwriters) shall have the absolute right to terminate the Hong Kong Underwriting Agreement by notice in writing to our Company with immediate effect if any of the events set forth in the section headed "Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering — Grounds for termination" of this prospectus occurs at any time at or prior to 8:00 a.m. (Hong Kong time) on the Listing Date (which is currently expected to be Tuesday, 15 September 2020).

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

No information on any website forms part of this prospectus.

31 August 2020

## EXPECTED TIMETABLE

*If there is any change in the following expected timetable of the Global Offering, we will issue an announcement in Hong Kong on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company's website at [www.fourace.com](http://www.fourace.com).*

Hong Kong Public Offering commences and **WHITE** and **YELLOW** Application Forms available from ..... 9:00 a.m., on Monday, 31 August 2020

Latest time to complete electronic applications under the **HK eIPO White Form** service through one of the below ways:

- (1) the IPO App, which can be downloaded by searching “IPO App” in App Store or Google Play or downloaded at [www.hkeipo.hk/IPOApp](http://www.hkeipo.hk/IPOApp) or [www.tricorglobal.com/IPOApp](http://www.tricorglobal.com/IPOApp)
- (2) the designated website [www.hkeipo.hk](http://www.hkeipo.hk) ..... 11:30 a.m. on Thursday, 3 September 2020

Application lists of the Hong Kong Public Offering open<sup>(2)</sup> ..... 11:45 a.m. on Thursday, 3 September 2020

Latest time for lodging **WHITE** and **YELLOW** Application Forms and giving **electronic application instructions** to HKSCC<sup>(3)</sup> ..... 12:00 noon on Thursday, 3 September 2020

Latest time to complete payment of **HK eIPO White Form** applications effecting internet banking transfer(s) or PPS payment transfer(s) ..... 12:00 noon on Thursday, 3 September 2020

Application lists of the Hong Kong Public Offering close<sup>(2)</sup> ..... 12:00 noon on Thursday, 3 September 2020

Expected Price Determination Date<sup>(4)</sup> to be on or around ..... Friday, 4 September 2020

Announcement of the final Offer Price, the levels of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offering and basis of allocation of the Hong Kong Offer Shares to be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk)<sup>(5)</sup> and our Company's website at [www.fourace.com](http://www.fourace.com)<sup>(6)</sup> from ..... Monday, 14 September 2020

Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, or passport number or Hong Kong business registration numbers, where appropriate) to be available through a variety of channels as described in the section headed “How to Apply for Hong Kong Offer Shares — 11. Publication of results” of this prospectus from ..... Monday, 14 September 2020

## EXPECTED TIMETABLE

- Results of allocations in the Hong Kong Public Offering to be available in IPO App or at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) or [www.hkeipo.hk/IPOResult](http://www.hkeipo.hk/IPOResult) with a “search by ID Number/Business Registration Number” function from. . . . . Monday, 14 September 2020
- Despatch/collection of share certificates and/or deposit of the share certificates into CCASS on<sup>(7)</sup>. . . . . Monday, 14 September 2020
- Despatch/collection of refund cheques or **HK eIPO White Form** e-Auto Refund payment instructions on<sup>(7)(8)</sup>. . . . . Monday, 14 September 2020
- Dealing in Shares on the Main Board of the Stock Exchange to commence on . . . . . 9:00 a.m. on Tuesday, 15 September 2020

There is a gap of nine business days between the commencement of the Hong Kong Public Offering on Monday, 31 August 2020 and the refund date of application monies of Monday, 14 September 2020. During this period, the application monies (including the brokerage, SFC transaction levies and Stock Exchange trading fees) will be held by the Receiving Bank on behalf of our Company and the refund monies, if any, will be returned to the applicants without interest on Monday, 14 September 2020. Investors should be aware that the dealings in our Shares on the Stock Exchange are expected to commence on Tuesday, 15 September 2020.

*Note:*

- (1) All times and dates refer to Hong Kong local times and dates except as otherwise stated. Details of the structure of the Global Offering, including the conditions of the Hong Kong Public Offering, are set out in the section headed “Structure and Conditions of the Global Offering” of this prospectus.
- (2) If there is a “black” rainstorm warning or a tropical cyclone warning signal number eight and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 3 September 2020, the application lists will not open and close on that day. Please refer to the section headed “How to Apply for Hong Kong Offer Shares — 10. Effect of bad weather on the opening of the application lists” of this prospectus. If the application lists do not open and close on Thursday, 3 September 2020, the dates mentioned in this section headed “Expected Timetable” of this prospectus may be affected. A press announcement will be made by us in such event.
- (3) Applicants who apply by giving electronic application instructions to HKSCC should refer to the section headed “How to Apply for Hong Kong Offer Shares — 6. Applying by giving electronic application instructions to HKSCC via CCASS” of this prospectus.
- (4) The Price Determination Date, being the date on which the final Offer Price is to be determined, is expected to be on or around Friday, 4 September 2020 or such later date as may be agreed among the Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) but no later than Sunday, 6 September 2020. If, for any reason, the final Offer Price is not agreed by Sunday, 6 September 2020 between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse immediately.
- (5) The announcement will be available for viewing on the “Main Board — Allotment of Results” page on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of our Company at [www.fourace.com](http://www.fourace.com).
- (6) None of the websites or any of the information contained on those websites form part of this prospectus.

## EXPECTED TIMETABLE

- (7) Applicants who apply with **WHITE** Application Forms for 1,000,000 Hong Kong Offer Shares or more and have provided all required information may collect share certificates (if applicable) and/or refund cheques (if applicable) in person and may do so from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 14 September 2020, or any other date as notified by us as the date of despatch/collection of share certificates/e-Auto Refund payment instructions/refund cheques. Applicants being individuals who opt for personal collection must not authorise any other person to make their collection on their behalf. Applicants being corporations who opt for personal collection must attend by sending their authorised representatives each bearing a letter of authorisation from his corporation stamped with the corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Branch Share Registrar, Tricor Investor Services Limited.

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 Hong Kong Offer Shares or more may collect their refund cheques (if applicable), in person from the Hong Kong Branch Share Registrar but may not collect their share certificates, which will be deposited into CCASS for credit of their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. Applicants who have applied through the **HK eIPO White Form** service by paying the application monies through a single bank account may have e-Auto Refund payment instructions (if any) despatched to their application payment bank account on Monday, 14 September 2020. Applicants who have applied through the **HK eIPO White Form** service by paying the application monies through multiple bank accounts may have refund cheque(s) sent to the address specified in their application instructions through **HK eIPO White Form** service provider, on Monday, 14 September 2020, by ordinary post and at their own risk. Uncollected share certificates and refund cheques will be despatched by ordinary post to the addresses specified in the relevant Application Forms at the applicants' own risk. Further information is set out in the section headed "How to Apply for Hong Kong Offer Shares" of this prospectus.

- (8) e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful application and also in respect of successful applications in the event that the final Offer Price is less than the initial price per Hong Kong Offer Share payable on application. Part of your Hong Kong identity card number/passport number or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party to facilitate your refund. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of your refund cheque or may invalidate your refund cheque. Further information is set out in the section headed "How to Apply for Hong Kong Offer Shares" of this prospectus.
- (9) You will not be permitted to submit your application to the IPO App or the HK eIPO White Form Service Provider through the designated website, [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 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 date for submitting applications when the application lists close.

**Share certificates are expected to be issued on Monday, 14 September 2020 but will only become valid certificates of title provided that the Global Offering has become unconditional in all respects and neither of the Hong Kong Underwriting Agreement has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.**

**You should read carefully the sections headed "Underwriting", "Structure and Conditions of the Global Offering" and "How to Apply for Hong Kong Offer Shares" for details relating to the Structure of the Global Offering, procedures on the applications for Hong Kong Offer Shares and the expected timetable, including conditions, effect of bad weather and the despatch of refund cheques and share certificates.**

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## IMPORTANT NOTICE TO INVESTORS

*This prospectus is issued by our Company solely in connection with the Global Offering and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Offer Shares offered by this prospectus pursuant to the Global Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer 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 Global Offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.*

*You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. Our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters have not authorised anyone to provide you with information that is different from what is contained of this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, advisers, officers, employees, agents or representatives or any other person involved in the Global Offering. Information contained in our Company's website ([www.fourace.com](http://www.fourace.com)) do not form part of this prospectus.*

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## SUMMARY

*This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares. Various expressions used in this summary are defined in the section headed “Definitions” of this prospectus.*

### OVERVIEW

We are principally engaged in the design, development and manufacturing of personal care and lifestyle electrical appliances on an ODM basis. Our customers are mainly international brand owners with products marketed mainly in the U.S., Japan and Europe. We provide a wide variety of personal care electrical appliances, which can be broadly classified into three major categories, namely hair styling series, grooming series and beauty care series. In particular, we are specialised in hair dryers within our hair styling series which primarily target the high-end market. To a lesser extent, we also co-design and develop with our customers and sell certain lifestyle electrical appliances such as electric irons and bread makers. Commencing our operation in 1988, we have accumulated over 30 years of experience in the industry. According to the Industry Report, we were the third largest OEM/ODM service provider of personal care electrical appliances in terms of export revenue in the PRC in 2019. During the Track Record Period, our Group’s revenue amounted to approximately HK\$269.2 million, HK\$312.2 million and HK\$362.1 million, respectively with a majority of which was derived from our hair styling series, which represented approximately 66.4%, 74.4% and 82.6% of our total revenue, respectively.

### OUR COMPETITIVE STRENGTHS

We believe that our competitive strengths as set out below have contributed to our success: (i) our strong presence in the personal care electrical appliances industry with long operating history and emphasis on hair styling products; (ii) our strong design, research and development capabilities to develop award-winning products for our customers and establish strong relationships with our customers; (iii) our stringent quality control system, which allows us to deliver high quality products and maintain market reputation; (iv) our strong production capabilities which enable us to offer a wide range of products to our customers; and (v) our strong and experienced management team with strong commitment. For further details on our strengths, please refer to the section headed “Business — Our competitive strengths” of this prospectus.

### OUR BUSINESS STRATEGIES

We intend to further enhance our presence and expand our market share in the global personal care and lifestyle electrical appliances industry by pursuing the following strategies: (i) expanding and upgrading our production facilities to enhance our production capabilities; (ii) enhancing our product design and engineering capability; (iii) introducing new products carrying our own “**IHA**” brand; (iv) enhancing our sales and marketing efforts in the global market including the PRC market; and (v)



## SUMMARY

upgrading our information technology systems and design-aided software. For further details of our business strategies, please refer to the section headed “Business — Our business strategies” of this prospectus.

### DESIGN, RESEARCH AND DEVELOPMENT

We place great efforts on our product design and development. Our research and development activities mainly include co-design and development with our customers, and we also conduct self-design and development. During the Track Record Period, we co-developed 18, ten and 12 new products with our customers, respectively. As at the Latest Practicable Date, we owned 32 patents in the PRC in respect of electrical design, innovation and technologies. During the Track Record Period, some of the hair styling products we co-designed and developed with our customers had received awards from various lifestyle magazines and websites in the U.S. and Japan, for example “*The Knot Magazine*”, “*Allure*”, “*GetNavi*” and “*Home Appliances Watch*”, in respect of their aesthetic design and functions. For self-design and development, the creation of product concepts is based on market research, with the primary aim to develop new personal care and lifestyle electrical appliance products with our own “**ihh**” brand to expand our customer base (i.e. OBM customers) and increase our profitability. Currently, we are in the progress of research and development of a smart toilet seat product, which is a lifestyle electrical appliance product. Such new product is expected to be launched in the first half of FY2022. For details of our research and development achievements during the Track Record Period, please refer to the section headed “Business — Design, research and development — Research and development achievements” of this prospectus.

### PRODUCTION

Our production plant is located in Shenzhen, the PRC. As at the Latest Practicable Date, the aggregated gross floor area of our production plant was approximately 44,278.7 sq.m. which was situated on a plot of land with a site area of approximately 29,978.5 sq.m.. Our production plant comprised fifteen buildings and accommodated various production machinery. During the Track Record Period, our Group had purchased new machinery and equipment of approximately HK\$17.1 million, HK\$8.5 million and HK\$11.9 million, respectively. For further information on our production plant, production process, production lines and machinery, please refer to the sections headed “Business — Production process”, “Business — Production plant” and “Business — Production lines and machinery” of this prospectus.

### OUR CUSTOMERS, SUPPLIERS AND SUBCONTRACTORS

The majority of our customers are well-known multinational personal care electrical appliances brand owners. During the Track Record Period, our Group’s sales to our five largest customers amounted to approximately 92.6%, 96.1% and 98.5% of our revenue, respectively. In particular, our Group’s sales to T3, our largest customer, amounted to approximately 40.1%, 53.4% and 55.0% of our revenue during the Track Record Period, respectively. Despite such customer concentration, our Directors are of the view that this customer concentration will not constitute a significant risk to our Group because of the

## SUMMARY

following reasons: (i) mutual reliance with T3; (ii) continuous expansion of our Group's ODM business; and (iii) development of OBM business to expand customer base and increase profitability.

As at the Latest Practicable Date, we had 682 suppliers in our approved suppliers list from which we procure raw materials including electrical components, metal materials, plastic particles and painting materials. During the Track Record Period, purchases attributable to our five largest suppliers amounted to approximately 26.2%, 27.2% and 30.8% of our total purchase, respectively, and purchases attributable to the largest supplier amounted to approximately 5.8%, 7.2% and 7.6% of our total purchase, respectively.

During the Track Record Period, we have engaged subcontractors which were Independent Third Parties for certain parts of the production process which are not our area of expertise, including mould production, new products' prototype production, metal parts production, solvent-based spray painting and electroplating works. During the Track Record Period, our subcontracting costs accounted for approximately 3.1%, 3.8% and 6.7% of our total cost of sales, respectively.

For further information on our respective customers, suppliers and subcontractors, please refer to the section headed "Business" of this prospectus.

### MARKET AND COMPETITION

The personal care electrical appliance OEM/ODM market in China is relatively fragmented with top ten companies occupying a market share of approximately 17.5%. Our Group accounted for approximately 1.3% of total personal care electrical appliance OEM/ODM market in China and ranked the third in such market in terms of export revenue in 2019. Majority of our revenue was derived from sales to the United States, Japan and Europe market during the Track Record Period. Customer demand for our Group's personal care electrical appliances going forward will be primarily affected by the demand and performance of the United States, Japan and Europe markets.

For details of analysis of global and China's personal care electrical appliance and its OEM/ODM market, the competitive landscape and market position of the industry we are in, please refer to the section headed "Industry Overview" of this prospectus.

### RISK FACTORS

Our business over the Global Offering involve certain risks as set out in the section headed "Risk Factors" of this prospectus. Some of the major risks we face include: (i) trade restrictions and potential new tariff could materially and adversely affect our business, financial condition and results of operations; (ii) we may not be successful in implementing our contingency plan in Vietnam; (iii) we may be required to relocate our Shenzhen Factory as a result of title defect in our Shenzhen Factory, and if the pre-lessor of the Huizhou site does not deliver vacant possession of such plant as agreed, and if we cannot identify other alternative production facilities in a timely manner, we may incur loss for relocating our operations from our Shenzhen Factory; (iv) we derive a significant portion of our revenue from T3, and any decrease or loss of business with T3 could adversely affect our business; (v) the outbreak of any severe communicable disease, if uncontrolled, could adversely affect our results of operations; and (vi) our Group relies significantly on the United States, Japan and Europe markets, and we are subject to risks associated with the overseas sales of our products. For further details, please refer to the section headed "Risk Factors" of this prospectus.

## SUMMARY

### SUMMARY OF FINANCIAL INFORMATION

The following tables set forth selected financial information for the years indicated. Please refer to the Accountant's Report set out in Appendix I to this prospectus for further details.

#### Summary of the consolidated statements of comprehensive income

	<b>FY2018</b>	<b>FY2019</b>	<b>FY2020</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	269,223	312,239	362,094
Gross profit	66,061	85,052	108,798
Operating profit	37,153	42,711	55,262
Profit before taxation	37,168	42,726	55,082
Profit for the year	30,157	33,823	43,356
Total comprehensive income for the year	32,283	31,446	41,221

The continuous increase in total revenue during the Track Record Period was primarily attributable to the continuous growth of the sales of products in the hair styling series in our personal care electrical appliances segment.

#### *Revenue*

The following table sets forth a breakdown of our revenue by product category and geographic location, based on the location where the deliveries of our Group's products were made, for the years indicated:

	<b>FY2018</b>		<b>FY2019</b>		<b>FY2020</b>	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
<b>Japan</b>						
— Hair styling series	76,939	28.5	75,779	24.2	107,236	29.6
— Grooming series	5,556	2.1	4,904	1.6	4,640	1.3
— Beauty care series	2,222	0.8	1,753	0.6	1,206	0.3
— Lifestyle electrical appliances	12,300	4.6	9,749	3.1	5,769	1.6
— Others <i>(Note 1)</i>	790	0.3	350	0.1	281	0.1
	<u>97,807</u>	<u>36.3</u>	<u>92,535</u>	<u>29.6</u>	<u>119,132</u>	<u>32.9</u>
<b>United States</b>						
— Hair styling series	79,653	29.6	136,489	43.8	186,475	51.5
— Grooming series	11,190	4.1	9,107	2.9	4,585	1.3
— Others <i>(Note 1)</i>	6,336	2.4	6,696	2.1	5,305	1.5
	<u>97,179</u>	<u>36.1</u>	<u>152,292</u>	<u>48.8</u>	<u>196,365</u>	<u>54.3</u>

## SUMMARY

	FY2018		FY2019		FY2020	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Europe						
— Hair styling series	17,241	6.4	13,337	4.3	2,799	0.8
— Grooming series	44,877	16.7	38,860	12.4	26,946	7.4
— Others <i>(Note 1)</i>	<u>1,228</u>	<u>0.4</u>	<u>1,231</u>	<u>0.4</u>	<u>2</u>	<u>0.0</u> <i>(Note 3)</i>
	63,346	23.5	53,428	17.1	29,747	8.2
Other locations <i>(Note 2)</i>						
— Hair styling series	5,003	1.9	6,684	2.1	2,686	0.7
— Beauty care series	—	—	—	—	92	0.0 <i>(Note 3)</i>
— Others <i>(Note 1)</i>	<u>5,888</u>	<u>2.2</u>	<u>7,300</u>	<u>2.4</u>	<u>14,072</u>	<u>3.9</u>
	10,891	4.1	13,984	4.5	16,850	4.6
<b>Total</b>	<u>269,223</u>	<u>100.0</u>	<u>312,239</u>	<u>100.0</u>	<u>362,094</u>	<u>100.0</u>

*Note 1:* Others mainly represented sales of moulds and tools and spare parts.

*Note 2:* Other locations mainly included Australia, Canada, the PRC and other countries within the Asia Pacific region.

*Note 3:* The percentage calculated is less than 0.1%.

During the Track Record Period, the Japan and United States markets, together, contributed the most to our revenue. The total revenue contribution from the Japan and United States markets amounted to approximately HK\$195.0 million, HK\$244.8 million and HK\$315.5 million, accounting for approximately 72.4%, 78.4% and 87.2% of our total revenue during the Track Record Period, respectively. In particular, our revenue derived from the United States market increased significantly from FY2018 to FY2020, mainly due to the increase in demand of our products from the hair styling series, primarily from T3. For the Japan market, the revenue decreased in FY2019, primarily due to the decrease in sales of our hair styling products to our customers, including Sharp. The revenue then increased in FY2020 mainly attributable to the increase in sales of our hair styling products to Customer M.

Further, during the Track Record Period, Europe market contributed revenue of approximately HK\$63.3 million, HK\$53.4 million and HK\$29.7 million, respectively. The decrease in revenue derived from the Europe market from FY2018 to FY2020 was primarily due to the combined effect of the decrease in demand of our products from (i) the grooming series, primarily from Customer Group A owing to the reduction in maximum rate of sales rebate offered by us since July 2018; and (ii) the hair styling series, primarily from T3. Our sales to T3 in Europe for FY2018 and FY2019 were higher than that for FY2020, primarily due to the sales of certain customised products with high selling price for T3's cooperation with an international brand and the sales orders of which were one-off in nature.

## SUMMARY

### *Gross profit and gross profit margin*

The following table sets forth a breakdown of our gross profit and gross profit margin by product category and geographic location, based on the location where the deliveries of our Group's products were made for the years indicated:

	FY2018		FY2019		FY2020	
	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin
	HK\$'000	%	HK\$'000	%	HK\$'000	%
<b>Japan</b>						
— Hair styling series	16,822	21.9	19,435	25.6	32,442	30.3
— Grooming series	1,976	35.6	1,822	37.2	1,682	36.3
— Beauty care series	1,152	51.8	871	49.7	632	52.4
— Lifestyle electrical appliances	2,248	18.3	2,271	23.3	1,092	18.9
— Others <sup>(Note 1)</sup>	504	63.8	182	52.0	94	33.5
	<u>22,702</u>	<u>23.2</u>	<u>24,581</u>	<u>26.6</u>	<u>35,942</u>	<u>30.2</u>
<b>United States</b>						
— Hair styling series	17,830	22.4	34,094	25.0	51,155	27.4
— Grooming series	1,842	16.5	2,507	27.5	1,930	42.1
— Others <sup>(Note 1)</sup>	2,084	32.9	1,617	24.1	1,482	27.9
	<u>21,756</u>	<u>22.4</u>	<u>38,218</u>	<u>25.1</u>	<u>54,567</u>	<u>27.8</u>
<b>Europe</b>						
— Hair styling series	5,467	31.7	4,533	34.0	953	34.0
— Grooming series	12,541	27.9	12,833	33.0	11,313	42.0
— Others <sup>(Note 1)</sup>	346	28.2	409	33.2	1	50.0
	<u>18,354</u>	<u>29.0</u>	<u>17,775</u>	<u>33.3</u>	<u>12,267</u>	<u>41.2</u>
<b>Other locations<sup>(Note 2)</sup></b>						
— Hair styling series	1,845	36.9	2,412	36.1	1,258	46.8
— Beauty care series	—	—	—	—	50	54.3
— Others <sup>(Note 1)</sup>	1,404	23.8	2,066	28.3	4,714	33.5
	<u>3,249</u>	<u>29.8</u>	<u>4,478</u>	<u>32.0</u>	<u>6,022</u>	<u>35.7</u>
<b>Total</b>	<u>66,061</u>	<u>24.5</u>	<u>85,052</u>	<u>27.2</u>	<u>108,798</u>	<u>30.0</u>

Note 1: Others, by product category, mainly represented sales of moulds and tools and spare parts.

Note 2: Other locations mainly included Australia, Canada, the PRC and other counties within the Asia Pacific region.

## SUMMARY

The increase in our overall gross profit margin from approximately 24.5% for FY2018 to approximately 27.2% for FY2019 was mainly due to the sales of several new models of hair straighteners which had a relatively higher gross profit margin. Our overall gross profit margin then further increased to approximately 30.0% for FY2020 primarily due to the decrease in our direct material costs resulted from (i) the price reduction offered by our suppliers for bulk purchase of raw materials for manufacturing T3's products; and (ii) the depreciation of RMB against HK\$ while most of our raw materials were sourced in the PRC.

During the Track Record Period, the Japan and United States markets, in aggregate, contributed most of our Group's gross profit. The overall gross profit margins for the Japan market and United States market were comparable to each other since the hair styling series, being the major products of those two markets, had comparable gross profit margin in both geographical locations. In FY2018 and FY2019, the gross profit margin of our grooming series in Japan market was generally higher than that in the United States market, mainly attributable to the relatively higher gross profit margin of our grooming products sold to Koizumi in Japan as compared to those sold to Sunbeam Group in the United States. In FY2020, the gross profit margin of our grooming series in the United States market increased significantly primarily owing to the combined effect of (i) the decreased proportion of sales of products, with relatively lower gross profit margin, to Sunbeam Group as a result of cessation of business co-operation caused by the disagreement in price of certain products; and (ii) the increased proportion of sales of products, with relatively higher gross profit margin, to Customer Group A.

For the Europe market, although its gross profit contribution was less than that of the United States and Japan markets, we recorded higher gross profit margin during the Track Record Period. In particular, the hair styling series sold to the Europe market had the highest gross profit margin among all major geographical locations, mainly attributable to their relatively higher average selling price as compared to our products of the hair styling series sold to other geographical locations.

### *Sales volume and average selling price*

The following table sets forth our sales volume and average selling price by major product category for the years indicated:

	FY2018		FY2019		FY2020	
	Average Sales Volume '000 units	Average Selling Price HK\$	Average Sales Volume '000 units	Average Selling Price HK\$	Average Sales volume '000 units	Average selling price HK\$
Personal care electrical appliances						
— Hair styling series	1,106.2	161.7	1,461.6	158.9	1,735.7	172.4
— Grooming series	1,635.4	37.7	1,430.5	37.0	1,086.8	33.3
— Beauty care series	12.0	185.2	11.9	147.3	8.5	152.7
Lifestyle electrical appliances	50.5	243.6	44.3	220.1	17.1	337.4

## SUMMARY

The average selling price of our hair styling series of approximately HK\$161.7 for FY2018 remained stable at approximately HK\$158.9 for FY2019 and then increased to approximately HK\$172.4 for FY2020, mainly owing to the sales of certain new models of hair dryers to Customer M amounted to approximately HK\$34.8 million, with an average selling price of over HK\$400 per unit for FY2020.

During the Track Record Period, the average selling price of our beauty care series of approximately HK\$185.2 for FY2018 decreased to approximately HK\$147.3 for FY2019, primarily attributable to the increase in sales of products with lower selling prices to Koizumi. The sales volume of our beauty care series decreased from approximately 11.9 thousand units for FY2019 to approximately nine thousand units for FY2020, mainly due to the decrease in sales to Koizumi in Japan caused by the slight delay in delivery of a specific model of beauty care product, primarily as a result of the outbreak of COVID-19. Such delay in delivery was mutually agreed by Koizumi and our Group and no penalty was imposed. The relevant products were subsequently delivered in April 2020.

During the Track Record Period, our lifestyle electrical appliances had the highest average selling price among all product categories, mainly attributable to the relatively high unit price of our bread makers. The high unit price of our bread makers was mainly due to the high production costs contributed by raw materials, parts and components and direct labour. During the period from FY2018 to FY2019, both the sales volume and average selling price of our lifestyle electrical appliances experienced a decline, which was primarily owing to the larger quantity of bread makers and dish dryers which were scheduled for delivery to two of our customers in FY2018. In addition, since these two products were of the highest and the second highest selling price of our Group's lifestyle electrical appliances during the Track Record Period, the decrease in their sales volume also led to the decrease in average selling price of our Group's lifestyle electrical appliances during the period from FY2018 to FY2019. The sales volume decreased from approximately 44.3 thousand units for FY2019 to approximately 17.1 thousand units for FY2020, primarily due to the decrease in sales of our electric irons and dish dryers to our customers in Japan. However, such decrease was partially offset by the increase in average selling price from approximately HK\$220.1 for FY2019 to approximately HK\$337.4 for FY2020 primarily due to the increase in sales of our bread makers to Tiger Corp, which had a relatively higher average selling price.

For further details of the fluctuations in our revenue, gross profit, gross profit margin, sales volume and average selling price during the Track Record Period, please refer to the section headed "Financial Information — Review of results of operations" of this prospectus.

### ***Operating profit, profit before taxation and profit for the year***

Our operating profit, profit before taxation and profit for the year increased in FY2019, as compared to these of FY2018, were mainly due to the (i) increase in gross profit contributed from our personal care electrical appliances segment due to the introduction of several new models of hair straighteners, which had relatively higher gross profit margin, and partially offset by the (ii) increase in administrative expenses as a result of increase in staff cost and listing expenses; and the (iii) increase in research and development expenses attributable to the increased research and development activities.

Our operating profit, profit before taxation and profit for the year further increased in FY2020, as compared to these of FY2019, were mainly due to the increase in gross profit contributed from our personal care electrical appliances segment due to the increasing demand from T3 and Customer M, and partially offset by the increase in administrative expenses mainly as a result of increase in listing expenses.

## SUMMARY

### Summary of the consolidated balance sheets

	<b>As at 31 March</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	106,754	114,070	120,846
Current assets	171,134	130,409	149,414
Current liabilities	63,494	50,471	74,713
Net current assets	107,640	79,938	74,701
Net assets	212,817	191,263	192,484

As at 31 March 2020, our net current assets had decreased by approximately HK\$5.2 million or 6.6%, as compared to 31 March 2019, primarily due to the combined effect of (i) dividend payment of approximately HK\$40.0 million; (ii) the increase in trade payables of approximately HK\$10.5 million owing to the delay in settlement caused by the temporary suspension of operations of certain of our suppliers in the PRC during the outbreak of COVID-19; (iii) the increase in accruals and other payables of approximately HK\$6.8 million owing to the increase in accrued staff costs and payment received in advance from our customers, partially offset by (iv) the net profit for the year of approximately HK\$43.4 million; and (v) the increase in pledged bank deposit of approximately HK\$5.0 million.

As at 31 March 2019, our net current assets had decreased by approximately HK\$27.7 million or 25.7%, as compared to 31 March 2018, primarily due to the combined effect of (i) dividend payment of approximately HK\$53.0 million; (ii) the decrease in trade receivables of approximately HK\$12.7 million owing to the increase in settlement from our customers; (iii) the decrease in other receivables, deposits and prepayments of approximately HK\$10.6 million owing to the reimbursement of the VAT recoverable; (iv) the decrease in inventories of approximately HK\$5.3 million owing to certain significant sales orders delivered in early FY2019, partially offset by (v) the net profit for the year of approximately HK\$33.8 million; and (vi) the decrease in trade payables of approximately HK\$15.8 million owing to the increase in our settlements.

As at 31 March 2019, our net assets had decreased by approximately HK\$21.6 million or 10.1%, as compared to 31 March 2018, primarily due to (i) dividend paid of HK\$53.0 million; and partially offset by (ii) the record of net profit of approximately HK\$33.8 million for the year ended 31 March 2019.



## SUMMARY

### Summary of the consolidated cash flow statements

	<b>FY2018</b>	<b>FY2019</b>	<b>FY2020</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating cash flows before movements in working capital	43,805	51,171	66,948
Changes in working capital	(16,951)	15,216	22,681
Interest received	15	15	65
Income tax paid	<u>(13,029)</u>	<u>(7,759)</u>	<u>(8,142)</u>
Net cash generated from operating activities	13,840	58,643	81,552
Net cash used in investing activities	(28,412)	(36,970)	(25,320)
Net cash used in financing activities	(441)	(25,438)	(45,498)
Cash and cash equivalents at beginning of the year	64,782	49,679	45,847
Cash and cash equivalents at end of the year	49,679	45,847	56,420

During the Track Record Period, the net cash generated from operating activities was a combined result of profit before taxation being adjusted by the changes in our trade receivables, other receivables, deposits and prepayments and trade payables. The net cash used in investing activities was mainly attributable to purchase of property, plant and equipment and advance to an ultimate shareholder. For FY2019 and FY2020, the net cash used in financing activities was mainly attributable to dividend paid.

### Key financial ratios

The following tables set out the key financial ratios of our Group during the Track Record Period. Please refer to the section headed “Financial Information — Key financial ratios” of this prospectus for details.

	<b>FY2018</b>	<b>FY2019</b>	<b>FY2020</b>
Gross profit margin (%)	24.5	27.2	30.0
Net profit margin (%)	11.2	10.8	12.0
Return on assets (%)	10.9	13.8	16.0
Return on equity (%)	14.2	17.7	22.5
Interest coverage (times)	N/A	N/A	225.6
	<b>As at 31 March</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
Current ratio (times)	2.7	2.6	2.0
Quick ratio (times)	2.0	1.9	1.5
Gearing ratio (%)	N/A	N/A	2.1
Net debt to equity ratio (%)	N/A	N/A	Net cash position

## SUMMARY

### **DIVIDENDS**

Our Company does not have a dividend policy or any pre-determined dividend distribution ratio. We may distribute dividends by way of cash or by other means that our Board considers appropriate. Any declaration of final dividend is subject to the applicable laws and regulations including the Companies Law, and our Articles which require also the approval of our Shareholders. Our Board may recommend a distribution of dividends in the future after taking into account our results of operations, financial condition, operating requirements, capital requirements, Shareholders' interests, future development requirement and any other conditions that our Board may deem relevant.

In FY2019, a subsidiary of our Group declared dividend in the amount of approximately HK\$53.0 million of which (i) approximately HK\$8.4 million was offset against the amount due from a related party and an ultimate shareholder; (ii) approximately HK\$20.0 million was offset against an advance to an ultimate shareholder; and (iii) approximately HK\$24.6 million was settled by cash.

In FY2020, our Company declared dividend in the amount of approximately HK\$40.0 million, which has been fully settled by cash on 14 February 2020.

Subsequent to the Track Record Period and up to the Latest Practicable Date, our Company had not declared or paid dividend.

### **LEGAL AND COMPLIANCE**

During the Track Record period, there were instances where we did not fully comply with the laws and regulations. In particular, we failed to (i) obtain the planning permits, construction permits and certificate for passing construction completion inspection for certain or all of the Shenzhen Factory Buildings, (ii) provide adequate social insurance, and (iii) register with relevant housing provident fund authorities and make adequate housing provident fund contribution.

#### **Title defect of our Shenzhen Factory**

Our Shenzhen Factory, where we carried out all of our production process, is erected on two parcels of collectively-owned construction land in Guangming New District of Shenzhen which were leased from Shiwei Economic Cooperative pursuant to the lease agreements with expiry dates on 31 December 2043. Since our Shenzhen Factory Buildings were built on leased land of collectively-owned construction land nature and were built without the approval of relevant planning and land authority, pursuant to Land Administration Law of the People's Republic of China (2019 Amendment)\* (中華人民共和國土地管理法(2019修正)) and the Urban and Rural Planning Law of the People's Republic of China\* (中華人民共和國城鄉規劃法), we are unable to obtain the planning permits, construction permits and certificate for passing construction completion inspection and hence, the building ownership certificates for certain or all of our Shenzhen Factory Buildings. In addition, we may be forced to move out from and/or demolish the Shenzhen Factory Buildings. In connection with the above title defects, our Directors confirmed that, 11 out of 15 of our Shenzhen Factory Buildings are Qualified Left-over Buildings which met the conditions stipulated in the Decision issued by the Standing Committee of the Shenzhen Municipal People's Congress and was effective since 2 June 2009 and amended on 5 September 2019 for the purpose of expediting the handling of illegal buildings in Shenzhen. Further, the Measures issued by the Shenzhen Municipal People's Government on 4 September 2018 and was effective since 10 October 2018 stipulates the detailed rectification procedures of obtaining the property ownership certificate for Left-over Buildings for business and amenity use.

## SUMMARY

As part of our remedial actions to rectify such non-compliant incident, we made applications for six out of the 11 Qualified Left-over Buildings as at the Latest Practicable Date as we gave high priority to those six buildings which are related to our core production facilities and staff dormitories, including main production building, metal parts and spray painting production workshop and four staff dormitories. As at the Latest Practicable Date, we have not received any notice from local authority in respect of proceeding the rectification procedures of the Qualified Left-over Buildings following the applications. The remaining five Qualified Left-over Buildings that we did not make application comprising power distribution facilities which only had an aggregate gross floor area of less than 800 sq.m. were insignificant to our operation. Based on the results of interview with the relevant competent local authorities and the advice given by our PRC legal advisers, the risk of our Group being ordered by the local authorities to move out from or to dismantle the Shenzhen Factory Buildings is low.

In addition, we had taken remedial actions to prevent future breaches and ensure on-going compliances. For further details of such non-compliance incident, please refer to the section headed “Business — Legal and compliance — Non-compliance” of this prospectus.

### **REDEVELOPMENT OF THE SHENZHEN LAND**

Pursuant to the statutory plan published by Shenzhen Planning and Natural Resources Administrative Bureau\* (深圳市規劃和自然資源局) in respect of the development of Gongming Jiangshi district\* (公明將石地區), the Shenzhen government is planning to construct, among others, a new road, i.e. Bishi Road\* (碧石路), which will pass through the site of our Shenzhen Factory. In particular, the Bishi Road\* primarily affects the outermost area of our main production building and a major portion of our warehouse which are currently in use. For further details about the redevelopment of Bishi Road\*, please refer to the section headed “Business — Properties — The PRC — Redevelopment of the Shenzhen Land — Development of Bishi Road\* (碧石路)” of this prospectus.

Further, the landlord of the Shenzhen Land, Shiwei Economic Cooperative, passed a shareholder resolution in 2015 to implement a redevelopment plan with the Shenzhen Land as part of the plan (the “**Redevelopment Plan**”). For further details about the Redevelopment Plan of Shiwei Economic Cooperative, please refer to the section headed “Business — Properties — The PRC — Redevelopment of the Shenzhen Land — Proposed redevelopment plan” of this prospectus.

In view of the possible implications of the construction of the planned road and the Redevelopment Plan, we have in place a backup plan of relocation to Huizhou, the PRC in which we have entered into a pre-lease contract with an Independent Third Party. For further details, please refer to the section headed “Business — Properties — The PRC — Backup plan — relocation to Huizhou site” of this prospectus.

### **SINO-U.S. TRADE WAR**

#### **Background and development of additional U.S. tariff**

Since 2018, the U.S. has begun imposing or scheduling to impose additional tariff of various percentages on imported Chinese products on different lists, namely List 1, List 2, List 3, List 4, List 4A and List 4B, and rounds of trade negotiations and talks had been conducted between China and the U.S. in respect of such additional U.S. tariff. For details of the background and development of additional U.S. tariff, please refer to the section headed “Business — Impact of Sino-U.S. Trade war on our business” of this prospectus.

## SUMMARY

The U.S. and China have made further progress on trade talks since October 2019. On 13 December 2019, China and the U.S. announced that they had reached a phase one trade agreement, pursuant to which the additional tariff of 15% on Chinese imports on List 4B would be suspended until further notice and the additional tariff of 15% on Chinese imports on List 4A which took effect on 1 September 2019 would be reduced to 7.5%. On 15 January 2020, China and the U.S. entered into the “Economic and Trade Agreement between the Government of the United States of America and the Government of the People’s Republic of China” (the “**Phase One Trade Agreement**”). In connection with entering into the Phase One Trade Agreement, the U.S. suspended the abovementioned additional tariff of List 4B until further notice and reduced the additional tariff of List 4A to 7.5% effective on 14 February 2020. As at the Latest Practicable Date, the Phase One Trade Agreement remained a commitment by both the U.S. and China. Under the current framework of the Phase One Trade Agreement, our products manufactured for T3 falling into the ambit of List 4B will not be subject to additional U.S. tariff.

### **Impact of the U.S. tariff on our products**

During the Track Record Period, the sale of our products with the U.S. as delivery destination accounted for approximately 36.1%, 48.8% and 54.3% of our total revenue, respectively. During Track Record Period, T3 was our largest customer which contributed to approximately 85.7%, 93.6% and 97.5% of our total revenue derived from the U.S. market, respectively. For further details of the impact of the U.S. tariff on our products as at the Latest Practicable Date, please refer to the section headed “Business — Impact of Sino-U.S. trade war on our business — Impact of the U.S. tariff on our products” of this prospectus.

### **Party responsible for the additional U.S. tariff**

As advised by our legal adviser as to U.S. laws, the liability for payment for the U.S. import duties belongs to the importer of the goods. As our products were sold and delivered to the U.S. on an FOB basis, we are not the party that imports products into the U.S., we are not responsible for customs clearance within the jurisdiction of the U.S. nor are we responsible for the payment of any import tariffs for products imported into the U.S.. Nonetheless, our customers, being the parties which import goods into the U.S., may transfer the extra costs incurred by them as a result of the tariff to us.

### **Implication of additional U.S. tariff on our business**

During the Track Record Period, the sales of our products with the U.S. as delivery destination accounted for approximately 36.1%, 48.8% and 54.3% of our total revenue, respectively. These products are subject to additional U.S. tariff under either List 3, List 4A or List 4B. In particular, our products sold to T3 are subject to additional tariff under List 4B, representing approximately 85.1%, 93.5% and 97.4% of the revenue derived from our products which fall into the ambit of List 3, List 4A or List 4B and with the U.S. as delivery destination. As confirmed by T3, it had applied for but has yet been granted any exemption of qualified Chinese products sold to it by our Group for the additional U.S. tariffs under the exclusion process established by the USTR. During the Track Record Period, the total sales in the U.S. in respect of our products sold to T3 that are subject to additional U.S. tariff under (i) List 3 were approximately HK\$514,000, HK\$74,000 and HK\$135,000, representing approximately 0.2%, 0.02% and 0.04% of our total revenue, respectively; and (ii) List 4B were approximately HK\$82.7 million, HK\$142.4 million and HK\$191.3 million, representing approximately 30.7%, 45.6% and 52.8% of our total revenue, respectively. As confirmed by our Directors, during the Track Record Period and

## SUMMARY

up to the Latest Practicable Date, we have not been asked to reduce the selling price of our products which are subject to the additional U.S. tariffs or to bear any of such tariff for which our customers was responsible. Regarding our products sold to T3 in the U.S. which are under List 4B (i.e. 15% additional tariff suspended) and the minimal amount of spare parts sold to them under List 3 (i.e. 25% additional tariff), our Directors are of the view that the demand and the average selling prices of these products will not be materially and adversely affected. For further details of the factors taken into account by our Directors, please refer to the section headed “Business — Impact of Sino-U.S. trade war on our business — Implication of additional U.S. tariff on our business” of this prospectus.

### **Sensitivity analysis of impact on the revenue and profit of our Group if all additional U.S. tariff is borne by us**

The following illustrates the hypothetical impact on the revenue and profit for the year if all of the additional U.S. tariff applicable to our products is borne by us, while all other factors remain unchanged:

	<b>FY2018</b>	<b>FY2019</b>	<b>FY2020</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	269,223	312,239	362,094
Profit for the year	30,157	33,823	43,356

### **Assuming all additional U.S. tariff borne by us**

Impact on revenue	16,022	23,317	29,157
Impact on profit for the year	13,378	19,470	24,346

### **Contingency plan**

Having considered the above, our Directors believe that there is no imminent need of devising a contingency plan as at the date of this prospectus. Nevertheless, our Directors are of the view that should the additional U.S. tariff under List 4B become effective or the tariff under List 3 and List 4A increase, notwithstanding our measures as described under the paragraphs headed “Implication of additional U.S. tariff on our business” above, it cannot be assured that our business will not be materially and adversely affected by such tariff. Along with the escalation of the trade war, the landscape of trading business between the U.S. and China will inevitably be materially and adversely affected, which is similar to our competitors and our Group will be of no exception. Please refer to the section headed “Risk Factors — Risks relating to our business and industry — Trade restrictions and potential new tariff could materially and adversely affect our business, financial condition and results of operations” of this prospectus. For details of mitigation measures that our Group may take, please refer to the section headed “Business — Impact of Sino-U.S. trade war on our business — Contingency plan” of this prospectus.

### **RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE**

After due and careful consideration, our Directors confirm that there has been no material adverse change in our financial or trading position or prospects since 31 March 2020 and up to the date of this prospectus, and there is no event since 31 March 2020 which would materially affect the information shown in Accountant’s Report in Appendix I to this prospectus.

## SUMMARY

### Impact of outbreak of COVID-19 on our Group

Since the first reported case of COVID-19 in late December 2019, there has been an outbreak of COVID-19 (the “**Outbreak**”) in the globe, causing 4,648 casualties in the PRC and 503,862 casualties globally as at 30 June 2020. The Outbreak has caused significant disruption of business activities and hence, affected the global economy.

In response to the Outbreak, the PRC government has implemented measures to, among others, prevent the continuing widespread of the disease. In compliance with the government instructions, we temporarily suspended the operation of our Shenzhen Factory during 3 to 18 February 2020. We have also established and implemented epidemic prevention and control measures, including but not limited to preparing sufficient epidemic prevention materials, such as face masks, disinfectants and gloves and ensuring personal hygiene and protection, monitoring the body temperature and personal health condition of employees.

Based on the current situation of the Outbreak, our Directors assessed its impact on our Group in three aspects: (i) sales and customers; (ii) purchases and suppliers; and (iii) production which are the key functions of our Group.

- (i) **Sales and customers:** We have been closely communicating with our major customers for the impact of the Outbreak on them and also on their demand of our products. Pursuant to the communications with our major customers, they were still conducting business during the pandemic. In respect of T3, our top customer, we received request from them in respect of postponing the delivery of certain purchase orders amounting to approximately HK\$37.0 million for several months in FY2021 and yet there has been no requests of cancelation nor reduction of any orders. Among the postponed delivery of certain purchase orders amounting to approximately HK\$37.0 million, approximately HK\$22.5 million have been delivered up to the Latest Practicable Date and approximately HK\$10.2 million, HK\$2.6 million and HK\$1.7 million are scheduled to be delivered during the second quarter, third quarter and fourth quarter of FY2021, respectively. In respect of Customer M, Sharp, Customer Group A and Koizumi, we have not received any requests from them for materially postponing or canceling any major orders or renegotiating the payment terms due to the Outbreak.

The Outbreak has inevitably affected the global economy and our Directors expect that our customers would be more cautious where placing purchase orders with their suppliers during FY2021. Based on the forecast provided by T3 and as estimated by our Directors, the forecasted annual demand from T3 on our products for FY2021 would be approximately HK\$187.2 million, representing a slight decrease of approximately 5.9% as compared to the annual sales to T3 for FY2020. For Customer M, the hair dryers and beauty care devices co-designed and developed with them were launched in September 2019 and April 2020, respectively. Pursuant to the confirmed sales orders and the preliminary forecast provided by Customer M and as estimated by our Directors, our sales to Customer M are expected to be approximately HK\$70.9 million for FY2021, representing an increase of approximately 71.0% as compared to the annual sales to Customer M for FY2020. For other major customers, we did not expect significant decrease in sales due to the Outbreak based on the latest sales forecast provided by these customers.

## SUMMARY

We have also communicated with our major customers in respect of the temporary suspension of operation of our Shenzhen Factory during 3 to 18 February 2020. Our major customers acknowledged that there may be potential delay on deliveries of our products to them due to the Outbreak. In particular, we were confirmed by T3, our top customer, that they had no plan to shift any of the ongoing cooperation with us to other suppliers. As such, our Directors are of the view that the potential financial damages to our Group and the impact to the long-term relationship with our customers due to the delay in deliveries of our products to them are not significant.

- (ii) **Purchases and suppliers:** Our major suppliers during the Track Record Period are mainly located in the Guangdong Province, including Shenzhen, Dongguan and Foshan. None of our major suppliers were based in nor their raw materials were primarily sourced from Hubei Province or the cities which were being locked down as at the Latest Practicable Date. Despite the temporary suspension of operations of our major suppliers in early to mid February 2020 due to the Outbreak, all of them have resumed operation since mid to late February 2020. Based on the foregoing, the supply of raw materials to us has not been negatively affected by the Outbreak and has remained normal during the Track Record Period and up to the Latest Practicable Date.
- (iii) **Production:** Our Shenzhen Factory has been operating normally after the resumption of operation since 19 February 2020. Our Group had arranged for tighter production schedule in March 2020 to make up for the lost time as a result of the suspension of operation of our Shenzhen Factory in February 2020 and incurred costs of approximately RMB1.6 million primarily for the wages of temporary workers. In case of further temporary suspension of business due to the pandemic, we plan to arrange for a tighter production schedule and working overtime to reduce the impact of the suspension of our production activities. The labour costs for working overtime to compensate the suspension of our production activities and the potential revenue loss due to the suspension will depend on the length of the suspension period.

Further, we will closely monitor the impact of the Outbreak on our workforce. As at the date of the resumption of operation on 19 February 2020, approximately 260 of our employees, had visited Hubei Province or other locked down cities or provinces or certain specific epidemic area during the period of the Outbreak and were not allowed to return to Shenzhen or forced to be quarantined when they returned to Shenzhen, or had encountered difficulties in returning to Shenzhen as a result of traffic control measures implemented by the government. Thus, we have engaged 93 and 296 temporary workers from employment agencies in February and March 2020, respectively, to support our workforce. As at the Latest Practicable Date, all of our employees have returned to our Shenzhen Factory and resumed work. Our Directors confirm that the Outbreak did not have significant adverse impact on our workforce as at the Latest Practicable Date. Nevertheless, we have confirmed with employment agencies that they have reserved sufficient number of workers which were from various provinces of the PRC, including Henan and Guizhou, for fulfilling any vacancy of our workforce.

## SUMMARY

### *Contingency plans to deal with the potential impact of the Outbreak*

In addition to the above, our Directors have devised certain contingency plans if the Outbreak becomes more serious during FY2021, and causes (i) another suspension of operation of our Shenzhen Factory; (ii) significant negative impact on our current workforce; and (iii) significant negative impact on our suppliers:

- (i) ***We may face risk of suspension of operation if the pandemic worsens and our Group may not be able to fulfil customers' orders which are scheduled to be produced during the suspension period.*** As at the Latest Practicable Date, our finished goods on hand could fulfill sales orders received from our customers amounting to approximately HK\$7.9 million. In the event that the operation of our Shenzhen Factory is suspended, we may be unable to fulfil customer orders during the suspension period. Despite the force majeure provisions in our master purchase agreements with our major customers might protect our Group from financial claims for the unfulfilled orders, we endeavour to maintain our relationship with customers by continuing to actively communicate with them regarding the impact of the Outbreak on our production. As understood from our major customers, they acknowledged that there may be potential delay on deliveries of our products to them due to the Outbreak, and they expressed their understanding for the potential delay of deliveries of products due to the outbreak of the COVID-19, which was beyond both parties' control. In particular, we were confirmed by T3, our top customer, that they had no plan to shift any of the ongoing cooperation with us to other suppliers. As such, our Directors believe that, despite the potential loss of revenue during the suspension period of our factory, we will endeavour to fulfill such purchase orders after resumption of operation. Taking into account (i) our long term and well established relationship with our customers; (ii) our product development capability, including the moulds held by us for the developed products; and (iii) the costs and quality of our products, our Directors are of the view that the potential financial damages to our Group and the impact to the long-term relationship with our customers due to the delay on deliveries of our products to them are not significant.
- (ii) ***The sufficiency of human resources may be negatively affected by the government policies to lock down cities.*** In response to the Outbreak, cities may be locked down to restrict flow of people and traffic control measures may also be implemented in some areas in the PRC. As the pandemic has not been completely controlled in the PRC, our workers may be subject to forced quarantine if they were infected by the COVID-19. These situations may impose significant pressure on our Group to source sufficient human resources. Nevertheless, we have confirmed with employment agencies that their workers were from various provinces of the PRC, including Henan and Guizhou, and they have reserved sufficient number of workers for fulfilling any vacancy of our workforce.
- (iii) ***Our suppliers may be subject to suspension of operation as affected by the Outbreak and unable to supply raw materials to us.*** Our Directors confirm that, we have identified alternative suppliers which enable us to mitigate the risk of shortage of raw material supplies when the operation of our existing suppliers is suspended. However, based on the assumption that we may need to source raw materials outside Guangdong Province, our Directors expect that the cost of raw materials would increase by approximately 2% to 5%, primarily attributable to increase logistic costs.



## SUMMARY

In the event that the Outbreak worsens and causes long-term suspension of our Shenzhen Factory, our Directors would consider adopting the contingency plan to relocate our operation in Vietnam. As at 30 June 2020, we had cash and cash equivalents of approximately HK\$51.1 million, and liquid assets, including mainly trade receivables of approximately HK\$59.5 million. In addition, we estimate that the aggregate net proceeds from the Global Offering (after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering), assuming an Offer Price of HK\$0.50, being the mid-point of the indicative Offer Price range and that the Over-allotment Option is not exercised, will be approximately HK\$91.7 million. Taking into account of our cash and cash equivalents and liquid assets of approximately HK\$110.6 million, we believe our Group will be able to maintain financially viable for at least 18 months, assuming (i) our operations have been completely suspended since 1 July 2020; (ii) there will be no dividend payment; (iii) our Group will settle our trade payables and bank borrowings when due; (iv) expansion plans will be suspended; (v) our trade receivables will be settled based on historical settlement pattern and prudent estimates; and (vi) our Group will incur minimum operating expenses such as staff cost and general expenses. Taking into account the duration for the Group to remain financially viable, our Directors currently has no intention to use the net proceeds from the Global Offering for other purposes, for example, payment of fixed costs during the suspension period.

Based on above assumptions and in the event that the proposed listing is not successfully completed, we expect that our Group can continue to remain financially viable for at least 18 months.

Apart from the above contingency plans relating to the potential Outbreak, we have implemented stringent measures in our Shenzhen Factory to prevent COVID-19 infections in our factory and as understood from the local authority officer, these measures were acceptable to the local authority. As such, our Directors are of the view that the hygiene measures above adopted by our Group can effectively prevent and control the COVID-19 infections, and safeguard the occupational health and safety of our employees. For details, please refer to the section headed “Business — Impact of outbreak of COVID-19 on our Group” of this prospectus.

Despite the Outbreak, we managed to minimise its impact on the operation of our Shenzhen Factory by taking various measures. For example, we arranged tighter production schedule to make up for the lost time as a result of the suspension of operation of our Shenzhen Factory. Also, we sourced temporary workers to supplement our workforce which was undermined due to the fact that certain of our employees had difficulties in returning to Shenzhen or to our factory for work. These measures taken do not have material adverse impact on the financial performance of our Group taking into account the relevant costs incurred. In particular, T3, our largest customer, had requested to postpone the deliveries of products as mentioned above and the forecast annual demand from T3 is expected to decrease by approximately 5.9% to approximately HK\$187.2 million for FY2021 from approximately HK\$199.0 million for FY2020, primarily as a result of the Outbreak. Nevertheless, such postponed orders have already been rescheduled to be delivered within FY2021. In addition, the impact from the decrease in T3’s demand in FY2021 is expected to be offset by the expected increase in sales to Customer M from approximately HK\$41.5 million for FY2020 to approximately HK\$70.9 million for FY2021, based on the amount of confirmed orders received from and the preliminary forecast provided by Customer M. Saved as disclosed in this section, our Directors confirm that, based on the above reasons and to the best of their knowledge, the Outbreak does not have any material adverse impact on

## SUMMARY

our Group's operation and financial performance during the Track Record Period and up to the Latest Practicable Date. If the Outbreak continues or becomes more severe in the future, it may be possible for the PRC government to re-suspend the operation for all corporates or for our customer to postpone the deliveries of sales orders, leading to material negative impact on our financial results. For details, please refer to the section headed "Risk Factors — The outbreak of any severe communicable disease, if uncontrolled, could adversely affect our results of operations." of this prospectus.

### *Other recent development*

Subsequent to the Track Record Period, based on the unaudited consolidated financial information of our Group for the three months ended 30 June 2020, our total revenue increased by approximately 2.6% as compared to our total revenue for the same period in FY2020, and our gross profit increased by approximately 14.4% as compared to our gross profit for the same period in FY2020. As at 30 June 2020, we had banking facilities from a bank which amounted to approximately HK\$52.0 million of which approximately HK\$48.5 million was unutilised. We intended to utilise such facilities for our working capital purposes, including purchase of raw materials to support our business as driven by the growing demand of our customers. Our Directors expect that our net profit (net of listing expenses) in FY2021 may be lower than our net profit (net of listing expenses) in FY2020, which is primarily attributable to the increase in administrative expenses (net of listing expenses) as additional compliance costs are expected to incur after the Listing. Further, the below are some of our recent developments:

- (a) **Sales orders from Customer M:** During the Track Record Period and up to the Latest Practicable Date, we received confirmed sales order of approximately HK\$41.3 million from Customer M for FY2021. The confirmed sales order were relating to the hair dryers and beauty care devices launched in September 2019 and April 2020, respectively. Further, pursuant to the confirmed sales orders and the preliminary forecast provided by Customer M and as estimated by our Directors, our sales to Customer M are expected to be approximately HK\$70.9 million for FY2021. With the further enhanced customer portfolio contributed by Customer M, our Directors consider that our Group is well-positioned to attract new customers and new purchase orders.
- (b) **Increasing demand from our existing customer:** During FY2018, T3, one of our major customers based in the U.S., developed a new distribution channel since third quarter of FY2018. Such development of new distribution channel boosted T3's demand on our products significantly and revenue contributed by T3 increased from approximately HK\$107.8 million for FY2018 to HK\$166.6 million for FY2019 and further to HK\$199.0 million for FY2020. Based on the forecast provided by T3 and as estimated by our Directors, the expected purchase amount from T3 to us for FY2021 would be no less than approximately HK\$187.2 million.

## SUMMARY

### LISTING EXPENSES

The total listing expenses in relation to the Global Offering (based on the mid-point of the Offer Price range stated in this prospectus and assuming no Over-allotment Option will be exercised), mainly comprising fees paid or payable to professional parties and underwriting fees and commission, are expected to be approximately HK\$64.6 million (representing approximately 41.3% of the gross proceeds from the Global Offering), of which, (i) approximately HK\$38.7 million is expected to be capitalised and deducted from equity upon completion of the Global Offering under the relevant financial reporting standards; and (ii) approximately HK\$25.9 million is expected to be recognised as expenses in profit or loss. In respect of the total amount charged or to be charged to our profit or loss, approximately HK\$19.0 million has been charged to our profit or loss during the Track Record Period and the remaining HK\$6.9 million is expected to be charged to our profit or loss after the Track Record Period.

### USE OF PROCEEDS

We estimate that the aggregate net proceeds from the Global Offering (after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering), assuming an Offer Price of HK\$0.50, being the mid-point of the indicative Offer Price range and that the Over-allotment Option is not exercised, will be approximately HK\$91.7 million. We currently intend to apply the net proceeds from the Global Offering in the following manner: (i) approximately HK\$49.9 million or approximately 54.5% of the net proceeds from the Global Offering will be used for expanding and upgrading our production facilities to enhance our production capabilities; (ii) approximately HK\$22.7 million or approximately 24.8% of the net proceeds from the Global Offering for enhancing our research and engineering capabilities; (iii) approximately HK\$11.9 million or approximately 12.9% of the net proceeds from the Global Offering will be used for introducing new products carrying our own “**iHA**” brand; (iv) approximately HK\$3.2 million or approximately 3.5% of the net proceeds from the Global Offering will be used for enhancing our sales and marketing efforts in the global market including the PRC market; and (v) approximately HK\$4.0 million or approximately 4.3% of the net proceeds from the Global Offering will be used for upgrading our information technology system and design-aided software.

For further details, please refer to the section headed “Future Plans and Use of Proceeds” of this prospectus.

### GLOBAL OFFERING STATISTICS

	<b>Based on a minimum Offer Price of HK\$0.40 per Offer Share</b>	<b>Based on a maximum Offer Price of HK\$0.60 per Offer Share</b>
Market capitalisation of our Shares ( <i>Note 1</i> )	HK\$500 million	HK\$750 million
Unaudited pro forma adjusted net tangible assets per Share ( <i>Note 2</i> )	HK\$0.22	HK\$0.26

## SUMMARY

*Notes:*

1. The calculation of market capitalisation is based on 1,250,000,000 Shares expected to be in issue immediately following the completion of the Capitalisation Issue and the Global Offering. It does not take into account any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option or pursuant to the exercise of the options which may be granted under the Share Option Scheme.
2. For calculation of the unaudited pro forma adjusted net tangible asset value per Share, please refer to the section headed “Appendix II — Unaudited Pro Forma Financial Information” of this prospectus. It does not take into account any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option or pursuant to the exercise of the options which may be granted under the Share Option Scheme.

### **OUR CONTROLLING SHAREHOLDERS**

Immediately after completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme), 37.5% and 37.5% of the issued share capital of our Company will be owned by Ace Champion and Forever Golden respectively. Ace Champion is a company wholly-owned by Mr. SY Li and Forever Golden is a company wholly-owned by Ms. HW Sit. As each of Mr. SY Li through Ace Champion and Ms. HW Sit through Forever Golden controls more than 30% of voting rights of our Group, they are our Controlling Shareholders within the meaning of the Listing Rules. Notwithstanding her shareholding, Ms. HW Sit has not been and is not involved in the day-to-day management of our Group’s operations and is only a passive investor. Despite the absence of an acting in concert agreement between Mr. SY Li and Ms. HW Sit and Ms. HW Sit has the independent voting right over our Group through Forever Golden, Ms. HW Sit confirmed that she did not and would not actively seek to exercise any control or voting rights or exert any influence on the daily operations and managerial decisions of our Group, and she has no intention to act as a director of our Company or our Group since Ms. HW Sit relied on Mr. SY Li for overall supervision, management and execution of business operation of our Group. Ms. HW Sit is working as a senior project manager in a construction consultancy firm. Based on the above, Mr. SY Li is considered to have full control on the management and business development direction of our Group. For the background of Mr. SY Li and Ms. HW Sit, please refer to sections headed “Directors and Senior Management” and “Relationship with the Controlling Shareholders” of this prospectus respectively.

## DEFINITIONS

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

“Ace Champion”	Ace Champion Inc., a company incorporated in the BVI as a business company on 18 January 2019, and is wholly held by Mr. SY Li, and is one of our Controlling Shareholders
“affiliate(s)”	with respect to any specified person, any other person, 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 the forms which is used in relation to the Hong Kong Public Offering
“Aristo Securities”	Aristo Securities Limited, a licensed corporation to carry out Type 1 (dealing in securities) regulated activities under the SFO
“Articles” or “Articles of Association”	the amended and restated articles of association of our Company, conditionally adopted on 21 August 2020 to become effective upon the Listing, a summary of which is set out in Appendix IV to this prospectus, as amended from time to time
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board” or “Board of Directors”	the board of Directors of our Company
“business day”	a day (other than a Saturday, Sunday or public holiday in Hong Kong) on which licensed banks in Hong Kong are generally open for normal business to the public
“Business Day”	any day recognised as a trading day by the Stock Exchange
“BVI”	the British Virgin Islands
“BVI Fourace”	Fourace Industries Group Limited (科利實業集團有限公司), a company incorporated in the BVI as a business company on 11 April 2019, and is a wholly-owned subsidiary of our Company, and is the sole shareholder of HK Fourace
“CAGR”	compound annual growth rate, a measurement to assess the growth rate of value over time

## DEFINITIONS

“Capitalisation Issue”	the allotment and issue of 937,499,998 Shares to be made upon the capitalisation of certain sums standing to the credit of the share premium account of our Group referred to in the paragraphs headed “A. Further information about our Group — 3. Written resolutions of our Shareholders passed on 21 August 2020” in Appendix V to this prospectus
“Cayman” or “Cayman Islands”	the Cayman Islands
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant(s)”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant(s)”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant(s)”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant(s)”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CEB International Capital”	CEB International Capital Corporation Limited, a licensed corporation to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“Chuenman Securities”	Chuenman Securities Limited, a licensed corporation to carry out Type 1 (dealing in securities) regulated activities under the SFO
“close associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Companies Law” or “Cayman Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented and/or otherwise modified from time to time
“Companies (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented and/or otherwise modified from time to time

## DEFINITIONS

“Company” or “our Company”	Fourace Industries Group Holdings Limited (科利實業控股集團有限公司), a company incorporated in the Cayman Islands as an exempted company with limited liability on 29 March 2019, and registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 21 June 2019
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“connected transaction(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and, in the context of this prospectus, means each of the controlling shareholders of our Company, namely Ace Champion, Forever Golden, Mr. SY Li and Ms. HW Sit
“COVID-19”	the coronavirus disease 2019
“Customer Group A”	the group of companies which are multinational consumer goods manufacturers specialised in personal care and hygiene products, of which the shares of their parent company are listed on the New York Stock Exchange with a market capitalisation of approximately US\$341.7 billion (equivalent to approximately HK\$2,648.2 billion) as at the Latest Practicable Date
“Customer M”	a company incorporated in Japan mainly engaged in the business of planning, development, production and sales of beauty equipment, health equipment and cosmetics based in Japan, of which its shares are listed on the Tokyo Stock Exchange, with a market capitalisation of approximately JPY49.7 billion (equivalent to approximately HK\$3.6 billion) as at the Latest Practicable Date. During the year ended 30 September 2019, it generated a total revenue of approximately JPY36.0 billion (equivalent to approximately HK\$2.6 billion) and net loss attributable to owners of parent of approximately JPY26.2 billion (equivalent to approximately HK\$1.9 billion)
“Deed of Indemnity”	the deed of indemnity dated 26 August 2020 and executed by each of our Controlling Shareholders in favour of our Company (for itself and as trustee for its subsidiaries) to give certain indemnities, particulars of which are set forth in the paragraphs headed “E. Other Information — 3. Tax and other indemnities” in Appendix V to this prospectus
“Director(s)”	director(s) of our Company
“EIT”	enterprise income tax in the PRC

## DEFINITIONS

“EIT Law”	the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), last revised and came into effect on 29 December 2018
“Eligible Person(s)”	(a) any director or proposed director (whether executive or non-executive, including any independent non-executive director), employee or proposed employee (whether full time or part time) of, or (b) any individual for the time being seconded to work for any member of our Group; or (c) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of our Group
“electronic application instruction(s)”	instruction given by a CCASS Participant electronically via CCASS to HKSCC, being one of the methods to apply for the Hong Kong Offer Shares
“EU”	the European Union
“Extreme Conditions”	extreme conditions caused by a super typhoon as announced by the Government of Hong Kong
“Forever Golden”	Forever Golden Inc. (永金有限公司), a company incorporated in the BVI on 18 October 2018, and is wholly owned by Ms. HW Sit, and is one of our Controlling Shareholders
“Fourace Factory”	Shenzhen Bao’an District Gongming Jiangshi Fourace Electric Factory* (深圳市寶安區公明將石科利電器廠), the predecessor of Shenzhen Fourace, formerly known as Shenzhen Bao’an District Gongming Town Jiangshi Village Fourace Electrical Appliance Factory* (深圳市寶安區公明鎮將石村科利電器製造廠)
“FY”	the financial year ended or ending 31 March
“GDP”	gross domestic product
“Global Offering”	the Hong Kong Public Offering and the International Placing
“GREEN Application Form(s)”	the application form(s) to be completed by the <b>HK eIPO White Form Service Provider</b> designated by our Company
“Group”, “our Group”, “we”, “us” or “our”	our Company and its subsidiaries or any of them, or where the context so requires, in respect of the period before our Company becoming the holding company of its present subsidiaries, the present subsidiaries of our Company
“HK\$” or “Hong Kong dollar(s)”	Hong Kong dollars, the lawful currency of Hong Kong



## DEFINITIONS

“HK eIPO White Form”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the IPO App or the designated website at <b>www.hkeipo.hk</b>
“HK eIPO White Form Service Provider”	the <b>HK eIPO White Form service provider</b> designated by our Company, as specified in the IPO App or on the designated website at <b>www.hkeipo.hk</b>
“HKAS”	Hong Kong Accounting Standards issued by Hong Kong Institute of Certified Public Accountants
“HKFRS(s)”	Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants
“HK Fourace”	Fourace Industries Limited (科利實業有限公司), a limited company incorporated in Hong Kong on 18 August 1987, and is the sole shareholder of Shenzhen Fourace, and an indirectly wholly-owned subsidiary of our Company
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited, our Hong Kong branch share registrar and transfer office
“Hong Kong Offer Shares”	the 31,250,000 new Shares being initially offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offering, subject to reallocation as described under the section headed “Structure and Conditions of the Global Offering” of this prospectus
“Hong Kong Public Offering”	the offer of the Hong Kong Offer Shares by our Company for subscription to members of the public in Hong Kong at the Offer Price, on and subject to the terms and conditions set out in this prospectus and the Application Forms, as further described in the section headed “Structure and Conditions of the Global Offering — The Hong Kong Public Offering” of this prospectus
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the paragraph headed “Underwriting — Hong Kong Underwriters” of this prospectus

## DEFINITIONS

“Hong Kong Underwriting Agreement”	the Hong Kong underwriting agreement dated 28 August 2020 relating to the Hong Kong Public Offering entered into among our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters relating to the Hong Kong Public Offering
“Independent Third Party(ies)”	a person(s) or company(ies) who or which is/are independent of and not connected (within the meaning of the Listing Rules) with any of the directors, chief executive, or substantial shareholders of our Company or its subsidiaries or any of their respective associates
“Independent Transfer Pricing Tax Adviser”	Shenzhen Qianhai PricewaterhouseCoopers Business Consulting Services Co., Limited
“Industry Consultant” or “Frost & Sullivan”	Frost & Sullivan International Limited, our independent market research expert
“Industry Report”	the industry research report prepared by the Industry Consultant and commissioned by our Company, details of which is set out in the section headed “Industry Overview” of this prospectus
“Innovax Capital” or “Sole Sponsor”	Innovax Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“Internal Control Consultant”	SHINEWING Risk Services Limited, the internal control consultant of our Company
“International Placing”	the conditional placing of the International Placing Shares by the International Underwriters for and on behalf of our Company for cash at the Offer Price with professional, institutional and/or other investors on and subject to the terms and conditions under the International Underwriting Agreement, as further described in the section headed “Structure and Conditions of the Global Offering” of this prospectus
“International Placing Share(s)”	the 281,250,000 new Shares being initially offered by our Company for subscription at the Offer Price under the International Placing, where relevant, together with any additional Shares that may be issued by our Company pursuant to any exercise of the Over-allotment Option, subject to reallocation, as described under the section headed “Structure and Conditions of the Global Offering” of this prospectus

## DEFINITIONS

“International Underwriters”	our group of underwriters for the International Placing that are expected to enter into the International Underwriting Agreement to underwrite the International Placing Shares
“International Underwriting Agreement”	the international placing underwriting agreement relating to the International Placing expected to be entered into on or about the Price Determination Date by our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the International Underwriters relating to the International Placing
“Intertek”	Intertek Testing Services Shenzhen Ltd. Guangzhou Branch
“IPO App”	the mobile application for <b>HK eIPO White Form</b> service which can be downloaded by searching “ <b>IPO App</b> ” in App Store or Google Play or downloaded at <b>www.hkeipo.hk/IPOApp</b> or <b>www.tricorglobal.com/IPO App</b>
“Joint Bookrunners” or “Joint Global Coordinators” or “Joint Lead Managers”	Aristo Securities, CEB International Capital, Chuenman Securities and Yue Xiu Securities
“JPY”	Japanese yen, the lawful currency of Japan
“km”	kilometre(s)
“Koizumi” or “Koizumi Seiki”	Koizumi Seiki Corporation, a private company incorporated in Japan which principally engages in the manufacture and trade of home appliances and household products
“Latest Practicable Date”	22 August 2020, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Listing”	the listing of the Shares on Main Board of the Stock Exchange
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date, expected to be on or about 15 September 2020, on which dealings in the Shares first commence on Main Board
“Listing Rules”	the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange, as amended, supplemented or otherwise modified from time to time

## DEFINITIONS

“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of GEM of the Stock Exchange (excluding the options market) and which continues to be operated by the Stock Exchange in parallel with GEM of the Stock Exchange
“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of our Company conditionally adopted on 21 August 2020 and to become effective from the Listing Date, a summary of which is set forth in Appendix IV to this prospectus, and as amended, supplemented, and/or otherwise modified from time to time
“Mr. PJ Sit”	Sit Pan Jit (薛板婕), a Hong Kong permanent resident and a businessman. He is a co-founder of our Group and father of Ms. HW Sit.
“Mr. SY Li”	Li Shu Yeh (李舒野), a Hong Kong permanent resident, a co-founder of our Group and the executive Director and chairman of our Board, a Controlling Shareholder of our Company and father of Ms. SJ Li
“Ms. HW Sit”	Sit Hor Wan (薛可雲), a Hong Kong permanent resident, a Controlling Shareholder of our Company and daughter of Mr. PJ Sit
“Ms. SJ Li”	Li Sen Julian (李晨), a Hong Kong permanent resident, an executive Director of our Board and daughter of Mr. SY Li
“Ms. SY Tang”	Tang Suk Yee (鄧淑儀), a Hong Kong permanent resident, an executive Director of our Board of our Company
“Offer Price”	the final offer price per Offer Share (excluding brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%), which will not be more than HK\$0.60 per Offer Share and is expected to be not less than HK\$0.40 per Offer Share, such price to be determined in the manner further described in the paragraphs headed “Structure and Conditions of the Global Offering — Pricing and allocation” of this prospectus
“Offer Share(s)”	the Hong Kong Offer Shares and the International Placing Shares, where relevant, with any additional Shares allotted and issued pursuant to the exercise of the Over-allotment Option

## DEFINITIONS

“Over-allotment Option”	the option expected to be granted by our Company to the Joint Global Coordinators (for themselves and on behalf of the Underwriters) pursuant to which our Company may be required to issue up to aggregate of 46,875,000 additional Shares (representing 15% of the number of Offer Shares initially being offered under the Global Offering) at the Offer Price, to cover over-allocations in the International Placing, if any, further information on which is set forth in the section headed “Structure and Conditions of the Global Offering” of this prospectus
“PRC” or “China” or “People’s Republic of China”	the People’s Republic of China which, in this prospectus, excludes Hong Kong, Macau and Taiwan
“PRC government” or “State”	the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof, or where the context requires, any of them
“PRC Legal Advisers”	Jingtian & Gongcheng, our legal advisers as to the PRC laws
“Price Determination Agreement”	the agreement to be entered into by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or around Friday, 4 September 2020 or such later date as may be agreed among the Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) but no later than Sunday, 6 September 2020
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganisation”	the corporate reorganisation of our Group in preparation for the Listing, details of which are set out in the section headed “History, Reorganisation and Corporate Structure” of this prospectus
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	the State Administration for Industry & Commerce of the PRC (中華人民共和國國家工商行政管理總局), which was merged into the State Administration for Market Regulation (國家市場監督管理總局)

## DEFINITIONS

“SAT”	the State Taxation Administration of the PRC (中國國家稅務總局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented and/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 Option Scheme”	the share option scheme conditionally adopted by our Company on 21 August 2020, the principal terms of which are summarised in the paragraphs headed “D. Share Option Scheme” in Appendix V to this prospectus
“Share Purchase Agreement”	an agreement for the sale and purchase of the entire issued share capital of HK Fourace entered into by our Company, BVI Fourace, Ace Champion, Forever Golden, Mr. SY Li and Ms. HW Sit on 5 June 2019, pursuant to which BVI Fourace purchased 1,250,000 ordinary shares and 1,250,000 ordinary shares in HK Fourace from Mr. SY Li and Ms. HW Sit at the consideration of HK\$97,511,806 and HK\$97,511,806, respectively, which shall be settled by (i) BVI Fourace allotting and issuing two ordinary shares to our Company credited as fully paid at par; (ii) our Company crediting as fully paid at par one nil-paid Share transferred to Ace Champion and one nil-paid Share allotted and issued on 29 March 2019 to Forever Golden; and (iii) Ace Champion allotting and issuing one share to Mr. SY Li credited as fully paid at par, and Forever Golden allotting and issuing one share to Ms. HW Sit credited as fully paid at par
“Shareholder(s)”	holder(s) of the Share(s)
“Sharp Group” or “Sharp”	Sharp Corporation and its affiliates. Sharp Corporation principally engages in the manufacture and sale of telecommunications equipment, electrical appliances, and general electronic application equipment and components of the Sharp brand. Its shares are listed on the Tokyo Stock Exchange (stock code: 6753) with market capitalisation of approximately JPY645.4 billion (equivalent to approximately HK\$46.3 billion) as at the Latest Practicable Date

## DEFINITIONS

“Shenzhen Factory”	our production facilities located at Pinggang Industrial Zone, Shiwei Village, Jiangshi Community, Gongming Street, Guangming New District, Shenzhen (深圳市光明新區公明街道將石社區石圍村坪崗工業區)
“Shenzhen Factory Buildings”	the 15 buildings erected on the Shenzhen Land which include our production facilities, electricity room, warehouse, staff dormitories, and office buildings with an aggregate gross floor area of approximately 44,278.7 sq.m.
“Shenzhen Fourace”	Shenzhen Fourace Electrical Appliances Co., Ltd.* (深圳科利電器有限公司), a limited company established in the PRC on 22 May 2015, and is an indirect wholly-owned subsidiary of our Company
“Shenzhen Land”	the two parcels of land located at Longfei (Baojing lot) of Shiwei Section, Jiangshi Village, Gongming Town, Bao’an District, Shenzhen, the PRC and Shiweipinggang, Jiangshi Village, Gongming Town, Bao’an District, Shenzhen, the PRC respectively, which are leased by us and where our Shenzhen Factory located at
“Shiwei Economic Cooperative”	Shenzhen Bao’an District Gongming Town Jiangshi Village Shiwei Economic Cooperative* (寶安區公明鎮將石村石圍經濟合作社), which is now known as Shenzhen Matian Shiwei Cooperative Stock Company Limited* (深圳市馬田石圍股份合作公司) and an Independent Third Party
“sq.m.”	square metre(s)
“Stabilising Manager”	Aristo Securities
“Stock Borrowing Agreement”	the stock borrowing agreement to be entered into by Ace Champion, Forever Golden and the Stabilising Manager on or around the Price Determination Date, pursuant to which the Stabilising Manager may borrow up to 46,875,000 Shares to cover any over-allocation in the International Placing
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules, unless the context otherwise requires
“substantial shareholder(s)”	has the meaning ascribed thereto under the Listing Rules

## DEFINITIONS

“Sunbeam Group”	Sunbeam Products Inc. and its affiliates, a group companies which principally engages in the manufacture, design, marketing and distribution of household consumer products and small appliances. The shares of their parent company are listed on the Nasdaq Stock Market with market capitalisation of approximately US\$6.8 billion (equivalent to approximately HK\$52.7 billion) as at the Latest Practicable Date
“T3” or “T3 Micro”	T3 Micro, Inc., a private company incorporated in the U.S., which principally engages in distribution of household appliances including hair styling products under “T3” brand name
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented and/or otherwise modified from time to time
“Tiger Corp”	Tiger Corporation, a manufacturer of electric kitchen and cooking-related appliances incorporated in Japan
“Track Record Period”	FY2018, FY2019 and FY2020
“Underwriters”	the Hong Kong Underwriters and International Underwriters
“Underwriting Agreement(s)”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“U.S.” or “United States”	the United States of America
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, supplemented or otherwise modified from time to time
“US\$” or “USD”	United States dollars, the lawful currency of the United States
“ <b>WHITE</b> Application Form(s)”	the application form(s) for use by the public who require(s) such Offer Shares to be issued in the applicant’s or applicants’ own name
“ <b>YELLOW</b> Application Form(s)”	the application form(s) for use by the public who require(s) such Offer Shares to be deposited directly into CCASS
“Yue Xiu Securities”	Yue Xiu Securities Company Limited, a licensed corporation to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 5 (advising on futures contracts) regulated activities under the SFO
“%”	per cent.



## DEFINITIONS

*All dates and times of this prospectus refer to Hong Kong local dates and times unless otherwise stated.*

*All references to any shareholdings in our Company assume no exercise of the Over-allotment Option unless otherwise specified.*

*Amounts and percentage figures, including share ownership and operating data of this prospectus, may have been subject to rounding adjustments. Where information is presented in thousands or millions, amounts of less than one thousand or one million, as the case may be, have been rounded to the nearest hundred or hundred thousand, respectively, and amounts presented as percentages have been rounded to the nearest tenth of a percent. Accordingly, totals of rows or columns of numbers in tables may not be equal to the apparent total of the individual items.*

*Translated English names of the PRC natural persons, legal persons, governmental authorities and departments, instructions, facilities, certificates, titles and the like, or any descriptions for which no official English translation exists are unofficial translation from their corresponding Chinese names and included for identification purpose only. In the event of inconsistencies, the Chinese name(s) shall prevail. English translation of names in Chinese or another language which are marked with “\*” is for identification purpose only.*

## GLOSSARY OF TECHNICAL TERMS

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

“5S”	a workplace organisation methodology which can be summarised into five steps, namely sort, set in order, shine, standardise and sustain
“ABS”	acrylonitrile butadiene styrene
“CB Certification”	an international certification system for mutual acceptance of test reports and certificates dealing with the safety of electrical and electronic components, equipment and products
“CCC Certification”	China Compulsory Certification commonly known as “CCC Mark”, is a compulsory safety mark for certain products imported, sold or used in the PRC
“CE mark”	a certification marking which signifies that products sold in the Europe Economic Area have been assessed to meet the safety, health, and environmental protection requirements
“CNC”	computer numerical control
“EMC”	Electromagnetic Compatibility
“ERP system” or “ERP computer system”	a short form for “Enterprise Resource Planning” system, a software which integrates several areas of a business enterprise
“ETL certification”	a certification indicates that the products were tested, inspected and certified by Intertek, a quality assurance provider
“FOB”	an abbreviation for free on board, i.e. delivery of goods on board the vessel at the named port of origin (loading) at the seller’s expense. The buyer is responsible for main carriage/freight, cargo insurance and other costs and risks once the cargo is on board
“GS Mark” or “GS Marking”	a mark used on electrical, mechanical or electro-mechanical product indicates that the relevant product was tested and complies with the minimum requirements of the German Product Safety Act

## GLOSSARY OF TECHNICAL TERMS

“IEC”	International Electrotechnical Commission, a global organisation that release consensus-based publications on agreements on the technical description of the characteristics to be fulfilled by the product, system, service or object in question. The IEC also manages conformity assessment systems for electric and electronic products, systems and services
“ISO”	the International Organisation for Standardisation, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations
“JAB”	Japan Accreditation Board, an accreditation body in Japan
“OBM”	acronym for “original brand manufacturing”, whereby products are manufactured for sale under the manufacturer’s own brand
“ODM”	acronym for “original design manufacturing” under which the manufacturers provide the pre-production services, mainly including prototype design, product concept development and detailed product design, as well as the manufacture of the products under the label of brand owners
“OEM”	acronym for “original equipment manufacturing” under which products are manufactured in whole or in part in accordance with the customer’s specifications and are marked with the customer’s own brand name
“PCBA”	printed circuit board assembly
“PCI”	plasmacluster
“PSE mark”	Compliance mark for electrical appliances to be sold in Japan, indicating compliance with the Electrical Appliance and Material Safety Law of Japan
“REACH”	Regulation concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals, a European Union regulation dating from 18 December 2006, which addresses the production and use of chemical substances, and their potential impacts on both human health and the environment
“RoHS”	the Restriction of Hazardous Substances Directive 2002/95/EC, short for Directive on the restriction of the use of certain hazardous substances in electrical and electronic equipment, was adopted in February 2003 by the European Union

## GLOSSARY OF TECHNICAL TERMS

“UL certification”	a safety certification mark indicates that the products were tested, inspected and certified by Underwriters Laboratories, an independent safety testing organisation in the US
“WEEE”	the Waste Electrical and Electronic Equipment Directive, European Union directive adopted in 2002, which imposes restrictions upon European Union manufacturers as to the material content of new electronic equipment placed on the market

## FORWARD-LOOKING STATEMENTS

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

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

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

- any changes in the laws, rules and regulations of Hong Kong and the PRC relating to any aspect of our business or operations;
- general economic, market and business conditions in Hong Kong and the PRC;
- macroeconomic policies of the Hong Kong and the PRC government;
- adverse changes or developments in the industries in which we operate;
- our ability to maintain and enhance our market position;
- the effects of domestic and overseas competition in the industries or markets in which we operate and its potential impact on our business;
- inflationary pressures or changes or volatility in interest rates, foreign exchange rates or other rates or prices;
- changes in the availability of, or new requirements for financing;

## **FORWARD-LOOKING STATEMENTS**

- material changes in the costs of the equipment required for our operations;
- our ability to successfully implement any of our business strategies, plans, objectives and goals;
- our ability to expand and manage our business and to introduce new businesses;
- our ability to obtain or extend the terms of the licenses necessary for the operation of our business;
- our success in accurately identifying future risks to our business and managing the risks of the aforementioned factors;
- various business opportunities that we may pursue; and
- the risk factors discussed in this prospectus as well as other factors beyond our control.

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

## RISK FACTORS

*Investors should consider carefully all of the information set forth in this prospectus and, in particular, should evaluate the following risks and uncertainties in connection with an investment in the Offer Shares. Our business, financial condition and results of operations could be materially adversely affected by any of such risks and uncertainties. The trading price of our Shares could decline due to any of these risks, and you may lose all or part of your investment.*

### RISKS RELATING TO OUR BUSINESS AND INDUSTRY

#### **Trade restrictions and potential new tariff could materially and adversely affect our business, financial condition and results of operations.**

The Sino-U.S. trade war has been initiated between the U.S. and the PRC, and trade flows for certain products exported from the PRC to the U.S. were impacted, for instance, the export of machinery, vehicles, aircraft, vessels, electrical equipment, technological goods and chemicals, among other goods, from the PRC to the U.S. were subject to a new tariff of 25%.

During the Track Record Period, a significant portion of our revenue was derived from the sale of our personal care electrical appliances products to the U.S. as shipment destination, while all of our products are manufactured in the PRC. During the Track Record Period, sales of our products with the U.S. as the destination for delivery amounted to approximately HK\$97.2 million, HK\$152.3 million and HK\$196.4 million respectively, which accounted for approximately 36.1%, 48.8% and 54.3% of our total revenue, respectively.

For the period of FY2018, FY2019 and FY2020, we recorded revenue of approximately HK\$269.2 million, HK\$312.2 million and HK\$362.1 million, respectively and our profit for the year were approximately HK\$30.2 million, HK\$33.8 million and HK\$43.4 million, respectively. Based on our sensitivity analysis of the hypothetical impact of the additional U.S. tariff on the revenue and profit of our Group, assuming all additional U.S. tariffs borne by us, for the same year, impact on revenue was estimated to be approximately HK\$16.0 million, HK\$23.3 million and HK\$29.2 million, respectively, and the impact on profit for the year was estimated to be approximately HK\$13.4 million, HK\$19.5 million and HK\$24.3 million, respectively.

In April 2018, the Office of USTR released a proposed list of approximately 1,300 imported products from the PRC that could be subject to a potential 25% tariff. Subsequently, the USTR released two lists of Chinese imports subject to the 25% tariff in July and August 2018, respectively, with a combined annual trade value of approximately US\$50 billion. Further, USTR released in September 2018 a third list of approximately US\$200 billion worth of Chinese imports that are subject to initial tariffs of 10% effective in September 2018, which was increased to 25% in May 2019. On 20 August 2019, the U.S. announced that it will impose an additional tariff of 10% to a fourth list of Chinese products of approximately US\$300 billion, which covered almost all Chinese imported goods not subject to additional tariffs at the time. The additional tariffs on part of these products were scheduled to begin on 1 September 2019 and the rest on 15 December 2019. On 30 August 2019, the U.S. increased the additional tariff rate on Chinese imports on the fourth list from 10% to 15%. On 3 September 2019, the U.S. started a public comment process on a proposal to increase the additional tariff rate on Chinese imports on the first three lists from 25% to 30%, which was scheduled to become effective on 1 October 2019. As China and the U.S. resumed high-level trade talks in October 2019, the U.S. has suspended the

## RISK FACTORS

increase of the additional tariff rate on Chinese imports on the first three lists from 25% to 30%. In connection with entering into the Phase One Trade Agreement, the U.S. suspended the additional tariff of 15% on Chinese imports on List 4B which were scheduled to take effect on 15 December 2019 until further notice and would reduce the additional tariff of 15% on Chinese imports on List 4A which took effect on 1 September 2019 to 7.5% effective on 14 February 2020. As at the Latest Practicable Date, the Phase One Trade Agreement remained a commitment by both China and the U.S.. Although our sales of products to the U.S. customers has not been materially affected by the additional tariffs, we cannot assure you our sales to the U.S. customers in the future will remain unaffected or advise you how precisely the tariff will be imposed on our customers in the U.S. for importing our products from the PRC in light of the uncertainties to the development of the trade war. Any trade restrictions imposed by the U.S. on electronic products may significantly increase our U.S. customers' purchase costs of our products manufactured at our Shenzhen Factory, and our customers with shipment destinations in the U.S. may look for alternative suppliers who manufacture products at production plants in countries other than the PRC for delivery to the U.S. in order to avoid cost increased resulting from any trade restrictions imposed by the U.S.. Those of our products with the U.S. as the destination for delivery are generally subject to tariffs ranging from 2.8% to 25%.

The uncertainty on the trade restrictions resulting from the Sino-U.S. trade war may cause difficulties for our customers to project their purchasing plans and may cause them to reduce their orders from us, as such, our financial position, business and results of operations could be materially and adversely affected.

### **We may not be successful in implementing our contingency plan in Vietnam.**

During the Track Record Period, we conducted business in the PRC and Hong Kong. In case there develop a second wave of outbreak of COVID-19 in the PRC in the future, it may be possible for the PRC government to suspend operation again for all corporates, or in the event that additional U.S. tariff are introduced or imposed in the future, our Directors would consider adopting a contingency plan which may involve a partial outsourcing of certain of our production process to Vietnam. For further details, please refer to the sections headed “Summary — Recent development and no material adverse change — Impact of outbreak of COVID-19 on our Group — Contingency plans to deal with the potential impact of the Outbreak” and “Business — Impact of Sino-U.S. trade war on our business — Contingency Plan” in this prospectus.

The successful implementation of our contingency plan may be influenced by various other factors, including availability of sufficient resources such as funding, logistics arrangement and corresponding operational and management systems, and the ability and willingness of the Manufacturing Partner or subcontractors to commence production on a timely basis at agreed and/or competitive prices and to provide us with various forms of support. Our Directors and senior management may have to incur additional costs and human resources to supervise our operations in Vietnam. It may also cost more and/or take longer for us to conduct trial production, calibration of machine and monitor the quality control of products produced by the Manufacturing Partner in Vietnam than our expected contingency plan. We cannot assure you that the trial production will be successful or we can implement the contingency plan smoothly within the intended timeframe. The Manufacturing Partner may not be able to reserve sufficient production capacity for us. We cannot ensure that the quality of products and the production process undertaken in the Vietnam Production Site will be up to the requisite standard and the effectiveness of quality control measures implemented at the Vietnam Production Site. In addition, if we



## RISK FACTORS

proceed to implement our contingency plan in Vietnam, we will be subject to the laws and regulations in Vietnam. If our Group fails to comply with such laws and regulations, our business operations may be negatively affected. Furthermore, the Manufacturing Partner may have economic or business interests or goals that are inconsistent with that of our Group, or experience financial and other difficulties, or be unable or unwilling to fulfil their obligations as agreed, which may negatively affect our implementation of the contingency plan. In addition, since we do not have full control over the business and operations of the Manufacturing Partner, we cannot assure you that the Manufacturing Partner have been, or will be, in strict compliance with all applicable laws and regulations in Vietnam, and we cannot assure you that we will not encounter problems with respect to the Manufacturing Partner, which all may have an adverse effect on our implementation of the contingency plan and our business, financial condition and results of operations. Whether our contingency plan can be implemented successfully may be affected by various factors which are beyond our control, such as the business environment in Vietnam, the local market and competitive conditions and regulatory framework. Such uncertainties may lead to postponement of our contingency plans or may increase the costs of implementation. There can be no assurance that our contingency plan will materialise.

**We may be required to relocate our Shenzhen Factory as a result of title defect in our Shenzhen Factory, and if the pre-lessor of the Huizhou site does not deliver vacant possession of such plant as agreed, and if we cannot identify other alternative production facilities in a timely manner, we may incur loss for relocating our operations from our Shenzhen Factory.**

Our Shenzhen Factory, where we carried out all of our production process, is located at Pinggang Industrial Zone, Shiwei Village, Jiangshi Community, Gongming Street, Guangming New District, Shenzhen (深圳市光明新區公明街道將石社區石圍村坪崗工業區). Our Shenzhen Factory is erected on two parcels of collectively-owned construction land with site area of approximately 29,978.5 sq.m. which were leased from Shiwei Economic Cooperative pursuant to the lease agreements with expiry dates on 31 December 2043. For the erected Shenzhen Factory Buildings with gross floor area of approximately 44,278.7 sq.m., since they were built on leased land of collectively-owned construction land nature, we were unable to obtain the planning permits construction permits and certificate for passing construction completion inspection for certain or all of our Shenzhen Factory Buildings.

Pursuant to relevant laws and regulations in the PRC, we (i) may be forced to demolish the Shenzhen Factory Buildings or (ii) may be able to rectify certain of the aforementioned title defects of our Shenzhen Factory Buildings (the “**Rectification Process**”). However, such rectification process is subject to (i) reaching a commercial agreement with Shiwei Economic Cooperative; and (ii) the relevant local government authorities, review on the Rectification Process. Further, pursuant to the interviews with relevant local authorities of Shenzhen Municipality and the advice from our PRC Legal Advisers, our Group is subject to the risk of being ordered to move out from or dismantling the Shenzhen Factory Buildings, depending on whether the Shenzhen Factory Buildings were qualified to the Rectification Process. For details, please refer to the section headed “Business — Legal and compliance — Non-compliance” of this prospectus.

Notwithstanding the above, our Shenzhen Factory Buildings are subject to risk of demolition, in particular, certain of them are not qualified to Rectification Process. For Shenzhen Factory Building which are qualified to Rectification Process, the Rectification Process may fail if, among others, (i) we could not reach a commercial agreement with Shiwei Economic Cooperative; (ii) we could not provide the documents or materials as required by the Rectification Process; and (iii) the relevant laws and

## RISK FACTORS

regulations in the PRC governing the Rectification Process changed and our Shenzhen Factory Buildings are no longer qualified for the Rectification Process. In relation to the pre-lease contract for a production plant in Huizhou that we entered into with an Independent Third Parties, we may face extra relocation costs in addition to the original expected costs of approximately HK\$7.0 million and prolonged interruptions to our production in addition to three months as we originally expected in any event of interruptions which may adversely affect our business and result of operation. For details, please refer to the section headed “Business — Properties — Backup plan — relocation to Huizhou site” of this prospectus. In the event that we are being ordered to move out from or dismantle the Shenzhen Factory Buildings and fail to relocate our production plant, our business and operation will be adversely affected and we may be forced to cease operation until a new site is located for the relocation of our production plant.

**We derive a significant portion of our revenue from T3, and any decrease or loss of business with T3 could adversely affect our business.**

During the Track Record Period, our revenue derived from sales to our largest customer, T3, amounted to approximately HK\$107.8 million, HK\$166.6 million and HK\$199.0 million, representing approximately 40.1%, 53.4% and 55.0% of our total revenue, respectively. For further information about our largest customer, please refer to the section headed “Business — Our customer — Customer concentration” of this prospectus.

Given the retail market of personal care electrical appliances in the U.S., being the principal market of T3, has been in a rising trend, we expect that T3 will remain to be our largest customer in the foreseeable future. If the popularity of T3 branded products declines for any reasons such as changes in consumer trends or preferences in the personal care electrical appliances market, a loss of goodwill and reputation of them or other reasons, we may be unable to maintain our revenue growth. In particular, most of our products we sold to T3 during the Track Record Period were hair dryers which primarily target the high-end market in the U.S.. In the event that the demand of T3 branded hair dryers was adversely affected by intense price competition, rapid technological changes, consumer preferences, etc. in the high-end market in the U.S., it may all in turn adversely affect our operations as well as financial results. Our relationships with T3 may also cease due to price or quality competition in the market. Any unplanned loss of business with T3 in a short period of time may reduce our revenue generation ability, undermine our business image and affect our sales.

We enter into a master purchase agreement with T3. Under the master purchase agreement, we receive purchase orders from time to time while T3 does not have commitment to place future orders with us. There is no guarantee that T3 will continue to place orders with us in the future at levels that are comparable to the Track Record Period or at all. Further, T3 may cancel or defer its purchase orders or may terminate its business relationships with us without reason or in circumstances outside our control. If T3 decides to substantially reduce the volume and/or the value of the orders it places with us or to terminate its business relationship with us entirely, our results of operations may vary from period to period and may fluctuate significantly from time to time, which may adversely affect our business, results of operations and financial performance.

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**The outbreak of any severe communicable disease, if uncontrolled, could adversely affect our results of operations.**

The outbreak of any severe communicable disease, such as COVID-19, Severe Acute Respiratory Syndrome (“SARS”), Middle East Respiratory Syndrome (“MERS”), H5N1 avian flu, Ebola virus, as well as influenza caused by H7N9 and H3N2 or the human swine flu (H1N1), also known as influenza A virus, in the PRC or Hong Kong, if uncontrolled, could have an adverse effect on our operations and the overall business sentiments and environment in the PRC, which in turn could have an adverse impact on the domestic consumption and, possibly, the overall GDP growth of the PRC or Hong Kong. In addition, if any of our employees is affected by any severe communicable diseases outbreak, it could adversely affect or disrupt our production at the relevant plants and adversely affect our results of operations as we may be required to close our facilities to prevent the spread of the disease. The spread of any severe communicable disease in the PRC may also affect the operations of our customers and suppliers, which could have an adverse effect on our business, financial condition and results of operations.

As a result of the recent outbreak of COVID-19 and in compliance with the instructions from the local government authority, our Shenzhen Factory was temporarily suspended during 3 February 2020 to 18 February 2020. In case there develop a second wave of outbreak of COVID-19 in the PRC in the future, it may be possible for the PRC government to suspend operation again for all corporates and our Group will inevitably be required to temporarily suspend operation with no exception. If we are unable to fulfill the customers’ orders which are scheduled to be delivered during the suspension period, we cannot guarantee that it will not have adverse effect on our relationship with our major customers nor guarantee that our major customers will continue to place orders with us in the future at levels that are comparable to the Track Record Period or indicative forecast, or at all after they have sourced some products from other suppliers. Also, we cannot guarantee that our major customers will not postpone any deliveries of sales orders or raise any claims against us if we cannot deliver the products on time to fulfill their sales orders. In addition, if the infected population continues to increase, it may affect our workforce and our production capacity, for example, if there is an outbreak within our factory, it may be forced to shut down for sanitation. In such cases, our Group’s operating results and financial performance will be materially and adversely affected. For further details, please refer to the sections headed “Summary — Recent development and no material change — Impact of outbreak of COVID-19 on our Group” and “Business — Impact of outbreak of COVID-19 on our Group” in this prospectus.

**Our Group relies significantly on the United States, Japan and Europe markets, and we are subject to risks associated with the overseas sales of our products.**

During the Track Record Period, our sales derived from Japan, the United States and Europe markets contributed in aggregate approximately HK\$258.3 million, HK\$298.3 million and HK\$345.2 million, accounting for approximately 95.9%, 95.5% and 95.4% of our total revenue, respectively. A substantial portion of our revenue is generated from our export sales to the United States, Japan and Europe markets. In the foreseeable future, our Directors expect that the United States, Japan and Europe markets will continue to be the principal markets of our Group. During the Track Record Period, our sales to overseas customers accounted for almost all of our revenue. The export operations are generally subject to certain inherent risks, including exposure to local, economic, political and labour conditions; changes in laws, regulations, industry standards, trade, monetary or fiscal policy; tariffs, quotas, customs and other import or export restrictions and other trade barriers or trade sanctions; and compliance with

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the requirement of applicable sanctions, anti-bribery and related laws and regulations. International relations and political tensions between the PRC and other countries in which our Group has established business presence may also adversely affect our export business.

For instance, the trade and political frictions between the U.S. and the PRC began to escalate in 2018. On 6 July 2018, the U.S. began imposing additional tariffs on certain products that are manufactured in the PRC, which was subsequently escalated to include various lists of products. For details of the development of such additional tariffs and their impact on our Group, please refer to the section headed “Business — Impact of Sino-U.S. trade war on our business — Implication of additional U.S. tariff on our business” of this prospectus. In addition to the additional tariffs imposed against the backdrop of the Sino-U.S. trade war, on 14 July 2020, U.S. President Donald Trump signed the Hong Kong Autonomy Act and issued the Executive Order on Hong Kong Normalization (the “EO”). The EO rescinds the separate status that Hong Kong has enjoyed under a variety of U.S. laws, including but not limited to extradition treaty, export controls and separate travel territory. If the trade and diplomatic frictions between the PRC and the U.S. continue to worsen, we cannot guarantee that there will not be any further additional tariffs imposed on our Group’s products exporting to the U.S. or, policies to be implemented by the U.S. or the PRC government which partially or completely restrict our ability to sustain a viable business model or maintain a stable sales stream with our customers in the U.S., which could also materially and adversely affect our business, results of operations and prospects.

The outbreak of COVID-19 has caused significant disruption to the international trade and thereby affecting the manufacturing and export industry in China. The ongoing concerns regarding the COVID-19, particularly its impact on the trade restrictions, could negatively impact the manufacturing and export industry in China.

Furthermore, the COVID-19 is still ongoing and there is no guarantee that the situation will not deteriorate or the outbreak will come to an end in the near future. If the COVID-19 is not contained in the countries where our major customers conduct business, it may possibly bring disruption to the business operation of our overseas customers. There may be temporary closure of business premises of our overseas customers, cause delay in delivery of our products and/or the resultant economic downturn may adversely affect the consumer sentiment and weaken the demand for our products in the retail market, which may in turn affect our business, results of operations and financial performance. These uncertainties could have a material adverse effect on the continuity of the business, results of operations and financial condition.

**Our sales are subject to changes in customer preferences and other macroeconomic factors that affect customer spending patterns.**

Demand for the goods that we manufacture depends to a significant extent on a number of factors relating to discretionary consumer spending. These factors include economic conditions and perceptions of such conditions by consumers, employment rates, the level of consumers’ disposable income, business conditions, interest rates, consumer debt levels, availability of credit and levels of taxation in the regions in which the products we manufacture are sold. The success of our products in the global market will also depend significantly on the global economy and the end customers’ growing consumption of personal care electrical appliances products globally.

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A majority of our customers are international brand owners. Consequently, our results of operations are directly affected by the success of our customers in their business. Our customers may not be able to market and sell their products successfully or maintain their competitiveness due to lack of market acceptance or otherwise. Under those circumstances, our customers may not order new products or decrease the quantity or purchase price of their orders, which could adversely affect our results of operations and revenue from such customers. An economic downturn in one or more of the major markets in which the products we manufacture are sold could significantly decrease demand for those products, reducing the number of purchase orders we receive from our customers and limiting our ability to fully utilise our manufacturing capabilities, which could have a material adverse effect on our business, financial conditions and results of operations.

**Any failure to ensure the quality of our products could harm our business, any significant defect found in our products may, among other things, jeopardise our business reputation, lead to litigation and adversely affect our business.**

Our personal care electrical appliance products are aiming at high-end market, and the quality of our personal care electrical appliances products is critical to the success of our business. In particular, our customers of international personal care electrical appliances brand owners usually pay great attention to the product quality. We believe that the quality of our products significantly depends on the effectiveness of our quality control, which in turn depends on a number of factors, including the design of the quality control measures, the quality control training, and our ability to ensure that our employees adhere to our quality control requirements. Any significant failure or deterioration of our quality control can result in damage to our reputation. We are subject to a variety of guidelines imposed by our customers relating to production safety, health and environmental conditions, and we are required to comply with specific guidelines based on the U.S., EU and other international products safety and restricted and hazardous materials laws and regulations that are applicable in the jurisdictions into which our customers sell their products. These policies and initiatives have established high regulatory barriers for importers and overseas manufacturers, which restricts unqualified providers from entering the market. If we fail to adhere to the standards that meet the expectations of our customers when supplying our products, our reputation may be harmed and we may lose critical customer orders, or we may face product liability claims or product recalls.

Most of our products are personal care electrical appliances which are directly used by end customers at home. We may incur substantial product liability due to quality defects or malfunctions of our products. If our products fail to meet the required quality standards, we may face product liability claims. We currently have maintained a product liability insurance covering accidental bodily injury to third parties and accidental loss of or damage to the property of third parties which is to our belief an industry practice. Nevertheless, we may be exposed to litigation risks arising out of our product warranty and liabilities which are not covered by our product liability insurance that could adversely impact our reputation and financial condition.

**Our success depends significantly on our product designs, research and development.**

Our Directors believe our Group's success depends significantly on whether we can successfully co-design and develop products which can satisfy our customers' needs. During the Track Record Period, we co-developed 18, ten and 12 new products with our customers, respectively. If our design, research and development capabilities fail to meet our customers' expectations, our business

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relationships with them could be adversely affected, which, in turn, would have an adverse impact on our sales performance and reputation, and eventually affect our business, financial condition, results of operations and prospects. Further, we cannot assure you that our current or future competitors will not offer products, which are comparable or superior to our products, or adapt more quickly than us to evolving industry trends or changing market requirements. If we do not anticipate or keep pace with changes in customer demand, we may not be able to manufacture our products at competitive prices or our sales may decline as the market demand for our products declines, and our production facilities and products may become obsolete, and as a result, our business, financial condition, results of operations and prospects could be adversely affected.

**Our design, research and development of new lifestyle electrical appliances products may not be successful or well-received by the market, and we may lose our competitiveness if we are unable to successfully develop new products to meet changing market demands for products.**

As at the Latest Practicable Date, we were in the process of research and development of new lifestyle electrical appliances products such as smart toilet seat which is planned to launch under our own “**ifit**” brand. We cannot assure you that the new lifestyle electrical appliances products will be successful or well-received by the market, and we will be able to continue to develop products or complete any product development successfully or that any new products developed will receive market acceptance. Should there be any failure or delay in our product design and development process, our business, results of operations, financial condition and profitability will be materially and adversely affected.

**We will incur additional capital expenditure, depreciation expenses and other operational expenses as a result of our implementation of strategies.**

Our business objectives as set out in this prospectus are based on our existing plans and intentions. However, the objectives are based on prevailing circumstances and the expected future prospect of our Company and the industry we operate, the continuation of our competitive advantages and other factors considered relevant. Some of our future business strategies are based on certain assumptions. For further details, please refer to the section headed “Business — Our business strategies” of this prospectus. The successful implementation of our business plans may be affected by a number of factors including the availability of sufficient funds, the local policies relevant to our industry, the economic conditions, our ability to maintain our existing competitive advantages, our relationships with our customers, the threat of substitutes and new market entrants as well as other factors disclosed elsewhere in this section. We cannot assure you that we will successfully implement our strategies or that our strategies, even if implemented, will result in us achieving our objectives. Should there be any material adverse change in our operating environment which results in our failure to implement our business plan or any part thereof, our business and financial position and prospect may be adversely affected.

We intended to expand and upgrade our production facilities to enhance our production capabilities by acquiring new and replacing machineries and increasing the level of automation of our Group’s production lines. As stated in the section headed “Future Plan and Use of Proceeds — Use of proceeds” of this prospectus, we intended to apply approximately HK\$49.9 million or approximately 54.5% of the net proceeds from the Global Offering for the acquisition and replacement of production machinery and equipment. Our planned expansion will involve substantial capital contribution or commitment as well as investments for decoration and renovation of the property and recruitment of new staff. As a result,

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relevant costs and expenses, such as depreciation on the machinery and equipment, the prototype research centre, EMC testing laboratory and the UL/ETL/CCC certified standard laboratory, begin to accrue in the early stage ramp-up period. In particular, it is expected that our Group will incur additional depreciation expenses and other operational expenses of approximately HK\$2.0 million and HK\$9.2 million pursuant to our expansion plan for FY2021 and FY2022, respectively. Additional depreciation expenses and other operational expenses associated with carrying out the above measures, may be incurred in our income statements following the aforesaid capital expenditures, thus, our financial results may be adversely affected.

### **Disruptions to our production facilities will affect our business and operations.**

We operate with a single integrated production plant in Shenzhen, Guangdong Province, the PRC. Our ability to meet the demand of our customers and grow our business depends on the efficient, proper and uninterrupted operation of our production plant. Our business may be affected by disruptions to our production facilities from natural disasters such as typhoons and earthquakes, unexpected machine down-time, break-down power failures or power surges at the production plant, which would result in damage to our production equipment and facilities or cause a production halt or delay in our production process. As we have only one production plant, any major disruption to it could prevent us from meeting our customer orders timely, increase our costs of production or require us to make unplanned capital expenditures, each of which could have a material adverse effect on the results of our operations.

### **We might not be able to effectively plan our production schedules and maintain high utilisation rates at our production bases, which, in turn, could adversely affect our margins and profitability.**

Our production planning is subject to a number of contingencies, such as correctly anticipating the demand for our products, our labour supply, the skill set of our labour force, breakdown of our production equipment or the occurrence of natural disasters. We cannot assure you that we will be able to maintain an optimal production schedule at our production bases in the future.

During the Track Record Period, our Group's plastic injection moulding machines operated at high utilisation rates of approximately 120.3%, 111.3% and 123.7%, respectively. If we fail to implement our production planning and effectively plan our corresponding production, our high utilization rates may not be maintained and in turn our business, financial condition, results of operations and prospects could be adversely affected.

### **We may face difficulties in expanding the volume of businesses with our existing customers or to extend our customer base.**

The success of our business depends on our ability to maintain and expand the volume of businesses with our existing customers and to source and develop new customers. There is no assurance that we will be successful to continue to maintain good business relationships with our existing customers or to develop new customers. Moreover, as our customers are brand owners, potential customers may not be willing to place orders with us if our existing customers may be their competitors. If we are not able to expand the volume of businesses with our existing customers or to extend our customer base by adding new customers at desired levels or at all, it could have a material adverse effect on our business, financial condition and results of operations.

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**We may fail to renew required permits, licences, registration and certificates for our business operations.**

We are required to maintain permits, licences, registration and certificates such as pollutant discharge permit of Guangdong Province and registration certificate of customs declaration, issued by the relevant government authorities in the PRC. We cannot assure you that we will be able to renew our existing approvals, licences and registrations or that we will be able to successfully obtain, retain or renew future approvals, licences and registrations in a timely manner, or at all, or that such approval, licences and registrations will not be revoked by the relevant authorities. Failure to renew such permits, licences, registration and certificates as planned may cause us to experience delays or suspension in the manufacturing and sales of our products or our expansion plans, thereby adversely affecting our business, financial condition and results of operations.

**Intense competition in the industry may affect our pricing, which may materially and adversely affect our results of operations and business prospects.**

Our Directors believe that participants in this industry compete on, among other things, product variety, product quality, price and the ability to meet delivery commitments to customers. Furthermore, customers are continuously demanding higher quality, shorter lead times and lower prices from their suppliers. As a result, our future success will depend on our ability to maintain an efficient, timely and cost-effective service while delivering high-quality products. If we fail to do so, we may lose our market share to other competitors or we may be forced to, among other actions, reduce prices and further increase expenditures to meet customers' standards, which may in turn materially and adversely affect our business, financial condition and results of operations.

According to the Industry Report, the personal care electrical appliances industry in the PRC is scattered and competitive. In particular, we face increasing competition from personal care electrical appliances manufacturers with production facilities in Southeast Asia where labour cost is lower. Competition among participants of the personal care electrical appliances industry may have a negative impact on our pricing, thereby affecting our business performance and profitability.

Should our existing or new competitors offer personal care electrical appliances similar to ours at a lower cost or engage in aggressive pricing in order to increase or gain market share, our sales may decline if we are not able to match their lower cost or price. Any of the above may have a material adverse effect on our results of operations, financial condition and business prospects.

**We may face labour shortages, increases in labour costs and labour disputes which could adversely affect our results of operations.**

The continued success of our business depends significantly on our ability to attract, train and retain skilled personnel such as employees who are experienced and familiar with our production technologies and process. As at the Latest Practicable Date, we had a total of 829 employees in our Group comprising 13 employees in Hong Kong and 816 in the PRC. Our total staff costs amounted to approximately HK\$67.0 million, HK\$68.2 million and HK\$75.9 million for the Track Record Period, respectively.



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As the PRC Labor Contract Law (《中華人民共和國勞動合同法》) imposes stringent requirements on employers with regard to, among others, minimum wages, severance payment and non-fixed term employment contracts, time limits for the probation period which caused average labour costs in the PRC to increase. For instance, the minimum wage standard of Shenzhen was set to RMB2,030 per month, RMB2,130 per month and RMB2,200 per month with effect from March 2015, June 2017 and August 2018, respectively, which we have observed an overall trend of the increase of the minimum wage standard. As our general workers are paid according to the Shenzhen minimum wage standard, we expect to face increasing staff cost in the future. If the labour market continues to tighten, we may not be able to employ sufficient suitable workers in a timely manner for our existing and future operations at reasonable cost, which may drive up our labour costs by hiring temporary workers or paying higher wages for recruitment. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material shortage of labour, industrial actions, strikes, material increase in labour costs or other material labour disputes that have materially disrupted our operations. However, we cannot assure you that we will not experience these problems in the future. Any prolonged shortage of labour, which would cause interruption to our operations and increase labour cost, could materially and adversely affect our profit margin, results of operations and financial condition.

Since our industry has high demand and intense competition for skilled workforce, there can be no assurance that we will be able to attract or retain skilled employees to implement our business strategies and objectives. Our ability to train and integrate new employees into our operations may not meet the growing demands of our business. We may not be able to offer competitive salary package to our employees compared with our competitors or otherwise maintain a good relationship with our employees. If we are unable to attract, train, and retain qualified personnel, our business may be adversely affected.

We cannot assure you that future labour disputes or incidents will not occur. If they do occur, they could interrupt our operations, harm our reputation and divert our management's attention and resources, which could have a material adverse effect on our business operations and financial condition. In addition, we may be liable for fines assessed by the relevant governmental authorities or incur settlement costs in order to resolve labour disputes and become subject to higher labour costs in the future when recruiting new employees due to the reputation damage caused by labour disputes or related incidents.

**The amount of EIT payable by us may, as a result of our intercompany sales, be subject to adjustment by competent PRC authorities, which may materially and adversely affect our profitability and financial condition.**

During the Track Record Period, our sales activities are mainly undertaken by HK Fourace, whereas our manufacturing activities are conducted by Shenzhen Fourace. As a result, intra-Group transactions take place between HK Fourace and Shenzhen Fourace. Purchase orders are channelled from HK Fourace to Shenzhen Fourace for production, and products are delivered by Shenzhen Fourace to HK Fourace for onward sales and delivery to third-party customers. Such intercompany sales involve a transfer pricing mechanism. Please refer to the paragraphs headed "Business — Transfer pricing arrangements" in this prospectus for further details.

Pursuant to the EIT Law and the Implementation Regulations for Special Tax Adjustments (Trial) (《特別納稅調整實施辦法(試行)》), transactions in respect of the sale and purchase and transfer of products between enterprises under direct or indirect control by the same third party are regarded as

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affiliated party transactions and should comply with the arm's length principle. If the failure to comply with such principle reduces the amount of income or taxable income of the enterprise or its affiliated parties, the tax authority has the power to make an adjustment by reasonable methods. In addition, according to the relevant PRC tax laws and regulations, the tax authority has the power to re-assess the affiliated transactions within 10 years after the taxable year when such transactions were conducted.

Accordingly, our Group's tax position may be subject to review and possible challenge by relevant government authorities due to the intra-group transactions. If our Group is deemed not to be in compliance with the transfer pricing rules, the tax authority has the power to order it to pay all outstanding tax and statutory interest, if any. During the Track Record Period, we have not been challenged by any tax authority in respect of the intra-group transactions. However, there is no assurance that the tax authority will not make adjustment to the amount of tax payable by us in respect of our intra-group transactions within the above time frame, or that such rules will not be modified. If we are required to pay additional EIT, our profitability and financial position may be materially and adversely affected.

### **We are exposed to credit risk from our customers.**

Our Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. We generally grant credit period ranging from 30 days to 120 days, and the payments were generally settled by telegraphic transfer. As at 31 March 2018, 2019 and 2020, our trade receivables were approximately HK\$46.5 million, HK\$33.8 million and HK\$34.2 million, respectively, and the average trade receivables turnover days were approximately 53.9 days, 46.9 days and 34.3 days, during the Track Record Period, respectively. For further details, please refer to the paragraphs headed "Financial Information — Principal components of our current assets and current liabilities" of this prospectus. Although we perform on-going credit evaluation of financial conditions on our customers, we cannot assure you that our customers will pay us on time and that they will be able to fulfil their payment obligations. Should we experience any unexpected delay or difficulty in collections from our customers, our financial conditions and results of operations may be adversely affected. We may further be exposed to credit risks from new customers and from providing credit to our existing customers. As a result, we are unable to assure you that the customers will not default in the future.

### **We rely on external subcontractors for production of certain moulds, prototypes or processed parts.**

Certain of parts of the production process, such as moulds production, new products' prototype production, metal parts production, spray painting and electroplating works for certain parts, are subcontracted to the Independent Third Party subcontractors. Our Group could not guarantee that (i) the supply of such moulds, prototypes or processed parts are supplied in a timely manner, stable and free from unexpected interruption; (ii) there will not be any significant increase in procurement costs of such moulds, prototypes or processed parts following an increase in our production costs for any reason beyond our control; (iii) the qualities of such products could always meet our expectation and satisfy our quality control; (iv) the products manufactured by those external subcontractors are free from any third parties infringement, dilution or misappropriation of any third party's intellectual property rights; (v) the leakage of our procurement plans and business strategies by such external subcontractors despite our great effort to preserve our confidential business information. The occurrence of any of the above events will have adverse impact on our operation, financial and business conditions.

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### **We rely on Independent Third Party logistics service providers and courier companies to deliver our products.**

We engage Independent Third Party logistics service providers to deliver our products directly from the warehouse of our production plant to the forwarders at the designated ports of shipment of our customers. Disputes with or a termination in our contractual relationships with one or more of our logistics service providers could result in delayed delivery of products, increased costs or customer dissatisfaction. There can be no assurance that we can continue or extend relationships with our current logistics service providers or courier companies on terms acceptable to us, or that we will be able to establish relationships with new logistics service providers or courier companies to ensure accurate, timely and cost-efficient delivery services. If we are unable to maintain or develop good relationships with logistics service providers or courier companies, it may inhibit our ability to deliver products in sufficient quantities, on a timely basis, or at prices acceptable to our customers. We cannot guarantee that no interruptions would occur which would materially and adversely affect our business, prospect or results of operations.

Services provided by these logistics service providers or courier companies could be interrupted by unforeseeable events beyond our control such as poor handling provided by these logistics service providers or courier companies, natural disasters, pandemics, adverse weather conditions, riots, labour strikes, mishandling of products. If there is any delay in delivery, damage to products or any other issue, we may constitute violation of contracts with our customers and we may lose our customers and sales, and our image and reputation may be tarnished.

### **Failure to comply with relevant regulations relating to social insurance and the housing provident fund may subject us to penalties and adversely affect our business, financial condition, profitability and prospects.**

Pursuant to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) and the Administrative Regulations on Housing Provident Fund (《住房公積金管理條例》), our Group is required to make timely registration with the relevant social insurance and housing reserve fund authorities and make adequate contributions to the social insurance plans and the housing provident fund under the relevant PRC laws for our Group's employees. For details relating to these relevant laws, please refer to the paragraphs headed "Regulatory Overview — Laws and regulations in the PRC — Regulations related to labour".

We failed to make adequate contributions to the social insurance plans and housing provident funds for our employees during the Track Record Period. We estimate that we would have to make additional contribution of approximately RMB2.2 million, RMB2.2 million and RMB2.7 million respectively for social insurance and approximately RMB1.1 million, RMB1.3 million, RMB1.1 million respectively for housing provident fund during the Track Record Period, respectively. As at the Latest Practicable Date, we had not received any order or notice from the local authorities nor any claims or complaints from our current and former employees regarding the shortfall in payments and contributions. However, we cannot assure you that we will not be subject to any order in the future to rectify such non-compliance, or that we will not be subject to any employee complaints or claims regarding social insurance payments or housing provident fund contributions. For further details, please refer to the paragraphs headed "Business — Legal and compliance — Non-compliance" of this prospectus. We may

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also incur additional costs to comply with such laws and regulations by the PRC government or relevant local authorities. Any such development could adversely affect our business, financial condition, profitability and prospects.

**We are subject to various risks and uncertainties that might affect our ability to procure raw materials at reasonable cost for the products we manufacture.**

Our performance, in particular our profit margins, depends on our ability to procure raw materials at reasonable costs. Our manufacturing business consumes different kinds of raw materials including electrical components, packaging materials, metal materials, plastic particles and painting materials. During the Track Record Period, our direct materials costs amounted to approximately HK\$129.4 million, HK\$149.3 million and HK\$152.5 million, respectively, representing approximately 63.7%, 65.7% and 60.2% of the total cost of sales respectively. The availability and the prices of raw materials depend on a number of factors outside our control. We cannot assure you that the direct material costs will not increase in the future. Despite we entered into master agreement with some of our suppliers, any fluctuation of the market price of our raw materials may materially affect our cost of sales, gross profit margin and our profitability, if we are not able to adjust our selling price of our products accordingly in a timely manner.

Our supply of raw materials is subject to certain risks with respect to the availability and pricing of raw materials, which might limit the ability of our suppliers to provide us with raw materials at reasonable cost and on a timely basis. Furthermore, our suppliers might not be able to adhere to quality control standards we and our customers demand, and we might not be able to identify the deficiency before the materials are shipped to us. Our suppliers' failure to supply materials at a reasonable cost on a timely basis could mean that we have to incur additional costs in order to source the raw materials from a different supplier, result in cancellations of orders by customers, reduce our ability to sell our products in the future and even damage our reputation. In addition, if we are unable to pass on any resulting increases in costs to our customers, our profitability could be significantly affected.

We purchase raw materials from a number of suppliers. Our suppliers are mainly located in Hong Kong, Shenzhen and Dongguan which are in proximity to our Shenzhen Factory. During the Track Record Period, purchases attributable to our five largest suppliers amounted to approximately HK\$34.6 million, HK\$39.1 million and HK\$47.9 million, respectively, representing approximately 26.2%, 27.2% and 30.8% of our total purchase. During the same period, purchases attributable to our largest supplier amounted to approximately HK\$7.6 million, HK\$10.3 million and HK\$11.8 million, respectively, representing approximately 5.8%, 7.2% and 7.6% of our total purchase. We could lose one or more of our suppliers at any time for these or other reasons beyond our control. The loss of one or more key suppliers could increase our reliance on higher cost or lower quality raw materials from other suppliers, which could affect our profitability. In addition, if we have to increase the number of our suppliers or change the suppliers we use in the future to meet increases in the amount, or change the type of raw materials we require to manufacture our products, we may not be able to locate new suppliers who can provide us with the appropriate supplies of raw materials that we require. Any interruptions to, or decline in, the amount or quality of our raw materials supply could materially disrupt our production or interfere with our ability to meet our obligations to our customers, which could adversely affect our business, financial position and results of operations.

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**We may not be able to sustain our historical financial performance and may encounter difficulties in sustaining profitability.**

Our revenue increased from approximately HK\$269.2 million in FY2018 to approximately HK\$312.2 million in FY2019, and further increased to approximately HK\$362.1 million in FY2020. We also recorded a gross profit of approximately HK\$66.1 million, HK\$85.1 million and HK\$108.8 million during the Track Record Period, respectively. For further details, please refer to the section headed “Financial Information” of this prospectus. However, our revenue and gross profit during the Track Record Period may not be indicative of our future performance and we may encounter difficulties in sustaining our revenue generating capability and hence, our profitability. Our future revenue and profitability depend on a number of factors, including our cost control, the selling prices of our products and the successful implementation of our future plans as stated in the section headed “Future Plans and Use of Proceeds” of this prospectus. Our gross and net profit margins depend on factors including the selling prices of our products and sales volumes which are outside our control, and therefore we cannot assure you that we will be able to maintain the current level of profit margins in the future. Prospective investors should be aware that we can offer no assurances that we will be able to increase or maintain our historical revenue, profit levels or return on equity.

**We may not receive further government grants and the loss of which may affect our financial performance.**

During the Track Record Period, we recognised government grants of nil, approximately HK\$868,000 and HK\$539,000, respectively, from (i) Economy, Trade and Information Commission of Shenzhen Municipality\* (深圳市經濟貿易和信息化委員會) and Science, Technology and Innovation Commission of Shenzhen Municipality\* (深圳市科技創新委員會), respectively for employing advanced technology in our manufacturing process in the PRC; (ii) Service Bureau for Small and Medium-sized Enterprises of Shenzhen Municipality\* (深圳市中小企業服務局) for our business growth and contribution to the statistical database of Shenzhen; and (iii) Shenzhen Social Insurance Fund Management Bureau\* (深圳市社會保險基金管理局) for retaining and providing sufficient unemployment insurance for our staff in the PRC. Please refer to the paragraphs headed “Financial Information — Description of selected items in the consolidated statements of comprehensive income — Other income” of this prospectus for further details.

As government grants are typically awarded in the discretion of the relevant government agencies, there is no assurance that the government grants will be recurring in the future and that our Group will continue to receive the same or similar amount of government grants. If no or a smaller amount of government grant is received by to our Group in the future, other income will significantly decrease which may adversely affect our financial performance.

**We face the risk of obsolescence for our inventory.**

Our inventories consist of raw materials, work in progress and finished products. As at 31 March 2018, 2019 and 2020, our balance of inventories amounted to approximately HK\$42.1 million, HK\$36.8 million and HK\$36.0 million respectively. During the Track Record Period, no provision for impairment was recognised after our impairment assessment. Nevertheless, our inventory faces obsolescence risks where there are unexpected material fluctuations or abnormalities in the supply of raw materials by suppliers and demand of finished goods by customers or where there are changes in end customers’ preferences, which may lead to decreased demand and overstocking of raw material. Apart from material

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reduction in demand for certain products, goods may be returned from customers in large amounts due to, among other reasons, delayed or wrong delivery. Such returned goods may result in shelving of products which increases the risk of obsolescence.

### **Our insurance cover may not be sufficient to cover the risks associated with our operations.**

Our operations are subject to hazards and risks typically associated with the manufacturing operations which may cause serious injury to person or damage to property. Please refer to the section headed “Business — Insurance and social security payments” of this prospectus for details relating to our insurance coverage. There is no assurance that our current insurance coverage will be able to cover all types of risks involved in our business operations, or be sufficient to cover the full extent of loss or liability for which we may be held liable. Any event that is not insured and any loss or liability that exceeds the limit or is excluded from the scope of our existing insurance policies may materially and adversely affect our business, results of operations and financial condition.

### **Litigation or disputes may adversely affect our performance.**

We may get into disputes with our customers, suppliers, subcontractors, third party service providers, employees and other parties during the ordinary course of business for various reasons. For example, disputes may arise due to substandard production or late delivery of shipments. Contractual claims may arise as a result of outstanding fees with our customers and suppliers. Personal injury compensation claims may arise as a result of industrial accidents which may occur at our production facilities. The handling of contractual disputes, litigation proceedings can be extremely costly and time consuming. Should such disputes arise, our Directors’ and senior management’s attention, together with other internal resources may be significantly diverted for the handling of such matters. Moreover, our relationship with the relevant customer, supplier, third party service providers or employee may be adversely affected as a result of the legal proceedings and would ultimately affect our business operation, financial results and profitability.

We are also exposed to potential product liability claims in the event that there is any damage caused by defective products. A successful product liability claim against us could require us to pay for substantial damages. Product liability claims, against us, whether or not successful, are costly and time-consuming to defend. There is no assurance that a product liability claim will not be brought against us in the future. A product liability claim, with or without merit, could result in significant adverse publicity against us, and could have a material adverse effect on the marketability of our products and our reputation, which in turn, could have a material adverse effect on our business, financial condition and results of operations.

### **We may be exposed to third-party claims of infringement or misappropriation of intellectual property rights, and we may be exposed to risks of failure to protect the intellectual property of ours or our customers.**

The success of our business also depends on our ability to operate without infringing on the intellectual property rights of third parties. We may be subject to litigation involving claims of patent infringement or violation of intellectual property rights of third parties. The defense of intellectual property lawsuits, patent opposition proceedings and related legal and administrative proceedings can be

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costly and time consuming. An adverse judgment in any such proceedings may result in substantial liability on us and materially and adversely affect our reputation, financial condition and results of operations.

Our success also depends on our ability to protect the intellectual property of our customers. We have entered into certain master purchase agreement with our customers during the Track Record Period. We shall keep confidential regarding the information and materials, and also manufacturing know-how, including knowledge of methods and processes, detailed manufacturing data, and specifications. We can provide no guarantee that our customers' designs and other intellectual property rights that we have access to during the production process will not be misappropriated despite our policies and the precautions that we have taken to protect those rights. In the event that our policies and the precautions we have taken do not adequately safeguard our customers' intellectual property rights, our customers could cease sharing their latest designs with us and even reduce or discontinue their purchase orders with us, which would have a material adverse effect on our business, results of operations and reputation.

As at the Latest Practicable Date, we had three registered software copyrights in the PRC, 32 granted patents in the PRC, 13 registered trademarks in the PRC and four registered trademarks in Hong Kong. We had 16 patents under application in the PRC. Further details of our intellectual property rights are set forth in the paragraphs headed "Business — Intellectual property" of this prospectus. We cannot assure you that the steps we have taken to protect and safeguard our intellectual property rights are adequate or that our intellectual property rights will not be infringed by any third party in the future. Any unauthorised use of our intellectual property rights may have an adverse effect on our business performance and results of operations. We may resort to legal proceedings in order to protect and enforce our intellectual property rights and the legal fees and expenses involved in such proceedings can be substantial. Furthermore, the diversion of resources and our management's effort and attention in addressing such intellectual property claims may significantly affect our business performance and hinder our business development.

### **We rely on our key management team for our success.**

The performance and implementation of our business plans depend, to a significant extent, on the continuing services and performance of our executive Directors, Mr. SY Li, Ms. SJ Li and Ms. SY Tang, and our senior management team, Mr. Tsang Kai Ming, Mr. Tsang Wai Tung, Ms. Shiu Pui Fun, Mr. Long Xiao Ge and Mr. He Jian, the details of whom are set forth in the section headed "Directors and Senior Management" of this prospectus. We cannot assure you that we will be able to maintain the services provided by our key personnel. Any failure to recruit and retain the key management and technical personnel or the loss of any of our key personnel, including our executive Directors and Senior Management, may have a material adverse effect on our business operations. Please refer to the section headed "Director and Senior Management" of this prospectus for details on the background and experience of our key management.

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### **RISKS RELATING TO CONDUCTING BUSINESS IN HONG KONG AND THE PRC**

**Uncertainty on the state of the political environment in Hong Kong and the PRC could materially and adversely affect our business and financial condition and operating results.**

Hong Kong is a special administrative region of the PRC and is entitled to enjoy a high level of autonomy under the principle of “one country, two systems” according to the Basic Law of Hong Kong. However, we are not in any position to guarantee the implementation of the “one country, two systems” principle and the level of autonomy as currently in place at the moment. Since a significant portion of our operations are located in Hong Kong and the PRC, any change of such political arrangements may pose an immediate threat on the stability of the economy in Hong Kong and the PRC, thereby directly and negatively affecting our results of operations and financial positions. Changes in respect of the implementation of such political arrangement and the Basic Law of Hong Kong may also indirectly affect the trade, tax and other arrangement or relationship between Hong Kong and the international community, such as the continued recognition of Hong Kong’s status as a separate customs territory in relation to international trade. Such changes may also affect the economic, financial and international status and/or positions currently enjoyed by Hong Kong, and thus affect our Group’s continuing ability to conduct our business with our overseas customers.

**Our business is subject to risks relating to the legal environment in Hong Kong.**

Since 1 July 1997, Hong Kong has become a special administrative region of the PRC. The basic policies of the PRC regarding Hong Kong are embodied in the Basic Law of Hong Kong, which provides that Hong Kong shall have a high degree of autonomy and enjoy executive, legislative and independent judicial power, including that of final adjudication under the principle of “one country, two systems”. However, there is no assurance that the legal environment in Hong Kong will not be adversely affected as a result of the exercise of sovereignty by the PRC over Hong Kong. If there is any material adverse change in the legal environment in Hong Kong, our business, results of operations and financial position may be adversely affected.

**Changes in tax laws and regulations in Hong Kong may adversely affect our Group’s business.**

Under the current Hong Kong laws and regulations, our Group’s profit is subject to taxation in Hong Kong. There is no assurance that the current tax laws and regulations will not be revised or amended in the future. Any revision or amendment in the tax laws and regulations in Hong Kong may have an adverse impact on our Group’s business operations and financial results.

**PRC economic, political, social conditions as well as government policies could adversely affect our business, prospects, financial condition and financial results.**

We conduct our business operations in the PRC. The PRC economy differs from the economies of most of the developed countries in many aspects, including:

- political structure;
- level of the PRC Government’s involvement and control;
- growth rate and level of development;



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- level and control of capital investment and reinvestment;
- control of foreign exchange; and
- allocation of resources.

The PRC economy has been transitioning from a centrally planned economy to a more market-oriented economy. For approximately four decades, the PRC Government has implemented economic reform measures to utilise market forces in the development of the PRC economy. We cannot predict whether changes in the PRC's economic, political and social conditions and in its laws, regulations and policies will have any adverse effect on our current or future business and financial condition and operating results.

In addition, many of the economic reforms carried out by the PRC Government are unprecedented or experimental and are expected to be refined any improved over time. This refining and adjustment process may not necessarily have a positive effect on our operations and business development. For example, the PRC Government has in the past implemented a number of measures intended to curtail certain segments of the economy, including the real estate industry, which the government believed to be overheating. These actions, as well as other actions and policies of the PRC Government, could cause a decrease in the overall level of economic activity in the PRC and, in turn, have an adverse impact on our business and financial condition.

The industry in which we are operating our business is subject to the laws and regulations of the PRC. Any change in existing laws and regulations or their interpretations that may affect our business or operations could require us to incur additional compliance costs or costly and time-consuming changes to our operations, either of which could materially and adversely affect our business, operating results and financial condition. For details of such laws and regulations, please refer to the section headed "Regulatory Overview" of this prospectus. We are unable to predict future changes in laws or regulations or enforcement policies that may affect our business or operations or to estimate the ultimate cost of compliance with such laws and regulations.

Further, the PRC economy has been transformed to a more market-oriented economy. The PRC government has implemented economic reform measures emphasising responsiveness to market forces in the development of the PRC economy. Yet, the PRC government continues to play a highly significant role in regulating industries by imposing industrial policies. Despite the implementation of such reforms, we cannot predict whether changes in the PRC's political and social conditions, laws, regulations and policies will have any adverse effect on our current or future business, results of operations or financial condition.

**We rely principally on dividends paid by our subsidiaries to fund any cash and financing requirements we may have, and any limitations on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business.**

We are a holding company incorporated in the Cayman Islands and operate our core businesses through our operating subsidiaries in the PRC. Therefore, our availability of funds to pay dividends to our Shareholders largely depends upon dividends received from our subsidiaries. If our subsidiaries incur debts or losses, such indebtedness or loss may impair their ability to pay dividends or other distributions to us. As a result, our ability to pay dividends will be restricted.

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The PRC laws and regulations require that dividends be paid only out of distributable profits, which are net profit of our PRC subsidiaries as determined in accordance with PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that our PRC subsidiaries are required to make. Moreover, because the calculation of distributable profits under PRC GAAP is different from the calculation under HKFRS in certain respects, our operating subsidiaries may not have distributable profits as determined under PRC GAAP, even if they have profits for that year as determined under HKFRS, or vice versa. Accordingly, we may not receive sufficient distributions from our PRC subsidiaries. Failure by our operating subsidiaries in the PRC to pay us dividends could have a negative impact on our cash flow and our ability to make dividend distributions to our Shareholders in the future, including those periods in which our financial statements indicate that our operations have been profitable.

In addition, under the EIT Law, if a foreign entity is deemed to be a “non-resident enterprise” as defined under the EIT Law, a withholding tax at the rate of 10% will be applicable to any dividends for earnings accumulated since 1 January 2008 payable to the foreign entity, unless it is entitled to reduction or elimination of such tax, including by tax treaties or agreements.

**We may be classified as a “resident enterprise” for PRC enterprise income tax purposes, which could result in unfavorable tax consequences to us and our non-PRC shareholders.**

The EIT Law provides that enterprises established outside of China whose “de facto management bodies” are located in China are considered “resident enterprises” and are generally subject to the uniform 25% enterprise income tax rate on their worldwide income. “De facto management body” is defined as the body that has the significant and overall management and control over the business, personnel, accounts and properties of an enterprise. Pursuant to the Notice of the SAT on the Issuers about the Determination of Chinese-Controlled Enterprises Registered Abroad as Resident Enterprises on the Basis of Their Body of Actual Management (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) in April 2019, it clarified the certain criteria for the determination of the “de facto management bodies” for foreign enterprises controlled by PRC enterprises. These criteria include: (1) the enterprise’s day-to-day operational management is primarily exercised in China; (2) decisions relating to the enterprise’s financial and human resource matters are made or subject to approval by organisations or personnel in China; (3) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholders’ meeting minutes are located or maintained in China; and (4) 50.0% or more of voting board members or senior executives of the enterprise habitually reside in China. If the PRC tax authorities determine that we are a “resident enterprise,” we may be subject to enterprise income tax at a rate of 25% on our worldwide income and dividends paid by us to our non-PRC shareholders as well as capital gains recognised by them with respect to the sale of our Shares may be subject to a PRC withholding tax.

**We face uncertainties relating to the Public Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (“SAT Circular No. 7”) issued by the PRC State Administration of Taxation.**

On February 3, 2015, the PRC State Administration of Taxation issued the SAT Circular No. 7, which abolished certain provisions in the Circular on Strengthening the Administration of Enterprise Income Tax on Non-PRC Resident Enterprises’ Share Transfers (《關於加強非居民企業股權轉讓所得企

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業所得稅管理的通知》(“SAT Circular No. 698”), previously issued by the State Administration of Taxation on December 10, 2009. SAT Circular No. 7 provides comprehensive guidelines relating to indirect transfers by a non-PRC resident enterprise of assets (including equity interests) of a PRC resident enterprise (“PRC Taxable Assets”). For example, SAT Circular No. 7 specifies that the PRC tax authorities are entitled to reclassify the nature of an indirect transfer of PRC Taxable Assets, when a non-PRC resident enterprise transfers PRC Taxable Assets indirectly by disposing of equity interests in an overseas holding company directly or indirectly holding such PRC Taxable Assets. The PRC tax authorities may disregard the existence of such overseas holding company and consider the transaction a direct transfer of PRC Taxable Assets, if such transfer is deemed to have been conducted for the purposes of avoiding the PRC EIT and lack any other reasonable commercial purposes. Although SAT Circular No. 7 contains certain exemptions (including (i) where a non-resident enterprise derives income from the indirect transfer of PRC Taxable Assets by acquiring and selling shares of a listed overseas holding company which holds such PRC Taxable Assets on a public market; and (ii) where there is an indirect transfer of PRC Taxable Assets, if the non-resident enterprise had directly held and disposed of such PRC Taxable Assets, the income from the transfer would have been exempted from PRC EIT under an applicable tax treaty or arrangement), it remains unclear whether any exemptions under SAT Circular No. 7 will be applicable to the transfer of our Shares or to any future acquisition by us outside of the PRC involving PRC Taxable Assets, or whether the PRC tax authorities will reclassify such transaction by applying SAT Circular No. 7. SAT Circular No. 7 may be determined by the tax authorities to be applicable to our Reorganisation, if such transaction were determined by the tax authorities to lack reasonable commercial purpose. As a result, we may be subject to tax under SAT Circular No. 7 and may be required to expend valuable resources to comply with SAT Circular No. 7 or to establish that we should not be taxed under SAT Circular No. 7, which may have a material adverse effect on our business, financial condition, results of operations and growth prospects.

**Any decrease of discontinuation of tax rebate towards exported goods would have a negative effect on our profit ability.**

Pursuant to the Measure for the Administration of Tax Refund (Exemption) of Exported Goods (For Trial Implementation) (出口貨物退(免)稅管理辦法(試行)) (Guo Shui Fa (2005) No. 51), as promulgated by SAT on 16 March 2005 and became effective on 1 May 2005 and amended on 15 June 2018, unless otherwise provided by law, for the goods as exported either directly by an exporter or via an export agency, the exporter may, after the export declaration and the conclusion of financial settlement of sales, file a report to the tax authorities for the approval of refund or exemption of VAT. Subject to relevant PRC laws, we are currently entitled to rebates of the VAT from the PRC tax authority in connection with our export sales for our products. The tax rebate comprised a refund of VAT incurred on materials we used for production of our products in the PRC, which are subsequently exported to overseas countries. During the Track Record Period, we have received VAT rebate of approximately HK\$18.1 million, HK\$31.2 million and HK\$23.3 million, respectively. We cannot assure you that the PRC governmental policies on tax rebate will not change or that the current policy we enjoy will not be cancelled. If any of such change, cancellation or discontinuation of tax rebate policy occurs, the resulting increase in our tax liability would adversely affect our business and results of operations.

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**The interpretation of the PRC laws & regulations has inherent uncertainties that could limit the legal protections available to us in respect of our PRC subsidiaries' operations and to our Shareholders.**

Since 1979, many laws and regulations governing economic matters have been promulgated and supplemented in the PRC. Many of these laws and regulations are promulgated in broad principles and the PRC government has gradually laid down implementation rules and has continued to refine and modify such laws and regulations. As the PRC legal system develops, the promulgation of new laws or refinement and modification of existing laws may affect foreign investors. The general effect of legislation since 1982, when the National People's Congress amended the constitution to authorise foreign investment, has been able to significantly enhance the protection afforded to foreign invested enterprises in the PRC. However, we cannot assure you that future changes in legislation or the interpretation thereof will not have any adverse effect on us.

**Fluctuations in the exchange rate between RMB and US\$ may affect our costs and financial condition.**

Our Group is exposed to foreign currency exchange risk. The value and convertibility of RMB are subject to changes in the PRC government's policies and depend on domestic and international economic and political developments, as well as the supply and demand forces of Renminbi in the local market. Since 1994, the conversion of RMB into foreign currencies, including HK\$ and US\$, has been based on rates set by the People's Bank of China, which are set daily based on the previous day's interbank foreign exchange market rates and with reference to the current exchange rates on the global financial markets. However, as at 21 July 2005, RMB was no longer pegged to the US\$ but instead to a basket of currencies. Any appreciation of RMB would increase the value of, and any dividends payable on, our shares in foreign currency terms. Conversely, any depreciation of RMB would decrease the value of our assets in foreign terms. We cannot assure you that any change in the PRC government's currency policies or any adverse change in the market conditions would not lead to an appreciation or depreciation of RMB. As we are not involved in any currency hedging activities, any fluctuation in the exchange rate or any shortage of foreign currency may have an adverse impact on operating costs and financial condition.

**Present or future environmental and safety laws and regulations in the PRC could have an adverse effect on our business, financial condition, results of operations and prospects.**

Our business is subject to certain PRC laws and regulations relating to environmental protection. Our manufacturing process produces pollutants such as waste water and noise. During the Track Record Period, our expenditure for environmental compliance arisen from treating waste water and exhaust gas were approximately HK\$1.5 million, HK\$1.4 million and HK\$1.5 million, respectively. The discharge of waste water and other pollutants from our manufacturing operations into the environment may give rise to liabilities that may require us to incur costs to remedy such discharge. We cannot assure you that all situations which will give rise to environmental liabilities will be discovered or any environmental laws adopted in the future will not increase our operating costs and other expenses.

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Should the PRC impose stricter environmental protection standards and regulations in the future, we cannot assure you that we will be able to comply with such new regulations at reasonable costs, or at all. Any increase in production costs resulting from the implementation of additional environmental protection measures or failure to comply with new environmental laws or regulations could have an adverse effect on our business, financial condition, results of operations and prospects.

**PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds our Group received from the Global Offering to make loans or additional capital contribution to our PRC operating subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.**

In utilising the proceeds of the Global Offering in the manner described in the section headed “Future Plans and Use of Proceeds” of this prospectus, as an offshore holding company of our PRC operating subsidiaries, we may make loans, additional capital contributions to our PRC subsidiaries or a combination thereof. Any loans to our PRC subsidiaries are subject to PRC regulations and foreign exchange foreign loan registrations. For instance, loans by our Company to our subsidiaries in the PRC which are foreign-invested enterprises to finance their activities cannot exceed statutory limits and must be registered with the PRC State Administration of Foreign Exchange (國家外匯管理局) or its local counterpart. In addition, any capital contributions to our PRC subsidiaries must be filed with or approved by the Ministry of Commerce of the PRC (中華人民共和國商務部) or its local counterpart and registered with the SAIC or its local branch. We cannot assure you that we will be able to obtain these government registrations or approvals or make filings on a timely basis, if at all, with respect to future loans or capital contributions by us to our PRC subsidiaries. If we fail to obtain such registrations or approvals or make filing, our ability to use the proceeds of the Global Offering and to capitalise our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

The occurrence of any natural disaster, act of war, or terrorists attack, could adversely affect our results of operations. Natural disaster, acts of war and terrorists attack may affect our production activities, damage our production plants or result in significant blackout of economic activities. Any outbreak of epidemics or occurrence of any natural disaster, which may lead to serious disruption to the public in the affected areas, may have a material and adverse effect on our Group’s business, results of operations and financial performance. Acts of war and terrorist attacks may cause damage or disruption to our Group, our Group’s employees, our markets, our customers and our suppliers, any of which could materially impact our Group’s sales, the procurement of products, overall results of operations and financial conditions. As a whole, any such events may cause our Group’s business to suffer in ways that our Group cannot anticipate.

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### RISKS RELATING TO THE GLOBAL OFFERING

**We will continue to be controlled by our Controlling Shareholders, whose interests may be different from other Shareholders.**

Immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any option that may be granted under the Share Option Scheme), our Controlling Shareholders will hold 75% of the issued Shares. Our largest Shareholders, subject to the Articles and applicable laws and regulations will be able to influence major policy decisions, including our overall strategic and investment decisions, by:

- controlling the election of Directors and, in turn, indirectly controlling the selection of senior management;
- determining if final dividend is to be declared;
- deciding on increases or decreases in share capital;
- determining the issuance of new securities beyond the number/amount of securities that the Directors are permitted to issue; and
- approving mergers, acquisitions and major disposals of our assets or businesses.

The interests of our Controlling Shareholders could conflict with the interests of the other Shareholders. Any such actions could adversely affect the interests of minority Shareholders or the price of the Shares.

**The shareholding of our Shareholders may be diluted as a result of additional equity fund raising.**

We may need to raise additional funds in the future to finance the expansion of our operations or new acquisitions. If additional funds are raised through the issuance of new Shares or other securities that may be converted into the Shares or other equity-linked securities of our Company in a way other than on a pro rata basis to existing Shareholders, the shareholding percentage of the existing Shareholders may be reduced and Shareholders may experience subsequent dilution. In addition, any such new securities may have preferred rights, options or pre-emptive rights that make them more valuable than or senior to the Shares.

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

**Since there will be a time gap between the pricing and trading of our Shares, there is a risk that the price of our Shares could fall before trading of our Shares begins.**

There is a gap of nine business days between the commencement of the Hong Kong Public Offering on Monday, 31 August 2020 and the refund date of application monies of Monday, 14 September 2020. In addition, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be the seventh business days after the latest pricing date. As a result, investors may not be able to sell or deal in our Shares during the aforementioned periods. Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall before trading of our Shares begins as a result of adverse market conditions or other adverse developments, that could occur between the time of sale and the time trading of our Shares begins.

**There has been no prior public market for our Shares.**

Prior to the Global Offering, there was no public market for our Shares. The Offer Price was the result of negotiations between us and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), and the Offer Price may differ significantly from the market price for the Shares following the Global Offering. If an active trading market for our Shares does not develop, the price of our Shares may be adversely affected and may decline below the Offer Price.

In addition, we are unable to make assurance that an active and liquid trading market will develop or be maintained following the completion of the Global Offering, or that the market price of our Shares will not decline below the Offer Price.

**The liquidity and market price of our Shares following the Global Offering may be volatile.**

The price and trading volume of our Shares may be highly volatile. Factors such as variations in our revenues, earnings, cash flows, new products/services/investments, changes in senior management, actions taken by competitors and general economic conditions could cause the market price of our Shares or trading volume of our Share to change substantially and unexpectedly. In addition, stock prices have been subject to significant volatility in recent years. Such volatility has not always been directly related to the performance of the specific companies whose shares are traded. Such volatility, as well as general economic conditions, may materially and adversely affect the prices of shares, and as a result investors in our Shares may incur substantial losses.

**The industry statistics contained in this prospectus may not be unduly relied upon.**

Certain statistics contained in the section headed “Industry Overview” of this prospectus relating to industry in which we operate are derived from government official publications. Whilst our Directors have taken all reasonable care to ensure that the facts and statistics are accurately reproduced from such sources, such information has not been independently verified by our Company and may be inconsistent, inaccurate, incomplete or out-of-date.

None of our Company, our respective Directors and advisers or any other parties involved in the Global Offering makes any representation as to the accuracy or completeness of such information and, accordingly, such information should not be unduly relied upon.

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### **Sale or perceived sale of substantial amounts of the Shares in the public market after the Global Offering could adversely affect the prevailing market price of the Shares.**

The Shares beneficially owned by the Controlling Shareholders are subject to certain lock-up periods under the Listing Rules. There is no assurance that the Controlling Shareholders, whose interests may be different from those of other Shareholders, will not dispose of their Shares following the expiration of the lock-up periods. Sale of substantial amounts of the Shares in the public market, or the perception that such sale may occur, could adversely affect the prevailing market price of the Shares.

The interest of the Controlling Shareholders may not always coincide with the interests of our Company and those of other Shareholders. Should there be any conflict of interests, our Company or other Shareholders may be adversely affected as a result.

Upon completion of the Global Offering and the Capitalisation Issue, the Controlling Shareholders will own, in aggregate, 75% of the Shares in issue. The Controlling Shareholders will therefore have significant influence over the operations and business strategy of our Group, and may have the ability to require our Group to effect corporate actions according to their own desires. The interests of the Controlling Shareholders may not always coincide with the best interests of other Shareholders. If the interests of any of the Controlling Shareholders conflict with the interests of other Shareholders, or if any of the Controlling Shareholders chooses to cause our business to pursue strategic objectives that conflict with the interests of other Shareholders, our Company or those other Shareholders may be adversely affected as a result.

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

This prospectus contains certain statements that are forward-looking, often indicated by the use of words such as “anticipate”, “believe”, “could”, “expect”, “estimate”, “may”, “ought to”, “should”, “will” or similar terms. These forward-looking statements address, among other topics, our growth strategy and expectations concerning our future operations, liquidity and capital resources. Prospective investors are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that as a result of any or all of the assumptions or judgements on which such statements are based proving to be incorrect, the forward-looking statements could also be incorrect. In light of these and other uncertainties, the forward-looking statements in this prospectus should not be regarded as representations by us that our plans, expectations or objectives will be achieved, and investors should not place undue reliance on such statements.

### **Investors for our Shares may face difficulties in protecting their interests under Cayman Islands law, which may provide different remedies to minority shareholders as compared with the laws of Hong Kong or other jurisdictions.**

Our corporate affairs are governed by, among other things, the Articles, the Cayman Companies Law and the common law of the Cayman Islands. The rights of Shareholders to take action against our Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands and the Articles. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which as persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in Hong Kong and



## RISK FACTORS

other jurisdictions. Such differences mean that the remedies available to our minority Shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions. Further information is set forth in Appendix IV to this prospectus.

**You should read this entire prospectus and we strongly caution you not to place any reliance on any information contained in press articles, media coverage and/or research analyst reports regarding us, our industry or the Global Offering.**

There may be press articles, media coverage and/or research analyst reports regarding us, our industry or the Global Offering, which may include certain financial information, financial projections and other information about us that do not appear in this prospectus. We have not authorised the disclosure of any such information in the press, media or research analyst report and we make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Investors should rely solely upon the information contained in this prospectus, the Application Forms and any formal announcements made by us in Hong Kong in making investment decision regarding the Global Offering. We do not accept any responsibility for any such press articles, media coverage or research analyst report or the accuracy or completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this prospectus is inconsistent or conflicts with the information contained in this prospectus, we disclaim it. Accordingly, prospective investors should not rely on any such information. In making your decision as to whether to purchase our Shares, you should rely only on the financial, operational and other information included in this prospectus. By applying to purchase our Shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than that contained in this prospectus and the Application Forms.

## **DIRECTORS' RESPONSIBILITY STATEMENT**

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (WUMP) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to us. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, there are no other matters the omission of which would make any statement herein or this prospectus misleading and all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on basis and assumptions that are fair and reasonable.

## **THE GLOBAL OFFERING AND THIS PROSPECTUS**

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

The listing of our Shares on the Stock Exchange is sponsored by the Sole Sponsor. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is underwritten by the Hong Kong Underwriters on a conditional basis, with one of the conditions being that the Offer Price is agreed between the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and us. The International Placing is managed by the Joint Global Coordinators. The International Underwriting Agreement is expected to be entered into on or around the Price Determination Date, subject to agreement on the Offer Price between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us. Further details of the Underwriters and the underwriting arrangements are set out in the section headed "Underwriting" of this prospectus.

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and on 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 Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in this prospectus is correct as at any subsequent time.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure and Conditions of the Global Offering" of this prospectus, and the procedures for applying for our Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" of this prospectus and on the relevant Application Forms.

## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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

The Shares are being offered at the Offer Price which will be determined by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us on or around Friday, 4 September 2020 or such later date as may be agreed upon between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us but no later than Sunday, 6 September 2020. If the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price on or before Sunday, 6 September 2020, the Global Offering will not proceed and will lapse.

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

No action has been taken to permit a public offering of the Shares in any jurisdiction other than Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation for subscription in any jurisdiction or in any circumstances in which such an offer or invitation for subscription is not authorised or to any person to whom it is unlawful to make such an offer or invitation for subscription. The distribution of this prospectus and the offering and sales of the Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom. Each person acquiring the Shares under the Global Offering will be required to confirm, or be deemed by his acquisition of the Shares to confirm, that he is aware of the restrictions on offers and sales of the Shares in this prospectus. In particular, the Shares have not been publicly offered or sold, directly or indirectly, in the PRC or the United States.

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

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering, the Capitalisation Issue and any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme.

Pursuant to Rule 8.08(1) of the Listing Rules, at least 25% of the total number of issued Shares must at all times be held by the public. A total of 312,500,000 offer shares, representing 25% of the number of enlarged issued shares immediately following completion of the Global Offering and Capitalisation Issue (without taking into account of any Shares which may be allotted and issued by our Company pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme) will be made available under the Global Offering.

Under section 44B(1) of the Companies (WUMP) Ordinance, any allotment made in respect of any application will be invalid if the permission for the Shares to be listed on the Main Board has been refused before the expiration of three weeks from the date of the closing of the Global Offering, 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.

## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

Save for the application for the listing of, and permission to deal in our Shares on the Stock Exchange in issue and to be issued pursuant to the Global Offering and the Capitalisation Issue and the Shares which may be allotted and issued by our Company pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, none of our Shares are listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

### **COMMENCEMENT OF DEALINGS IN THE SHARES**

Dealings in the Shares on the Stock Exchange are expected to commence at 9:00 a.m. (Hong Kong time) on Tuesday, 15 September 2020. The Shares will be traded in board lots of 5,000 Shares each. The stock code of the Shares will be 1455.

### **SHARES WILL BE ELIGIBLE FOR ADMISSION 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 Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

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

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests. All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

You should consult your professional advisors if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, or dealing in, the Shares or exercising any rights attaching to the Shares. We emphasise that none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering accepts responsibility for any tax effects or liabilities resulting from your subscription, purchase, holding or disposing of, or dealing in, the Shares or your exercise of any rights attaching to the Shares.

### **STABILISATION AND OVER-ALLOTMENT OPTION**

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for or purchase the newly issued securities in the secondary market during a specified period of time, to retard, and if possible, prevent any decline in the market price of the securities below the Offer Price. In Hong Kong and certain other jurisdictions, the price at which stabilisation is effected is not permitted to exceed the Offer Price.

## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

In connection with the Global Offering, the Stabilising Manager, its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the commencement of trading in the Shares of our Company on the Stock Exchange. Such transactions will be effected in compliance with all applicable laws, rules and regulations in place in Hong Kong. However, there is no obligation on the Stabilising Manager or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Stabilising Manager and may be discontinued at any time during the stabilising period, which will begin on the day on which trading of our Shares commences on the Stock Exchange and end on the 30th day from the last day for lodging applications under the Hong Kong Public Offering, i.e. Saturday, 3 October 2020. As a result, demand for our Shares, and their market price, may fall after the end of the stabilising period.

Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules includes (i) over-allocation of shares for the purpose of preventing or minimising any reduction in the market price of shares, (ii) selling or agreeing to sell shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of shares, (iii) subscribing, or agreeing to subscribe, for shares pursuant to an option or other right in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, any shares for the sole purpose of preventing or minimising any reduction in the market price of shares, (v) selling, or agreeing to sell, shares in order to liquidate a long position established and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v) above. The number of Shares that may be over-allocated will not exceed the number of Shares that may be sold under the Over-allotment Option, namely 46,875,000 Shares, which is 15% of the number of Offer Shares initially available under the Global Offering.

As a result of effecting transactions to stabilise or maintain the market price of our Shares, the Stabilising Manager, its affiliates, or any person acting for it, may maintain a long position in our Shares. The size of the long position and the period for which the Stabilising Manager, its affiliates, or any person acting for it, will maintain the long position are at the discretion of the Stabilising Manager and are uncertain. Investors should be warned that, in the event that the Stabilising Manager liquidates this long position by making sales in the open market, this may lead to decline in the market price of our Shares.

Any stabilising action taken by the Stabilising Manager, its affiliates, or any person acting for it, may not necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilising period. Stabilising bids for or market purchases of the Shares by the Stabilising Manager, its affiliates, or any person acting for it, may be made at or below the Offer Price and can therefore be made at or below the price paid for the Offer Shares by applicants for, or investors in, the Offer Shares.

In connection with the Global Offering, the Stabilising Manager may require our Company to allot and issue up to and not more than an aggregate of 46,875,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or combination of these means. In particular, for the purpose of covering such over-allocations, the Stabilising Manager may borrow up to 46,875,000 Shares from Ace Champion and Forever Golden (equivalent to the

## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

maximum number of Shares to be issued on a full exercise of the Over-allotment Option) under the Stock Borrowing Agreement. The terms of the Stock Borrowing Agreement will be in compliance with the requirements set out in Rule 10.07(3) of the Listing Rules and will therefore not be subject to restrictions under Rule 10.07(1)(a) of the Listing Rules. The principal terms of the Stock Borrowing Agreement are set out below:

- the stock borrowing arrangement will only be effected by the Stabilising Manager (or its affiliates) for settlement of over-allocations in connection with the International Placing;
- the maximum number of Shares to be borrowed by the Stabilising Manager (or its affiliates) from Ace Champion and Forever Golden will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;
- the same number of Shares so borrowed will be returned to Ace Champion and Forever Golden not later than the third business day following the earlier of (i) the last day on which the Over-allotment Option may be exercised; (ii) the day on which the Over-allotment Option is exercised in full; or (iii) such earlier time as may be agreed in writing between the parties;
- the stock borrowing arrangement will be effected in compliance with all applicable laws and regulatory requirements; and
- no payments will be made to Ace Champion and Forever Golden in relation to the stock borrowing arrangement.

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

All Shares issued pursuant to applications made in the Global Offering will be registered on our Company's branch register of members to be maintained in Hong Kong by Tricor Investor Services Limited, the Hong Kong Share Registrar. Our Company's principal register of members will be maintained in the Cayman Islands. Only Shares registered on our Company's branch register of members maintained in Hong Kong may be traded on the Stock Exchange.

No stamp duty is payable by applicants in the Global Offering.

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

No representation is made and none should be construed as being made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated or at all on such date or any other date unless indicated otherwise.

### **ROUNDING**

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

**INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

**LANGUAGE**

If there is any inconsistency between this English prospectus and the Chinese translation of this English prospectus, this English prospectus shall prevail.

**EXCHANGE RATE CONVERSION**

Solely for your convenience, this prospectus contains translations of certain Renminbi amounts into Hong Kong dollars, of U.S. dollars amounts into Hong Kong dollars and of Japanese yen into Hong Kong dollars at specified rates. Unless we indicate otherwise, the translation of Renminbi into Hong Kong dollars, of U.S. dollars amounts into Hong Kong dollars and of Japanese yen into Hong Kong dollars, and vice versa, in this Prospectus was made at the following rate:

HK\$1.0924.....	to RMB1.00
HK\$7.75.....	to US\$1.00
HK\$0.0718.....	to JPY1.00

No representation is made that any amounts in Renminbi, Hong Kong dollars, Japanese yen or U.S. dollars can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

### DIRECTORS

Name	Residential address	Nationality
<b>Executive Directors</b>		
Mr. LI Shu Yeh (李舒野) <i>(Chairman and chief executive officer)</i>	House B Supreme House 15 Lancashire Road Kowloon Tong Kowloon Hong Kong	Chinese
Ms. LI Sen Julian (李晨)	Flat A, 1/F, Block 3 218–240 Castle Peak Road Sunny Villa, Ting Kau New Territories Hong Kong	Chinese
Ms. TANG Suk Yee (鄧淑儀)	Flat B, 19/F, Stage II Mei Foo Sun Chuen 15 Glee Path Kowloon Hong Kong	Chinese
<b>Independent non-executive Directors</b>		
Mr. LIU Kai Yu Kenneth (廖啟宇)	Flat C, 16/F, Block 13 Braemar Hill Mansions 39 Braemar Hill Road North Point Hong Kong	British
Mr. LEUNG Wai Chuen (梁偉泉)	Flat 9, 15/F Ka Ying House Ka Keung Court Lok Fu, Kowloon Hong Kong	Chinese
Mr. MAN Yun James (文恩)	Room 1207, 12/F, Block A 63 Broadcast Drive Peninsula Heights Kowloon Tong Kowloon Hong Kong	Chinese

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



## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

### PARTIES INVOLVED IN THE GLOBAL OFFERING

#### Sole Sponsor

#### **Innovax Capital Limited**

*A licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO*

Room 2002, 20/F  
Chinachem Century Tower  
178 Gloucester Road  
Wanchai  
Hong Kong

#### **Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers**

(in alphabetical order)

#### **Aristo Securities Limited**

*A licensed corporation to carry out Type 1 (dealing in securities) regulated activities under the SFO*

Room 101, 1/F, On Hong Commercial Building  
145 Hennessy Road  
Wanchai  
Hong Kong

#### **CEB International Capital Corporation Limited**

*A licensed corporation to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO*

22/F, AIA Central  
1 Connaught Road Central  
Central  
Hong Kong

#### **Chuenman Securities Limited**

*A licensed corporation to carry out Type 1 (dealing in securities) regulated activities under the SFO*

Office A, 10/F, Sang Woo Building  
227–228 Gloucester Road  
Wan Chai  
Hong Kong

#### **Yue Xiu Securities Company Limited**

*A licensed corporation to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 5 (advising on futures contracts) regulated activities under the SFO*

1003–1005, Siu On Centre  
188 Lockhart Road  
Wan Chai  
Hong Kong

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

### **Underwriters**

(in alphabetical order)

#### **Aristo Securities Limited**

*A licensed corporation to carry out Type 1 (dealing in securities) regulated activities under the SFO*  
Room 101, 1/F, On Hong Commercial Building  
145 Hennessy Road  
Wanchai  
Hong Kong

#### **CEB International Capital Corporation Limited**

*A licensed corporation to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO*  
22/F, AIA Central  
1 Connaught Road Central  
Central  
Hong Kong

#### **Chuenman Securities Limited**

*A licensed corporation to carry out Type 1 (dealing in securities) regulated activities under the SFO*  
Office A, 10/F, Sang Woo Building  
227–228 Gloucester Road  
Wan Chai  
Hong Kong

#### **Yue Xiu Securities Company Limited**

*A licensed corporation to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 5 (advising on futures contracts) regulated activities under the SFO*  
1003–1005, Siu On Centre  
188 Lockhart Road  
Wan Chai  
Hong Kong

### **Auditor and Reporting Accountant**

#### **PricewaterhouseCoopers**

*Certified Public Accountants and Registered Public Interest Entity Auditor*  
22/F, Prince's Building  
Central  
Hong Kong

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

### Legal Advisers to our Company

*as to Hong Kong law*

**Jeffrey Mak Law Firm**

6/F, O.T.B. Building  
259–265 Des Voeux Road Central  
Hong Kong

*as to PRC law*

**Jingtian & Gongcheng**

34/F Tower 3  
China Central Place  
77 Jianguo Road  
Beijing 100025  
PRC

*as to the law of the European Union:*

**Cornet Vincent Segurel**

251 Bd Pereire – 75852  
Paris cedex 17  
Paris  
France

*as to the law of the United States:*

**Squire Patton Boggs (US) LLP**

31/F  
555 South Flower Street  
Los Angeles, CA 90071  
United States of America

*as to Japan law:*

**Soga Law Office**

4/F  
Kojimachi MK Building  
4-3-30 Kojimachi Chiyoda-ku  
Tokyo 102-0083  
Japan

*as to Cayman Islands law:*

**Conyers Dill & Pearman**

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

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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

*as to Hong Kong law*  
**P. C. Woo & Co.**  
12/F, Prince's Building  
10 Chater Road  
Central  
Hong Kong

*as to PRC law*  
**V&T Law Firm**  
12/F T1 South Tower  
Kaisa Plaza  
No. 86 Jianguo Road  
Chaoyang District  
Beijing  
PRC

**Industry Consultant**

**Frost & Sullivan International Limited**  
Room 1706  
One Exchange Square  
8 Connaught Place  
Central  
Hong Kong

**Property Valuer**

**AVISTA Valuation Advisory Limited**  
23/F  
Siu On Centre  
188 Lockhart Road  
Wan Chai  
Hong Kong

**Compliance Adviser**

**Innovax Capital Limited**  
Room 2002, 20/F  
Chinachem Century Tower  
178 Gloucester Road  
Wanchai  
Hong Kong

**Internal Control Consultant**

**SHINEWING Risk Services Limited**  
43/F  
Lee Garden One  
33 Hysan Avenue  
Causeway Bay  
Hong Kong

**DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

**Independent Transfer Pricing  
Tax Adviser**

**Shenzhen Qianhai PricewaterhouseCoopers  
Business Consulting Services Co., Limited**  
Unit 13, 3/F, Block A  
4008 Menghai Avenue  
Qianhai Shenzhen-Hongkong Innovation Centre  
Shenzhen  
PRC

**Receiving Bank**

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

## CORPORATE INFORMATION

<b>Registered office</b>	Cricket Square, Hutchins Drive PO Box 2681 Grand Cayman, KY1-1111 Cayman Islands
<b>Principal place of business in Hong Kong</b>	Unit Nos. 1106–1107, 11/F Manhattan Centre 8 Kwai Cheong Road Kwai Chung New Territories Hong Kong
<b>Principal place of business in the PRC</b>	No. 18 Shiwei Pinggang Industrial Zone Jiangshi community, Gongming Street Guangming New District Shenzhen, Guangdong China
<b>Company's website</b>	<b>www.fourace.com</b> <i>(information contained in this website does not form part of this prospectus)</i>
<b>Company secretary</b>	Mr. Tsang Kai Ming <i>Certified Public Accountant</i> Flat D, 18/F Tower 7A, Oceanaire 18 Po Tai Street Ma On Shan New Territories Hong Kong
<b>Authorised representatives (for the purpose of the Listing Rules)</b>	Ms. Li Sen Julian Flat A, 1/F, Block 3 218–240 Castle Peak Road Sunny Villa, Ting Kau New Territories Hong Kong  Mr. Tsang Kai Ming Flat D, 18/F Tower 7A, Oceanaire 18 Po Tai Street Ma On Shan New Territories Hong Kong

## CORPORATE INFORMATION

<b>Audit committee</b>	Mr. LIU Kai Yu Kenneth ( <i>Chairman</i> ) Mr. LEUNG Wai Chuen Mr. MAN Yun James
<b>Remuneration committee</b>	Mr. MAN Yun James ( <i>Chairman</i> ) Mr. LI Shu Yeh Ms. LI Sen Julian Mr. LIU Kai Yu Kenneth Mr. LEUNG Wai Chuen
<b>Nomination committee</b>	Mr. LEUNG Wai Chuen ( <i>Chairman</i> ) Mr. LIU Kai Yu Kenneth Mr. LI Shu Yeh Ms. TANG Suk Yee Mr. MAN Yun James
<b>Principal bankers</b>	<b>The Hongkong and Shanghai Banking Corporation Limited</b> HSBC Building 1 Queen's Road Central Central, Hong Kong  <b>Bank of China (Hong Kong) Limited</b> Bank of China Tower 1 Garden Road, Hong Kong  <b>Bank of China Shenzhen Branch</b> International Finance Building 2022 Jianshe Road Luohu District Shenzhen Guangdong Province China
<b>Principal share registrar and transfer office in Cayman Islands</b>	<b>Conyers Trust Company (Cayman) Limited</b> Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Hong Kong Branch Share Registrar</b>	<b>Tricor Investor Services Limited</b> Level 54, Hopewell Centre 183 Queen's Road East Hong Kong

## INDUSTRY OVERVIEW

*The information and statistics set forth in this section and elsewhere in this prospectus have been derived from an industry report, commissioned by the Group and independently prepared by Frost & Sullivan, in connection with the Global Offering, or the Industry Report. In addition, certain information is based on, or derived or extracted from, among other sources, publications of government authorities and internal organisations, market data providers, communications with various PRC government agencies or other independent third-party sources unless otherwise indicated. The Group believes that the sources of such information and statistics are appropriate and have taken reasonable care in extracting and reproducing such information. The Group has no reason to believe that such information and statistics are false or misleading in any material respect or that any fact has been omitted that would render such information and statistics false or misleading. The Directors confirm that, after taking reasonable care, they are not aware of any adverse change in market information since the date of the Industry Report which may qualify, contradict or adversely impact the quality of the information in this section. None of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any other party involved in the Global Offering (except for Frost & Sullivan) or their respective directors, advisers and affiliates has independently verified such information and statistics and no representation has been given as to their accuracy. Accordingly, such information should not be unduly relied upon.*

### SOURCE OF INFORMATION

Frost & Sullivan has been commissioned to analyse and report on the current status of, and forecasts for, the selected industries in which the Group operates in China. The Group has agreed to pay a fee of HK\$840,000 for the Industry Report, which will be paid prior to the Listing. The Directors are of the view that the payment of the fee does not affect the fairness of conclusions drawn in the Industry Report.

Frost & Sullivan is an independent global market research and consulting firm founded in 1961 and based in the United States. It offers industry research and market strategies and provides growth consulting and corporate training.

The Industry Report includes both historical and forecast information on global and China's personal care electrical appliances market and other economic data. To prepare the Industry Report, Frost & Sullivan undertook both primary and secondary independent research through various resources within global and China's personal care electrical appliances market. Primary research includes interviewing industry insiders, competitors, downstream customers and recognised third-party industry associations. Secondary research includes reviewing corporate annual reports, databases of relevant official authorities, independent research reports and publications, as well as the exclusive database established by Frost & Sullivan over the past decades. Frost & Sullivan has adopted the following primary assumptions while compiling and preparing the Industry Report: (i) Government policies on personal care electrical appliances market in global and China are likely to remain unchanged during the forecast period; (ii) the personal care electrical appliances market in global and China will be driven by the factors which are stated in this section. Frost & Sullivan has also obtained the figures for the estimated total market size from historical data analysis plotted against the macroeconomic data as well as the industry key drivers. The Directors confirm that, after making reasonable enquiries, there have not been any material adverse changes to the market information set out in the Industry Report since the date of such report which may qualify, contradict or have an impact on the information contained in this section.



# INDUSTRY OVERVIEW

## ANALYSIS OF GLOBAL AND CHINA'S PERSONAL CARE ELECTRICAL APPLIANCE AND ITS OEM/ODM MARKET

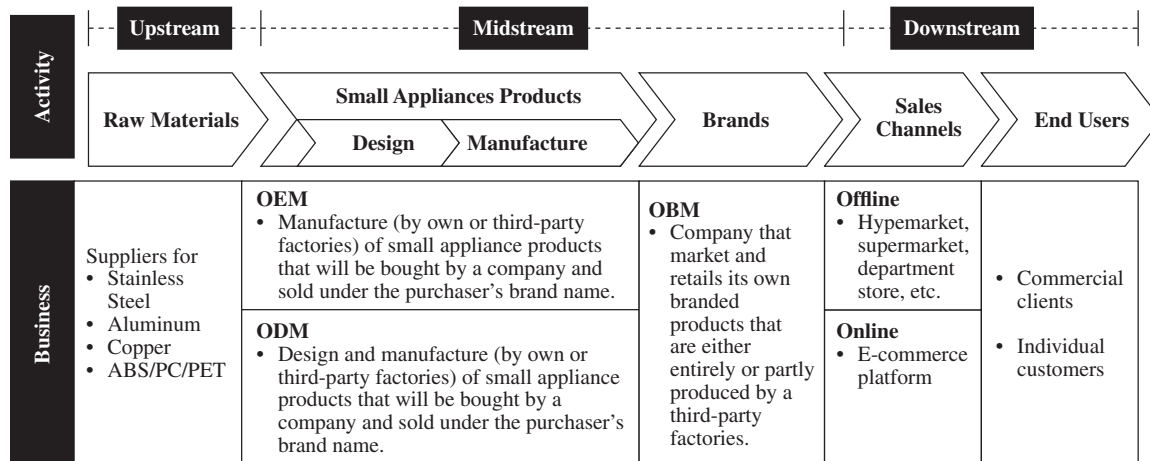
### Definition and Classification of Personal Care Electrical Appliances

Personal care electrical appliances refer to the small household appliances which are battery or electricity operated and used both by men and women for personal care purposes, among others, hair shaving and styling needs, oral hygiene, and skin health for individuals. Based on the utilities of products, personal care electrical appliances can be divided into four segments, including hair styling, beauty care, grooming and others.

### Industry Value Chain of Personal Care Electrical Appliances

The value chain of personal care electrical appliances industry consists of raw materials providers, personal care electrical appliances manufacturers, personal care electrical appliances brand owners, sales channels and end user. Given the advancement of technology in recent years and increasing income level of people, consumers tend to look for products with higher lifestyle quality instead of only fulfilling their daily necessity needs in choosing personal care electrical appliances. As a result, it is common for leading brand owners of personal care electrical appliances to allocate more resources in design and development of new products in satisfying such market needs. In order for the brand owners to focus on their core competencies which are brand building and expand the distribution network via online and offline channels, it is common for them in the personal care electrical appliance industry to outsource the whole or part of the manufacturing process to third party manufacturers, aiming at leveraging the expertise of the third party manufacturers and achieving economies of scale in production. The third-party manufacturers are OEM service providers if they are responsible for the manufacturing process according to the design and specification provided by the brand owners, while ODM service providers are manufactures who will also be responsible for the product design apart from the manufacturing process. It is an industry trend for ODM service providers to develop its own brand as an OBM after accumulated years of experience in product design and development because ODM service providers could leverage their abundant technology reserve and manufacturing capacity to expand their business into retail market by having their own brands and enjoy higher profitability.

### Industry Value Chain of Personal Care Electrical Appliances in China



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In the value chain of personal care electrical appliance industry in China, the bargaining power among segments are different. In the upstream segment, as raw materials are standardised and the suppliers of these raw materials have OEM/ODM in various industries as their customers in the midstream segment such as consumer electronics, telecommunication, automobile, etc. the market concentration in the upstream segment is relatively high. Further, given the fact that the midstream segment of the industry which are personal care electrical appliance OEM/ODM are relatively fragmented, the bargaining power of personal care electrical appliance OEM/ODM service providers are usually weak, and the rise in price of raw materials from the upstream segment could be mostly borne by the personal care electrical appliance OEM/ODM service providers in the midstream segment. Meanwhile, the personal care electrical appliance OEM/ODM service providers in the midstream segment could transfer certain extent of the increase in production cost to the downstream segment, depending on multiple factors including (i) the order size of personal care electrical appliances from the end customers in the downstream segment clients; (ii) the overall production capacity and design capability of personal care electrical appliance OEM/ODM service providers; and (iii) relationship between downstream customers and personal care electrical appliance OEM/ODM service providers, etc.

### **Market Size of China's Personal Care Electrical Appliances OEM/ODM Market**

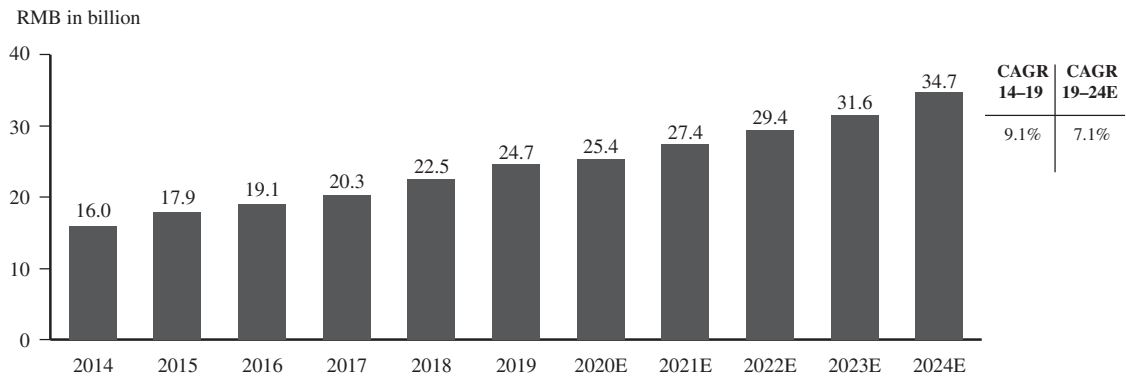
China has been one of the largest country for contract manufacturing business (i.e. OEMs/ODMs) in the world due to its relatively low labour cost and well-established manufacturing industry. The total revenue of all personal care electrical appliances OEMs/ODMs in China increased from RMB16.0 billion in 2014 to RMB24.7 billion in 2019, representing a CAGR of 9.1% during the period, and it is expected to increase to RMB34.7 billion in 2024 with a CAGR of 7.1% during the period. Though after considering the suspension of List 4B tariff and recent agreements and progress made by both parties, it is not likely that List 4B tariff will be actively implemented. If the 25% tariff under List 4B will be in place up to 2024, the CAGR of the revenue of personal care electrical appliance OEM/ODM market in China from 2019 to 2024 is estimated to decrease from 7.1% to 6.7% mainly due to that the correlation between the revenue of personal care electrical appliance OEM/ODM market in China and the import value of the U.S. is not significantly high considering the increasing number of domestic brands which employ OEM/ODM and expanding import by other regions, leading to the decrease of the revenue from RMB34.7 billion to RMB34.1 billion in 2024.

Historically, the revenue of personal care electrical appliance OEM/ODM market in the first quarter is the least in the whole year, accounting for 15% to 20% of the revenue of the whole year. As a result of the outbreak of COVID-19, certain factories in China encountered temporary suspension of operation during February 2020. Based on the evaluation on impact of such outbreak, it caused delay of production in the first quarter of 2020. Nevertheless, majority of factories in China have resumed full operation since April 2020 and arranged a tighter production schedule in the remaining quarters of 2020 to make up the undersupply in the first quarter.

Most of the leading domestic and international brand owners of personal care electrical appliances have adopted "asset-light" business strategies, in which they strive to expand their distribution network and build up the product brand image. Therefore, it is common for these international brand owners to outsource the whole or part of the production process to reliable OEMs or ODMs.

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### Total Revenue of Personal Care Electrical Appliances OEM/ODM Market, China, 2014–2024E



Source: Frost & Sullivan

### Import Value and Share of Personal Care Electrical Appliance from China

Influenced by the increasing import quantity, the import value of personal care electrical appliance from China to the U.S., Europe and Japan grew gradually in the last five years. Such import value increased from a total of US\$2.7 billion in 2014 to US\$3.6 billion in 2019. Among all the three destinations, Japan was the fastest growing market in terms of import value during the period from 2014 to 2019. However, Japan has a relatively smaller demand of import from China as comparing with the Europe and U.S.. Due to the increasing downstream demand and the development of multi-functioned personal care electrical appliance, it is expected that the import values of personal care electrical appliance from China to U.S., Europe and Japan will continue to grow, in particular in U.S. market which is expected to grow at a faster CAGR of 3.4% from 2019 to 2024. From 2019 to 2024, the import values in the personal care electrical appliance sector of these countries from China are expected to be a growing trend and achieve a total of US\$4.1 billion in 2024.

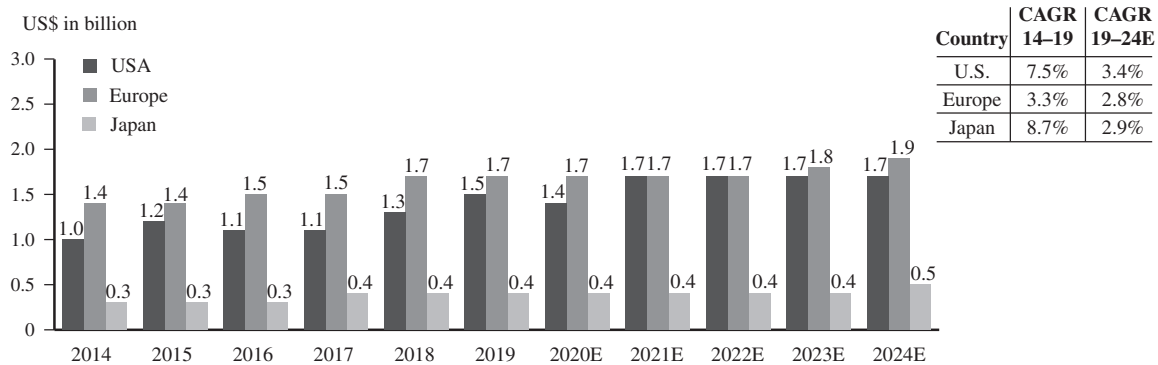
Though after considering the suspension of List 4B tariff and recent agreements and progress made between China and the U.S., it is not likely that List 4B tariff will be actively implemented. If the 25% tariff under List 4B will be in place up to 2024, the import value of personal care electrical appliance from China to Europe and Japan from 2019 to 2024 will not be materially affected and the CAGR of the import value of personal care electrical appliance from China to the U.S. from 2019 to 2024 is estimated to decrease from 3.4% to 3.0% mainly due to that the earliest impact will be in place in 2020 and it will take time for the U.S. importers to find new suppliers, leading to the decrease of the import value from US\$1.73 billion to US\$1.70 billion in 2024.

Regarding the outbreak of COVID-19, the import value from China to the U.S., Europe and Japan has recovered to the similar level in the same period of 2019 in March 2020. It is expected that the undersupply can be made up for the whole year of 2020. Nevertheless, if the factories failed to arrange a tighter production schedule to make up the undersupply to certain extent, the import value of personal care electrical appliance from China to the U.S. from 2019 to 2024 is estimated to decrease from 3.4% to 3.3%, with the import value of approximately US\$1.72 billion in 2024, the import value of personal care electrical appliance from China to the Europe from 2019 to 2024 is estimated to decrease from 2.8% to 2.7%, with the import value of approximately US\$1.91 billion in 2024 and the import value of personal care electrical appliance from China to Japan from 2019 to 2024 is estimated to decrease from 2.9% to 2.7%, with the import value of approximately US\$0.45 billion in 2024.

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Despite the global economy is negatively impacted by the outbreak of COVID-19, there has not been material adverse impact on the personal care electrical appliance industry, mainly due to the reason that people are advised to stay at home to prevent being infected by COVID-19 and becoming more health conscious. As a result, the demand for personal care electrical appliance and in particular, home appliances and personal electrical appliances for health and wellness will be increased. The retail sales of personal care electrical appliance is expected to increase against the backdrop of COVID-19. The increase in retail sales is mainly fulfilled by inventory or local suppliers during the outbreak of COVID-19 as many countries had restriction on import of goods, however, it is expected that such international trade restriction will be gradually relaxed as the epidemic situation improves.

### Import Value of Personal Care Electrical Appliance from China, the U.S., Europe and Japan, 2014–2024E



Source: UN Comtrade, Frost & Sullivan

### Overview and Market Size of Personal Case Electrical Appliance OEM/ODM Market from South East Asia

Due to the relatively lower average labour costs in South East Asia's countries than China, there has been increasing demand from U.S., Europe and Japan on products manufactured by OEM/ODM from South East Asia's countries. In particular to U.S., the import value of personal care electrical appliances from South East Asia's countries increased at a CAGR of 44.0% from 2014 to 2019. However, in terms of the import value of personal care electrical appliances to U.S., Europe and Japan, the South East Asia's countries exported a much smaller value than China did. In 2019, such imported value from South East Asia's countries was approximately US\$700.7 million which was less than one-fifth of China. In terms of market share, the major manufacturers of personal care electrical appliance in South East Asia's countries are the proprietary factories and the independent OEM/ODMs are relatively small. Malaysia, Vietnam, Thailand, Indonesia and the Philippines which represented approximately 91% of manufacturing output were the top-five largest countries in South East Asia in 2019. The personal care electrical appliance OEM/ODM market in South East Asia is relatively fragmented with no large players dominating the industry. In 2019, there were more than 200 personal care electrical appliance OEM/ODM service providers in the South East Asia.

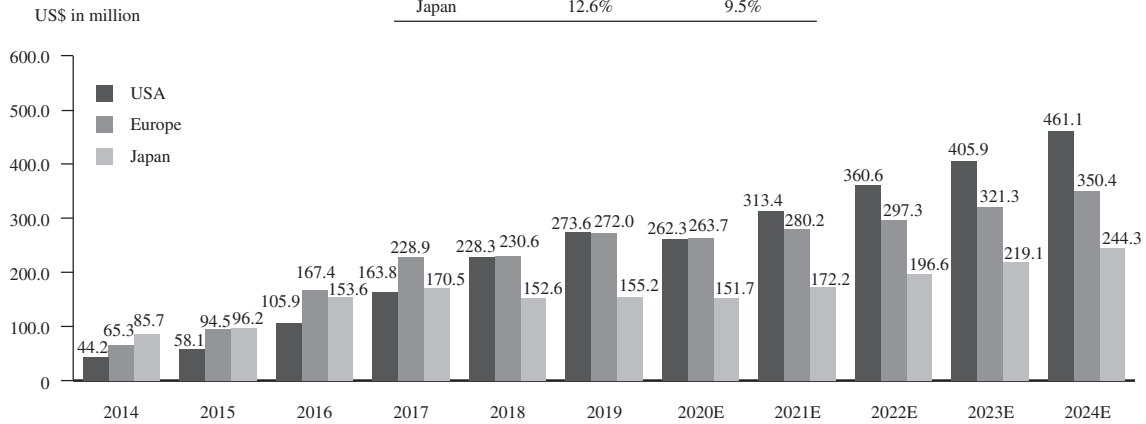
Further, as a result of growing economies, the labour costs of the South East Asia's countries has been increasing over the years. As a result, the competitive advantage for OEM/ODM in South East Asia's countries in labour cost is gradually diminishing. Additionally, the supply chain for the production of personal care electrical appliances in South East Asia, such as raw materials and manufacturing equipment, is relatively underdeveloped. Therefore, the benefit of moving the production bases to the South East Asia's countries is decreasing and limited. It is expected that the growing trend

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of U.S., Europe and Japan for their imported value of personal care electrical appliances from South East Asia's countries will increase at a slower CAGR of 11.0%, 5.2% and 9.5% from 2019 to 2024, respectively. Comparatively, China will continue to be the world's largest exporter of personal care electrical appliance in the foreseeable future.

### Import Value of Personal Care Electrical Appliance from South East Asia, the U.S., Europe and Japan, 2014–2024E

Country	CAGR 14–19	CAGR 19–24E
U.S.	44.0%	11.0%
Europe	33.0%	5.2%
Japan	12.6%	9.5%



*Source: UN Comtrade, Frost & Sullivan*

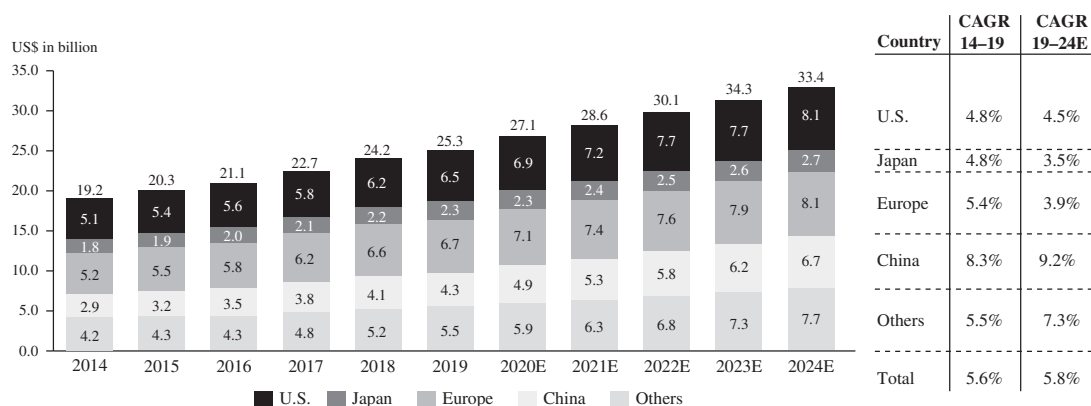
### Market Size of Personal Care Electrical Appliances Market

The demand of personal care electrical appliances for China's OEMs/ODMs from the global market depends on various factors, mainly include the local downstream demand of different personal care electrical appliance products from customers of respective country. With the continuous improvement of income level driven by the development of global economy and increasing efficiency of the industry, the global personal care electrical appliances market will keep expanding. Among the global personal care electrical appliances market, Europe and U.S. are two largest consumption markets of personal care electrical appliances, and Europe has the largest retail market in the world and grew at a faster rate than U.S.. The penetration of personal care electrical appliances are relatively high in the U.S. and Europe, mainly because these countries are technological-advanced countries. In line with the increasing income level of people in these developed countries, there have been more innovative personal care electrical appliances with multi-functions gradually become part of consumers' daily routines rather than fulfilling daily necessity only, such as electrical facial cleanser with sonic pulses, hair dryers with infra-red function, etc. The total retail sales value of global personal care electrical appliances market increased from US\$19.2 billion in 2014 to US\$25.3 billion in 2019, representing a CAGR of 5.6% and is expected to further grow to US\$33.4 billion in 2024 with a CAGR of 5.8% during the period from 2019 to 2024

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due to multiple positive market drivers including growing income level of key markets, increasing downstream demand, innovating personal care electrical appliance products, etc. The retail sales values of personal care electrical appliances market in Europe, the U.S. and Japan grew at a respective CAGR of 5.4%, 4.8% and 4.8% from 2014 to 2019 and are expected to grow at a respective CAGR of 3.9%, 4.5% and 3.5% from 2019 to 2024. Comparing with those developed countries such as Europe, U.S. and Japan which represented more than 50% of the global demand in the personal care electrical appliance market in 2018, the retail sales value of China grew at the fastest CAGR of 8.3% from 2014 to 2019 and expected to further increase at a CAGR of 9.2% from 2019 to 2024.

### Total Retail Sales Value of Personal Care Electrical Appliances Market, Global, 2014–2024E

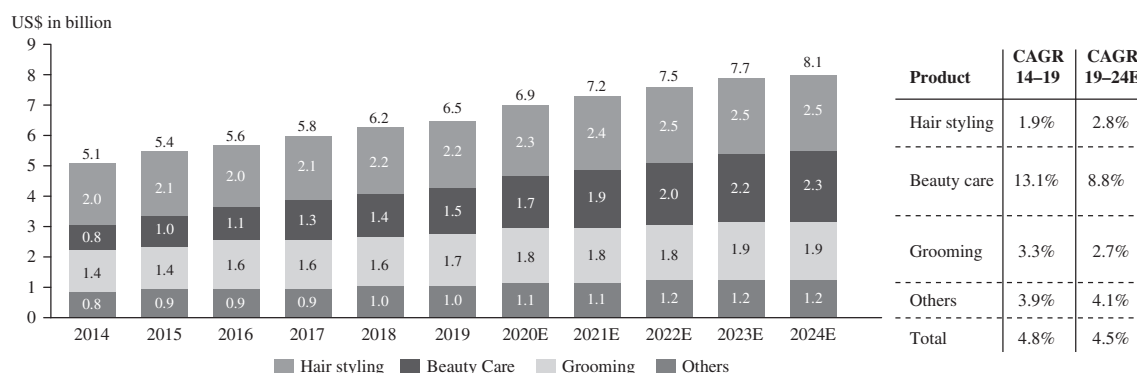


Source: Frost & Sullivan

In U.S., the total retail sales value of the personal care electrical appliances market increased from US\$5.1 billion in 2014 to US\$6.5 billion in 2019, representing a CAGR of 4.8% during 2014 to 2019, and it is expected to reach US\$8.1 billion in 2024 with a CAGR of 4.5% during the period from 2019 to 2024. By 2019, hairstyling segment was the largest segment in the personal care electrical appliance market in the U.S. in terms of total retail sales value, as driven by the increasing demand of hair dryers which represented approximately half of the hairstyling segment in U.S.. In 2019, the retail sales value of hair dryers in U.S. amounted to approximately US\$1,076.0 million and among which, the high-end market of hair dryers represented approximately 52.2% of the total retail sales of hair dryers. A hair dryer with unit retail price of US\$100 and above is considered to be in high-end market. Followed by the high-end market, the mid-end market (with unit retail price below US\$100 and above US\$25) and low-end market (with unit retail price of US\$25 and below) of hair dryers represented approximately 35.0% and 12.8% of total retail sales of hair dryers in U.S. in 2019. It is expected that the segment would remain a stable growth and represent a CAGR of 2.8% during 2019 to 2024 due to the maturity of this segment and the stable downstream demand for hairstyling electrical appliance products. In respect of the beauty care market segment which is relatively new and dynamic, the total retail sales value increased at a CAGR of 13.1% from 2014 to 2019, and is estimated to grow at a CAGR of 8.8% from 2019 to 2024. With continuous emergence of new products and innovation in functionality of existing products. The beauty care segment would grow quickly in the future in the U.S. market, and become the second largest segment in 2021.

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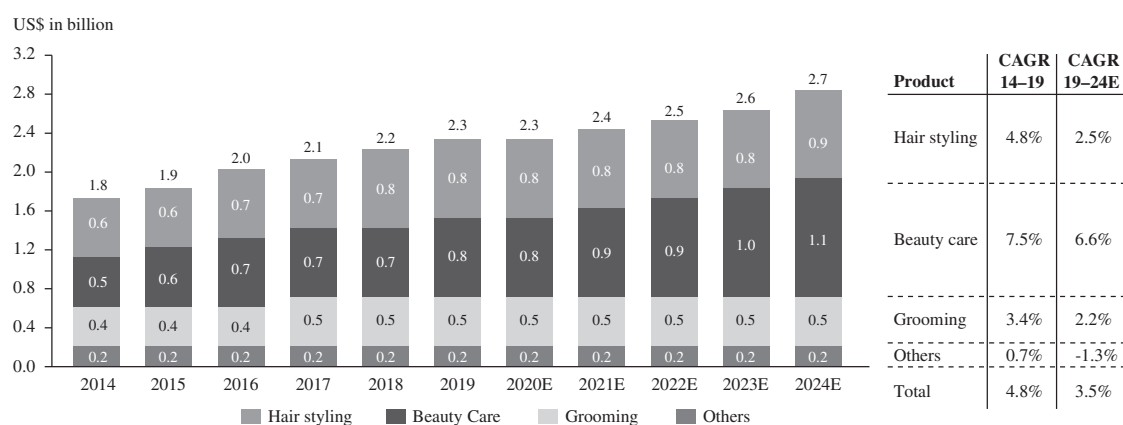
### Total Retail Sales Value of Personal Care Electrical Appliances Market (by product), US, 2014–2024E



Source: Frost & Sullivan

In Japan, the total retail sales value of personal care electrical appliances market increased from US\$1.8 billion in 2014 to US\$2.3 billion in 2019, representing a CAGR of 4.8% during the period and is expected to increase to US\$2.7 billion in 2024 with a CAGR of 3.5% during 2019 and 2024. Japan is one of the most developed personal health and beauty market in the world. The personal care electrical appliance market of Japan is mainly driven by the hair styling and beauty care market segments. In particular to beauty care market segment, it increases at a CAGR of 7.5% from 2014 to 2019, and is expected to further increase at a CAGR of 6.6% from 2019 to 2024. It is expected that the market size of the beauty care market segment will exceed the hair styling market segment in 2024 and become the largest market segment in Japan. Such high growth rate was mainly due to the dynamic market environment, and continuously launch of innovative products that drive the customer demands and various categories of beauty care.

### Total Retail Sales Value of Personal Care Electrical Appliances Market (by product), Japan, 2014–2024E



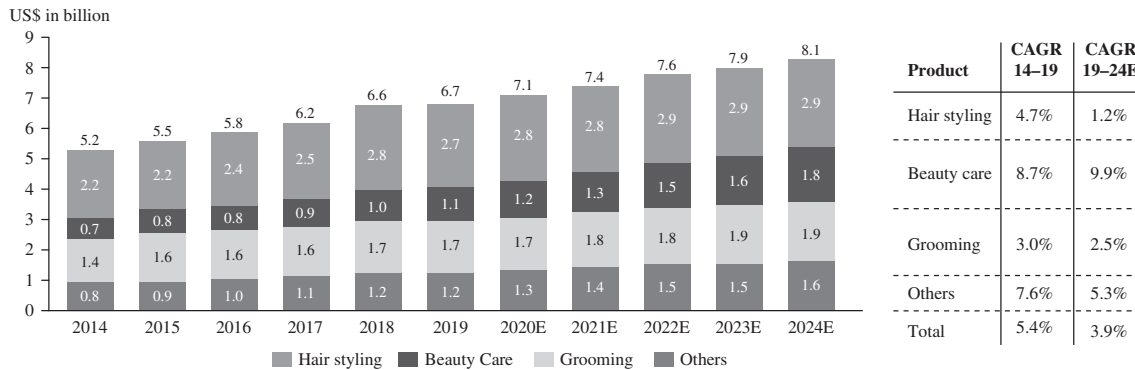
Source: Frost & Sullivan

In Europe, the total retail sales value of personal care electrical appliances market increased from US\$5.2 billion in 2014 to US\$6.7 billion in 2019, representing a CAGR of 5.4% during the period, and it is expected to increase to US\$8.1 billion in 2024 with a CAGR of 3.9% during 2019 and 2024. The market is relatively mature and well developed with several leading manufacturers of personal care electrical appliances headquartered in Europe. The recovery of Europe's economy has been the major driver of personal care electrical appliances market. Despite beauty care products is one of the fastest

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growing segment of personal care electrical appliance market in Europe, it has a relatively smaller market size as compared to U.S. or similar to that of Japan though the personal care electrical appliance market in Europe approximates to three times of Japan.

**Total Retail Sales Value of Personal Care Electrical Appliances Market (by product), Europe, 2014–2024E**



Source: Frost & Sullivan

### Drivers of Retail Sales Market of Personal Care Electrical Appliance in the U.S., Japan and Europe

#### *Continuous Innovation and Introduction of New Products*

The producers of personal care electrical appliances keep introducing new types of personal care electrical appliances and adding innovative features to existing products in order to attract more consumers. Some innovative products are becoming increasingly popular. For example, using electric facial cleansers is becoming a daily routine for many female consumers in the U.S., Japan and many European countries. Consumers in these developed countries have the desire and capability of paying for new products and innovative features.

#### *Economic Recovery*

The U.S., Japan and Europe have experienced significant economic recovery in recent years. Driven by the economic growth, consumers expand their spending on personal care electrical appliances in order to further enhance their physical appearance and their living quality. Even though the outbreak of COVID-19 is having a noticeable negative impact on global economic growth in 2020, it is expected that the economic activity will resume to normal when the epidemic situation improves. The economic recovery will continue to be the foundation for the retail sales market of personal care electrical appliance in the U.S., Japan and Europe.

#### *Increasing Labour Force Participation Rate of Female*

Along with the shortage of labour force and enhancement of equal rights for men and women, the labour force participation rate of female in the these developed countries has been increasing over the years, especially in Japan. Since the major consumers of personal care electrical appliances are female, the increase in income of female as a result of joining the labour force will significantly stimulate the consumption of personal care electrical appliances in these developed countries.



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### *Increasing Health Consciousness and Change of Lifestyle*

The outbreak of COVID-19 is significantly changing the lifestyle of global consumers, including consumers in the U.S., Japan and Europe. People are becoming more health conscious and working from home may be an increasingly popular lifestyle in the future. The increasing health consciousness and change of lifestyle will be a long-term drivers of demand for personal care electrical appliance and in particular, home appliances and personal electrical appliances for health and wellness even though it takes time and effort for the global economy to recover from the outbreak of COVID-19.

### **Drivers of Personal Care Electrical Appliance OEM/ODM Market in China**

*Increase of Downstream Demand:* The last few years have witnessed the stable growth of small household electrical appliances globally. As one of the important segments, personal care electrical appliances have also been growing with the overall market. China, as the global factory, provides significant OEM/ODM services to the industry. With the estimation that the personal care electrical appliance market would continue to grow in future, especially in emerging markets, the increasing downstream demand of personal care electrical appliance globally accelerate the orders for OEM/ODM service providers in China.

*Emergence of New Personal Care Electrical Appliances:* With the development of personal care electrical appliance market, there are increasing categories of products which tend to be more innovative and lifestyle focus appear in the market such as face cleansers, portable curling iron, etc., which creates opportunities for OEM/ODM service providers. Moreover, the continuous emergence of new products will also lead to a faster product replacement from consumer and in turn, the brand owner of personal care electrical appliance will place orders for these new products to the OEM/ODM factories.

*Development of B2B Online Platforms:* The appearance of B2B e-commerce platforms diversify the business channels of Chinese personal care appliance OEM/ODM service providers' methods of approaching potential domestic and overseas clients. It is a common trend for OEM/ODM factories to showcase their manufactured products and self-developed products online, from the comprehensive e-commerce platforms to small appliance vertical e-commerce platforms. The purpose of showcasing the products on a B2B online platform is to demonstrate the design capabilities, applied technologies, production lines, track records, etc., of OEM/ODM service providers to a large number of potential clients which are brand owners around the globe looking for partnership with company that has high design and production capability. Additionally, with the upgrade of e-commerce business, these platforms can also assist OEM/ODM service providers with supply chain management and quality control, which promote the competitiveness of the OEM/ODM service providers in China and acquire more orders from overseas. B2B e-commerce platforms mainly include Alibaba.com, hc360.com, globalsources.com, etc. Since August 2018, our Group has started to advertise ODM services and showcased our Group's manufactured products through Alibaba.com.

### **Development Trends of Personal Care Electrical Appliance OEM/ODM Market in China**

*Expanding R&D Investment:* With the enhancement in lifestyle, consumers who pay more attention on the quality, appearance and advanced functions of the products start to opt for premium products. The popularity of premium products leads to the different personal care appliance brand owners commencing to introduce their own premium products to the market. Correspondingly, this trend raises new challenges for OEM/ODM service providers. In the future, the personal care appliance OEM/ODM service providers will expend the investment in research and development to improve their technology and production capacity in order to meet the changing customer preference.

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*Transformation to OBM Model:* The improving economic conditions and increasing household expenditure fueling the growth of personal care electrical appliance market in China where plenty of personal care electrical appliance OEM/ODM service providers are based at. These service providers have gradually shifted their attention to the growing domestic market which is providing an opportunity for the OEM/ODM service providers of transformation to OBM model to achieve higher profitability with their well-established production lines and research and development capacity.

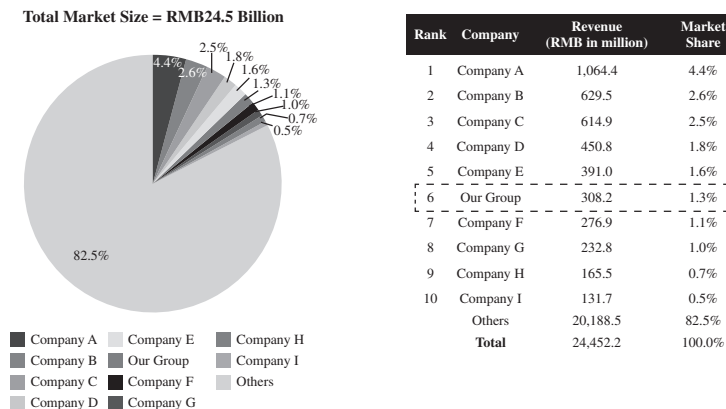
*Innovation of Health-related Functions:* Consumers nowadays not only regard personal care electrical appliances as tools that help them with their daily hair, skin or oral care, but also tools that could improve their health in innovative ways. Products with extra health-related functions such as hair dryers with massage paw, radio frequently, facial instruments, etc., are becoming increasingly popular. In order to meet such emerging demand of consumers, brand owners and OEM/ODM service providers would put more emphasis on the innovation of health-related functions.

### COMPETITIVE LANDSCAPE OF PERSONAL CARE ELECTRICAL APPLIANCE OEM/ODM MARKET IN CHINA

#### Ranking of Personal Care Electrical Appliance OEM/ODM Market in China

The personal care electrical appliance OEM/ODM market in China is fragmented. The top 10 companies in this industry only accounted for 17.5% of the market in 2019 in terms of revenue. The competitiveness of a market player depends on their production capacity level, design capability and manufacturing technology, as well as their relationship with customers in the industry. In terms of revenue of personal care electrical appliance OEM/ODM, our Group ranked the sixth largest in China in 2019 with RMB308.2 million and market share of 1.3%. By excluding the domestic sales of these OEM/ODM in China, our Group ranked the third largest in China in 2019 with RMB308.1 million in terms of export sales of personal care electrical appliance products.

#### Top 10 Personal Care Electrical Appliance OEM/ODM (by Revenue), China, 2019



*Note:* The revenue of our Group represented the total sales (including export sales and domestic sales) of our personal care electrical appliance for FY2020.

- Company A is a private company founded in 1996, which principally engages in the manufacturing of hair dryer, hair straightener, steam iron, hair clipper and other personal care appliances.
- Company B is a private company founded in 2005, which principally engages in the manufacturing and sales of kitchen appliances and small electrical household appliances.
- Company C is a private company founded in 2000, which principally engages in the manufacturing of hair clipper, hair dryer, razor and nose hair trimmer.
- Company D is a private company founded in 1992, which principally engages in the development and manufacturing of personal care and kitchen appliances.

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- Company E is a private company founded in 2008, which principally engages in the manufacturing and sales of household appliances, beauty appliances and health care appliances.
- Company F is a company listed in the Main Board of the Stock Exchange. It principally engages in the design, manufacture and sales of electrical hair care products, electrical healthcare products and other small household electrical appliances.
- Company G is a private company founded in 2010, which principally engages in the development, manufacturing and sales of hair dryer and curling iron.
- Company H is a private company founded in 1993, which principally engages in the development and manufacturing of hair clipper, hair dryer, curling iron, hair straightener and cleansing instrument.
- Company I is a private company founded in 2010, which principally engages in the development, manufacturing and sales of shaving and trimming products.

Source: Frost & Sullivan

### Top 5 Personal Care Electrical Appliance OEM/ODM by Export Revenue, China, 2019

Rank	Company	Export Revenue (RMB in million)
1	Company A	851.5
2	Company D	405.8
3	Our Group	308.1
4	Company C	307.5
5	Company F	235.3

Note: The revenue of our Group represented the total export sales of our personal care electrical appliance for FY2020.

Source: Frost & Sullivan

### Market Entry Barriers of Personal Care Electrical Appliance OEM/ODM Market in China

*Technical Barrier:* OEM/ODM products are mainly exported and they are required to meet different safety requirements of destination countries. For example, electrical appliances exported to the Europe must meet the standard which requires a series of tests in order to ensure the safety of product, and they also have to pass the chemical environmental protection test, namely RoHS/WEEE/REACH certification, considering the human health and environmental protection. Companies need to be equipped with these technical capacities to meet the quality requirements in production, which is a barrier for the new entrants.

*Economies of Scale Barrier:* OEM/ODM business models are sensitive to cost fluctuations. When facing with the rising labour costs, the fluctuations in raw material prices and the changes on export tax, only companies with strong cost control and the advantage of economies of scale can maintain profitability in the competition. On the other hand, well-known brand owners of personal care electrical appliances usually have high demand on production, which requires the OEM/ODM's high capacity for large-scale production and rapid delivery. Therefore, the new entrants with relatively smaller scale of production and cost advantages are difficult to compete.

*Consumer Relationship Barrier:* It is very important and time-consuming to establish a strong partnership with the clients of big brands in order to continuously obtain the orders and ensure the income, however, an OEM/ODM service provider generally has to pass the assessment period of one to three years before becoming a qualified supplier for big brands. Therefore, for a new entrant, it takes a certain amount of time and experience to obtain customer relationships and achieve a certain scale of income.

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### **Competitive Edges of our Group in Personal Care Electrical Appliance OEM/ODM Market in China**

*Strict Quality Control:* Strict quality control is vital to the clients whose products are mainly exported to Japan, Europe and the U.S. markets. Our Group has set up the IQC Laboratory and the reliability laboratory to better meet the quality requirements of incoming raw materials and our products. Furthermore, our Company achieved certification of ISO9001 quality management standard. These all enables our Group to become a trustworthy production partner for clients.

*Strong Research and Development Capability:* With a well-established research and development team, our Group has accumulated the great experience in product design and development, based on market trends and demands as well as clients' specific requirements, providing the clients with new and competitive products in different markets. For example, our Group actively cooperated with T3 to fulfill their increasing demand in the U.S. market. With the strong research and development capability, our Group is able to provide high-standard of OEM/ODM service for international brand owners of personal care electrical appliance brand owners.

*Wide Product Range:* Our Group is not only rapidly expanding our product lines on personal care electrical appliances like groomer, hair dryer and hair straightener by collaborating closely with existing clients, we also aiming at grabbing more business opportunities by expanding product categories to those lifestyle products that could improve the quality of life. In the near future, there will be wide ranges of beauty care products and healthy daily necessities to be launched to meet the growing demand of consumers and expand more revenue sources for our Group.

*Strong Client Relationship:* Our Group has more than 30 years of experience in providing OEM/ODM service since our foundation in 1988. Based on our design, research and development capabilities, production capabilities, quality control ability and decades of operation experience in the field of personal care electrical appliances, our Group has established a long-term cooperative relationship with international and personal care electrical appliance brand owners including T3, Sharp, Koizumi, etc. The stable client relationship guarantees the orders and a consistent revenue stream for our Group.

### **ANALYSIS OF CHINA AND JAPAN'S LIFESTYLE ELECTRICAL APPLIANCES**

#### **Definition and classification of lifestyle electrical appliances**

Lifestyle electrical appliances refers to the electrical appliances which improve consumers' living environment and conditions or help consumers with their routine household tasks. The major categories of lifestyle electrical appliances including small home environmental electrical appliances, small kitchen electrical appliances, etc.

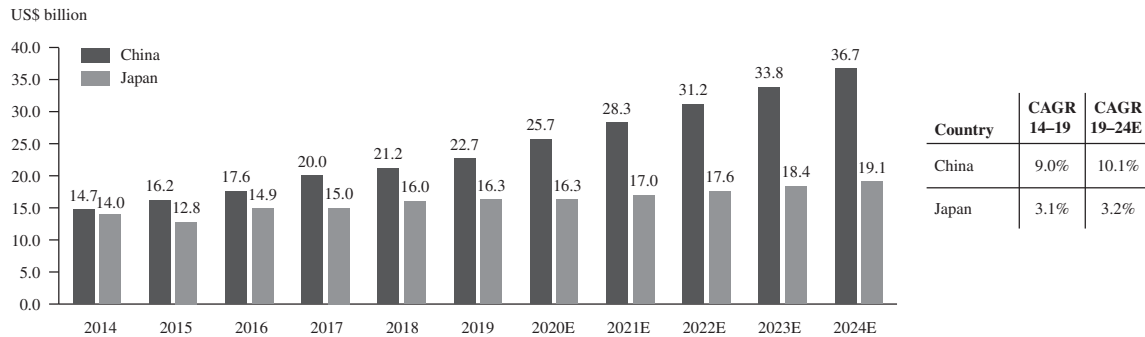
#### **Market size of lifestyle electrical appliances market in China and Japan**

Due to the increase of people's income in China, the demand for lifestyle electrical appliances has continuously been growing. In 2019, the total retail sales value of lifestyle electrical appliances in China has reached US\$22.7 billion, representing a CAGR of 9.0% from 2014 to 2019. As the income level of Chinese residents is expected to grow continuously in the future, it is estimated that the total retail sales value of lifestyle electrical appliances will further grow to US\$36.7 billion, representing a CAGR of 10.1% from 2019 to 2024. On the contrary, the lifestyle electrical appliances market in Japan is relatively mature and the retail sales value has been maintained at a stable level. From the 2014 to 2019,

## INDUSTRY OVERVIEW

the total retail sales value of lifestyle electrical appliances in Japan increased at a CAGR of 3.1% and reached US\$16.3 billion in 2019 and is expected to further increase to US\$19.1 billion at a CAGR of 3.2% in 2024.

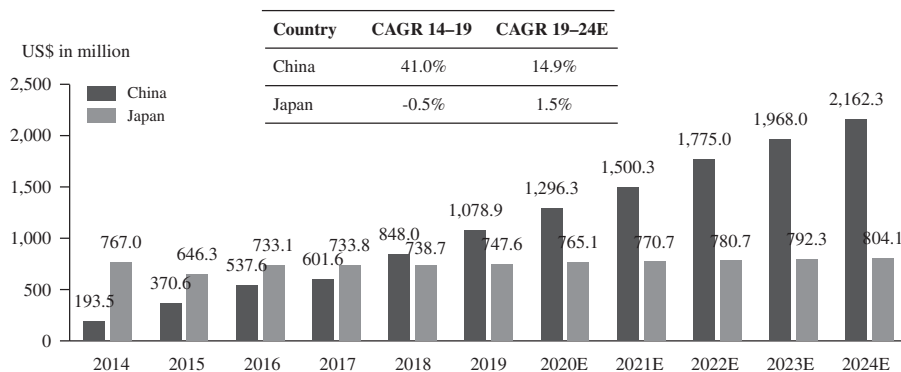
### Total Retail Sales Value of Lifestyle Electrical Appliances, China and Japan, 2014–2024E



Source: Frost & Sullivan

Among various product categories of lifestyle electrical appliance, with its unique functionality, smart toilet seat is gaining more popularity in China. The total retail sales value of smart toilet seat in China increased significantly from US\$193.5 million in 2014 to US\$1,078.9 million in 2019, representing a CAGR of 41.0%. As a result of people's pursuit of better living condition, it is expected that the total retail sales value of smart toilet seats will continue to grow to US\$2,162.3 million in 2024, representing a CAGR of 14.9% from 2019 to 2024. On the contrary, despite the retail sales value of smart toilet seats in Japan was approximately four times than that of China in 2014, it recorded a negative CAGR of 0.5% during the period of 2014 to 2019 due to the maturity of smart toilet seat market in Japan. In 2018, the retail sales value of smart toilet seats in China exceeded Japan.

### Retail Value of Smart Toilet Seats, China and Japan, 2014–2024E



Source: Frost & Sullivan

### Competitive landscape of the lifestyle electrical appliances market in China and Japan

In 2019, there are more than 500 different players competing in China's lifestyle electrical appliances manufacturer market, most of which are domestic brands. Most of the brands rely on their own factories for production. The top five industry players in the lifestyle electrical appliances manufacturer market in China account for less than 35% of the total market in 2019. Considering the growth of the whole market and momentum from relatively new product types, such as smart toilet seats, there are sufficient business opportunities for new players.

## INDUSTRY OVERVIEW

In 2019, there are around 200 different players competing in Japan's lifestyle electrical appliances manufacturer market, most of which are Japanese brands. Most of the brands rely on overseas ODM/OEM for production. The lifestyle electrical appliances manufacturer market in Japan is relatively stable and concentrated with top five industry players accounting for around 50% of total market.

### **Drivers of Lifestyle Electrical Appliances Market in China and Japan**

*Higher Requirement for Lifestyle:* By 2019, GDP per capita in China and Japan has reached US\$10.1 thousand and US\$40.8 thousand respectively, and it is expected to increase in the future. With the increase of GDP per capita in China and Japan, people are expecting better quality of living. Lifestyle electrical appliances could effectively fulfill such demand by saving people's efforts and time on routine household tasks, improving living condition cooking and dish washing, etc. As such, the markets of lifestyle electrical appliances in China and Japan are estimated to grow continuously.

*Continuous Upgrade on Products:* In order to thrive in the increasingly fierce market, lifestyle electrical appliance manufacturers are making efforts to improve quality and design, add new functions and develop user-friendly and energy-saving products. In addition, lifestyle manufacturers are devoting more resources to research and development, in order to create new categories of products that are more attractive in terms of both exterior and functionality, which encourages consumers to frequently update lifestyle electrical appliances with upgraded features.

*Emergence of Smart Home:* The "Smart Home" is a development trend for household electrical appliance. By connecting different electrical appliances, especially lifestyle electrical appliances, in the home, the consumers not only would be able to easily control all the appliance, but also would have a better experience due to the optimised and customised solution brought by such appliances network. As the demand for household electrical appliance with "Smart Home" feature is rising, it is expected that more people will demand for replacement of advanced and intelligent lifestyle electrical appliances.

### **Drivers of Smart Toilet Seat Market in China**

*Development of E-commerce Channel:* As smart toilet seat is an emerging electrical appliance in China, the fast development of e-commerce channel has brought numerous business opportunities for the product to grow in China because the e-commerce platforms effectively helps smart toilet seat suppliers to promote and reach out to more potential customers (both wholesale and retail customers) and facilitate the transaction process. Driven by the development of e-commerce channel, it is expected that the sales of smart toilet seat in China will continue to increase.

*Increase of Product Recognition:* Unlike hair dryer or electric fan which are well-known small household electrical appliance in the China market, smart toilet seat is relatively an innovative product to Chinese customers and has low product recognition. With the facilitation from e-commerce channel as well as due to the increase promotion of the products from suppliers and retailers, it is expected that the product recognition in China would further increase, which in turn will drive the market to grow.

*Continuous Innovation on Functionality:* In order to meet diverse demand from the customers, the smart toilet seat suppliers are investing more on the research and development for innovative functionality such as wireless control, connectivity of mobile phones, etc. In addition, as more domestic market players have entered into market, the fierce competition will facilitate the market consolidation and only market players with competitive advantages such as strong product research and development capability could maintain their market share. As a result, it is expected that more OEM/ODM of Smart Toilet seat will continue to enhance their products with innovative ideas in order to attract more customers.

# INDUSTRY OVERVIEW

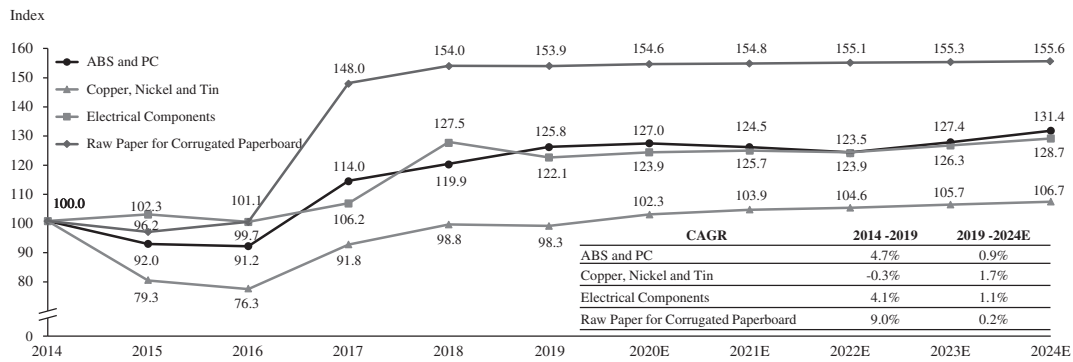
## PRICE ANALYSIS OF MAJOR RAW MATERIAL AND COST OF PRODUCTION

The major raw material of personal care electrical appliance including ABS, PC, copper, nickel and tin. Influenced by the crude oil industry, the ABS price index experienced a decrease in 2015; however, in 2017 both of the prices of PC and ABS increased around 20% driven by the growing production cost and the supply shortage.

The price of the three kinds of metal material, all of them decreased in 2015 due to the surplus supply and the slowdown in China's economy growth. In 2017, the price back to the level of 2014 because the revival of global manufactory industry and the shortage of supply caused by the low price in the previous years. The prices of major raw materials became stable afterwards.

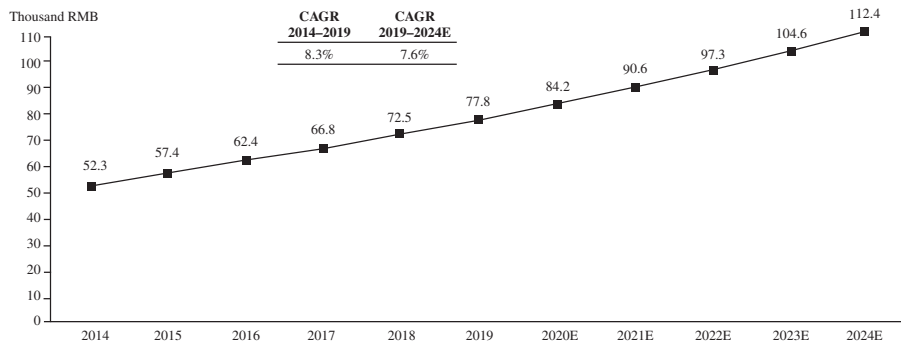
Regarding the cost of production, the labour cost takes the main proportion. The annual wage rate in Guangdong Province increased nearly 40% in the last 5 years, which has led to increase of cost for the labour-intensive OEM/ODM suppliers.

**Price Index of Major Raw Material, China, 2014–2024E**



\*Base year of index 2014 = 100

**Annual Wage Rate, Guangdong Province, 2014–2024E**



Source: NBS, Frost & Sullivan

## REGULATORY OVERVIEW

### LAWS AND REGULATIONS IN THE PRC

This section sets forth a summary of the most significant laws and regulations that affect our business in China. Information contained in this section should not be construed as a comprehensive summary of laws and regulations applicable to us.

#### Regulations Related to Foreign Investment

##### *The Catalog for the Guidance of Foreign Investment Industries*

Investment activities in the PRC conducted by foreign investors and foreign-owned enterprises shall comply with the Catalogue for the Guidance of Foreign Investment Industries (Revised in 2017) (外商投資產業指導目錄(2017年修訂)) (the “**Catalogue**”), which was promulgated jointly by Ministry of Commerce of the PRC (the “**MOFCOM**”) and National Development and Reform Commission (the “**NDRC**”) on 28 June 2017 and became effective on 28 July 2017 and contains specific provisions guiding market access of foreign capital. According to the Catalogue of Industries for Encouraged Foreign Investment (2019 Edition)(鼓勵外商投資產業目錄 (2019年版)) (the “**2019 Catalogue**”), which was promulgated on 30 June 2019 and became effective on 30 July 2019, the limitations to several foreign-invested industries to be lifted. The encouraged foreign-invested industries stipulated in the Catalogue shall be repealed simultaneously.

Special Administrative Measures (Negative List) for Foreign Investment Access (2020 Edition) (《外商投資准入特別管理措施(負面清單)(2020年版)》) (the “**Negative List 2020**”) is promulgated on 23 June 2020 and became effective on 23 July 2020. The 2019 Catalogue and Negative List 2020 stipulated in detail the areas of entry pertaining to the categories of encouraged foreign investment industries, restricted foreign investment industries and prohibited foreign investment industries. Any industry not listed in the Catalogue or Negative List 2020 is a permitted industry. The manufacturing of small household electronic appliance are “permitted”.

##### *The Foreign Investment Law*

On March 15, 2019, the National People’s Congress approved the Foreign Investment Law (《外商投資法》), which came into effect on January 1, 2020 and replaced the Sino-Foreign Equity Joint Venture Enterprise Law, the Sino-Foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-Invested Enterprise Law, and became the legal foundation for foreign investment in the PRC. On December 26, 2019, the State Council issued the Regulations on Implementing the Foreign Investment Law (《外商投資法實施條例》), which came into effect on January 1, 2020 and replaced the Regulations on Implementing the Sino-Foreign Equity Joint Venture Enterprise Law, Provisional Regulations on the Duration of Sino-Foreign Equity Joint Venture Enterprise Law, the Regulations on Implementing the Wholly Foreign-Invested Enterprise Law and the Regulations on Implementing the Sino-Foreign Cooperative Joint Venture Enterprise Law.



## REGULATORY OVERVIEW

The Foreign Investment Law sets out the basic regulatory framework for foreign investments and proposes to implement a system of pre-entry national treatment with a negative list for foreign investments, pursuant to which (i) foreign natural persons, enterprises or other organizations (collectively the “**foreign investors**”) shall not invest in any sector forbidden by the negative list for access of foreign investment, (ii) for any sector restricted by the negative list, foreign investors shall conform to the investment conditions provided in the negative list, and (iii) sectors not included in the negative list shall be managed under the principle that domestic investment and foreign investment shall be treated equally. The Foreign Investment Law also sets forth necessary mechanisms to facilitate, protect and manage foreign investments and proposes to establish a foreign investment information report system in which foreign investors or foreign-funded enterprises shall submit the investment information to competent departments of commerce through the enterprise registration system and the enterprise credit information publicity system.

### *The Catalog of Governmental Approval for Foreign Investment Projects*

Pursuant to the Catalogue of Investment Projects Subject to the Approval of Government (政府核准的投資項目目錄(2016年本)) (the “**Catalogue of Governmental Approval**”) promulgated by the State Council on 12 December 2016 and the Administrative Measures on Approval and Filing for Foreign Investment Projects (外商投資項目核准和備案管理辦法) promulgated by NDRC on 17 May 2014 and last amended on 27 December 2014, foreign investment projects are subject to approval by or registration with NDRC or its local counterparts.

### *The Company Law*

The establishment, operation and management of corporate entities in the PRC 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 the Standing Committee of the National People’s Congress (the “**SCNPC**”) on 29 December 1993, implemented on 1 July 1994, and last amended on 26 October 2018. The Company law also applies to foreign-invested companies, except otherwise provided by relevant laws or regulations on foreign investment.

### **Regulations Related to Processing Trade**

Pursuant to the Tentative Measures for the Management of Examination and Approval of Processing Trade (加工貿易審批管理暫行辦法), which was promulgated by the Ministry of Foreign Trade and Economic Cooperation on 27 May 1999 and became effective on 1 June 1999, the Measures of the Customs of the PRC for the Supervision and Administration of Processing Trade Goods (中華人民共和國海關加工貿易貨物監管辦法), which was promulgated by the General Administration of Customs (海關總署) (the “**GAC**”) and last amended on 23 November 2018, and the Announcement on Matters Relating to Regulation over Processing Trade (海關總署公告2018年第104號 — 關於加工貿易監管有關事宜的公告), which was published by GAC on 13 August 2018, “processing trade” refers to the processing of all or part of the materials and parts imported by an enterprise, upon which the finished goods are exported. Enterprises engaging in processing trade should submit a proposal to the competent department of foreign trade and economic cooperation for review and approval and apply for the establishment of the manual of processing trade goods (加工貿易貨物手冊的設立) with the local customs department. The documents to be submitted include: (i) approval documents issued by the competent authority; (ii) the Certificate of Production Capacity of Processing Enterprise in Processing

## REGULATORY OVERVIEW

Trade (加工貿易加工企業生產能力證明) issued by the competent authority; (iii) contract concluded by the operating enterprise with a foreign party; and (iv) other certificates or documents required by the customs department.

Pursuant to the Notice on Issues Concerning the Reformation of Processing Trade Approval in Guangdong Province (關於廣東省加工貿易審批改革有關工作的通知), which was promulgated by MOFCOM and GAC on 16 July 2013, and the Implementation on the Notice of MOFCOM and GAC on Issues Concerning the Reformation of Processing Trade Approval in Guangdong Province (貫徹落實商務部、海關總署關於廣東省加工貿易審批改革有關工作的通知), which was promulgated by Department of Foreign Trade and Economic of Guangdong Province (廣東省外經貿廳) and Guangdong Sub-administration of GAC (海關總署廣東分署) and became effective on 8 August 2013, the requirement of obtaining approval for processing trade is temporarily suspended in Guangdong Province for a trial period of three years. Enterprises engaging in processing trade are required to submit the Certificate of Production Capacity of Processing Enterprise in Processing Trade (加工貿易企業經營狀況及生產能力證明) and other relevant documents to the competent customs department for filing.

### **Regulations Related to Import and Export goods**

The Administrative Regulations of the People's Republic of China on the Import and Export of Goods (《中華人民共和國貨物進出口管理條例》), which was promulgated on 10 December 2001 and became effective on 1 January 2002, standardised the administration over the import and export of goods. The Customs Law of the PRC (《中華人民共和國海關法》) (the “**Customs Law**”) was promulgated on 22 January 1987 and latest amended on 4 November 2017 by the SCNPC. The Customs Law governs the goods importation and exportation in the aspects of customs duty, customs clearance, customs inspection, anti-smuggling, etc., and also specifies the liabilities for violating such law. According to the Customs Law, unless otherwise stipulated, the declaration of import and export goods may be completed by consignees and consignors themselves, and such formalities may also be completed by their entrusted Customs brokers that have registered with the Customs. In addition, the consignor or consignee of the goods exported or imported and the Customs broker must register themselves for declaration activities with the Customs office.

### **Regulations Related to Manufacture and Sell of Small Household Electrical Appliance Products**

#### *Administrative Regulations for Compulsory Product Certification*

According to the Administrative Regulations for Compulsory Product Certification (《強制性產品認證管理規定》), which was promulgated by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (which has merged into the State Administration for Market Regulation) on 3 July 2009 and became effective on 1 September 2009, products specified by the state shall not be delivered, sold, imported or used in other business activities until they are certified (the “**Compulsory Product Certification**”) and labeled with China Compulsory Certification mark. For products that are subject to Compulsory Product Certification, the state implements unified product catalogs, unified compulsory requirements, standards and compliance assessment procedures in technical specification.

## REGULATORY OVERVIEW

### Regulations Related to Work safety, Product Quality and Consumer Protection

#### *Production Safety Law of the PRC*

The Production Safety Law of the PRC (《中華人民共和國安全生產法》) (the “**Production Safety Law**”) was promulgated by the SCNPC on 29 June 2002 and amended on 27 August 2009 and 31 August 2014 and became effective on 1 December 2014. The Production Safety Law provides safety standards for any production or business operation in order to prevent and reduce safety accidents, defend the safety of life and property of the masses. The Ministry of Emergency Management of the People’s Republic of China (中華人民共和國應急管理部) established by the State Council exercises comprehensive supervision and control over work safety throughout the country. The work safety supervision and administration departments of local governments at the county level and above are responsible for supervision and administration of production safety within their respective local jurisdiction.

Enterprises are required to set up and maintain appropriate equipment, monitor the safety of production procedures, assign designated personnel, conduct workplace safety training and undertake all other measures required by the law to ensure the safety of employees and the general public. Any responsible individual or enterprise that fails to perform its duty to meet the safety production standards may be ordered to rectify within a prescribed period and/or pay a fine. Failure to rectify within the prescribed period may result in suspension or shutdown of the business. Serious violations that result in any production safety accident may impose criminal liabilities to the responsible individuals.

#### *Product Quality Law of the PRC*

The principal law governing product quality is the Product Quality Law of the PRC (《中華人民共和國產品質量法》) (the “**Product Quality Law**”), which was promulgated on 22 February 1993 and recently amended on 29 December 2018. The Product Quality Law is applicable to all activities of production and sale of any product within the territory of the PRC, and the producers and sellers shall be liable for product quality in accordance with the Product Quality Law.

#### *Consumer Protection Law of the PRC*

Business operators, in the supply of goods manufactured and sold by them or services to consumers, shall comply with the Consumer Protection Law of the PRC (中華人民共和國消費者權益保護法) promulgated on 31 October 1993, first becoming effective on 1 January 1994 and then revised on 27 August 2009 and 25 October 2013.

According to the Consumer Protection Law of the PRC, business operators must ensure that the goods or services provided by them meet the requirements for safeguarding personal and property safety. For goods and services that may endanger personal and property safety, the consumers should be provided with a true description and an explicit warning, as well as a description and indication of the proper way to use the goods or accept the services and the methods of preventing the occurrence of hazard. If the goods or services provided by the business operators cause personal injuries to consumers or third parties, the business operators shall compensate for the loss.

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### *Tort Liability Law*

Pursuant to the Tort Liability Law of the PRC (中華人民共和國侵權責任法), promulgated by the SCNPC on 26 December 2009 and became effective on 1 July 2010, manufacturers shall assume tort liability where defects in relevant products cause damage to others. Sellers shall assume tort liability where the defects in relevant products causing damage to others are attributable to the sellers. The aggrieved party may claim for compensation from the manufacturer or the seller of the relevant product in which the defects have caused damage.

### **Regulations Related to Import and Export of Products**

Pursuant to the Foreign Trade Law of the PRC (中華人民共和國對外貿易法) (“**Foreign Trade Law**”), which was promulgated on 12 May 1994 and became effective on 1 July 1994, and as last amended on 7 November 2016, a foreign trade operator engaged in import and export of goods or technologies shall make registration for record with the department in charge of foreign trade under the State Council or institutions entrusted by it; but those that are exempted from registration for record by laws, administrative rules and rules of the department in charge of foreign trade under the State Council shall be excluded.

According to the Administrative Provisions of the Customs of the PRC on the Registration of Customs Declaration Entities (中華人民共和國海關報關單位註冊登記管理規定), which was promulgated by the General Administration of Customs on 13 March 2014 and last amended on 29 May 2018, consignors and consignees of imported and exported goods may go through customs declaration entity registration formalities with their local Customs in accordance with the applicable provisions. A consignor or consignee of imported or exported goods shall appoint its own customs declaration officer to complete customs formalities on its behalf or shall entrust a customs declaration enterprise that has registered with the Customs to appoint a customs declaration officer to complete customs formalities on its behalf.

### **Regulations Related to the Intellectual Property**

#### *Trademarks*

Trademarks are protected by the Trademark Law of the PRC (中華人民共和國商標法) which was promulgated on 23 August 1982 and subsequently amended on 22 February 1993, 27 October 2001, 30 August 2013 and 23 April 2019 which will take effect on 1 November 2019 respectively as well as the Implementation Regulation of the PRC Trademark Law (中華人民共和國商標法實施條例) adopted by the State Council on 3 August 2002 and revised in 2014. In China, registered trademarks include commodity trademarks, service trademarks, collective marks and certification marks.

The Trademark Office under the State Administration for Market Regulation (“**SAMR**”) handles trademark registrations and grants a term of ten years to registered trademarks, renewable every ten-years where a registered trademark needs to be used after the expiration of its validity term. When it is necessary to continue using the registered trademark upon expiration of period of validity, an application for renewal shall be made within 12 months before the expiration. If such an application cannot be filed within that period, an extension period of six months may be granted. The period of validity for each

## REGULATORY OVERVIEW

renewal of registration shall be ten years as at the next day of the previous period of validity. If the formalities for renewal have not been handled upon expiration of period of validity, the registered trademarks will be deregistered.

### *Patents*

Patents are protected by the Patent Law of the PRC (中華人民共和國專利法) (“**Patent Law**”) promulgated on 12 March 1984 and recently amended on 27 December 2008 and its implementation rules which was amended in 2010. According to the Patent Law, inventions protected refers to inventions, utility models and designs. An invention or utility model for which a patent is to be granted shall be novel, inventive and practically applicable. The right to apply for a patent and the patent rights may be assigned. Where the right owner chooses to assign a patent or a patent application right, the parties concerned shall conclude a written contract, and have the contract registered in the patent administrative department of the State Council. Once the patent has been granted to an entity or an individual, unless it is otherwise prescribed by this law, no entity or individual is entitled to exploit the patent without permission of the patentee.

According to the Patent Law of the PRC, any entity or individual that seeks to exploit a patent owned by another party shall enter into a patent licence contract with the patent owner concerned and pay patent royalties to the patent owner. The licensee does not have the right to allow any entity or individual not specified in the contract to exploit such patent.

### *Copyright*

The Copyright Law of the PRC (2010 Revision) (中華人民共和國著作權法(2010年修正)) (“**Copyright Law**”) provides that PRC citizens, legal persons, or other organisations shall, whether published or not, enjoy copyright in their works which include, among others, works of literature, art, natural science, social science, engineering technology and computer software.

## **Regulations Related to Environmental Protection**

### *Environmental Protection Law*

Pursuant to the Environmental Protection Law of the PRC (中華人民共和國環境保護法) promulgated by the SCNPC on 26 December 1989, last revised on 24 April 2014 and came into effect on 1 January 2015, the construction of projects that cause environmental pollution shall comply with the requirements of the environmental protection administration for the respective construction projects. Installations for the prevention and control of pollution at a construction project must be designed, built and commissioned simultaneously with the principal project. The PRC government implements the pollutant discharge license management system in accordance with the law. Enterprises, public institutions and other producers and operators that implement the pollutant discharge license management shall discharge pollutants in accordance with the requirements of the pollutant discharge license; those that fail to obtain the pollutant discharge license shall not discharge pollutants.

## REGULATORY OVERVIEW

### *Environmental Impact Assessment Law*

Pursuant to the Law of the PRC on Environmental Impact Assessment (中華人民共和國環境影響評價法) issued by the SCNPC on 28 October 2002, last revised and became effective on 29 December 2018, a construction entity shall, based on the Classified Administration Catalogue for Environmental Impact Assessment of Construction Projects (建設項目環境影響評價分類管理名錄) last revised by the Ministry of Ecology and Environment of the PRC (“MEE”) on 28 April 2018 and became effective on the same date, carry out procedures for its construction project.

### *Administrative Regulation on the Environmental Protection of Construction Projects*

Pursuant to the Administrative Regulations on the Environmental Protection of Construction Projects (建設項目環境保護管理條例) issued by State Council on 29 November 1998, last revised on 16 July 2017 and became effective on 1 October 2017, entities shall obtain approval of their environmental impact assessment of construction projects from the relevant PRC environmental protection administrative authorities before commencement of the project construction. In the event of failure to file an application for approval of the construction project environmental impact report, the competent environmental authorities may order the relevant entity to file such an application for approval within a stipulated period. Apart from the above, our operations are also subject to Law of the PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法), the Law of the PRC on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法), the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste (中華人民共和國固體廢物污染環境防治法), the Law of the PRC on the Prevention and Control of Pollution From Environmental Noise (中華人民共和國環境噪聲污染防治法), the Law of the PRC on Energy Saving (中華人民共和國節約能源法) and the Law of the PRC on Facilitating Clean Production (中華人民共和國清潔生產促進法).

In addition, the Administrative Measures for Pollutant Discharge Licensing (for Trial Implementation (排污許可管理辦法(試行))), promulgated by the MEP and became effective on 10 January 2018 and amended on 22 August 2019, stated that for entity that obtains examination and approval opinions on environmental impact evaluation for a construction project on or after 1 January 2015, main contents relating to pollutant discharge in the environmental impact evaluation document and examination and approval opinions shall be included in the pollutant discharge license thereof. Concerning entities shall apply for or updated the pollutant discharge license within the prescribed time limit.

### **Regulations Related to Labour**

According to the Labour Law of the PRC (中華人民共和國勞動法) promulgated by the SCNPC on 5 July 1994, last amended and became effective on 29 December 2018, workers are entitled to fair employment, choice of occupation, labour remuneration, leave, a safe workplace, a sanitation system, the receipt of training on vocational skills, social insurance and welfare, petition for labour dispute procedures, and other labour rights stipulated by laws. Employers shall establish and improve their work safety and sanitation system, educate workers on safety and sanitation and provide workers with a working environment that meets the national work safety and sanitation standards.

## REGULATORY OVERVIEW

The Labour Contract Law of the PRC (中華人民共和國勞動合同法) was promulgated by the SCNPC on 29 June 2007, amended on 28 December 2012 and became effective on 1 July 2013, and its Implementation Regulations (勞動合同法實施條例) were published by the State Council and became effective on 18 September 2008. The establishment of labour relationships between employers and workers, and the entering into, performance, variation, rescission or termination of labour contracts, shall be regulated by the Labour Contract Law of the PRC.

As required under the Regulation of Insurance for Labour Injury (工傷保險條例), amended on 20 December 2010 and came into effect on 1 January 2011, the Provisional Measures for Maternity Insurance of Employees of Corporations (企業職工生育保險試行辦法) implemented on 1 January 1995, the Decisions on the Establishment of a Unified Program for Old-Aged Pension Insurance of the State Council (國務院關於建立統一的企業職工基本養老保險制度的決定) issued on 16 July 1997, the Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council (國務院關於建立城鎮職工基本醫療保險制度的決定) promulgated on 14 December 1998, the Unemployment Insurance Measures (失業保險條例) promulgated on 22 January 1999, the Interim Regulation on the Collection and Payment of Social Insurance Premiums (社會保險費征繳暫行條例) promulgated on 22 January 1999, and as amended on 24 March 2019, and the Social Insurance Law of the PRC (中華人民共和國社會保險法) implemented on 1 July 2011 and amended on 29 December 2018, enterprises are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labour injury insurance and medical insurance. Enterprises must apply for social insurance registration with local social insurance agencies and pay premiums for their employees. If an enterprise fails to pay the required premiums on time or in full amount, the authorities in charge will demand the enterprise to settle the overdue amount within a stipulated time period and impose a daily overdue fine equivalent to 0.05% of the overdue amount. If the overdue amount is still not settled within the stipulated time period, an additional fine with an amount of one to three times of the overdue amount will be imposed.

Pursuant to the Regulations on the Administration of Housing Provident Fund (住房公積金管理條例), which was last amended on 24 March 2019 and became effective on the same day, an employer shall contribute to the Housing Provident Fund for any employee on its payroll. If the employers fail to register and establish an account for housing provident fund or fail to pay up housing provident fund contribution, the housing provident fund management centre shall order the employer to correct it within a prescribed time limit; where failing to do so at the expiration of the time limit, a fine of not less than RMB10,000 nor more than RMB50,000 shall be imposed. Where an employer is overdue in the payment and deposit of, or underpays, the housing provident fund, the housing provident fund management centre shall order it to make the payment and deposit within a prescribed time limit; where the payment and deposit has not been made after the expiration of the time limit, an application may be made to a people's court for compulsory enforcement.

### Taxation

#### *Enterprise Income Tax*

According to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the “**EIT Law**”) which was issued by the National People’s Congress on 16 March 2007 and last revised and came into effect on 29 December 2018, and the Implementation Rules to the EIT Law (中華人民共和國企業所得稅法實施條例) (the “**EIT Regulation**”) promulgated by the State Council on 6 December 2007 and effective on 1 January 2008, and last amended and became effective on 23 April 2019, both domestic and foreign-invested enterprises established under the laws of foreign countries or regions whose “de facto management bodies” are located in the PRC are considered resident enterprises, and will generally be subject to EIT at the rate of 25% of their global income. “De facto management bodies” is defined as “establishments that carry out substantial and overall management and control over production and operations, personnel, accounting, and properties” of the enterprise. If an enterprise is considered a PRC resident enterprise under the above definition, its global income will be subject to enterprise income tax at the rate of 25%. The Notice of State Administration of Taxation on Issues about the Determination of Chinese-Controlled Enterprises Registered Abroad as Resident Enterprises on the Basis of Their Body of Actual Management (關於境外註冊中資控股企業依據實際管理機構認定為居民企業有關問題的通知) issued by the State Administration of Taxation of the PRC (“**SAT**”) on 22 April 2009 and was last revised on 29 December 2017, sets up a more specific definition of actual management structure standard.

#### *Implementation Regulations for Special Tax Adjustments (Trial)*

In accordance with the EIT Law and the Implementation Regulations for Special Tax Adjustments (Trial) (特別納稅調整實施辦法(試行)), which was promulgated by SAT on 8 January 2009 and became effective on 1 January 2008, an enterprise shall adopt reasonable transfer pricing methods when conducting transactions with its affiliates (the “**affiliated transactions**”). The tax authority has the power to assess whether the affiliated transactions conform to the arm’s length principle upon investigation and to make adjustments accordingly. The invested enterprise shall therefore faithfully report on the relevant information about its affiliated transactions. According to the EIT Law and the EIT Regulation, business transactions between related parties may be subject to audit or scrutiny by the PRC tax authorities within ten years after the taxable year when the business transactions are conducted. According to the Announcement on Promulgating the Administrative Measures for Special Tax Investigation Adjustments and Mutual Agreement Procedures (關於發佈《特別納稅調查調整及相互協商程序管理辦法》的公告), which was issued by the SAT on 17 March 2017 and became effective on 1 May 2017, if an enterprise receives a special tax adjustment risk warning from tax authorities or detects in itself any special tax adjustment risk, the enterprise may carry out voluntary adjustments regarding tax payment matters and the relevant tax authority may still proceed with special tax investigation adjustment procedures according to the relevant provisions. Besides, pursuant to the tax treaties signed by China, the SAT may activate mutual consultation procedures either upon application by an enterprise or upon request by the competent tax authority of the contracting counter-party of a tax treaty to consult and negotiate with the latter, so as to avoid or eliminate international double taxation triggered by special tax adjustment.



## REGULATORY OVERVIEW

### *Value-added Tax*

According to the Interim Regulation of the PRC on Value-Added Tax (中華人民共和國增值稅暫行條例) issued by the State Council on 13 December 1993, last revised and took effect on 19 November 2017, and the Implementation Rules for the Interim Regulation of the PRC on Value-Added Tax (中華人民共和國增值稅暫行條例實施細則) issued by MOF on 25 December 1993 and last revised on 28 October 2011 and became effective on 1 November 2011, entities and individuals selling goods in the PRC, providing processing services, repair services, or selling services, intangible assets or real property in the PRC, or importation services should be subject to Value-Added Tax (“VAT”), and the payable tax amount shall be calculated by deducting input tax for the current period from output tax for the current period.

According to the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (關於全面推開營業稅改徵增值稅試點的通知) issued jointly by MOF and the SAT on 23 March 2016, and last amended on 20 March 2019 the countrywide pilot practice of levying VAT in lieu of business tax (the “**Pilot Practice**”) has been carried out since 1 May 2016. According to the specific regulatory documents for the Pilot Practice, including the Implementation Measures for the Pilot Practice of Levying VAT in lieu of Business Tax (營業稅改徵增值稅試點實施辦法) (the “**VAT Measures**”), the VAT rates vary from 17%, 11%, 6% to 0% for taxpayers based on their taxable activities. According to the VAT Measures, we are subject to a 17% VAT rate as we engage in the manufacture and sale of electrical appliances. On 4 April 2018, the MOF and the SAT jointly issued the Notice in relation to the Adjustment of VAT Rates (關於調整增值稅稅率的通知) that decreased our 17% VAT rate to 16%, effective on 1 May 2018. On 20 March 2019 the MOF, the SAT and the GAC jointly issued the Announcement on the Relevant Policies for Deeping the Value-Added Tax Reform (關於深化增值稅改革有關政策的公告) that decreased our 16% VAT rate to 13% effective on 1 April 2019.

### *Withholding Income Tax*

According to the EIT Law and the EIT Regulation, dividends generated after 1 January 2008 and dividends payable by foreign enterprises in the PRC to foreign investors shall be subject to a 10% withholding tax unless a tax treaty with different withholding tax arrangements has been made between the PRC and the jurisdiction where any of those foreign investors are registered. Pursuant to the Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation 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) (“**Hong Kong Double Tax Avoidance Arrangement**”) and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under the Hong Kong Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends that the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5% if the Hong Kong resident holds more than 25% capital of the PRC resident enterprise. According to the Administrative Measures for Entitlement of Non-resident Taxpayer to Agreement Treatment (《非居民納稅人享受協定待遇管理辦法》) promulgated by SAT on 14 October 2019 and effective on 1 January 2020, non-resident taxpayers shall determine on their own whether they satisfy the conditions to enjoy the agreement treatment, in which case they automatically enjoy the agreement treatment when filing tax returns or filing tax returns on a withholding basis, while they are required to file and retain relevant materials for possible inspection by the tax authorities.

## REGULATORY OVERVIEW

### Regulation Related to Foreign Currency Exchange

According to the Regulation of the PRC on Foreign Exchange Administration (中華人民共和國外匯管理條例) issued by the State Council on 29 January 1996 and became effective on 1 April 1996 and last amended and became effective on 5 August 2008, the foreign exchange income and expenditure and foreign exchange business operations of Chinese institutions and individuals, as well as the foreign exchange income and expenditure and foreign exchange business operations conducted within the territory of the PRC by overseas institutions and individuals, shall be subject to foreign exchange administration. The Renminbi is freely convertible for payments of current account items such as trade and service-related foreign exchange transactions and dividend payments, but is not freely convertible for capital expenditure items such as direct investment, loans or investments in securities outside of the PRC unless approval from State Administration of Foreign Exchange of the PRC (“SAFE”) or its branches is obtained in advance.

Pursuant to Circular of the SAFE on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital 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) (“Circular 19”) issued on 30 March 2015 and effective on 1 June 2015 and Circular of the SAFE on Reforming and Streamlining the Management Policy regarding the Settlement of Capital Project (國家外匯管理局關於改革和規範資本項目結匯管理政策的通知) (“Circular 16”) issued and became effective on 9 June 2016, discretionary settlement of foreign exchange capital of foreign-invested companies means that foreign exchange capital in the capital account of foreign-invested companies whose rights and interests of monetary contribution have been confirmed by the local foreign exchange bureau (or book-entry registration through the banks) can be settled at the banks based on the actual operating needs of the companies. The proportion of discretionary settlement of foreign exchange capital for foreign-invested companies is temporarily set at 100%. Capital of foreign-invested companies should only be used for legitimate operating needs within the business scope.

### LAWS AND REGULATIONS IN HONG KONG

#### Business Operation of our Group

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

Section 5 of the Business Registration Ordinance (Chapter 310 of the Laws of Hong Kong) requires every person (a company or an individual) carrying on a business in Hong Kong to apply for business registration with the Inland Revenue Department within one month of the commencement of business and obtain a business registration certificate. 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 and issued to an applicant. 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.

## REGULATORY OVERVIEW

### *Import and Export Ordinance (Chapter 60 of the Laws of Hong Kong)*

The Import and Export Ordinance and its sub-legislation, provide for the regulation and the control of, among other things, the import and export of articles into or out of Hong Kong.

Under regulations 4 and 5 of the Import and Export (Registration) Regulation (Chapter 60E) (the “**I&E Registration Regulations**”), a sub-legislation of the Import and Export Ordinance, an importer or exporter of articles (other than exempted articles) shall lodge with the Commissioner of Hong Kong Customs and Excise Department an accurate and complete import or export declaration within 14 days after the date of import or export. A declaration charge (which amounts to HK\$0.20 if the (aggregate) value of the articles does not exceed HK\$46,000; and HK\$0.20 for the first HK\$46,000 and HK\$0.125 for each additional HK\$1,000 (or part thereof) if the (aggregate) value exceeds HK\$46,000) is payable for such import or export. In such connection, our Group is obliged to lodge import declarations under the I&E Registration Regulations and pay the relevant declaration charges in connection with the import of raw materials.

Failure to lodge such declaration within the prescribed 14-day period will result in the imposition of an administrative penalty (which ranges from HK\$20 to HK\$200 per incident depending on the time of lodging the declaration and the total value of the articles specified in the declaration) under regulation 7 of the I&E Registration Regulations. In addition, failure or negligence in lodging declaration beyond the prescribed 14-day period without reasonable excuse is an offence and is liable on summary conviction to a fine of HK\$1,000 (plus daily fines of HK\$100 commencing on the day following the date of conviction) under regulations 4 or 5 of the I&E Registration Regulations.

Where the Commissioner of the Hong Kong Customs and Excise Department has reason to believe that the (aggregate) value of any articles has been understated in the declaration such that the amount of the declaration charge had been underpaid, he shall assess and demand for payment of the extra charge which would have been payable had the (aggregate) value not been understated, together with penalty (which shall not be more than 20 times of such extra charge and be subject to a maximum penalty amount of HK\$10,000) (Regulation 10 of the I&E Registration Regulations).

Under regulations 4 or 5 of the I&E Registration Regulations, a person who knowingly or recklessly lodges any declaration that is inaccurate in any material particular commits an offence and is liable on summary conviction to a fine of HK\$10,000. Further, in the event a person is prosecuted and convicted under section 36 of the Import and Export Ordinance for making or furnishing statement or information which is false or misleading in a material particular, he shall be liable to a fine of HK\$500,000 and imprisonment for 2 years.

### *Employment Ordinance (Chapter 57 of the Laws of Hong Kong)*

The Employment Ordinance governs conditions of employment in Hong Kong. It provides for various employment-related benefits and entitlements to employees. All employees covered by the Employment Ordinance, irrespective of their hours of work, are entitled to protection including payment of wages, restrictions on wages deductions and the granting of statutory holidays. Employees who are employed under a continuous contract are further entitled to benefits such as rest days, paid annual leave, sickness allowance, severance payment and long service payment.

## REGULATORY OVERVIEW

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

Sections 7 and 7A of the Mandatory Provident Fund Scheme Ordinance (Chapter 485 of the Laws of Hong Kong) (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 and make contributions to that relevant registered scheme within the permitted period. MPFSO provides that an employer shall participate in a Mandatory Provident Fund Scheme and make contributions for its employees aged between 18 and 65. Under a Mandatory Provident Fund Scheme, an employer and its employee are both required to contribute 5% of the employee’s monthly relevant income as mandatory contribution for and in respect of the employee, subject to the minimum and maximum relevant income levels for contribution purposes. The maximum level of relevant income for contribution purposes is currently HK\$30,000 per month or HK\$360,000 per year. The minimum level of relevant income for contribution purposes is currently HK\$7,100 per month or HK\$85,200 per year.

### **Laws and regulations relating to the transfer pricing regulations**

Regulations concerning transfer pricing between associated enterprises can be found in the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the “**IRO**”) and the comprehensive double taxation agreements (the “**DTAs**”) between Hong Kong and other countries or territories, including the PRC.

Under section 60 of the IRO, where it appears to an assessor that for any year of assessment any person chargeable with tax has not been assessed or has been assessed at less than the proper amount, the assessor may, within the year of assessment or within six years after the expiration thereof, assess such person at the amount or additional amount which, according to his judgment, such person ought to have been assessed, and, provided that where the non-assessment or under-assessment of any person for any year of assessment is due to fraud or willful evasion, such assessment or additional assessment may be made at any time within 10 years after the expiration of that year of assessment.

Section 61A of the IRO stipulates that where it would be concluded that person(s) entered into or carried out transactions for the sole or dominant purpose to obtain a tax benefit (which means the avoidance or postponement of the liability to pay tax or the reduction in the amount thereof), liability to tax of the relevant person(s) will be assessed (a) as if the transaction or any part thereof had not been entered into or carried out; or (b) in such other manner as the supervising authority considers appropriate to counteract the tax benefit which would otherwise be obtained.

The DTAs contain provisions mandating the adoption of arm’s length principle for pricing transactions between associated enterprises. The arm’s length principle uses the transactions of independent enterprises as a benchmark to determine how profits and expenses should be allocated for the transactions between associated enterprises. The basic rule for DTA purposes is that profits tax charged or payable should be adjusted, where necessary, to reflect the position which would have existed if the arm’s length principle had been applied instead of the actual price transacted between the enterprises.

## REGULATORY OVERVIEW

The Departmental Interpretation and Practice Notes No. 45—Relief from Double Taxation due to Transfer Pricing or Profit Reallocation Adjustments issued by the Inland Revenue Department in April 2009 makes it available that where double taxation arises as a result of transfer pricing adjustments made by the tax authorities of another country, a Hong Kong taxpayer may potentially claim relief under the tax treaty between Hong Kong and that country (countries that entered into tax arrangements with Hong Kong includes the PRC).

The Inland Revenue Department also issued Departmental Interpretation and Practice Notes No. 46 (“**DIPN 46**”) in December 2009 on Transfer Pricing Guidelines — Methodologies and Related Issues. As stated in DIPN 46, transfer pricing documentation is not mandatory under the IRO and the taxpayers are not expressly required to create specific documents showing compliance with the arm’s length principle. The Inland Revenue Department further issued Departmental Interpretation and Practice Notes No. 48 in March 2012 which provides a mechanism for taxpayers to pre-agree their transfer pricing arrangements with the Inland Revenue Department.

In July 2018, the Inland Revenue (Amendment) (No. 6) Ordinance 2018 (the “**Amendment Bill**”) was enacted to introduce a legislative framework to codify how the pricing for the supply of goods and services between associated parties should be determined and implemented. Codified international transfer pricing principles include, amongst others, the arm’s length principle for provision between associated persons, the separate enterprises principle for attributing income or loss of non-Hong Kong resident person, and the three-tier transfer pricing documentation relating to the master file, local file and country-by-country reporting.

Based on the Amendment Bill, a person who have a Hong Kong tax advantage if taxed on the basis of a non-arm’s length provision (the “**advantaged person**”) will have income adjusted upwards or loss adjusted downwards. The advantaged person’s income or loss is to be computed as if arm’s length provision had been made or imposed instead of the actual provision. If the advantaged person fails to prove to the satisfaction of the assessor of the IRD that the amount of the person’s income or loss as stated in the person’s tax return in an arm’s length amount, the assessor of the IRD must estimate an amount as the arm’s length amount and, taking into account the estimated amount (a) make an assessment or additional assessment on the person; or (b) issue a computation of loss, or revise a computation of loss resulting in a smaller amount of computed loss, in respect of that person pursuant to section 50AAF of the IRO.

In July 2019, the Inland Revenue Department further issued the Departmental Interpretation and Practice Notes No. 58 (“**DIPN 58**”), No. 59 (“**DIPN 59**”) and No. 60 (“**DIPN 60**”) to set out interpretations to the Amendment Bill.

As advised by our Independent Transfer Pricing Tax Adviser, the Amendment Bill and the subsequent DIPNs have not changed the fundamental principle (i.e., arm’s length principle) and the methodologies for evaluating transfer pricing arrangements. Therefore, our Directors are of the view that the Amendment Bill will not bring material impacts on the Group’s operations and financial results.

## REGULATORY OVERVIEW

### LAWS AND REGULATIONS IN THE UNITED STATES

#### Product liability

Products liability law governs private litigation of product accidents. It typically operates ex post, meaning it is a body of rules that govern after a product accident has already occurred and is primarily comprised of case laws at the state level. There are four basic causes of action when dealing with a product alleged to be defective: strict products liability, negligence actions, breach of warranty, and tortious misrepresentation. A litigant is not limited to one cause in bringing a proceeding, but can assert any and all causes of action simultaneously. Further, all four causes have broad application to a vast array of products.

Strict products liability is generally the most common cause of action asserted in proceedings involving allegedly defective products. This is because, unlike negligence, strict products liability wrongs do not depend on the degree of care by the defendant. The analysis depends solely on the product and whether it was defective at the time it left the manufacturer. A product can be defective in its manufacture, that is the product does not conform to design specifications or performance standards, or it deviated in some material ways from otherwise identical units of the same product line. A product can also be defective in its design. A product has a design defect when its design or configuration makes it unreasonably dangerous. Finally, a product can be defective because it lacks proper warning or instructions.

With strict products liability, it is irrelevant whether the manufacturer or supplier exercised all due care in the design, manufacture, or marketing of the product; if there is a defect in the product that causes harm, he/she/it will be liable for it. Thus, strict product liability is liability without fault for an injury proximately caused by a product that is defective and not reasonably safe.

Negligence actions, on the other hand, require a plaintiff to show that (1) the defendant owed the plaintiff a duty of due care, (2) the defendant breached that duty by furnishing a defective product, and (3) the defendant's breach caused the plaintiff's injury. The analysis focuses on the acts or omissions of the manufacturer of the product. The duty to exercise reasonable care involves every phase of getting the product to the public. For example, not only must the product be manufactured with reasonable care, the product must also be designed in a way that is safe when used as intended. The product must be inspected and tested at appropriate stages in the manufacturing, distribution and selling process. The product must be made from appropriate (i.e. safe and non-defective) materials, and assembled with appropriate care to avoid negligent manufacture. The product's container or packaging must be adequate (and not itself dangerous or defective), and contain appropriate warnings and directions for use. An otherwise non-defective product can be made unsafe by the failure to provide adequate instructions for its safe use.

The breach of warranty cause of action is governed by contract law. In the simplest of terms, a warranty is a promise, claim, or representation made about the quality, type, number or performance of a product. In general, under U.S. laws, it is assumed that a seller always provides some kind of warranty concerning the product he sells and the he should be required to meet the obligation created by the warranty.

## REGULATORY OVERVIEW

For the most part, the law that governs the sale of goods, in general, and warranties, in particular, is uniform from state to state in the U.S.. The law that governs the sale of goods is Article 2 of the Uniform Commercial Code (the “UCC”). The UCC has been adopted in every state in the U.S.. Under the UCC, there are two kinds of warranties: express and implied. An express warranty can be created by a representation by the seller, or by showing a sample of a product to the buyer where the buyer reasonably assumed that a second shipment of the same quality as the first would be provided. An implied warranty, on the other hand, is presumed to exist unless the buyer clearly and unambiguously disclaims it in writing as part of the sales agreement.

Finally, tortious misrepresentation seeks to hold a party liable for misrepresenting a material fact about the product which causes either damage or injury. The rules governing tortious misrepresentation are based on case laws and vary from jurisdiction to jurisdiction.

### Quality and safety standards

#### *Consumer Product Safety Act (“CPSA”)*

The Consumer Product Safety Act defines a “consumer product” as any article or component part (except certain products subject to other federal regulations, including products regulated by the U.S. Food and Drug Administration (“FDA”)), produced or distributed (i) for sale to a consumer for use, or (ii) for the personal use, consumption or enjoyment of a consumer, in or around home, school or recreation area.

The U.S. Consumer Product Safety Commission (“CPSC”) has jurisdiction over the safety of “consumer products” under the CPSA and the safety and labelling of “hazardous substances” under the Federal Hazardous Substances Act (“FHSA”). Products regulated by the FDA are specifically excluded from CPSC jurisdiction under these two statutes. However, under the Poison Prevention Packaging Act (“PPPA”), the CPSC has jurisdiction over the safety of packaging of all household substances. In 2008, the Consumer Product Safety Improvement Act (“CPSIA”) was enacted. It increased the CPSC’s budget, introduced new product testing and documentation requirements and established new acceptable levels for certain substances, including lead. The CPSIA also contains provisions intended to protect whistle-blowers who report violations of consumer product safety laws. It also increased penalties for consumer production safety violations.

The CPSA requires manufacturers, importers, distributors and retailer to submit reports to the CPSC when products they manufacture, import, distribute or sell pose an unreasonable risk to consumer safety, contains a defect that would create a substantial hazard, or fails to comply with applicable regulations. The CPSIA requires that manufacturers, including importers and labellers of products, certify that their products comply with all applicable CPSA consumer product safety rules, standards, regulations and prohibitions under any law administered by the CPSC by issuing a certificate to accompany the product. The CPSC may seek an injunction against the distribution of any product that it deems to be an “imminent hazard”, seek corrective action (including voluntary or mandatory recalls) with regard to any product that it deems to present a “substantial hazard” and impose civil or criminal penalties for violations of the statute.

CPSC addresses product hazard and promote product safety by providing technical support for voluntary standards activities for a wide range of consumer products. The 1981 amendments to the CPSA require CPSC to rely on a voluntary standard if CPSC determines that the voluntary standard

## REGULATORY OVERVIEW

adequately addresses the hazard and there is likely to be substantial compliance with the voluntary standard. Compliance with voluntary standards is not required by law and voluntary standards do not have the force of law. However, non-compliance with voluntary standards can result in a determination of a substantial product hazard by the CPSC that in turn can lead to CPSC enforcement actions. CPSC may exercise its expanded authority to place a product on the substantial products hazards list.

The hair styling and beauty care electrical appliances that our Group sells to the U.S may be submitted for testing by independent safety organisations such as Underwriters Laboratories (“UL”) and Intertek ETL. These bodies test a range of consumer products, including electrical personal grooming appliances, to ensure that they are safe for public use. For example, electrical personal grooming appliances such as hair dryers may be submitted for testing by these independent safety organisations to ensure compliance with the “Standard for Safety for Household Electric Personal Grooming Appliances” set forth under UL 859 or the “Standard for Safety for Commercial Electric Personal Grooming Appliances” set forth under UL 1727.

Under the FHSA, the CPSC regulates the safety warnings for “hazardous substances”. A hazardous substance is defined as any substance or mixture of substance that (1) is toxic; (2) is corrosive; (3) is an irritant; (4) is a strong sensitiser; (5) is flammable or combustible; or (6) generates pressure through decomposition, heat or other means. The FHSA specifically excludes from this definition products regulated by the FDA. Under the FHSA, the CPSC has the authority to deem products banned or misbranded hazardous substances under certain circumstances and to impose or seek civil and criminal penalties for the unlawful distribution of such products.

The PPPA authorises the CPSC to develop “special packaging” requirements (child-resistant packaging) for household substances. The CPSC may require special packaging for a product if such packaging is (1) necessary to protect children from serious personal injury or illness and (2) technically feasible, practicable and appropriate. Violations of the PPPA may render the product a misbranded hazardous substance under the FHSA and subject the violator to penalties under that statute.

### **FCC authorisation**

The Federal Communication Commission (“FCC”) is an agency in the U.S. federal government established under Title 47 of the Code of Federal Regulations. Its main responsibility is to: (1) manage the radio spectrum; (2) protect against radio and broadcast noise by enforcing standards and; (3) regulating the amount of radiated electromagnetic interference.

Pursuant to 47 CFR§2.803, a radio frequency device may not be marketed in the U.S. until it has been tested for compliance with the applicable technical requirements or properly authorised. “Marketing” is broadly defined as including “sale or lease, or offering for sale or lease, including advertising for sale or lease, or importation, shipment, or distribution for the purpose of selling or leasing or offering for sale or lease.”

Almost all electronic-electrical products or devices are capable of emitting radio frequency energy. Most, of these products must be tested to demonstrate compliance with the FCC rules for each type of electrical function that is contained in the product. As a general rule, products that, by design, contain circuitry that operates in the radio frequency spectrum need to demonstrate compliance using the applicable FCC equipment authorisation procedure as specified in the FCC rules depending on the type of device.



## REGULATORY OVERVIEW

The FCC rules include three general categories of regulated radio frequency devices: (1) intentional radiators, (2) unintentional radiators, and (3) incidental radiators.

An intentional radiator is a device that intentionally generates and emits radio frequency energy by radiation or induction that may be operated without an individual license. An intentional radiator is generally required to be approved using the certification procedure described below. None of our Group's products are intentional radiators.

An unintentional radiator is a device that by design uses digital logic, or electrical signals operating at radio frequencies for use within the product, or sends radio frequency signals by conduction to associated equipment via connecting wiring, but is not intended to emit radio frequency energy wirelessly by radiation or induction. Depending on the type of unintentional radiators, unintentional radiators are subject to one or two types of premarketing authorisation: (1) certification or (2) supplier's declaration of conformity ("SDoC"). Most unintentional radiators may be authorised through either certification or SDoC.

Certification is the most rigorous approval process for radio frequency devices. It is an equipment authorisation issued by an FCC-recognised Telecommunication Certification Body ("TCB") based on an evaluation of the supporting documentation and test data submitted by the responsible party (e.g. the manufacturer or importer) to the TCB. Testing is performed by an FCC-recognised accredited testing laboratory. Information including technical parameters and descriptive information for all certified equipment is posted on a FCC maintained public database.

SDoC is a procedure that requires the party responsible for compliance (i.e. the responsible party) to ensure that the equipment complies with the appropriate technical standards. If an equipment is imported, the responsible party will be the importer, who must be located in the U.S.. Responsible party or any other party marketing the products must obtain a test report and other information demonstrating compliance with the FCC rules and provide such report and information to the FCC upon request by the FCC.

Equipment that only contains digital circuitry (does not contain a radio transmitter), such as hair dryers and hair straighteners using digital logic, are subject to approval using the SDoC procedure or may optionally use the certification procedure. In addition to complying with the required authorisation procedure, all radio frequency devices categorised as unintentional radiators must be properly labelled before marketing in the U.S..

An incidental radiator is an electrical device that is not designed to intentionally use, authorisation generate or emit radio frequency energy over 9 kHz. However, an incidental radiator may produce by-products of radio emissions above 9 kHz and cause radio interference. A device that is classified as an incidental radiator device is not required to obtain an equipment authorisation. The FCC only requires manufacturers of incidental radiators to employ good engineering practices to diminish the risk of harmful interference before marketing. Most of our Group's electrical appliances would fall within incidental radiators, except the hair dryers and hair straighteners using digital logic, which would fall within unintentional radiators and be subject to the relevant compliance requirements.

## REGULATORY OVERVIEW

### **Import tariff regulations**

Manufactured goods imported from the PRC are generally subject to U.S. import duties. The PRC is subject to the general rates applicable to most countries with which the U.S. does not have a free-trade agreement (“FTA”) in place. The rates of duty are set forth in the Harmonized Tariff Schedule of the United States (“HTS”) which identifies applicable duties for all imported goods, organised by class and specific article. The HTS classifies all products imported into the U.S. by reference to factors such as material composition, product name, and/or intended function, with a specific tariff rate assigned to each category of products under the HTS classification. It should be noted that embargoes, anti-dumping duties, countervailing duties, and other specific matters administered by the U.S. Executive Branch are not contained in the HTS.

There are a number of provisions of U.S. trade law which may allow or result in modification of these duties. Sections 201 through 204 of the Trade Act of 1974, as amended (19 U.S.C.§§2251–2254) provide the authority and procedures for the U.S. to take various actions to facilitate a domestic industry’s adjustment to import competition. For example, if the U.S. International Trade Commission determines that an article is being imported in such increased quantities so as to threaten domestic producers of similar products, the U.S. may, among other things, increase or impose a duty, or a tariff-rate quota.

### **Anti-dumping and countervailing duty laws**

There are a range of trade laws in the U.S. which address the issue of imports which may injure or threaten to cause injury to U.S. industries. Under anti-dumping and countervailing duty laws under the Tariff Act of 1930, 19 U.S.C.§1202 et seq., as amended, the U.S. Department of Commerce (“DoC”) and the U.S. International Trade Commission (“USITC”) conduct investigations into whether dumping or countervailable subsidies are occurring in products imported into the U.S. market and are causing harm to the U.S. domestic industry. A significant proportion of such investigations in recent years have been in relation to imports from the PRC.

Whether an item is being dumped or not is assessed on the basis of whether it is being sold at less than fair value in the U.S.. This means that it is being sold below the producer’s sales price in its home market, or at a price which is lower than the cost of production. Subsidisation occurs when a government provides countervailable financial assistance to benefit production, manufacture and/or export of a good. There is first an assessment made by DoC that dumping or subsidisation is occurring, together with a calculation of the estimated margin of dumping or amount of subsidy, and then the USITC is called upon to determine whether or not there is a material injury or a threat of material injury to a U.S. industry. If such injury or threat of injury is found, DoC will issue an anti-dumping duty and/or countervailing duty order. When such an order is imposed, U.S. Customs and Border Protection is instructed to assess special duties on products subject to the order at the time of their import.

After an order has been issued, there is an automatic review, pursuant to the Uruguay Round Agreement Act, approved in late 1994, no later than five years after the order is issued, which is conducted to assess whether a revocation of the order would lead to the continuation or recurrence of dumping or subsidies and of material injury within a reasonably foreseeable time.

## **REGULATORY OVERVIEW**

In addition to anti-dumping and subsidisation investigations, there is a special PRC safeguards investigation which may also be conducted by USITC. Under this safeguard law, USITC determines whether articles from the PRC are being imported into the U.S. in such increased quantities or under such conditions so as to cause or threaten to cause market disruption to the domestic producers of similar or directly competitive products. If USITC makes an affirmative determination, it proposes a remedy. USITC sends its report to the U.S. President and the U.S. Trade Representative. The U.S. President makes the final remedy decision.

Our Group is not aware that any of our products manufactured in the PRC and exported to the U.S. is subject to anti-dumping or countervailing duties or an anti-dumping or countervailing duty investigation. Nevertheless, there is no guarantee that our products will not become subject to an anti-dumping or countervailing duty investigation in the future given the frequency of Chinese imports being subject to such investigations.

### **Laws relating to intellectual properties**

Trademarks law in the U.S. is governed by both state and federal law and the main federal statute is the Lanham Act. A trademark includes any word, name, symbol, slogan or device (such as design), or any combination of these, used to identify goods or services and to distinguish them from those manufacture, sold or serviced by others. The remedies for trademark infringement can include injunctions, lost profits and damages. The Lanham Act provides for a national system of trademark registration and protects the owner of a federally registered mark against the use of similar marks if such use is likely to result in consumer confusion, or if the dilution of a famous mark is likely to occur.

Patent law in the U.S. is governed exclusively by federal law, which is codified primarily in Title 35 of the United States Codes (35 U.S.C. § 1 et seq., as amended) and authorised by the U.S. Constitution. Patent law secures for inventors an exclusive right to their discoveries. Types of patents recognised under U.S. law include utility patents, design patents and plant patents. A patent is essentially a limited monopoly whereby the patent holder is granted the exclusive right to make, use and sell the patented innovation for a limited period of time in the U.S..

### **Competition and unfair trade practice laws**

The U.S. has a variety of federal statutes which are designed to promote fair and open competition by prohibiting unfair, restrictive or collusive business practices. These statutes include the Sherman Antitrust Act, 15 U.S.C. §1 et seq., as amended, the Clayton Act, 15 U.S.C. §12 et seq., as amended, the Federal Trade Commission Act, 15 U.S.C. §41 et seq., as amended, and the Robinson-Patman Act, 15 U.S.C. §13a et seq., as amended. These statutes prohibit, among other things, agreements or arrangements in restraint of trade, unfair or deceptive trade practices and, in certain situations, unfair or discriminatory pricing practices. They may be enforced by the Department of Justice, the Federal Trade Commission and private litigants. In addition, most states have similar statutes which likewise prohibit arrangements in restraint of trade, unfair or deceptive practices and unfair or discriminatory pricing practices. These state statutes are enforced by State Attorneys General and other state regulators, as well as private litigants.

## REGULATORY OVERVIEW

### LAWS AND REGULATIONS IN JAPAN

#### Product Liability Act of Japan

The Product Liability Act of Japan (Act No. 85 of July 1, 1994; the “**PLA**”) enables parties who suffer loss of life or damage to person or property caused by defective products to bring claims against the “manufacturers, etc.” of such products. The term “manufacturers, etc.” is broadly defined in the PLA, and it includes OEM, ODM and OBM manufacturers. Further, under the PLA, “defect” means a lack of safety that a product ordinarily should provide, taking into account the nature of the product, the ordinarily foreseeable manner of use of the product, the time when the “manufacturer, etc.” delivered the product, and other circumstances concerning the product. Defects can be design defects, manufacturing defects, or insufficient warning and instruction. There are various voluntary industry standards, such as PSE mark and JAB, for electrical appliances in Japan that address certain requirements concerning the strength of straps, fastness to rubbing, among other matters, for example. The compliance on such voluntary industry standard is, under normal practice of Japanese court, an important element in determining whether a product has a defect, and thus a product is unlikely to be held defective if such product comply with the applicable voluntary standard.

As such, our Group, being an ODM manufacturer and covered by the PLA, could be a defendant in a product liability litigation concerning our products if they are alleged to be defective and to have caused injury.

#### Consumer Product Safety Act of Japan

The Consumer Product Safety Act of Japan (Act No. 31 of June 6, 1973, as amended; the “**CPSA**”) sets forth rules regarding the collection and provision of information regarding consumer product accidents in order to prevent and mitigate danger to life or body caused by consumer products, and thereby protecting the interest of general consumers. “Consumer Products” for purposes of the CPSA are those which are “supplied mainly for use by general consumers for their routine everyday activities”.

CPSA also provides that the relevant authority in Japan may order the manufacturers and/or importers to perform product recall of a product with material defect. The term “manufacturers” includes OEM, ODM and OBM manufacturers. Therefore, our Group, being an manufacturer, could be required to perform a product recall if our products have material defect.

#### Customs tariffs on imports

There are customs regulations applicable to the import of our personal care and lifestyle appliances into Japan. These customs rules and regulations vary according to the origin and the final destination of the products.

Japan has entered into several economic partnership agreements (“**EPA**”) that reduce or avoid the imposition of tariffs. As at June 2019, Japan has effective EPAs with Singapore, Mexico, Malaysia, Chile, Thailand, Indonesia, Brunei, ASEAN, Philippines, Switzerland, Vietnam, India, Peru, Australia, Mongolia, TPP11 and EU that, depending on the actual products and the origin of the products involved, the tariff is adjusted accordingly.

## REGULATORY OVERVIEW

The electrical appliances that our Group manufactures in, and exports from, the PRC to Japan are, depending upon specifications, design, quality and other technical elements of such electrical appliances, subject to the import ordinary tariffs in accordance with applicable Harmonised System codes and relevant Japanese laws and regulations. The import of products by the Group from the PRC to Japan are not, other than these ordinary tariffs, subject to any special duties (such as anti-dumping or safe guard duty) nor any special import prohibition or restriction.

### **LAWS AND REGULATIONS IN THE EUROPEAN UNION**

In the EU, the regulatory frameworks relating to product liability and safety, and consumer protection comprise a complex body of directives and regulations. The directives seek to harmonise the law within different areas in the EU and must be transposed by each EU Member State through the adoption of national implementing legislation.

While a regulation is a legal act that becomes immediately enforceable and directly applicable in all EU Member States without the need for implementing measures, a directive must be implemented by each EU Member State in accordance with their domestic legal system.

Most importantly, enforcement of the rules is the exclusive jurisdiction of national authorities in each of the EU Member States. Thus, whilst directives set out minimum common standards of product liability and consumer protection in the EU, enforcement of their rules may vary within the EU depending on the national laws of the EU Member States implementing the directives.

### **EU import and custom duties — tariffs**

#### *Custom duties*

The EU is a customs union with a common external tariff application to all goods entering each of the EU Member States. The EU customs framework is set out in three key regulations: (i) regulation (EU) No. 952/2013; (ii) Commission Delegated Regulation No. 2015/2446 and (iii) Commission Implementing Regulation No. 2015/2447 (each as amended) (collectively, the “**EU Customs Code**”). The EU Customs Code and its implementing legislation are directly applicable in the 28 States members of the customs territory of the EU.

Under the EU Customs Code, the importation of goods into the EU is subject to the payment of relevant import value-added tax, customs duties, and other excise duties, in accordance with the framework set out in Council Directive 2008/118/EC (as amended).

Additional customs duties may be further imposed under the EU’s anti-dumping and countervailing measures. The framework for these measures is set out in Regulation (EU) 2016/1036 and Regulation (EU) 2016/1037 (as amended), and the relevant value-added tax, customs duties (including anti-dumping and countervailing duties, where applicable) and excise duties are assessed by relevant EU Member State customs authorities, who are responsible for the application and enforcement of the EU customs law.

## REGULATORY OVERVIEW

No customs duties are levied on goods moving within the EU's customs union. Separately, the EU has enacted legislation to address unfair trade practices (*i.e.* anti-dumping and countervailing measures) pursuant to the World Trade Organisation Anti-dumping and Anti-subsidy Agreements respectively. The EU and, in particular, the European Commission is directly responsible for conducting anti-dumping and anti-subsidy investigations as well as adopting any protective measure.

### *Tariff and Non-tariff measures*

When making declarations to customs in the EU, goods must generally be classified according to the Combined Nomenclatures (the "CN"). Imported goods have to be declared, stating under which subheading of the CN they fall. This determines the rate of customs duty applied and how the goods are treated for statistical purposes.

The CN comprise of the international Harmonised System nomenclature with further community subdivisions. The Harmonised System is administered by the World Customs Organization. The CN forms the basis for international trade negotiations and is applied by most trading nations. The CN also include preliminary provisions, additional section or chapter notes and footnotes relating to CN subdivisions. Each CN subdivision has an eight-digit code number, the CN code, followed by a description.

In addition to customs duties, imports into the EU have to fulfil health, safety, standard and other measures. Certain imports into the EU may also be subject to anti-dumping and anti-subsidy duties.

### **Product labelling**

EU law imposes an obligation on the manufacturer (or its authorised representative established within the EU) to draw up and sign an EU declaration of conformity before placing a product on the market. The EU declaration of conformity is the document that states that the product satisfies all the relevant requirements of the applicable legislation. As such, it must be translated into the language of the EU Member States in which the product is placed in or made available on the market.

The CE mark is a key indicator of a product's compliance with EU legislation and enables the free movement of products within the European Economic Area ("EEA") markets. A CE mark may be affixed only by the manufacturer or its authorised representative established within the EU. In addition, it may be affixed only to products to which its affixing is provided by specific EU harmonisation legislation. By affixing such CE mark, the manufacturer indicates that it takes responsibility for the conformity of the product with all applicable requirements set out in the relevant EU harmonisation legislation providing for its affixing, such as safety, health and environmental protection requirements.

### **Product liability and product safety directives**

All products entering the EU must comply with product safety laws. There are two principal EU directives that deal with the compliance of products in the EU: (i) Directive 2001/95/EC of the European Parliament and of the Council on general product safety (the "**GPS Directive**"), and (ii) Directive 85/374/EEC of the Council on the approximation of the laws, regulations and administrative provisions of the EU Member States concerning liability for defective products (the "**Product Liability Directive**"), as amended by Directive 1999/34/EC of the European Parliament and of the Council.

## REGULATORY OVERVIEW

The GPS Directive aims to ensure that only safe products are made available in the market. It applies to any product that is intended for consumers or likely to be used by consumers and placed in the EU market, provided that there are no sector-specific EU provisions or national standards with the same objective governing the safety of the products concerned.

In determining whether a product is considered safe under the GPS Directive, various factors are taken into account, including the following:

- (i) national safety standards;
- (ii) guidelines from the European Commission on product safety;
- (iii) product safety codes of good practice in force in the sector concerned;
- (iv) the state of the art and technology; and
- (v) reasonable consumer expectations concerning safety.

The GPS Directive further provides that national governments must appoint local authorities to carry out market surveillance to ensure that safety standards are implemented.

The Product Liability Directive is a maximum harmonisation directive (*i.e.* the directive does not permit the EU Member States to adopt rules that are stricter than those provided for in the directive, even in order to achieve a higher level of consumer protection) and sets out the principle that a producer (including the manufacturer established and operating in the EU or its representative in the EU and the importer into the EEA and, if neither manufacturer established and operating in the EU or its representative in the EU nor importer can be identified, the retailer) shall be liable for the damage caused by a defect in its product, irrespective of fault. Under the Product Liability Directive, a product is defective if it fails to provide the safety that a person is entitled to expect, taking into account all circumstance, including:

- (i) the presentation of the product;
- (ii) the use to which it could reasonably be expected that the product would be put; and
- (iii) the time when the product was put into circulation.

### **Low Voltage Directive**

Any products containing electrical parts must also comply with Directive 2014/35/EU of the European Parliament and of the Council on the harmonisation of the laws of the EU Member States relating to the making available on the market of electrical equipment designed for use within certain voltage limits (the “**Low Voltage Directive**”). The Low Voltage Directive establishes safety objectives for electrical equipment within certain voltage limits and requires all manufacturers of products containing electrical parts to undertake testing and assessment of the products to ensure their conformity with Annex I of the Low Voltage Directive. Moreover, pursuant to the Low Voltage Directive, such manufacturers shall draw up an EU declaration of conformity and affix CE mark to the electrical equipment. The Low Voltage Directive supersedes any existing national legislation.

## REGULATORY OVERVIEW

### **Civil liability**

In addition to regulatory liability, there may also be civil claims in both contract (for breach of an implied term of the sale contract for not supplying a product of adequate quality) and tort (such as negligence for personal injury or property damage) in respect of product liability or safety and consumer protection.

### **Use of trade marks with respect to imports**

Regulation (EC) No 2017/1001 (the “**EUTMR**”) regulates the registration of EU trade marks, the use of registered EU trade marks and related matters. Article 9 of the EUTMR provides that the owner of a registered EU trade mark has exclusive rights in the trade mark, the use of the trade mark (or any sign confusingly similar to it) in the EU without the owner’s consent is an infringement of EU trade mark laws.

Goods imported into the EU must not infringe any trademark, which other operators may hold in the EU. Exporters should inquire into whether the goods they intend to export to the EU are already subject to intellectual property rights, including trade marks, in any of the EU Member States and obtain, if necessary, an appropriate license from the right-holder. To tackle counterfeiting, the EU has adopted a procedure which allows for the suspension of the entry into its territory of counterfeit and pirated goods. The regulation sets out the conditions under which customs authorities may intervene where goods are suspected of infringing intellectual property rights, including trade marks, and provides harmonised procedures by which right-holders may apply for action to be taken.

### **Other regulatory requirements in the EU**

Directive 2011/65/EU of the European Parliament and of the Council on the restriction of the use of certain hazardous substances in electrical and electronic equipment lays down rules restricting the use of hazardous substances in electrical and electronic equipment with a view of contributing to the protection of human health and the environment, including the environmentally sound recovery and disposal of waste electrical and electronic equipment. In particular, it sets forth restrictions (with some exceptions) with respect to the use of six hazardous substances by-producers during the manufacture of electrical and electronic equipment, cables and spare parts.

Directive 2011/65/EU of the European Parliament and of the Council (“**RoHS 2**”) (as amended) provided a recast of Directive 2002/95/EC of the European Parliament and of the Council on the restriction of the use of certain hazardous substances in electrical and electronic equipment, and was mainly aimed at extending the requirements to all electrical and electronic equipment, cables and spare parts, reviewing the list of restricted substances (while allowing EU Member States to propose new substance restrictions), and putting forth clearer and more transparent rules for granting, renewing or deleting exemptions. The restricted substances and list of exemptions from the restrictions are periodically reviewed and amended, to adapt both lists to technical and scientific progress, taking into account the precautionary principle.

With regard to the restriction of substance in electrical and electronic equipment, the RoHS 2 Directive does not affect the application of the registration, evaluation, authorisation and restriction of chemicals and *vice versa*.



## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

### OVERVIEW

The history of our Group can be traced back to 1988 when HK Fourace was founded by Mr. SY Li and Mr. PJ Sit with their respective personal wealth. Since the establishment of our Group, it has been managed under the leadership of Mr. SY Li and our senior management team. Mr. PJ Sit, a co-founder of our Group and business partner of Mr. SY Li, had been a passive investor and had delegated the management of our Group's business to Mr. SY Li since the early period of our Group's development. Apart from referring potential business opportunities to HK Fourace during the early time of establishment of HK Fourace in the late 1980s, Mr. PJ Sit did not participate or involve in the daily operation or management of our Group, or neither did he report duty to our Group. Mr. PJ Sit had relied on Mr. SY Li to run the business of our Group since the establishment of HK Fourace. In September 2017, Mr. SY Li acquired 25% shareholding in HK Fourace from Mr. PJ Sit and Mr. PJ Sit also transferred his remaining 50% shareholding in HK Fourace to his daughter Ms. HW Sit for succession reason. As a result, our Group was ultimately owned by Mr. SY Li and Ms. HW Sit in equal shares.

In our early stage of development, our Group's business grew with the increasing demand of personal care electrical appliances from the U.S. and Japan markets. Leveraging our strong product research and development capabilities and high quality of our products, our Group's customer base was expanding with export sales covering Europe in 2005. Over the past 30 years, our Group has been principally engaged in the business of manufacturing and trading of personal care electrical appliances and related items through our subsidiaries. According to the Industry Report, we were the third largest OEM/ODM service provider of personal care electrical appliances in terms of export revenue in the PRC in 2019.

### OUR BUSINESS DEVELOPMENTS AND KEY MILESTONES

The following events are the key business developments and milestones of our Group:

<b>Year</b>	<b>Event</b>
1988	HK Fourace commenced its business of manufacturing and trading of personal care electrical appliances and related items. It entered into a processing agreement with Shenzhen Lo Wu Material Trade Centre* (深圳市羅湖物資貿易中心) for processing and assembling household electrical appliances. We started to manufacture our hair dryers for the U.S. market.
1989	We started to manufacture hair related personal care electrical appliances for the Japan market.
1991	We started to manufacture beauty care devices for the U.S. market.
1993	HK Fourace entered into a land lease contract with Bao'an District, Gongming Town, Jiangshi Village Shiwei Cooperative Economic Association* (寶安區公明鎮將石村石圍經濟合作社) in Shenzhen, the PRC whereby HK Fourace leased a piece of land as the site for Fourace Factory.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

<b>Year</b>	<b>Event</b>
1996	Fourace Factory was established at Bao'an District, Shenzhen, the PRC as a contract processing factory and has obtained the business licence for the processing and assembling of our products.
2002	We started to manufacture beauty care and grooming devices for Koizumi for the Japan market.  We were accredited with ISO 9001:2000 in relation to our quality management system ( <i>Note</i> ).
2005	We started to manufacture grooming devices for a customer for the European market.
2009	We started to manufacture hair styling products for T3 for the U.S. market.
2011	We started to manufacture hair dryers for Sharp Group for the Japan market.
2015	Fourace Factory was transformed into a wholly-owned foreign enterprise in the PRC as Shenzhen Fourace.
2017	We expanded our production capability in our production facility in Shenzhen through, among others, acquisition of a double-spray and double-baking line and several spray painting robotic arms.
2018	We started to independently design and develop a smart toilet seat product.
2019	We started to manufacture hair dryers for Customer M for the Japan market.

*Note:* Our ISO 9001:2000 accreditation for HK Fourace has since been upgraded to ISO 9001:2015.

### OUR CORPORATE HISTORY AND GROUP STRUCTURE

Details of the corporate history of our Company and our subsidiaries are set out below:

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 29 March 2019 in anticipation of the Listing. Pursuant to the Reorganisation as more particularly described in the paragraphs headed "Reorganisation" in this section, our Company has become the holding company of our Group for the purpose of the Listing. As at the Latest Practicable Date, our Group comprised:

- (i) our Company
- (ii) BVI Fourace
- (iii) HK Fourace
- (iv) Shenzhen Fourace

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

HK Fourace and Shenzhen Fourace are the principal operating subsidiaries of our Group, while BVI Fourace is an investment holding company.

### **Our Company**

Our Company was incorporated in the Cayman Islands with limited liability on 29 March 2019 in anticipation of the Listing with authorised share capital of HK\$380,000 divided into 38,000,000 Shares with a nominal value of HK\$0.01 per Share. Since its incorporation, our Company has been an investment holding company. Upon incorporation, one nil-paid Share was allotted and issued to an initial subscriber who is an Independent Third Party. On 29 March 2019, such subscriber share was transferred to Ace Champion. On 29 March 2019, one nil-paid Share was allotted and issued to Forever Golden. After such allotment, each of Ace Champion and Forever Golden holds 50.0% of the issued share capital of our Company.

Upon completion of the Reorganisation, our Company became the holding company of our Group, particulars of which are set out in the paragraphs headed “Reorganisation” in this section.

### **BVI Fourace**

BVI Fourace was incorporated in BVI on 11 April 2019 with limited liability. The authorised share capital of BVI Fourace is US\$50,000, which is divided into 50,000 ordinary shares of US\$1.0 each. On 11 April 2019, BVI Fourace allotted and issued one new share to our Company at the subscription price of US\$1.0. As at the Latest Practicable Date, BVI Fourace was a direct wholly-owned subsidiary of our Company.

The principal business of BVI Fourace is investment holding and is an intermediate holding company of our Group.

### **HK Fourace**

HK Fourace was incorporated in Hong Kong on 18 August 1987 with limited liability. HK Fourace is an indirect wholly-owned subsidiary of our Company and principally engaged in trading of personal care electrical appliances and related items. Upon its incorporation, one share was subscribed at HK\$1.0 by each of its two initial subscribers. In March 1988, each of Mr. SY Li and Mr. PJ Sit acquired one share for the consideration of HK\$1.0 from the initial subscribers, and was allotted and issued 33 shares and 65 shares in HK Fourace for the cash consideration of HK\$1.0 each, respectively. On 14 May 1988, HK Fourace allotted and issued 989,934 shares to Mr. PJ Sit for the cash consideration of HK\$1.0 per share. On 24 May 1988, HK Fourace allotted and issued 509,966 shares to Mr. SY Li for the cash consideration of HK\$1.0 per share. As a result, HK Fourace was owned as to 34.0% by Mr. SY Li and 66.0% by Mr. PJ Sit. In February 1990, HK Fourace allotted and issued 115,000 shares to Mr. SY Li and 885,000 shares to a nominee of Mr. PJ Sit for the cash consideration of HK\$1.0 per share, and Mr. PJ Sit transferred 990,000 shares of HK Fourace at nil consideration to the said nominee. As a result of such allotment and transfer of shares in HK Fourace, HK Fourace was beneficially owned as to 25.0% by Mr. SY Li and 75.0% by Mr. PJ Sit. In May 2005, Mr. PJ Sit's nominee transferred 1,875,000 shares in HK Fourace back to Mr. PJ Sit at nil consideration.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

On 25 September 2017, Mr. PJ Sit transferred to his daughter Ms. HW Sit his investment interest in 50.0% shareholding of HK Fourace at cost (HK\$1.0 per share) for succession reason. On the same date, Mr. PJ Sit sold to Mr. SY Li his investment interest in 625,000 shares of HK Fourace, representing 25.0% of the entire issued share capital of HK Fourace at the consideration of approximately HK\$43.7 million, representing the then fair value of the issued shares of HK Fourace. Upon such transfer of shares, HK Fourace was owned as to 50.0% by Mr. SY Li and 50.0% by Ms. HW Sit respectively.

On 5 June 2019, for the purpose of corporate restructuring, our Company, BVI Fourace, Ace Champion, Forever Golden, Mr. SY Li and Ms. HW Sit entered into the Share Purchase Agreement. Pursuant to the Share Purchase Agreement, on the same date, BVI Fourace acquired 1,250,000 shares and 1,250,000 shares held by Mr. SY Li and Ms. HW Sit in HK Fourace at the consideration of HK\$97,511,806 and HK\$97,511,806 respectively, the total amount of which was determined based on the consolidated net asset value of HK Fourace as at 31 March 2019 with reference to the unaudited management accounts of HK Fourace, in consideration of:

- (i) BVI Fourace issuing two shares at US\$1.0 each to our Company both credited as fully paid;
- (ii) our Company crediting as fully paid the two nil-paid shares in the issued share capital of our Company to Ace Champion and Forever Golden respectively; and
- (iii) Ace Champion issuing one share at US\$1.0 to Mr. SY Li credited as fully paid and Forever Golden issuing one share at US\$1.0 to Ms. HW Sit credited as fully paid.

Prior to the Track Record Period, HK Fourace established subsidiaries with a view to expanding the Group's business. However, those subsidiaries have ceased to be members of our Group as at the Latest Practicable Date. Set forth below are details of history regarding these subsidiaries:

- (i) *Meiaishen Electrical Products Manufacturing (Shenzhen) Co., Ltd.*\* (美愛神電器制造(深圳)有限公司) (“*Meiaishen*”)

Meiaishen was established on 26 October 1995 and owned as to 100% by HK Fourace. It was established as a wholly-owned foreign enterprise in the PRC to succeed and replace our processing and assembling arrangement with Shenzhen Lo Wu Material Trade Centre\* before the expiration of such arrangement in May 1996. In 1996, however, before commencing any business operations of Meiaishen, HK Fourace managed to obtain the business licence for processing and assembling to set up Fourace Factory. Due to the higher applicable tax rate for a wholly-owned foreign enterprise than a contract processing factory, the then management of HK Fourace considered that it would be more beneficial to establish Fourace Factory as a contract processing factory for continuation of the manufacturing operations than operating under a wholly-owned foreign enterprise. Therefore, the then management of HK Fourace decided to close down Meiaishen which had been dormant since its establishment. As Meiaishen did not proceed with the annual audit filing after its cessation of business, the business licence of Meiaishen was revoked in November 1998. Save for the said failure in making annual audit filing, our Directors confirm that Meiaishen was not involved in any material non-compliance or litigations prior to the revocation of its business licence.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

(ii) *Liaocheng Changli Electrical Appliances Company Limited\** (聊城昌利電器有限公司)  
 (“*Changli*”)

Changli was established in July 1992 in Shandong Province, the PRC and owned as to 55.0% by HK Fourace and 45% by an Independent Third Party. It was established for engaging in the business of manufacturing and sales of household electrical appliances with its own brand in the PRC. However, following the departure of several founding business partners from the said Independent Third Party, the then management of HK Fourace considered that it would be more beneficial for HK Fourace to concentrate its resources on the principal business of our Group. Therefore, the then management of HK Fourace decided to dispose of all the equity interest of Changli owned by HK Fourace to the then other existing shareholder at a consideration of RMB1,375,000 on 1 June 2007. Our Directors confirm that Changli was not involved in any material non-compliance or litigations prior to the disposal of its interest by HK Fourace to the then other shareholder.

(iii) *Shenzhen Fourace Dong Chang Electric Co., Ltd.\** (深圳科利東昌電器有限公司)  
 (“*Shenzhen Fourace Dong Chang*”)

Shenzhen Fourace Dong Chang was established on 1 March 1994 and owned as to 95.0% by HK Fourace and 5.0% by an Independent Third Party. It was established for engaging in the business of manufacturing of small household electrical appliances. Due to the cessation of business of a major customer of Shenzhen Fourace Dong Chang, the then management of HK Fourace considered that it would be more beneficial for HK Fourace to cease the business of Shenzhen Fourace Dong Chang and focus resources on the principal business of our Group. As Shenzhen Fourace Dong Chang did not proceed with the annual audit filing after its cessation of business, the business licence of Shenzhen Fourace Dong Chang was revoked in December 2012. Save for the said failure in making annual audit filing, our Directors confirm that Shenzhen Fourace Dong Chang was not involved in any material non-compliance or litigations prior to the revocation of its business licence.

### **Shenzhen Fourace**

In November 1996, Fourace Factory was established by Fourace HK at Bao’an District, Shenzhen, the PRC as a contract processing factory and has obtained the business licence for permitted processing and assembling\* (對外來料加工特准營業證). It principally engaged in processing and assembling electrical appliances on order pursuant to an agreement made between Fourace Factory and HK Fourace dated 10 November 1996, as amended from time to time.

Fourace Factory’s registered scope of business had been the processing and assembling of hair styling electrical appliances, small household electrical appliances, electronic parts, hair dryers, electric clippers, electric irons, electric massagers, hot air combs, and their electronic accessories. On 2 March 1998, the local authority approved the addition of the processing and assembling of metal parts, ovens and bread machines into its scope of business. On 15 November 2001, the local authority approved the addition of the processing and assembling of plastic products and parts into the scope of business of Fourace Factory.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

On 22 August 2007, Fourace Factory renewed its business licence for permitted processing and assembling\*, which was valid until 10 November 2016. According to the Opinions on Promoting the Transformation and Upgrading of the Processing Trade (廣東省人民政府《關於促進加工貿易轉型升級的若干意見》) promulgated by People's Government of Guangdong Province on 9 September 2008, People's Government of the Guangdong Province encouraged and supported those contract processing factories, which were in line with the state industrial policy, to transform in situ into foreign-funded enterprises or other types of enterprises with qualification of independent legal person. Based on our Directors' understanding at that time, the relevant authorities would not renew the business licence for permitted processing and assembling\* for Fourace Factory in light of the above policy. Based on the above, we decided to apply for the transformation after the upcoming expiration of the business licence for permitted processing and assembling on 10 November 2016. On 7 April 2015, the Economic Services Bureau of Shenzhen Guangming New District\* (深圳光明新區經濟服務局) approved the corporate transformation whereby Fourace Factory, a contract processing factory, transformed into a wholly-owned foreign enterprise with limited liability with the designated name of "Shenzhen Fourace Electrical Appliances Co., Ltd.\* (深圳科利電器有限公司)" (the full name of Shenzhen Fourace). Pursuant to the aforesaid transformation approval, Shenzhen Fourace was established in the PRC on 22 May 2015. It is a wholly-owned foreign enterprise with limited liability. At the time of its establishment, Shenzhen Fourace was wholly-owned by HK Fourace with a registered capital of HK\$20.0 million. Shenzhen Fourace is our operating subsidiary in the PRC and principally engages in the manufacturing and trading of personal care electrical appliances and related items. In August 2016, Fourace Factory was duly deregistered. Our Directors confirmed that the aforesaid transformation did not have material impact to our Group's cost structure. Before the transformation, the Group acquired raw materials mainly through HK Fourace. The raw materials were supplied to Fourace Factory for production under contract processing arrangement without transfer of legal title. After production, HK Fourace was the legal owner of the finished goods. The finished goods were sold through HK Fourace to overseas customers. After the transformation, Shenzhen Fourace purchased raw materials from third party suppliers as well as from HK Fourace for production. After production, Shenzhen Fourace sold the finished goods to HK Fourace with markup. The finished goods were sold by HK Fourace to overseas customers. Despite the markup charged by Shenzhen Fourace leading to the increase in procurement cost of HK Fourace, there would not be any impact on the cost of sales of our Group on consolidated basis. Besides, as confirmed by our Directors, before and after the transformation, our Group did not have material change in customer base, suppliers list, product mix or pricing policy. On these basis, the transformation mainly affected the transaction flow but did not have material impact to the Group's cost structure.

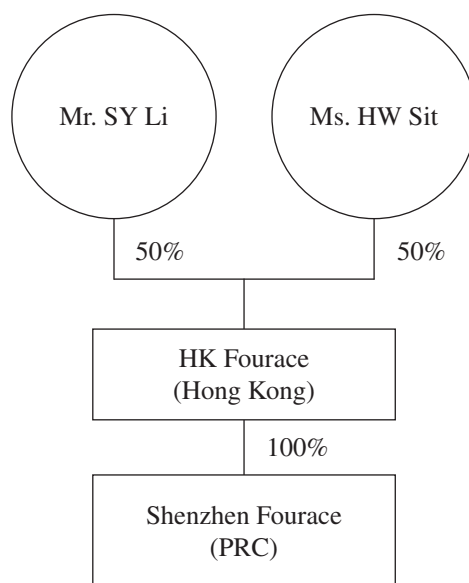
On 2 November 2017, the registered capital of Shenzhen Fourace was increased by HK\$30.0 million which will be contributed by HK Fourace in full on or before 1 November 2027. As at the Latest Practicable Date, out of the aggregated registered capital HK\$50.0 million, HK Fourace has paid HK\$44.0 million into Shenzhen Fourace.

The total paid-up capital of Shenzhen Fourace as at the Latest Practicable Date was HK\$44.0 million.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

### REORGANISATION

The following chart sets forth our Group's corporate and shareholding structure immediately before the Reorganisation:



In order to prepare for the Listing, we underwent the Reorganisation which involved the following steps:

#### **Step 1: Incorporation of our Company**

Our Company was incorporated in the Cayman Islands with limited liability on 29 March 2019 in anticipation of the Listing. Since its incorporation, our Company has been an investment holding company with no business operation. Upon incorporation, one nil-paid Share was allotted and issued to an initial subscriber who was an Independent Third Party. On 29 March 2019, such subscriber Share was transferred to Ace Champion. On 29 March 2019, one nil-paid Share was allotted and issued to Forever Golden. After such allotment, each of Ace Champion and Forever Golden holds 50.0% of the issued share capital of our Company.

#### **Step 2: Incorporation of BVI Fourace**

BVI Fourace was incorporated in BVI on 11 April 2019 as a company with limited liability. The authorised share capital of BVI Fourace was US\$50,000, which was divided into 50,000 ordinary shares of US\$1.0 each. On 11 April 2019 BVI Fourace allotted and issued one new share to our Company at the subscription price of US\$1.0. As at the Latest Practicable Date, BVI Fourace was a direct wholly-owned subsidiary of our Company.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

### Step 3: Acquisition of HK Fourace

On 5 June 2019, for the purpose of corporate restructuring, our Company, BVI Fourace, Ace Champion, Forever Golden, Mr. SY Li and Ms. HW Sit entered into the Share Purchase Agreement. Pursuant to the Share Purchase Agreement, on the same date, BVI Fourace acquired 1,250,000 shares and 1,250,000 shares held by Mr. SY Li and Ms. HW Sit in HK Fourace for the consideration of HK\$97,511,806 and HK\$97,511,806, respectively, the total amount of which was determined based on the consolidated net asset value of HK Fourace as at 31 March 2019 with reference to the unaudited consolidated management accounts of HK Fourace in consideration of:

- (i) BVI Fourace issuing two shares at US\$1.0 each to our Company both credited as fully paid;
- (ii) our Company crediting as fully paid the two nil-paid shares in the issued share capital of our Company to Ace Champion and Forever Golden; and
- (iii) Ace Champion issuing one share at US\$1.0 to Mr. SY Li credited as fully paid and Forever Golden issuing one share at US\$1.0 to Ms. HW Sit credited as fully paid.

Upon completion of the above, HK Fourace became a direct wholly-owned subsidiary of BVI Fourace and an indirect wholly-owned subsidiary of our Company.

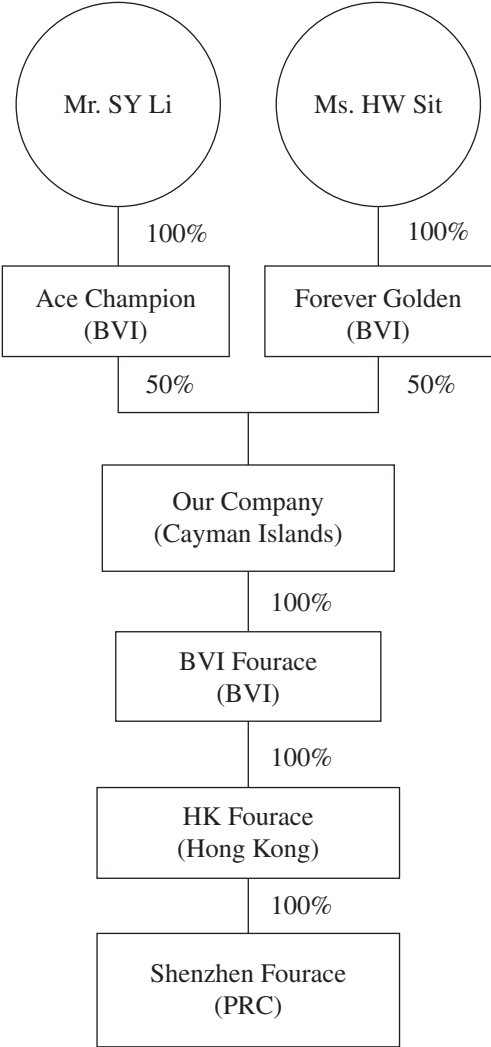
### CAPITALISATION ISSUE AND GLOBAL OFFERING

Pursuant to the resolutions passed by our Shareholders on 21 August 2020, our Directors were authorised to capitalise an aggregate amount of HK\$9,374,999.98 standing to the credit of the share premium of our Company and to appropriate such amount as capital to allot and issue a total of 937,499,998 Shares as fully paid at par to the persons whose names appear on the register of members of our Company at the close of business on the day prior to the Listing Date (or such other date and time as they (or any committee thereof established by the Board) may direct), in proportion to their then existing shareholdings in our Company (save that no Shareholder shall be entitled to be allotted or issued any fraction of a Share), each carrying the same rights in all respects with the then existing issued Shares.



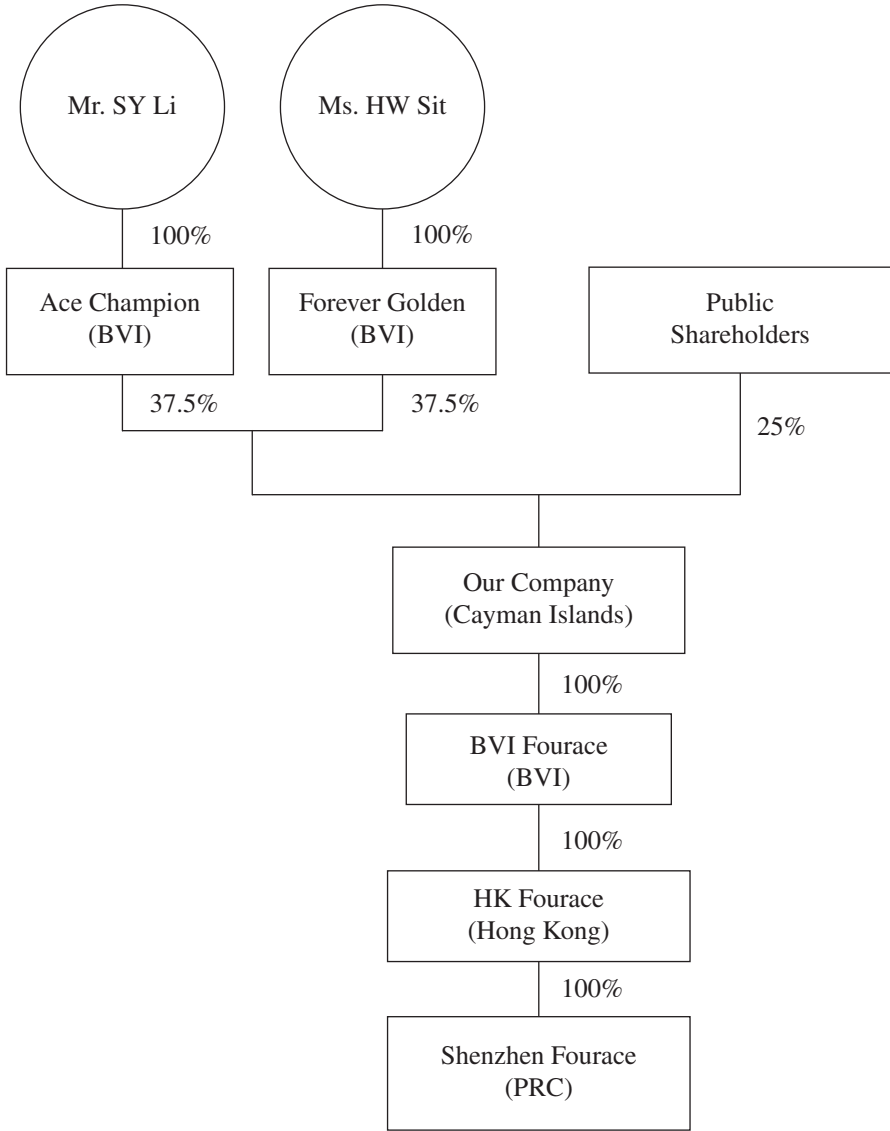
**HISTORY, REORGANISATION AND CORPORATE STRUCTURE**

The chart below illustrates the corporate and shareholding structure of our Group immediately before completion of the Global Offering and the Capitalisation Issue:



**HISTORY, REORGANISATION AND CORPORATE STRUCTURE**

Set out below is the corporate and shareholding structure of our Group immediately after completion of the Global Offering and the Capitalisation Issue (assuming the Over-allotment Option is not exercised and no Shares are to be issued upon the exercise of any options which may be granted under the Share Option Scheme):



## **OVERVIEW**

We are principally engaged in the design, development and manufacturing of personal care and lifestyle electrical appliances on an ODM basis. Our customers are mainly international brand owners with products marketed mainly in the U.S., Japan and Europe. Commencing our operation in 1988, we have accumulated over 30 years of experience in the industry. According to the Industry Report, we were the third largest OEM/ODM service provider of personal care electrical appliances in terms of export revenue in the PRC in 2019.

Over years of operation, we have established a product portfolio with a wide range of personal care electrical appliances, which can be broadly classified into three major categories, namely, hair styling series, grooming series and beauty care series. In particular, we are specialised in hair dryers within our hair styling series which primarily target the high-end market. Some of the hair styling products we co-designed and developed with our customers received awards from various lifestyle magazines and websites in the U.S. and Japan, for example, “*The Knot Magazine*”, “*Allure*”, “*GetNavi*” and “*Home Appliances Watch*”. To a lesser extent, we also co-design and develop certain lifestyle electrical appliances including electric irons and bread makers etc.

We have a stable customer base which comprises well-known personal care electrical appliances brand owners from overseas, including T3, a high-end hair styling tools company headquartered in the U.S., Sharp, an international electronic products manufacturing and trading company in Japan and Koizumi, a well-known electrical and household appliances manufacturer and trader in Japan. As at the Latest Practicable Date, our business relationship with these customers, which are also our major customers during the Track Record Period, ranged from approximately two to 18 years. Leveraging our substantial experience and expertise in the personal care electrical appliances industry, we believe we are positioned to maintain our relationship with our current customers, and expand our customer base in the future.

We have strong research and development capabilities. Our research and development team comprises of 24 engineers and is led by two chief engineers who have completed tertiary education in engineering and have on average more than 15 years of industry experience in electrical appliances engineering. We work closely with our customers to co-design and develop our products. With our strong research and development capabilities and our ability in anticipating consumer preference by leveraging on our experience, we are able to provide various technical recommendations and solutions to and respond to feedbacks from our customers regarding product design and development, with an aim to meeting the needs of our customers. During the Track Record Period, we co-developed 18, ten and 12 new products with our customers, respectively. Riding on our extensive experience, we plan to continue to strengthen our market position of being an ODM service provider and develop an OBM business to self-develop, manufacture and sell our products under our own “**IHA**” brand.

Our key operating subsidiary, Shenzhen Fourace and our production plant are located in Shenzhen, Guangdong Province, the PRC. The production plant has a gross floor area of 44,278.7 sq.m.. As at the Latest Practicable Date, we have 50 plastic injection moulding machines in use and other equipment including seven spray painting production lines with different degrees of automation. Equipped with these machineries, and leveraged on our strong research and development efforts, we are able to offer a wide range of products to our customers.

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We place great emphasis on the quality and safety of our products and have adopted a comprehensive quality control system to closely monitor various steps of the production process. We were accredited with ISO 9001:2015 for quality management system. Furthermore, our products can meet all applicable safety standards of the shipping destinations, including the U.S. (for example, ETL Certification and UL Certification), Japan (for example, PSE mark), Europe (for example, CE mark, IEC standards, GS Marking and CB Certification), and the PRC (for example, CCC Certification), etc.. We believe that our continuous implementation of strict quality control and safety standards to assure the quality of our products has been one of the key drivers for us to attract and retain customers.

During the Track Record Period, we recorded revenue of approximately HK\$269.2 million, HK\$312.2 million and HK\$362.1 million respectively and our profit for the year were approximately HK\$30.2 million, HK\$33.8 million and HK\$43.4 million during the Track Record Period, respectively.

The following table sets forth a breakdown of our revenue by product category for the years indicated:

	FY2018		FY2019		FY2020	
	Revenue HK\$'000	% of total revenue %	Revenue HK\$'000	% of total revenue %	Revenue HK\$'000	% of total revenue %
Personal care electrical appliances						
— Hair styling series	178,836	66.4	232,289	74.4	299,196	82.6
— Grooming series	61,623	22.9	52,871	16.9	36,171	10.0
— Beauty care series	2,222	0.8	1,753	0.6	1,298	0.4
Sub-total	242,681	90.1	286,913	91.9	336,665	93.0
Lifestyle electrical appliances	12,300	4.6	9,749	3.1	5,769	1.6
Others <sup>(Note)</sup>	14,242	5.3	15,577	5.0	19,660	5.4
<b>Total</b>	<b>269,223</b>	<b>100.0</b>	<b>312,239</b>	<b>100.0</b>	<b>362,094</b>	<b>100.0</b>

*Note:* Others mainly represented sales of moulds and tools and spare parts.

### IMPACT OF SINO-U.S. TRADE WAR ON OUR BUSINESS

#### Background and development of additional U.S. tariff

In recent years, the U.S. has advocated greater restrictions on trade generally and significant increases on tariffs on goods imported into the U.S., particularly from China, and has recently taken steps toward restricting trade in imported Chinese products.

On 6 July 2018, the U.S. began imposing an additional tariff of 25% on imported Chinese products with an annual trade value of approximately US\$34 billion (“List 1”), with the public comment process pending for an additional 25% tariff on imported Chinese products with an annual trade value of approximately US\$16 billion (“List 2”). The products targeted by the increased tariffs on List 1 and List 2 include machinery, televisions, medical devices, aircraft parts and batteries. The additional U.S. tariff in relation to List 2 was effective on 23 August 2018.

## BUSINESS

In light of China's subsequent retaliatory response by imposing duties on U.S. goods, the U.S. proposed to take further action in the form of additional tariffs on products originating from China with an annual trade value of approximately US\$200 billion ("**List 3**"), including categories such as consumer products, chemical and construction materials, textiles, tools, food and agricultural products, commercial electronic equipment and vehicle/automotive parts. On 24 September 2018, the U.S. started to impose an additional tariff of 10% on the approximately US\$200 billion worth of imported Chinese products on List 3, with the additional tariff rate threatened to be increased to 25% by 1 January 2019. After a temporary truce and a series of unsuccessful trade negotiations between China and the U.S., on 10 May 2019, the U.S. increased the additional tariff on the Chinese imports on List 3 from 10% to 25%.

After another round of trade talks between China and the U.S. in June and July 2019 failed, on 20 August 2019, the U.S. announced that it will impose an additional tariff of 10% to the remaining approximately US\$300 billion of Chinese imports, which covered almost all imported Chinese products not subject to additional tariffs then ("**List 4**"). The additional tariffs on part of these products were scheduled to begin on 1 September 2019 ("**List 4A**") and the rest on 15 December 2019 ("**List 4B**"). On 30 August 2019, the U.S. increased the additional tariff rate on Chinese imports on List 4 from 10% to 15%. The additional tariff of 15% on Chinese imports on List 4A took effect on 1 September 2019. On 3 September 2019, the U.S. started a public comment process on a proposal to increase the additional tariff rate on Chinese imports on List 1, List 2 and List 3 from 25% to 30%, which was scheduled to become effective on 1 October 2019. In October 2019, China and the U.S. resumed high-level trade talks. As the two countries made progress with the trade talks, the U.S. has suspended the increase of the additional tariff rate on Chinese imports on List 1, List 2 and List 3 from 25% to 30%.

While the U.S. has imposed additional tariffs on Chinese imports in the course of the Sino-U.S. trade war, the Office of the U.S. Trade Representative ("**USTR**") has established an exclusion process for interested U.S. persons to apply for exemption of qualified Chinese products from the additional tariffs. The exclusion process for products on List 1, 2, 3 and 4A have been closed and as of 23 July 2020, a total of 37 lists of exemptions were granted.

The U.S. and China have made further progress on trade talks since October 2019. On 13 December 2019, China and the U.S. announced that they had reached a phase one trade agreement, pursuant to which the additional tariff of 15% on Chinese imports on List 4B would be suspended until further notice and the additional tariff of 15% on Chinese imports on List 4A which took effect on 1 September 2019 would be reduced to 7.5%. On 15 January 2020, China and the U.S. entered into the "Economic and Trade Agreement between the Government of the United States of America and the Government of the People's Republic of China" (the "**Phase One Trade Agreement**"). In connection with entering into the Phase One Trade Agreement, the U.S. suspended the abovementioned additional tariff of List 4B until further notice and reduced the additional tariff of List 4A to 7.5% effective on 14 February 2020. As at the Latest Practicable Date, the Phase One Trade Agreement remained a commitment by both China and the U.S.. Under the current framework of the Phase One Trade Agreement, our products manufactured for T3 falling into the ambit of List 4B will not be subject to additional U.S. tariff.

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### Impact of the U.S. tariff on our products

During the Track Record Period, the sale of our products with the U.S. as delivery destination accounted for approximately 36.1%, 48.8% and 54.3% of our total revenue, respectively. These products are subject to additional U.S. tariff under either List 3, List 4A or List 4B. Details of the impact of the U.S. tariff on our products as at the Latest Practicable Date are set forth below:

List	Model of our products with the U.S. as the shipment destination subject to additional U.S. tariff <i>(Note 1)</i>	Rate of additional U.S. tariffs	Effective date of implementing the additional U.S. tariffs	Principal Products targeted by additional U.S. tariff
1	None	25%	6 July 2018	Machinery, televisions, medical devices, aircraft parts and batteries
2	None	25%	23 August 2018	Machinery, televisions, medical devices, aircraft parts and batteries
3	Primarily represent our spare parts manufactured for T3 and our products manufactured for Sunbeam Group with U.S. as the shipment destination <i>(Note 2)</i>	10% <i>(Note 3)</i>	24 September 2018	Consumer products, chemical and construction materials, textiles, tools, food and agricultural products, commercial electronic equipment and vehicle/automotive parts
3	Primarily represent our spare parts manufactured for T3 and our products manufactured for Sunbeam Group with U.S. as the shipment destination <i>(Note 2)</i>	25% <i>(Note 3)</i>	10 May 2019	Consumer products, chemical and construction materials, textiles, tools, food and agricultural products, commercial electronic equipment and vehicle/automotive parts
4A	Our grooming series products manufactured for Customer Group A with U.S. as the shipment destination <i>(Note 4)</i>	originally 15% and reduced to 7.5% <i>(Note 5)</i>	1 September 2019	Almost all Chinese imported goods not subject to additional tariffs at the material time except for the Excluded Products

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List	Model of our products with the U.S. as the shipment destination subject to additional U.S. tariff <i>(Note 1)</i>	Rate of additional U.S. tariffs	Effective date of implementing the additional U.S. tariffs	Principal Products targeted by additional U.S. tariff
4B	All of our hair styling products and certain spare parts manufactured for T3 with U.S. as the shipment destination <i>(Note 6)</i>	15% <i>(Note 7)</i>	Suspended until further notice (originally effective on 15 December 2019)	Cell phones, laptop computers, video game consoles, certain toys, computer monitors and certain items of footwear and clothing (the “ <b>Excluded Products</b> ”)

*Notes:*

1. During the Track Record Period, substantially all of our revenue from the U.S. was generated from our sales to T3 while the contribution from our other customers to the revenue from the U.S. market was insignificant. As such, the additional U.S. tariff applicable to our products sold to customers other than T3 with the U.S. as destination of delivery does not have a material effect on the business and financial performance of our Group.
2. During the Track Record Period, the total sales in the U.S. in respect of our products that are subject to additional U.S. tariff under List 3 were approximately HK\$14.5 million, HK\$6.9 million and HK\$0.5 million, representing approximately 5.4%, 2.2% and 0.1% of our total revenue, respectively.
3. On 24 September 2018, the U.S. started to impose an additional tariff of 10% on the approximately US\$200 billion worth of imported Chinese products on List 3. On 10 May 2019, the additional tariff applicable to the same batch of imported Chinese products on List 3 was increased from 10% to 25%. The amount of sales in the U.S. in respect of our products that are subject to additional tariff under List 3 and were derived during the effective period of List 3 represented approximately 0.8% and 0.1% of our Group’s total revenue for FY2019 and FY2020, respectively.
4. During the Track Record Period, the total sales in the U.S. in respect of our products that are subject to additional U.S. tariff under List 4A were nil, approximately HK\$2.9 million and HK\$4.6 million, representing nil, approximately 0.9% and 1.3% of our total revenue, respectively. The additional tariff under List 4A was effective on 1 September 2019. During September 2019 to March 2020, the amount of sales in the U.S. in respect of our products that are subject to additional tariff under List 4A represented approximately 1.1% of our Group’s total sales for FY2020.
5. In connection with entering into the Phase One Trade Agreement, the additional tariff of 15% on Chinese imports on List 4A which took effect on 1 September 2019 reduced to 7.5% effective on 14 February 2020.
6. During the Track Record Period, the total sales in the U.S. in respect of our products that are subject to additional U.S. tariff under List 4B were approximately HK\$82.7 million, HK\$142.4 million and HK\$191.3 million, representing approximately 30.7%, 45.6% and 52.8% of our total revenue, respectively.
7. During the Track Record Period, T3 was our largest customer which contributed to approximately 85.7%, 93.6% and 97.5% of our total revenue derived from the U.S. market and the revenue derived from T3 with the U.S. as delivery destination (excluding sales to T3 with countries other than the U.S. as delivery destination and tooling, sampling and testing income) was approximately HK\$83.2 million, HK\$142.5 million and HK\$191.5 million, respectively. Moreover, based on the fact that (1) the additional tariff under List 4B is yet to be effective as at the Latest Practicable Date, and (2) most of our products sold to T3 are subject to the additional tariff under List 4B, we consider that the potential impact of List 4B would be most relevant to our Group.

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### **Party responsible for the additional U.S. tariff**

As advised by our legal adviser as to U.S. laws, the liability for payment for the U.S. import duties belongs to the importer of the goods. As our products were sold and delivered to the U.S. on an FOB basis, we are not the party that imports products into the U.S., we are not responsible for customs clearance within the jurisdiction of the U.S. nor are we responsible for the payment of any import tariffs for products imported into the U.S.. Nonetheless, our customers, being the parties which import goods into the U.S., may transfer the extra costs incurred by them as a result of the tariff to us.

### **Implication of additional U.S. tariff on our business**

During the Track Record Period, the sales of our products with the U.S. as delivery destination accounted for approximately 36.1%, 48.8% and 54.3% of our total revenue, respectively. These products are subject to additional U.S. tariff under either List 3, List 4A or List 4B. In particular, our products sold to T3 are subject to additional tariff under List 4B, representing approximately 85.1%, 93.5% and 97.4% of the revenue derived from our products which fall into the ambit of List 3, List 4A or List 4B and with the U.S. as delivery destination. As confirmed by T3, it had applied for but has yet been granted any exemption of qualified Chinese products sold to it by our Group for the additional U.S. tariffs under the exclusion process established by the USTR. During the Track Record Period, the total sales in the U.S. in respect of our products sold to T3 that are subject to additional U.S. tariff under (i) List 3 were approximately HK\$514,000, HK\$74,000 and HK\$135,000, representing approximately 0.2%, 0.02% and 0.04% of our total revenue, respectively; and (ii) List 4B were approximately HK\$82.7 million, HK\$142.4 million and HK\$191.3 million, representing approximately 30.7%, 45.6% and 52.8% of our total revenue, respectively. As confirmed by our Directors, during the Track Record Period and up to the Latest Practicable Date, we have not been asked to reduce the selling price of our products which are subject to the additional U.S. tariffs or to bear any of such tariff for which our customers was responsible. Regarding our products sold to T3 in the U.S. which are under List 4B (i.e. 15% additional tariff suspended) and minimal amount of spare parts sold to them under List 3 (i.e. 25% additional tariff), our Directors are of the view that the demand and the average selling prices of these products will not be materially and adversely affected, and we will be able to reduce our reliance on sales to the U.S. by introducing our own brand as well as expanding our customer base, having taken into account:

- (i) the generally high gross profit margin of T3's goods in the retail market, which provides room for absorbing the additional tariff. According to the Industry Report, a hair dryer with unit retail price of US\$100 and above is considered to be in high-end market. Given a majority of T3's hair dryers being sold in the retail market are over US\$100 per unit, our hair styling products sold to T3 are targeting the high-end market in the U.S., and therefore generally carry a high gross profit margin in the retail market as advised by the Industry Consultant. As the average selling price of our top five hair styling products sold to T3 (in terms of quantity) was approximately HK\$146.8 per unit in FY2020, we believe T3 should have enjoyed a generally high gross profit margin from the onward sales of our products, which enables it to absorb the additional U.S. tariff if imposed;
- (ii) the recent progress made in the trade negotiation between China and the U.S., for example, the entering into of the Phase One Trade Agreement, indicating that there may be a positive improvement in respect of the trade tension between China and the U.S.;



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- (iii) the mutual reliance and complementary relationship between T3 and us (please refer to the paragraphs headed “Our customers — Customer concentration” in this section for details);
- (iv) we have not been asked to reduce the selling price of the products which are under List 3 or List 4B as at the Latest Practicable Date;
- (v) we intend to take certain cost-saving strategies at our end. For example, we have commenced active negotiations with our suppliers in order to obtain their agreement to absorb certain of additional tariffs at their end in the event that additional U.S. tariff is imposed in the future, and a number of our major suppliers indicated their intention to offer us approximately 3% to 5% decrease of raw materials price;
- (vi) we have taken efforts to diversify our products offerings by introducing our own brand “~~IHA~~” to expand our customer base (i.e. OBM customers). To start with, on 19 July 2019, we entered into a legally binding letter of intent with a major customer incorporated in Japan to sell certain models of products that we co-designed and developed for and sold to them under our own brand globally except in Japan. Further, as at the Latest Practicable Date, we were in the process of research and development of smart toilet seats which is planned to launch under our own brand “~~IHA~~”. Our Directors are of the view that these efforts in developing the OBM business will bring us with more business opportunities to reduce our reliance on sales to the U.S.;
- (vii) we have been expanding our customer base, in particular, non-U.S. based customers. In FY2020, we began to sell the co-designed and developed hair dryers to Customer M, a customer based in Japan. Customer M has become our third largest customer in terms of revenue derived in FY2020. Pursuant to the confirmed sales orders and the preliminary forecast provided by Customer M and as estimated by our Directors, our sales to Customer M are expected to be approximately HK\$70.9 million for FY2021. With the further enhanced customer portfolio contributed by Customer M, our Directors consider that our Group is well-positioned to further attract new customers and reduce our reliance on U.S. sales; and
- (viii) according to the Industry Consultant, after considering the suspension of List 4B tariff and recent agreements and progress made by the U.S. and China, it is not likely that List 4B tariff will be actively implemented. As such, the Industry Consultant estimated that the CAGR of the revenue of personal care electrical appliance OEM/ODM market in China from 2019 to 2024 will be approximately 7.1% and the CAGR of the import value of personal care electrical appliance from China to the U.S. from 2019 to 2024 will be approximately 3.4%. If the 25% tariff under List 4B will be in place up to 2024, the CAGR of the revenue of personal care electrical appliance OEM/ODM market in China from 2019 to 2024 is estimated to decrease from 7.1% to 6.7%, leading to the decrease of the revenue from RMB34.7 billion to RMB34.1 billion in 2024. If the 25% tariff under List 4B will be in place up to 2024, the CAGR of the import value of personal care electrical appliance from China to the U.S. from 2019 to 2024 is estimated to decrease from 3.4% to 3.0%, leading to the decrease of the import value from US\$1.73 billion to US\$1.70 billion in 2024, and the import value of personal care electrical appliance from China to Europe and Japan from 2019 to 2024 will not be materially affected.

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Taking into account the aforementioned, in particular our Director's view that the demand of our products targeting our U.S. customers will not be materially and adversely affected, our Company believes that the additional U.S. tariff will not materially and adversely affect our Group's plan to expand our production facilities and capabilities, increase the level of automation of our Group's production, enhance our research and engineering capabilities and introduce new products carrying our own brand. For details of our Group's expansion plan, please refer to the paragraphs headed "Our business strategies" in this section.

### **Development on arrangements between our Group and T3 in respect of additional U.S. tariff**

Our Group has been in continuous negotiation with T3 in respect of the additional U.S. tariff. As at the Latest Practicable Date, no definitive agreement has been reached between our Group and T3. In view of the recent development of the Sino-U.S. trade war, in particular the consummation of the Phase One Trade Agreement between China and the U.S. whereby the List 4B U.S. tariff applicable to all of our products sold to T3 has been suspended, our Directors believe that there is no imminent need to enter into an agreement with T3 in respect of the allocation of additional tariff costs between T3 and our Group. In addition, according to the Industry Consultant, the recent progress between the U.S. and China in respect of the Sino-U.S. trade war and China started to follow through on the commitments set out in the Phase One Trade Agreement have indicated a normal trade relationship in the future. If our Group's products sold to T3 are subject to additional tariff in the future, our Group will re-activate our dialogue with T3 with a view of reaching a mutually satisfactory outcome. Having taken into account, as a whole, the generally high gross profit margin enjoyed by T3 from the onward sales of our products, our mutually reliant and complementary relationship with T3 stemming from our status as the largest manufacturer of hair styling products of T3 with a longstanding relationship, our Directors' understanding that there has been no indication that T3 intends to shift any tariff costs to us and the close cooperation between us and T3 reflected in the forecast demand for FY2021, our Directors believe that our Group is in an advantageous position should it be required to enter into an agreement with T3 in respect of additional U.S. tariff in the future.

### **Sensitivity analysis of impact on the revenue and profit of our Group if all additional U.S. tariff is borne by us**

The following illustrates the hypothetical impact on the revenue and profit for the year if all of the additional U.S. tariff applicable to our products is borne by us, while all other factors remain unchanged:

	<b>FY2018</b> <i>HK\$'000</i>	<b>FY2019</b> <i>HK\$'000</i>	<b>FY2020</b> <i>HK\$'000</i>
Revenue	269,223	312,239	362,094
Profit for the year	30,157	33,823	43,356

### **Assuming all additional U.S. tariff borne by us**

Impact on revenue	16,022	23,317	29,157
Impact on profit for the year	13,378	19,470	24,346

### **Contingency plan**

Having considered the above, our Directors believe that there is no imminent need of devising a contingency plan as at the date of this prospectus. Nevertheless, our Directors are of the view that should the additional U.S. tariff under List 4B become effective or the tariff under List 3 and List 4A increase, notwithstanding our measures as described under the paragraphs headed “Implication of additional U.S. tariff on our business” above, it cannot be assured that our business will not be materially and adversely affected by such tariff. Along with the escalation of the trade war, the landscape of trading business between the U.S. and China will inevitably be materially and adversely affected, which is similar to our competitors and our Group will be of no exception. Please refer to the section headed “Risk Factors — Risks relating to our business and industry — Trade restrictions and potential new tariff could materially and adversely affect our business, financial condition and results of operations” of this prospectus.

To mitigate such risk, our Group is currently in the process of exploring the feasibility of a contingency plan, which may include a partial outsourcing of our production processes outside the PRC if so required. We intend to outsource certain production process of products that are subject to U.S. tariff to other regions outside the PRC, such as Vietnam, so that these products could be appropriately labelled as products with country of origin other than the PRC. As at the Latest Practicable Date, we have commenced preliminary negotiation with an Independent Third Party (the “**Manufacturing Partner**”), which is a manufacturing company incorporated in Vietnam with limited liabilities regarding the partial outsourcing arrangement. Pursuant to the negotiation and a legally binding memorandum of understanding entered into between our Company and the Manufacturing Partner, the Manufacturing Partner shall allocate sufficient resources to carry out the manufacturing process upon our request at premises (the “**Vietnam Production Site**”) offered by the Manufacturing Partner. Should the additional U.S. tariff becomes effective and our Directors consider it appropriate to proceed such contingency plan involving the partial outsourcing arrangement in Vietnam, we plan to conduct trial production to assess the production capability of the Manufacturing Partner. We expect to take approximately two months to conduct the trial production, taking into account the transportation lead time of raw materials and finished products.

To ensure the quality of products produced by the Manufacturing Partner, we plan to develop the prototype and product and conduct the testing in our in-house prototype production centre, EMC testing laboratory and the UL/ETL/CCC certified standard testing laboratory in our Shenzhen Factory. Upon finalising the product specifications and functionalities, we will pass the necessary manufacturing specifications and parameters to the Manufacturing Partner for calibration of machine and carrying out the manufacturing procedures accordingly. Furthermore, we plan to arrange our quality control staff to station in Vietnam Production Site to monitor the quality of products and the production process undertaken in the Vietnam Production Site. If required, we may consider to provide further technical support to the Manufacturing Partner, for example, providing the necessary machines to be used in production in the form of leasing. According to the Industry Consultant, taking into account the potential cost increment regarding the outsourcing services, delivery logistics and quality control, offset by the potential tax concession and reduction in labour costs, the average cost of sales is expected to have a net increase of approximately 5% to 10% annually for OEM/ODM manufacturers to implement the outsourcing arrangement by engaging an overseas manufacturer in Vietnam. Accordingly, our cost of sales would have increased by approximately HK\$3.0 million to HK\$14.2 million, based on our Group’s cost of sales attributable to U.S. sales during the Track Record Period.

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With the above partial outsourcing arrangement in Vietnam, our products could be appropriately labelled as products with country of origin other than the PRC and thus would not be subject to the additional U.S. tariff applicable to imports from the PRC. Our Company will take into account factors including but not limited to national laws, regulations and policies, relocation and transportation costs, experience of export, service fees, import and export taxation and raw materials procurement. In the event that the contingency plan has to be implemented due to the escalation of the U.S. tariff in the future, our Directors will continue to closely monitor the market and economic environment as well as our business and financial conditions to ensure any material adverse effect on our Group's business and operations will be minimised as a whole. Our Directors also undertake to keep reviewing the relevant laws and regulations in relation to the U.S. tariffs and will seek professional advice as and when appropriate.

### IMPACT OF OUTBREAK OF COVID-19 ON OUR GROUP

Since the first reported case of COVID-19 in late December 2019, there has been an outbreak of COVID-19 (the “**Outbreak**”) in the globe. On 11 March 2020, the World Health Organization declared the Outbreak a pandemic. Countries across Asia, North America, Europe, including the U.S. and Japan, have continued to report increases in COVID-19 infections, which has resulted in governments implementing travel bans, lockdowns, quarantines and social distancing measures in those countries in an effort to contain the virus. As at 30 June 2020, the Outbreak has caused 4,648 casualties in the PRC and 503,862 casualties globally. In response to the Outbreak, in January 2020, the People's Government of Guangdong Province and the local authority of Shenzhen announced certain measures to prevent continuing widespread of the disease in the community, among others, (i) people coming from Hubei Province were required to report to the local authority and impose self-quarantine at home for 14 days; (ii) corporates were not allowed to resume operation before 10 February 2020; and (iii) corporates were required to strengthen the epidemic prevention measure, in particular to people who have been to the epidemic area.

Pursuant to a notice from the government division in charge of the prevention and control of the COVID-19 in Guangming New District, Shenzhen, corporates were required to apply to the local authority for the resumption of operation. Such application was required to be made at least five working days before the expected date of resumption of operation, and the local authority would grant approval after a site assessment. In respect of the application, the local authority primarily assessed whether the corporate has established and implemented sufficient measures in response to the Outbreak, including (i) the implementation of epidemic prevention and control mechanisms, such as establishing an epidemic prevention team which was responsible for control, monitoring and inspection of epidemic matters; (ii) the provision of training in respect of epidemic awareness to employees and maintaining and monitoring travel record for each employee; (iii) the implementation of epidemic prevention and control measures, such as the monitoring of returnees from epidemic areas and setting up of quarantine area within the factory; (iv) the preparation of sufficient epidemic prevention materials, such as face masks, disinfectants and gloves; and (v) the implementation of internal control procedures for ensuring personal hygiene and protection, monitoring the body temperature and personal health condition of employees. As confirmed by our Directors and pursuant to the documents submitted for such applications, our Group has fulfilled the above requirements. In compliance with the government instructions, we temporarily suspended the operation of our Shenzhen Factory during 3 February 2020 to 18 February 2020, which has then resumed on 19 February 2020 and remained normal thereafter.

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Based on the current situation of the Outbreak, our Directors assessed its impact on our Group in three aspects: (i) sales and customers; (ii) purchases and suppliers; and (iii) production which are the key functions of our Group.

- (i) **Sales and customers:** We have been closely communicating with our major customers for the impact of the Outbreak on them and also on their demand of our products. Pursuant to the communications with our major customers, they were still conducting business during the pandemic. In respect of T3, our top customer, we received request from them in respect of postponing the delivery of certain purchase orders amounting to approximately HK\$37.0 million for several months in FY2021 and yet there has been no requests of cancelation nor reduction of any orders. Among the postponed delivery of certain purchase orders amounting to approximately HK\$37.0 million, approximately HK\$22.5 million have been delivered up to the Latest Practicable Date and approximately HK\$10.2 million, HK\$2.6 million and HK\$1.7 million are scheduled to be delivered during the second quarter, third quarter and fourth quarter of FY2021, respectively. In respect of Customer M, Sharp, Customer Group A and Koizumi, we have not received any requests from them for materially postponing or canceling any major orders or renegotiating the payment terms due to the Outbreak.

The Outbreak has inevitably affected the global economy and our Directors expect that our customers would be more cautious when placing purchase orders with their suppliers during FY2021. Based on the forecast provided by T3 and as estimated by our Directors, the forecasted annual demand from T3 on our products for FY2021 would be approximately HK\$187.2 million, representing a slight decrease of approximately 5.9% as compared to the annual sales to T3 for FY2020. For Customer M, the hair dryers and beauty care devices co-designed and developed with them were launched in September 2019 and April 2020, respectively. Pursuant to the confirmed sales orders and the preliminary forecast provided by Customer M and as estimated by our Directors, our sales to Customer M are expected to be approximately HK\$70.9 million for FY2021, representing an increase of approximately 71.0% as compared to the annual sales to Customer M for FY2020. For other major customers, we did not expect significant decrease in sales due to the Outbreak based on the latest sales forecast provided by these customers.

We have also communicated with our major customers in respect of the temporary suspension of operation of our Shenzhen Factory during 3 to 18 February 2020. Our major customers acknowledged that there may be potential delay on deliveries of our products to them due to the Outbreak. In particular, we were confirmed by T3, our top customer, that they had no plan to shift any of the ongoing cooperation with us to other suppliers. As such, our Directors are of the view that the potential financial damages to our Group and the impact to the long-term relationship with our customers due to the delay in deliveries of our products to them are not significant.

- (ii) **Purchases and suppliers:** Our major suppliers during the Track Record Period are mainly located in the Guangdong Province, including Shenzhen, Dongguan and Foshan. None of our major suppliers were based in nor their raw materials were primarily sourced from Hubei Province or the cities which were being locked down as at the Latest Practicable Date. Despite the temporary suspension of operations of our major suppliers in early to mid February 2020 due to the Outbreak, all of them have resumed operation since mid to late

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February 2020. Based on the foregoing, the supply of raw materials to us has not been negatively affected by the Outbreak and has remained normal during the Track Record Period and up to the Latest Practicable Date.

- (iii) **Production:** Our Shenzhen Factory has been operating normally after the resumption of operation since 19 February 2020. Our Group had arranged for tighter production schedule in March 2020 to make up for the suspension of operation of our factory in February 2020 and incurred costs of approximately RMB1.6 million primarily for the wages of temporary workers. In case of further temporary suspension of business due to the pandemic, we plan to arrange for a tighter production schedule and working overtime to reduce the impact of the suspension of our production activities. The labour costs for working overtime to compensate the suspension of our production activities and the potential revenue loss due to the suspension will depend on the length of the suspension period.

Further, we will closely monitor the impact of the Outbreak on our workforce. As at the date of the resumption of operation on 19 February 2020, approximately 260 of our employees, had visited Hubei Province or other locked down cities or provinces or certain specific epidemic area during the period of the Outbreak and were not allowed to return to Shenzhen or forced to be quarantined when they returned to Shenzhen, or had encountered difficulties in returning to Shenzhen as a result of traffic control measures implemented by the government. Thus, we have engaged 93 and 296 temporary workers from employment agencies in February and March 2020, respectively, to support our workforce. As at the Latest Practicable Date, all of our employees have returned to our Shenzhen Factory and resumed work. Our Directors confirm that the Outbreak did not have significant adverse impact on our workforce as at the Latest Practicable Date. Nevertheless, we have confirmed with employment agencies that they have reserved sufficient number of workers which were from various provinces of the PRC, including Henan and Guizhou, for fulfilling any vacancy of our workforce.

### *Contingency plans to deal with the potential impact of the Outbreak*

In addition to the above, our Directors have devised certain contingency plans if the Outbreak becomes more serious during FY2021, and causes (i) another suspension of operation of our Shenzhen Factory; (ii) significant negative impact on our current workforce; and (iii) significant negative impact on our suppliers:

- (i) ***We may face risk of suspension of operation if the pandemic worsens and our Group may not be able to fulfil customers' orders which are scheduled to be produced during the suspension period.*** As at the Latest Practicable Date, our finished goods on hand could fulfill sales orders received from our customers amounting to approximately HK\$7.9 million. In the event that the operation of our Shenzhen Factory is suspended, we may be unable to fulfill customer orders during the suspension period. Despite the force majeure provisions in our master purchase agreements with our major customers that might protect our Group from financial claims for the unfulfilled orders, we endeavour to maintain our relationship with customers by continuing to actively communicate with them regarding the impact of the Outbreak on our production. As understood from our major customers, they acknowledged that there may be potential delay on deliveries of our products to them due to the Outbreak,

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and they expressed their understanding for the potential delay of deliveries of products due to the outbreak of the COVID-19, which was beyond both parties' control. In particular, we were confirmed by T3, our top customer, that they had no plan to shift any of the ongoing cooperation with us to other suppliers. As such, our Directors believe that, despite the potential loss of revenue during the suspension period of our factory, we will endeavour to fulfill such purchase orders after the resumption of operation. Taking into account (i) our long term and well established relationship with our customers; (ii) our product development capability, including the moulds held by us for the developed products; and (iii) the costs and quality of our products, our Directors are of the view that the potential financial damages to our Group and the impact to the long-term relationship with our customers due to the delay on deliveries of our products to them are not significant.

- (ii) ***The sufficiency of human resources may be negatively affected by the government policies to lock down cities.*** In response to the Outbreak, cities may be locked down to restrict flow of people and traffic control measures may also be implemented in some areas in the PRC. As the pandemic has not been fully controlled in the PRC, our workers may be subject to forced quarantine if they were infected by the COVID-19. These situations may impose significant pressure on our Group to source sufficient human resources. Nevertheless, we have confirmed with employment agencies that their workers were from various provinces of the PRC, including Henan and Guizhou, and they have reserved sufficient number of workers for fulfilling any vacancy of our workforce.
- (iii) ***Our suppliers may be subject to suspension of operation as affected by the Outbreak and unable to supply raw materials to us.*** Our Directors confirm that, we have identified alternative suppliers which enable us to mitigate the risk of shortage of raw material supplies when the operation of our existing suppliers is suspended. However, based on the assumption that we may need to source raw materials outside Guangdong Province, our Directors expect that the cost of raw materials would increase by approximately 2% to 5%, primarily attributable to increase logistic costs.

In the event that the Outbreak worsens and causes long-term suspension of our Shenzhen Factory, our Directors would consider adopting the contingency plan to relocate our operation in Vietnam. As at 30 June 2020, we had cash and cash equivalents of approximately HK\$51.1 million and liquid assets, including mainly trade receivables of approximately HK\$59.5 million. In addition, we estimate that the aggregate net proceeds from the Global Offering (after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering), assuming an Offer Price of HK\$0.50, being the mid-point of the indicative Offer Price range and that the Over-allotment Option is not exercised, will be approximately HK\$91.7 million. Taking into account of our cash and cash equivalents and liquid assets of approximately HK\$110.6 million, we believe our Group will be able to maintain financially viable for at least 18 months, assuming (i) our operations have been completely suspended since 1 July 2020; (ii) there will be no dividend payment; (iii) our Group will settle our trade payables and bank borrowings when due; (iv) expansion plans will be suspended; (v) trade receivables will be settled based on historical settlement pattern and prudent estimates; and (vi) our Group will incur minimum operating expenses such as staff cost and general expenses. Taking into account the duration

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for the Group to remain financially viable, our Directors currently has no intention to use the net proceeds from the Global Offering for other purposes, for example, payment of fixed costs during the suspension period.

Based on above assumptions and in the event that the proposed listing is not successfully completed, we expect that our Group can continue to remain financially viable for at least 18 months.

Apart from the above contingency plans relating to the potential Outbreak, we have implemented stringent measures in our Shenzhen Factory to prevent COVID-19 infections in our factory. For details, please refer to paragraphs headed “Health, work safety” in this section. As understood from the local authority officer, these measures were acceptable to the local authority. As such, our Directors are of the view that the hygiene measures above adopted by our Group can effectively prevent and control the COVID-19 infections, and safeguard the occupational health and safety of our employees.

Despite the Outbreak, we managed to minimise its impact on the operation of our Shenzhen Factory by taking various measures. For example, we arranged tighter production schedule to make up for the lost time as a result of the suspension of operation of our Shenzhen Factory. Also, we sourced temporary workers to supplement our workforce which was undermined due to the fact that certain of our employees had difficulties in returning to Shenzhen or to our factory for work. These measures taken do not have material adverse impact on the financial performance of our Group taking into account the relevant costs incurred. In particular, T3, our largest customer, had requested to postpone the deliveries of products as mentioned above and the forecast annual demand from T3 is expected to decrease by approximately 5.9% to approximately HK\$187.2 million for FY2021 from approximately HK\$199.0 million for FY2020, primarily as a result of the Outbreak. Nevertheless, such postponed orders have already been rescheduled to be delivered within FY2021. In addition, the impact from the decrease in T3’s demand in FY2021 is expected to be offset by the expected increase in sales to Customer M from approximately HK\$41.5 million for FY2020 to approximately HK\$70.9 million for FY2021, based on the amount of confirmed orders received from and the preliminary forecast provided by Customer M. Saved as disclosed in this section, our Directors confirm that, based on the above reasons and to the best of their knowledge, the Outbreak does not have any material adverse impact on our Group’s operation and financial performance during the Track Record Period and up to the Latest Practicable Date. If the Outbreak continues or becomes more severe in the future, it may be possible for the PRC government to re-suspend the operation for all corporates or for our customers to postpone the deliveries of sales orders, leading to material negative impact on our financial results. For details, please refer to the section headed “Risk Factors — The outbreak of any severe communicable disease, if uncontrolled, could adversely affect our results of operations.” of this prospectus.



## **OUR COMPETITIVE STRENGTHS**

Our Directors believe that we possess the following competitive strengths, which have contributed to our success and distinguished us from our competitors:

### **We have strong presence in the personal care electrical appliances industry with long operating history and emphasis on hair styling products**

Our history can be traced back to 1988 when HK Fourace was established. For particulars of our development history, please refer to the section headed “History, Reorganisation and Corporate Structure” of this prospectus. Our Group has been engaged in manufacturing of personal care electrical appliances for over 30 years and has extensive industry experience and capabilities in relation to design, research and development of personal care electrical appliance products. In particular, we are specialised in hair dryers within our hair styling series which primarily target the high-end market. We have strong presence in the personal care electrical appliances market which can be demonstrated by the growing revenue from our hair styling series. During the Track Record Period, our hair styling series contributed revenue of approximately HK\$178.8 million, HK\$232.3 million and HK\$299.2 million, respectively. Such increases in revenue represented a growth of approximately 29.9% in FY2019 and 28.8% in FY2020.

We believe that we have built up strong reputation in the personal care electrical appliances industry as a result of our long operating history and our establishment in the industry. Such reputation has attracted various renowned brand owners which became our major customers, including T3, Sharp and Koizumi, etc. According to the Industry Report, we were the third largest OEM/ODM service provider of personal care electrical appliances in terms of export revenue in the PRC in 2019. Based on our Group’s successful track record, we believe that our Group is positioned to capture market opportunities in the future.

### **We have strong design, research and development capabilities to develop award-winning products for our customers and establish strong relationships with our customers**

Over 30 years of operation, our Group’s business growth has been driven by our research and development efforts in satisfying various needs of our customers. In particular, some of the hair styling products we co-designed and developed with our customers have received awards from various lifestyle magazines and websites in the U.S. and Japan, for example, “*The Knot Magazine*”, “*Allure*”, “*GetNavi*” and “*Home Appliances Watch*”.

Our investments in research and development are significant. Our Group’s total expenditure on research and development has been increasing, amounting to approximately HK\$4.8 million, HK\$8.2 million and HK\$8.7 million, respectively during the Track Record Period. Our research and development team comprises of 24 engineers and is led by two chief engineers who have tertiary education background in engineering and have an average of more than 15 years of industry experience in electrical appliances engineering respectively. During the Track Record Period, we co-developed 18, ten and 12 new products with our customers, respectively.

We work closely with our customers in product design and modelling. We believe by engaging in meetings with our customers and obtaining feedbacks from our customers during different stages of the product design and development process, we are able to gain a deeper understanding of our customers’

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requirements and develop desirable products that satisfy our customers' needs. As such, we have established strong relationship with our customers through our close working relationship with them. As at the Latest Practicable Date, our business relationship with our five largest customers ranged from approximately two to 18 years. Leveraging our industry experience and research and development capabilities, we believe that our Group is positioned to secure more orders from our existing customers and attract new customers to expand our customer base.

### **We have a stringent quality control system, which allows us to deliver high quality products and maintain market reputation**

We place great emphasis on high quality products and hence, we have implemented stringent quality control system. Our quality control measures are in compliance with the ISO 9001:2015 quality standard which cover all aspects of our production from inspection on incoming raw materials, components and parts to quality control on finished products, so as to ensure that our products are delivered with consistent, reliable, safe and high quality standards.

We also place great emphasis on the safety of our products. Our products meet the safety requirements from our customers and all applicable international safety standards of destinations where our products are shipped to, including the U.S. (for example, ETL Certification and UL Certification), Japan (for example, PSE mark), Europe (for example, CE mark, IEC standards, GS Marking and CB Certification), and the PRC (for example, CCC Certification). Our customers are international renowned brand owners of hair styling products and electronic products which have very stringent requirements on our products to meet various quality and safety standards. Given that we have long business relationship with these customers, our Directors believe that our products are of high quality and capable of being sold in the high-end market. Benefited from our capability to produce products with high quality and safety standard, our Directors believe that we are able to continue to strengthen our position as ODM service provider of international brand owners in the long run.

### **We have strong production capabilities which enable us to offer a wide range of products to our customers**

Since the establishment of our Fourace Factory in 1996, we have expanded our production facilities to keep pace with our business development and to satisfy our customers' demand in terms of product type, volume, customisation, timelines and pricing. As at the Latest Practicable Date, our production plant had an aggregate gross floor area of approximately 44,278.7 sq.m. and our Group owned 50 small to extra-large sized plastic injection moulding machines which are capable of producing various parts of a wide range of personal care and lifestyle electrical appliances (e.g. hair dryers, hair straighteners, eyebrow trimmers, ion facial rollers, bread makers, electric irons, etc.). Further, our Group is committed to invest in enhancing the automation of our production process with an aim to accommodate the production for a variety of products with high precision and consistency. During the Track Record Period, we acquired machinery with aggregate cost of approximately HK\$17.1 million, HK\$8.5 million and HK\$11.9 million, respectively, among which we acquired one new spray painting line and enhanced the automation of two existing spray painting lines capable of spraying our products with high colour consistency. As at 31 March 2020, the aggregate carrying amount of our machinery used in our production amounted to approximately HK\$34.8 million.

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We believe that with our production capabilities, coupled with our product design and development expertise, we are able to offer a comprehensive portfolio of personal care and lifestyle electrical appliances to our customers.

### **We have a strong and experienced management team with strong commitment**

Our success and growth are substantially attributable to the strong commitment of our executive Directors and senior management team to deliver high quality products to our customers. Our Group is led by Mr. SY Li, our Chairman, executive Director and Controlling Shareholder. Mr. SY Li is a co-founder of our Group and has over 35 years of experience in the personal care and lifestyle electrical appliances industry. Mr. SY Li is primarily responsible for formulating the overall sales and marketing strategies, business development and making major decisions of our Group. Since the establishment of HK Fourace in 1988, Mr. SY Li has made contribution to our Group consistently and continuously with his insight in product design, his dedication on quality control of our products and his skills in departmental management. For the senior management of our Group, most of them have worked in our Group for over 12 years and have extensive experience in the personal care and lifestyle electrical appliances industry. In particular, our research and development team is led by two chief engineers who have tertiary education background in engineering and have an average of more than 15 years of working experience in electrical appliances engineering. Leveraging the foresight and in-depth industry knowledge of our Directors and senior management team, our Group has been able to formulate sound business strategies, assess and manage risks, anticipate changes in consumer preferences, and capture market opportunities. For details of our executive Directors and senior management, please refer to the section headed “Directors and Senior Management” of this prospectus.

We believe that the vision, experience, market-awareness, in-depth knowledge in the personal care and lifestyle electrical appliances industry of our Directors and senior management team have been pivotal to the success of our business and our ability to continue to explore new business opportunities and strengthen our position in the market.

### **OUR BUSINESS STRATEGIES**

We intend to further enhance our presence and expand our market share in the global personal care and lifestyle electrical appliances industry. To achieve these goals, we will adopt the following plans and strategies.

#### **Expanding and upgrading our production facilities to enhance our production capabilities**

During the Track Record Period, we derived our revenue mainly from customers who are international personal care electrical appliances brand owners with global operations and markets. Leveraging our production capabilities, research and development capacities and well-established relationship with our customers, our sales grew continuously and amounted to approximately HK\$269.2 million, HK\$312.2 million and HK\$362.1 million, respectively during the Track Record Period. Such increases in revenue represented a growth of approximately 16.0% in FY2019 and approximately 16.0% in FY2020. According to the Industry Report, the retail sales market of personal care electrical appliance market in the United States, Japan and Europe were in an increasing trend from 2014 to 2019 and are expected to grow further increase from 2019 to 2024. Furthermore, we also have plan to develop our OBM business by introducing our new products under our own “**ifm**” brand. For further details, please refer to paragraphs headed “Our business strategies — Introducing new products carrying our own

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“(IHA)” brand” in this section. Riding on the anticipated market growth, our growing business and our strategy to develop our OBM business, our Directors are of the view that there will be growing demand on the Group’s production capacity leading to a need in expanding and upgrading our production facilities, in particular, expanding our plastic injection moulding lines.

Further, as our Group further develops our business, our Directors consider that the increasing demand on our Group’s production capacity would place additional pressure on maintaining consistent and high product quality, in particular in respect of our spray painting lines which require high precision and colour consistency. Besides, the loading and unloading procedures of our spray painting lines and our component and final assembly lines are labour intensive and are susceptible to human error. Therefore, we need to acquire various automated and other machines to increase the level of automation of our production lines with an aim to improve product quality.

With the enhanced production capacity and increased level of automation in the production process, coupled with our Group’s research and development effort, our Directors believe that our Group can fulfill the customers’ increasing demand on our products and manufacture products with consistent and high quality to retain our customers. We plan to (i) enhance our production capacity by acquiring new and replacing some of our plastic injection moulding machines; and (ii) increase the level of automation of our Group’s production lines, including spray painting and assembly lines.

### *(i) Acquiring new and replacing our plastic injection moulding machines*

During the Track Record Period, our plastic injection moulding lines operated in two shifts a day, providing our Group the maximum production capacity, in the expense of increased labour cost and decreased machine maintenance time. Nevertheless, our Group’s plastic injection moulding machines were still at high utilisation rates of approximately 120.3%, 111.3% and 123.7%, respectively during the Track Record Period. Although we did not reject any customers’ orders due to capacity constraints during the Track Record Period, our Group’s injection moulding machines and production workers have been worked overtime in order to fulfill the growing demand of our Group’s products. As a result of such overtime arrangement, the average utilisation rates of our Group’s plastic injection moulding machines were over 100% during the Track Record Period. Along with our Group’s growing business, our Directors consider that the overtime arrangement will be insufficient to satisfy our customers’ demand and cannot sustain our business growth in the long run. Our Directors anticipated that the current production capacity may be insufficient to satisfy all the potential orders and deliver our products in a timely manner, having considered the expected growth of our business in the future. In addition, certain of our Group’s existing plastic injection moulding machines are aged and have not been able to operate at high optimum production rate. Optimum production rate refers to the number of working hours of our plastic injection moulding machines after deducting the routine repair and maintenance time to maintain their optimum operation divided by the total number of designated working hours. The optimum production rate for our existing plastic injection moulding machines with age less than six years were approximately 92% on average while for our existing plastic injection moulding machines with age older than six years were approximately 78% on average, primarily due to the increase in the time needed for repair and maintenance for more aged machines. For the new plastic injection moulding machines to be acquired, we expect that the optimum production rate can achieve approximately 98%, mainly as a result of its higher reliability as compared to the machines that we currently owned. All of the plastic injection machines to be replaced are older than six years with an optimum production rate of approximately 78% on average. To cope with the increase in demand from

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our customers in FY2021 before the delivery of the new plastic injection moulding machines, we have increased the daily working hours of our injection moulding machines by working overtime. The overtime arrangement has increased the utilisation rate of our injection moulding machines to approximately 123.7%. Based on the foregoing, we plan to acquire 31 new plastic injection moulding machines to strengthen our production capacity. Also, due to the space constraint associated with the layout of our Group's existing production plant and the aged machines are not operating at optimum production rate, out of the 31 new plastic injection moulding machines to be acquired, we will replace our eight existing plastic injection moulding machines with years of service of more than ten years and up to nineteen years and nine existing plastic injection moulding machines with years of service of more than six years but less than ten years, taking into consideration the country of origin, durability, current performance, repair and maintenance costs of the machines, etc. The expected useful lives of the plastic injection moulding machines are 10 years according to our accounting policy.

Based on current quotations, we intend to utilise approximately HK\$25.4 million or approximately 27.8% of the net proceeds from the Global Offering for acquiring new and replacing our plastic injection moulding machines and ancillary equipment sourcing from Japan and the PRC. In particular to the new machines to be acquired and existing machines to be replaced, the below table sets forth details of function, quantity and estimated costs in respect of each of the small, medium and large-sized plastic injection moulding machines:

Machinery and equipment	Function	Quantity		Estimated costs HK\$'000
		<i>For replacement</i>		
		<i>For additional machines</i>	<i>of existing machines</i>	
Small plastic injection moulding machines (clamping force of 50 to 110 tonnes)	Production of small-sized parts such as decorative switch covers of the hair dryers	10	6	8,671
Medium plastic injection moulding machines (clamping force of 120 to 180 tonnes)	Production of medium-sized parts such as fan blades of the hair dryers	3	7	7,232
Large plastic injection moulding machines (clamping force of 220 to 280 tonnes)	Production of large-sized parts such as external cases of the electrical appliance	1	4	5,965

*Notes:*

- (1) Estimated costs are based on quotation from Independent Third Party.
- (2) The estimated costs of each machine are the same for additions and replacements.

We currently plan to purchase more small plastic injection moulding machines for addition and replacements since they are the most often and widely used in the production of various plastic components and parts of our Group's products. Our small plastic injection moulding machines had the highest utilisation rate among different sizes of plastic injection moulding machines during the Track Record Period. To streamline the process of additions and replacements, we plan to make our purchase of plastic injection moulding machines in two phases. The first phase of purchase will be made in the

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second quarter of FY2021 and the second phase of purchase will be made in the third quarter of FY2021. Our Directors estimate that the new machines will be delivered in the third and fourth quarters of FY2021. All machines are expected to be put into full use in the third quarter and the fourth quarter of FY2021. As a result, our designated annual production capacity of plastic injection production lines is expected to increase by approximately 12.9% in FY2021. Based on our current forecast on sales and the market growth rate in the global, the U.S. and Europe personal care electrical appliances market as mentioned in the Industry Report, the average utilisation rate of our plastic injection moulding machines is estimated to be approximately 104.2% in FY2021 and 84.2% in FY2022. Our Directors believe that such proposed increase in the annual production capacity of our production facilities is justifiable taking into account (i) the high average utilisation rate of plastic injection moulding production lines during the Track Record Period; and (ii) the expected growth of our business in the future based on the following:

(a) *Growing market demand in the global, the U.S., Japan and Europe personal care electrical appliances market*

According to the Industry Report, the total retail sales value of global personal care electrical appliances market is expected to grow to US\$33.4 billion in 2024 with a CAGR of 5.8% during the period from 2019 to 2024. Further, the retail sales values of personal care electrical appliances market in U.S., Japan and Europe are expected to grow at a CAGR of 4.5%, 3.5% and 3.9% from 2019 to 2024, respectively. During the Track Record Period, our Group's sales derived from the U.S., Japan and Europe markets increased from HK\$258.3 million in FY2018 to HK\$298.3 million in FY2019, and further to HK\$345.2 million in FY2020, representing an increase of approximately 15.5% for FY2019 and approximately 15.7% for FY2020, respectively. Such significant increase in sales was mainly contributed by our top five customers in the U.S., Japan and Europe markets which we have established business relationship with more than two years. Leveraging on our Group's strong presence in the personal care electrical appliance industry for being the third largest OEM/ODM service provider of personal care appliances in the PRC in terms of export revenue in 2019 and our competitive edges of having strict quality control, strong research and development capability and wide product range, our Directors believe that despite the personal care electrical appliance OEM/ODM market in the PRC is fragmented, our Group is able to stay competitive in the market and maintain long-term business relationship with our existing customers to secure more sales orders along with the increasing demand from the U.S., Japan and Europe markets.

(b) *Increasing demand from existing customers*



During FY2018, T3, one of our major customers based in the U.S., has developed a new distribution channel since the third quarter of FY2018. The new distribution channel has significantly boosted the demand from T3 on our products. Our sales to T3 increased significantly from approximately HK\$107.8 million for FY2018 to HK\$166.6 million for FY2019 and further to HK\$199.0 million for FY2020. Based on the forecast provided by T3 and our Directors' estimation, their purchase amount from us for FY2021 would be no less than approximately HK\$187.2 million, representing a decrease of approximately 5.9% as compared to that of FY2020. Our Directors believe that such decrease was mainly attributable to the potential impact of the Outbreak on global economy and as a result, T3 has been more cautious in forecasting the future annual demand on our products. Nevertheless, based on the

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fact that the retail sales value of personal care electrical appliances market in the U.S. is expected to maintain an upward trend during 2019 to 2024 and also their growth prospect after the development of the new distribution channel, our Directors expect that our sales to T3 would continue to increase in the future.

During FY2020, we began to sell our hair dryer products to Customer M<sup>Note</sup> and we expect our sales to them will continue to grow in the coming year. As confirmed by Customer M, Customer M first acquainted our Group through their searching on the internet and then they approached our Group for quotation of supplying personal care electrical appliances on an ODM basis. We were then engaged by them for the development of personal care electrical appliances and entered into a master purchase agreement with them. After the completion of the development of two models of hair dryers, our sales to Customer M, including tooling and sampling fees, were approximately HK\$41.5 million for FY2020. As at the Latest Practicable Date, the development of the beauty care device was also completed and we have received confirmed sales order of not less than approximately HK\$41.3 million for products delivered or to be delivered in FY2021. Pursuant to the confirmed sales orders and the preliminary forecast provided by Customer M and as estimated by our Directors, our sales to Customer M are expected to be approximately HK\$70.9 million for FY2021. With the further enhanced customer portfolio contributed by Customer M, our Directors consider that our Group is well positioned to attract new customers and new purchase orders.

(c) *Expanding our customer base and increasing our Group's profitability by developing our OBM business*

To start with our OBM business, on 19 July 2019, we entered into a letter of intent with one major customer incorporated in Japan and pursuant to the letter of intent, the customer exclusively authorised us to manufacture and sell ten models of products that we co-designed and developed for and sold to them under our own brand globally except Japan. The ten models of products include two models of eyelash curlers, two models of scalp cleansing brushes, two model of leg hair trimmers, one model of face roller, one model of nose hair trimmer, one model of hair iron and one model of hot brush. Pursuant to the letter of intent, our Group is required to pay a royalty fee to such customer amounting to 3% of our respective sales of the authorised products sold globally under our Group's own brand, while our Group is not allowed to sell these ten models under our own brand in Japan. Further, as at the Latest Practicable Date, we were in the process of research and development of a smart toilet seat product which is planned to be launched under our own “” brand”. As at the Latest Practicable Date, we possessed five patents in relation to such smart toilet seat product. These business strategies are expected to bring additional sales orders to our Group. For further details, please refer to the paragraphs headed “Our business strategies — Introducing new products carrying our own “” brand” in this section.

*Note:* Customer M is a Japan-based company listed on the Tokyo Stock Exchange with a market capitalisation of approximately JPY49.7 billion (equivalent to approximately HK\$3.6 billion) as at the Latest Practicable Date. It mainly engages in planning, development, production, and sale of beauty equipment, health equipment and cosmetics based in Japan. It markets its products through e-commerce sites and stores. Based on the publicly available information, during the year ended 30 September 2019, it generated a total revenue of approximately JPY36.0 billion (equivalent to approximately HK\$2.6 billion) and net loss attributable to owners of parent of approximately JPY26.2 billion (equivalent to approximately HK\$1.9 billion). Customer M had approximately 1,472 staff as at 30 June 2020.

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We estimate that the average annual revenue and gross profit to be brought by each plastic injection moulding machine, based on historical results are approximately HK\$5.9 million and HK\$1.8 million, respectively. Such estimation is made based on the assumptions that, among others, the plastic injection moulding machines operate at utilisation rate of 100% as supported by sufficient demand. On such basis, our Directors estimated that our Group would encounter substantial loss of business opportunities in the event that such new plastic injection moulding machines were not put into operation to cope with increasing demand from customer.

### *(ii) Increasing the level of automation of our Group's production lines*

As our Group further develops our business, our Directors consider that the increasing demand on our Group's production capacity would place additional pressure on maintaining consistent and high product quality. In particular, our spray painting lines require high precision and colour consistency in the course of production to meet our customers' very stringent quality requirements. Pursuant to the Industry Report, ODM typically are required to continuously enhance its production capability to remain competitive in terms of product quality. Our Directors believe that the increase in level of automation can improve our product quality and save labour costs. In view of the benefits to be brought by automation, we plan to further increase the level of automation by acquiring a number of automated machines in spray painting, component assembly and final assembly lines.

Also, the loading and unloading procedures in respect of our spray painting lines and component and final assembly lines are labour intensive. As at the Latest Practicable Date, we had 608 employees in our production function, representing more than 70% of total number of employees of our Group and our direct labour costs accounted to approximately 22.4%, 19.7% and 19.1% of our total cost of sales, respectively during the Track Record Period. Our Group's reliance on labour in our production process, coupled with the increasing annual wage level in Guangdong Province, expose us to the risks of labour shortage and wage hike. During the Track Record Period, we engaged three employment agencies to source temporary manpower with the necessary skills to supplement our labour capacity when additional workforce is required to fulfil customers' orders. Through employment agencies, we sourced an average number of 33, 88 and 220 temporary workers per month for the years ended 31 March 2018, 2019 and 2020, respectively. During the Track Record Period, we incurred approximately HK\$1.2 million, HK\$3.0 million and HK\$11.3 million in relation to fees paid to the employment agencies for sourcing temporary staff while the amounts would have been approximately HK\$0.9 million, HK\$2.1 million and HK\$6.9 million if our permanent staff were utilised, respectively, based on the difference in wage level of our temporary staff and permanent staff, and overtime fee paid to permanent staff had been taken into account and adjusted when deriving such amounts. The difference of cost of recruiting permanent workers by ourselves and the cost of sourcing temporary staff by the employment agencies was approximately HK\$256,000, HK\$718,000 and HK\$4.2 million, respectively during the Track Record Period. The differences above were derived by calculating the differences between the cost we paid to source temporary workers and the assumed cost if our permanent staff were utilised for the same working hours actually incurred by the temporary workers in the respective financial years. Despite the fact that we strive to maintain and adjust the capacity of our workforce (i.e. the number of permanent workers) according to our production needs, the capacity of our workforce may vary due to staff turnover. In case of the capacity of our workforce is not sufficient to meet a surge in production needs, we may have pressure in recruiting sufficient workers in a short period of time. The length of time needed for recruiting permanent workers depends on various factors such as the availability of workers in the market, other factories' demand for workers and the competitiveness of remuneration package



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offered by us. As such, we source temporary workers for production through employment agencies from time to time to relieve our production pressure if we are under time constraints, for example, when we receive certain customers' order which have tight delivery timelines. Further, since we are cautious in expanding the size of our workforce with permanent workers as which may cause us to incur additional but unnecessary staff costs if they are not fully utilised, our Directors are of the view that the utilisation of employment agencies provides flexibility to our Group in respect of human resources planning. For FY2020, the average number of temporary workers per month was relatively large as compared to FY2018 and FY2019 and the additional costs of which was approximately HK\$4.2 million. It was mainly due to the combined effect of the surge in our production needs since July 2019 primarily as a result of the increase in purchase orders received from T3 and the decrease in the capacity of our workforce due to staff turnover. In view of such additional costs incurred in FY2020 and the anticipated increase in demand from Customer M, our Directors decided to expand our workforce in FY2021. As at the Latest Practicable Date, the number of employees in our production function was 608, which was significantly greater than that as at 31 March 2020 of 431. For details, please refer to the paragraphs headed "Employees — employment agencies" in this section. Our Directors expect that the increase in the level of automation in our spray painting and assembly lines could relieve our increasing reliance on labour along with our business growth.

### *Spray painting lines*

Based on the current quotations, we intend to utilise approximately HK\$13.3 million or approximately 14.5% of the net proceeds from the Global Offering for acquiring automated machinery and ancillary equipment for the use in spray painting lines as follows:

Machinery and equipment	Function	Quantity	Estimated costs HK\$'000
Automated mechanical robotic arms for spray painting	enable automated and computerised spray painting with high level of colour consistency	4	2,185
Automated mechanical robotic arms for loading and unloading parts	automatic loading and unloading of components and parts for spray painting	18	4,817
Automatic appearance recognition system	automatic defect detection, such as uneven painting	7	1,912
Ancillary facilities in spray painting section including replacement of high temperature tunnel furnace, establishment of dust-free workshops and acquisition of dehumidifiers	— high temperature tunnel furnace: drying the painted components and parts — dust-free workshops: providing a clean environment for spray painting — dehumidifiers: reducing the humidity of spray painting environment for easy evaporating of our water-based coating	various	4,370

*Note:* Estimated costs are based on quotation from Independent Third Party.

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The purchase of these automated machinery and ancillary equipment for the spray painting lines will be made during the second quarter of FY2021. Based on the past record of the machine delivery timeframe, our Directors estimate that the new automated machinery and ancillary equipment will be delivered in three months after placing the order. All automated machinery and ancillary equipment are expected to be put into full use in the third quarter of FY2021.

As at the Latest Practical Date, our Group had seven spray painting lines with designated purposes to satisfy our Group's various spray painting needs, four lines of which have been equipped with automated mechanical robotic arms, including two lines for general plastic components and parts, one line for bread makers' components and parts and one line for metal parts spray painting. The foregoing automation exercise has significantly improved the overall efficiency, precision and consistency of our spray painting. In line with our plan to increase the level of automation of our production facilities, we intend to acquire four sets of automated mechanical robotic arms, which will be applied to two of the three remaining lines which have not been equipped with automated mechanical robotic arms and are designated for spray painting tiny plastic parts and for spray painting UV curable materials.

For the automated mechanical robotic arms for loading and unloading parts and automatic appearance recognition system, our Directors expect that such equipment can reduce staff cost of approximately HK\$2.1 million, representing the amount saved from reduction of workers with reference to the average salary of RMB4,500 per month during the Track Record Period, and overtime saved due to increase in production efficiency. We expect that our Group could reduce 29 workers, from 118 workers to 89 workers who are responsible for manually (i) loading parts and components on the lines for spray painting and unloading parts and components off from the lines after spray painting completed; and (ii) performing appearance checking of painted components and parts. Our Directors expect that the reduction of the workers can be achieved by reducing the number of our temporary workers without the need of severance payment.

Taking into consideration the expected reduction in the staff cost of approximately HK\$2.1 million per year as mentioned above, and the slight increase in the operating expenses, such as repair and maintenance expense with reference to the quotation by the machine vendors and minimal utilities expense, totalling approximately HK\$0.4 million per year, we expect that the annual net saving will be approximately HK\$1.7 million and the payback period for the acquisition of the automated machinery and ancillary equipment for the spray painting lines will be approximately 7.8 years.

### *Component assembly line and final assembly line:*

Our component assembly line and final assembly line comprise four critical steps which are assembling, minor processing work, testing and packaging. With the aging of our machines and our aim to reduce our reliance on manpower, we plan to increase the automation in our component assembly and final assembly lines so as to enhance the efficiency and accuracy of each critical steps in our assembly lines to enhance our product quality.

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Based on current quotations, we intend to utilise approximately HK\$11.2 million or approximately 12.2% of our net proceeds from the Global Offering for acquiring automated and other machinery and equipment for the use in component and final assembly lines as follows:

<b>Machinery and equipment</b>	<b>Function</b>	<b>Quantity</b>	<b>Estimated costs HK\$'000</b>
Conveyor belts and work station infrastructure			
— upgrade or addition of assembly line	carrying the work-in-process for processing	14	961
— upgrade of work station	facilitating specific processing work	20	218
— conveyor belts	carrying finished products to warehouse	1	382
Automation in minor processing work			
— automated pad printing machines	printing labels on plastic components and parts	7	1,092
— wire stripping machines	removing insulation from electrical wire	2	175
— automated painting machines	painting of electricity conductive grease	3	197
Automation in assembling, screwing and soldering			
— automated assembling machines for particular types of products	aiding various assembly work	3	2,130
— automated screwing or soldering machines	aiding screwing or soldering process	66	3,660
Automation in packaging			
	aiding the folding of packaging boxes and automatic weighing of packaged products	10	1,966
Finished products testing equipment and apparatus			
	enhancing the quality control capacity in the assembly lines	17	459

Considering the quantity of machinery and equipment to be purchased for the component assembly and final assembly lines, we plan to make purchases of the abovementioned machinery and equipment during the second quarter of FY2021. Based on the past record of the machine delivery timeframe, our Directors estimate that all the new machinery and equipment will be delivered in two to three months after placing the order. These machinery and equipment for the component assembly and final assembly lines are expected to be put into full use in the period between the second quarter of FY2021 and the third quarter of FY2021.

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In addition to enhancing the efficiency and accuracy of our assembly lines, the acquisition of automated machines and equipment can reduce the number of staff who are responsible for packaging, component assembly, pad printing, screwing and soldering. Therefore, the staff cost could be reduced by approximately HK\$3.0 million, representing the amount saved from reduction of workers with reference to the average salary of RMB4,500 per month during the Track Record Period, and overtime saved due to increase in production efficiency, we expect that our Group could reduce 48 workers, from 55 workers to 7 workers. Our Directors expect that the reduction of the workers can be achieved by reducing the number of our temporary workers without the need of severance payment.

Taking into consideration the expected reduction in the staff cost of approximately HK\$3.0 million per year as mentioned above, and the slight increase in the operating expenses, such as repair and maintenance expense with reference to the quotation by the machine vendors, totalling approximately HK\$0.3 million, we expect that the annual net saving will be approximately HK\$2.6 million per year and the payback period for the acquisition of the automated machinery and ancillary equipment for the component and final assembly lines will be approximately 4.4 years.

### **Enhancing our product design and engineering capability**

We will continue to strengthen our research and development capabilities and commit to the quality assurance of our products to maintain and enhance our market position. With an aim of enhancing our core technologies and their applicability and reliability, and developing new products with consistent performance, we will devote more resources to enhance our research and development and quality assurance capabilities by improving our product design and engineering centre including the following investments and facilities.

#### ***(i) Establishing new prototype production centre***

Prototype development is one of the key steps of our research and development process. Currently we do not have our own prototype production facilities and hence, we need to outsource all the prototype production tasks to external prototype production service providers. Outsourcing the prototype production tasks makes it difficult for us to control the quality and the time of the prototype production. In practice, the development of a successful prototype is through trial and error. In particular, the external prototype production service providers will only produce the prototype according to the structural drawings provided by us, and, according to the operational experience of our management, the external prototype production service providers generally will not inform us about the structural problem identified from the structural drawings if they consider such structural problem as minor. In such cases, the structural problem might be concealed until the later stage of prototype development, which will be more difficult and costly for us to correct it. For example, if we proceed to the mould fabrication when the mis-matches and mis-alignments between the parts and components of a product were not identified in the prototype produced by external prototype production service providers, the products then manufactured through the mould may contain defects and we will need to re-produce the mould. It takes us significant time and efforts to repetitively coordinate with the external prototype production service providers regarding the configurations and specifications of a prototype. During the Track Record Period, we paid approximately HK\$1.9 million in aggregate to the external prototype production service provider for production of prototypes, and we generally produced six prototypes on average for each of the co-designed and developed products, where each prototype production took on average around 21

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days. With the increase of our research and development activities due to our anticipated business growth, our Directors considered that the reduction in timespan on prototype production is vital to accommodate our Group's business growth.

According to the Industry Report, the top three personal care electrical appliances OEM/ODM services providers in China in terms of export revenue in 2019 equipped themselves with their own prototype production facilities. They keep expanding and completing their in-house prototype production facilities with the growth of their business. Such in-house prototype production facilities have, in general, shortened the time of product development cycle by 50%. It is the market practice for top tier personal care electrical appliances OEM/ODM service providers to own prototype production facilities also as a demonstration of product research and development capability. As such, the absence of in-house prototype production centre would reduce our Group's competitiveness in terms of product research and development capabilities.

In light of the predicament resulting from outsourcing the prototype production tasks to external prototype production service providers and the potential benefit for having in-house prototype production centre, we plan to establish our own prototype production centre by utilising the net proceeds from the Global Offering. With our own prototype production facilities, we can perform more in-depth verifications for structural design of our products at each stage of the prototype development. As such, we will be able to timely correct any defects or mis-match or mis-alignments between parts and components discovered in the early stage of the product development. Further, we can implement procedural quality control measures on each step of prototype production to closely monitor the quality and smoothen the whole prototype production process. All the aforementioned are expected to reduce the time required for liaising with the external prototype production service provider and hence the time required for product development. Due to the changing consumer preference on personal care electrical appliances, product development projects are usually time sensitive and the completion of the development of prototypes within the required time frame is essential for us to compete with other personal care electrical appliances ODM service providers. With our new prototype production centre, we expect that we can reduce the average timespan of prototype development significantly by around seven to 14 days by reducing repetitive modification requests to the external prototype production service providers, skipping a few non-essential steps, and reducing the chance of the customer rejecting our prototype and hence, speed up the process from the start of research and development projects to obtaining sales orders from customers which also enhance our overall competitiveness to capture the market trend.

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The following table sets forth the required lead time of each step in prototype production for the external prototype production service providers as compared with the expected lead time for our in-house production:

<b>Steps</b>	<b>No. of working days needed</b>		<b>Reason for the difference between the time required</b>
	<b>External prototype production service providers</b>	<b>Our Group's in-house prototype facilities</b>	
1 Collect and digest data, prepare work procedures and computer in-put	2 days	1 day	Time used by external prototype production service providers to process data provided by our Group can be saved as our Group is familiar with the data of our own designs and such data is readily available to our Group.
2 Prepare materials for prototype	2 days	0 day	Time is saved as our Group can source materials for prototype when the design is substantially completed while external prototype production service providers could only prepare upon receiving our design.
3 Prepare simple fixture and tools for metal and rubber parts of the prototype	4 days	0 day	Time is saved as we can prepare fixtures and tools in advance or simultaneously during design stage.
4 Machining of prototypes	3 days	3 days	N/A (Note 1)
5 Assembling of prototypes	1 day	1 day	N/A (Note 1)
6 Polishing and spray-painting	2 days	2 days	N/A (Note 1)
7 Testing of prototypes	<u>7 days</u>	<u>N/A (Note 2)</u>	N/A
Total number of days:	<u><u>21 days</u></u>	<u><u>7 days</u></u>	

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*Notes:*

1. These steps are relating to the actual production of the prototype. We expect that the time required for carrying out these steps in our Group's in-house prototype facilities will be the same as that required by the external prototype production service providers. Nevertheless, we expect that we will conduct the testing procedures continuously throughout these steps.
2. We will conduct the testing of prototypes continuously throughout each of the previous steps as necessary.

In addition, during the Track Record Period, the average amount of fees paid to the external prototype production service providers of approximately HK\$68,000 per new product. Based on our estimation that we would produce around 87 prototypes for 14 new products for both co-designed/self-designed and developed products in FY2021 and around six prototypes on average for each new product, depending on the complexity and specifications of the product and the number of changes required during the development stage, we expect to incur external production cost of approximately HK\$0.9 million per year. Taking into consideration of the reduction of the external prototype production cost of approximately HK\$0.9 million per year and the estimated annual operating cost of our own prototype production centre of approximately HK\$0.6 million, including material cost for production of prototype of approximately HK\$0.2 million per year and staff cost of one engineer, two assistants and a CNC machine operator amounted to approximately HK\$0.3 million per year, the estimated net saving per year is expected to be approximately HK\$0.4 million and the payback period is estimated to be approximately 15.6 years.

Based on the foregoing, we intend to utilise HK\$6.6 million or approximately 7.2% of our net proceeds from the Global Offering to set up our own prototype production centre, of which approximately HK\$0.7 million will be used for two years' staff cost budget and approximately HK\$5.9 million will be used for purchase of equipment.

Set out below is the list of machinery and equipment to be acquired for the set up of the prototype production centre:

Machinery and Equipment	Functions	Quantity	Estimated costs HK\$'000
Five axis CNC machine	perform three-dimensional cutting	1	3,769
Vertical CNC machine	perform three-dimensional cutting	2	1,486
CNC lathe	perform turning on parts that have symmetry	1	101
3D printer	3D printing	1	338
Laser scanner	digitalise the structure of parts	1	142
Automated vacuum casting machine	production of moulds made by silicon or resin materials and cast moulding of parts	1	109

We expect that the useful lives of the above machinery and equipment are 10 years. Our prototype production centre will be located at the spare space of the main production building with an floor area of approximately 153 sq.m. without any need of additional construction of buildings. We do not need any licence to operate the prototype production centre. We will hire one engineer, two assistants and a CNC

machine operator with tertiary education background to operate the prototype production centre. Taking into account of the delivery lead time of the machinery and equipment ranging from one to six months, the expected commencement time of operation of our prototype production centre will be by the fourth quarter of FY2021.

*(ii) Establishing new electromagnetic compatibility (“EMC”) testing laboratory*

During the development of products, the engineering samples will be assessed by going through various tests in relation to the quality and safety standards of the export locations of our products. Save and except for certain products installed with battery such as eyebrow trimmers, substantially all of our products exporting to the United States, Europe and Japan requires certificate with the passing of the EMC test based on the requirement of these regions. In particular, T3, one of our major customers in U.S., required our products to pass the EMC test before sales to them since the first quarter of 2019. Without having an in-house EMC testing facilities, we need to rely on third party certification service provider to conduct the EMC test, we cannot assure that our products developed are in compliance with the standard before sending to third party certification service providers. As a result, our products might face unexpected failure in the certification process and cannot complete the EMC certification in single attempt. During the Track Record Period and up to the Latest Practicable Date, we have engaged a third party certification service provider to conduct the EMC test for 18 of our products, ten out of which had failed in the first attempt with the consequence that we needed to modify our products and arranged the EMC test for the second time, costing us 11 days to 70 days to accomplish such the external testing process. The EMC testing laboratory to be established will be designed by a professional acoustics technology service provider which would be a proper environment equipped with various testing equipment to enable our trained staff to conduct such professional EMC tests in-house. After the establishment of the in-house EMC testing laboratory, we will invite the relevant quality assurance organisation, an Independent Third Party such as Intertek, to witness our tests performed for the products to be sent to third party certification service provider. If the quality assurance organisation satisfies with our in-house test results, they can issue the certification without the need to reperform the whole test in their facilities. Further, with an in-house EMC testing facilities, we would be able to identify problems and make corrections on our product design in early stage, aiming to pass the EMC test in single attempt. Pursuant to the Industry Report and our Directors’ expectation, the establishment of our own EMC testing laboratory can reduce the time taken for accomplishing the EMC testing by 30% to 50%.

For FY2020, the external EMC testing cost was approximately HK\$0.2 million. Taking into consideration of the reduction of such external EMC testing cost and the estimated operating cost of our own EMC testing laboratory of approximately HK\$0.3 million per year including staff cost and repair and maintenance cost for our equipment, the estimated net additional cost to be incurred per year will be approximately HK\$0.1 million. Even though an additional cost will be incurred for establishing our own EMC testing laboratory, our Directors considered that the establishment of the EMC testing laboratory can (i) significantly reduce the time taken for accomplishing the EMC testing and (ii) demonstrate our quality assurance capabilities to our customers which can strengthen our competitiveness.

We intend to utilise HK\$6.2 million or approximately 6.8% of our net proceeds from the Global Offering for constructing the EMC testing laboratory, of which approximately HK\$4.4 million will be utilised for making structural changes to the Shenzhen Factory, of which approximately HK\$0.4 million will be utilised for two years’ staff cost budget and approximately HK\$1.4 million will be utilised for



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acquiring the relevant testing equipment for use in such laboratory. The estimated total staff cost and acquisition cost for the relevant testing equipment for establishing laboratories are significantly lower than the estimated net proceeds to be used for constructing the EMC testing laboratory, mainly due to the stringent requirement on building up the test environment according to the standard. The environment of the laboratory shall pass certain strict tests, including conducted interference test, radiated emission disturbance test, etc. Comparing with the staff costs and costs of purchasing equipment for the laboratory, the construction costs of the laboratory which mainly include a three metre anechoic chamber, control room and shielded room to meet stringent standards is relatively costly.

Set out below is the list of machinery and equipment to be acquired for the set up of the EMC testing laboratory:

Machinery and Equipment	Functions	Quantity	Estimated costs <i>HK\$'000</i>
EMI test receiver, Electromagnetic field receiver and analyser	measure the strength and analysing the spectrum of emissions	1	776
Radio frequency switch	emitting high frequency signals for testing the performance of the products under such signal	1	107
Other ancillary equipment and software	other supporting functions	various	559

The estimated useful lives of these machinery and equipment are 10 years. The EMC testing laboratory will be located at the spare area of the main production building of our Shenzhen Factory with a floor area of approximately 591 sq.m.. We intend to utilise HK\$4.4 million of our net proceeds from the Global Offering for making structural changes to our Shenzhen Factory, including building an anechoic chamber. We do not need any licence to operate the EMC testing laboratory. We will hire one engineer and one assistant with tertiary education background to operate the EMC testing laboratory. Taking into account the delivery lead time of these machinery and equipment is expected to be around three to four months upon issue of purchase order, the expected commencement time of our EMC test laboratory will be by the fourth quarter of FY2021.

### ***(iii) Establishing new UL/ETL/CCC certified standard testing laboratory***

In addition to EMC certification, our customers generally require our products to obtain certification relating to product safety and quality. There are a number of such certifications, depending on geographic location of the sales of our products, which include UL or ETL certifications for the US market, PSE certification for the Japan market and GS certification for the Europe market respectively. Furthermore, our Directors expected that more stringent quality and safety standards will be imposed on electrical appliances in the future, as evidenced by the aforementioned EMC testing requirement. During the Track Record Period, we outsourced UL certification process and other safety standard certification processes to third party certification service providers, and in general it took 30 to 45 days for each testing and certification process, which certain portion of time was occupied by our administrative works to deal with third party certification service providers. Our Directors believe that since the consumer preference on personal care and lifestyle electrical appliances is constantly changing, our product

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development projects are time-sensitive and a prolonged product development process caused by the third party certification process may reduce our competitiveness among ODM manufacturers. A wide range of tests is required by the UL/ETL standard, including but not limited to electrical tests, heating and fire tests, mechanical tests and structural tests, where the lead time of each test ranges from one hour to seven days. With our Group's own UL/ETL/CCC laboratory, we will be able to conduct around 116 tests under the UL certification standards.

With our own UL/ETL/CCC certified standard laboratory, we believe that we can have full control of the testing time and schedule to suit our business needs. We expect that our Group can shorten the testing time by half by performing multiple tests simultaneously with two or three in-house testing teams or apparatus. Further, the time required for the administrative work of the certification process by third party certification service providers was approximately seven to 14 days during the Track Record Period. The time for such administrative works for the certification is expected to be shortened to seven days with our own UL/ETL/CCC certified standard laboratory. Based on the foregoing, the total lead-time can be shortened from 30 to 45 days to 15 to 23 days in general. This will in turn shorten the overall time required for product development, allowing our new products to be launched in the market quicker to capture the market trend. Owning our own UL/ETL/CCC certified standard laboratories will be considered by our customers a strength of our Group, which our customers will have more confidence in us in the aspect of developing products that meets safety requirements of a market.

Having considered that the significant portion of our sales was derived from the U.S. during the Track Record Period and our business strategy to develop our OBM business with a focus in the PRC market, we plan to establish a testing laboratory which is up to the UL/ETL certification standards and the CCC certified standard which is generally required for sales of consumer products in the PRC market. After such testing laboratory is set up by us and recognised by the relevant quality assurance organisation, an Independent Third Party, we will be able to conduct the required tests in our own laboratory to facilitate the certification of our products for UL/ETL standard. Provided that the sales of our products to T3 contributed most of our revenue relating to products which were subject to UL/ETL certification, we have obtained confirmation from T3 that they would agree to have the UL/ETL certification performed by our own laboratories rather than by independent third parties as long as such laboratories are recognised by the relevant quality assurance organisations. Our Directors expect that the test and certification time can thus be shortened, allowing us to speed up our product development process.

Our Directors compared (i) the historical external testing cost during FY2020 of HK\$0.7 million which can be saved by performing the UL/ETL/CCC certified standard testing in-house and (ii) the annual operating cost of our own UL/ETL/CCC certified standard testing laboratory of HK\$0.3 million per year, including staff cost of HK\$0.2 million per year and repair and maintenance cost for equipment of HK\$0.1 million per year, the net saving of our own UL/ETL/CCC certified standard testing laboratory will be approximately HK\$0.4 million and it will bring advantages to our production development and strengthen our image.

We intend to utilise HK\$6.4 million or approximately 6.9% of our net proceeds from the Global Offering for constructing the UL/ETL/CCC certified standard laboratory, of which approximately HK\$3.9 million will be utilised for making structural changes to the Shenzhen Factory, approximately HK\$0.4 million will be utilised for two years' staff cost budget and HK\$2.1 million will be utilised for acquiring relevant testing equipment. The estimated total staff cost and acquisition cost for the relevant

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testing equipment for establishing laboratories are significantly lower than the estimated net proceeds to be used for constructing the UL/ETL/CCC certified standard testing laboratory, mainly due to various engineering projects are needed for building the UL/ETL/CCC certified standard testing laboratory including decoration engineering, ventilation and air conditioning engineering, electrical engineering, water supply and drainage engineering, centralized gas supply engineering etc. Set out below is the list of machinery and equipment to be acquired for the set up of the UL/ETL/CCC certified standard testing laboratory:

<b>Machinery and Equipment</b>	<b>Functions or test(s) involved</b>	<b>Quantity</b>	<b>Estimated costs HK\$'000</b>
<b><i>Electrical Test Equipment</i></b>			
Electricity leakage testing apparatus	Functionality of a variety of electricity leakage and safety features of electrical appliances Electricity leakage and strength tests	1 set	355
Impulse voltage test generator and monitor and capacitor	Reaction and safety of electrical appliances under different level of voltages	1 set	332
Manual and automatic water spraying and dripping apparatus	Performance of electrical appliances under different level of moisture	1 set	194
Others various apparatus including equipment and apparatus for conductor test, power supply, wiring and cord tests and ancillary tools	Ancillary tools and equipment	various	124
<b><i>Heating and Fire Test Equipment</i></b>			
Temperature controlled room and measurement apparatus	Performance and reaction of electrical appliances under different temperature	1 set	110
Winding resistance measurement system	Resistance capability of electrical appliances under heat	1 set	385
Burning and flame test equipment	Resistance capability of electrical appliances under fire	1 set	77
<b><i>Mechanical Test Equipment</i></b>			
Force gauges, masses and inclined plains	Stability and mechanical hazards of electrical appliances	1 set	12
Impact hammer and hardened metal pin	Mechanical strength of electrical appliances	1 set	82
<b><i>Structural Test Equipment</i></b>			
Various structural test equipment, including structural reaction to heat, pressure test apparatus and waterproof test apparatus	Performance and reaction of the structure of electrical appliances	various	349

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The estimated useful lives for these machinery and equipment are 10 years. The UL/ETL/CCC certified standard testing laboratory will be located at the spare space of the main production building of our Shenzhen Factory with a floor area of approximately 661 sq.m.. We do not need any licence to operate the UL/ETL/CCC certified standard testing laboratory. We will hire one engineer and one assistant with tertiary education background to operate the laboratory. After the establishment of the testing laboratory, it is subject to certification by agent of the relevant quality assurance organisations. The certification process will include the preparation of operation manual and procedures relating to the operation of the testing laboratory. After we submitted the operation manual and procedures together with other relevant documents to the agent of the quality assurance organisation, it will arrange training for our staff and physical inspection of our laboratory. The time required for the physical inspection and training process is expected to be around six days. After the completion of the physical inspection of our laboratory and the training for our staff, we will be able to conduct tests in our own laboratory for submission to the quality assurance organisation to certify the test reports, which shall take around one week after each test report submission. As confirmed by the quality assurance organisation Intertek, there is no material impediments for our Group in obtaining such recognitions, and we expect that our Group can obtain such recognitions in or around two days after the completion of the physical inspection of the laboratory and the training for our staff. The certified laboratory will be subject to annual review and also an annual fee of RMB10,000 per year. Taking into account the expected time of three months for the construction and setting up process of the UL/ETL/CCC certified standard testing laboratory, the time required for the audit and training process of around six days, and the delivery lead time of these machinery and equipment is expected to be around two months upon issue of purchase order aforementioned, the expected commencement time of operation of our UL/ETL/CCC certified standard testing laboratory will be by the fourth quarter of FY2021.

### *(iv) Expand our research and development team*

We believe that our engineers are the core of our research and development capability. To cater for the increasing demand of our research and development function, we need to expand our research and development team to strengthen our research and development capabilities. We intend to utilise HK\$3.5 million or approximately 3.9% of our net proceeds from the Global Offering for hiring three engineering supervisors, four project engineers and two assistant engineers.

### **Introducing new products carrying our own “iHN” brand**

Crystallising our 30 years of experience in co-design and development of branded products with our customers, we target to develop new personal care and lifestyle electrical appliance products with our own brand “iHN” to expand our customer base (i.e. OBM customers) and increase our profitability. Further, as our Group accumulated manufacturing know-how and expertise on co-design products with our ODM customers over the years, we will also negotiate with them on possible collaboration to apply our own brand on the co-designed products such that we are able to establish our own brand “iHN” with a wider product portfolio and market penetration.

To start with our OBM business, on 19 July 2019, we successfully entered into a legally binding letter of intent with one of our major customers incorporated in Japan pursuant to which it granted us an exclusive right to sell globally (except Japan) the products that were co-designed between the customer and our Group. We were also granted the rights to determine the retail prices and modify the features of the authorised products. In return, we will pay a royalty fee based on 3% of our sales revenue of the

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authorised products to this customer. We believe this arrangement provides us a good starting point and foundation to develop our own brand “iHA”. To avoid any potential conflict of interest with our existing customers, we aim to target our OBM business regarding the authorised products mainly in the PRC at the first stage. According to the Industry Report, the total retail sales value of personal care electrical appliances in the PRC is expected to grow from US\$4.3 billion in 2019 to US\$6.7 billion in 2024, representing a CAGR of 9.2%. We believe our brand building in the personal care and lifestyle electrical appliances market can gradually be driven by such high growth rate in the PRC market.

As at the Latest Practicable Date, we were in the process of research and development of a smart toilet seat product which is intended to be our new lifestyle electrical appliances product. We plan to launch our smart toilet seats under our own “iHA” brand. The smart toilet seats that we are going to launch may include the functions of warming, auto-cleaning, drying, deodorising, sterilising and lighting, and the products are expected to meet CCC certification standard. As at the Latest Practicable Date, we own five patents in relation to smart toilet seats including functions such as ozone deodorising and sterilising, blockage alarm, and aspirating supercharged flushing. Our Directors believe that the multi-functions and high standard of quality of our smart toilet seats could help us keeping ahead of the competition in the PRC market. We intend to build upon our existing marketing efforts to further promote our brand and establish our market position by introducing our own brand “iHA” in the PRC market, so that our targeted customers are able to easily relate the brand to quality and functionality of our smart toilet seats. In addition, we intend to attract customers in the smart toilet seats industry through marketing activities, namely, we intend to apply our Group’s internal resources to (i) participate in trade fairs such as “Kitchen & Bath China”\* (上海廚衛展), a kitchen and bathroom trade fair in Shanghai and Canton Fair\* (廣交會), an international trading event held in Guangzhou; (ii) recruit additional sales managers with extensive experience and customer network that may facilitate our Group to sell our smart toilet seats directly to property developers, owners of hotels and commercial buildings. We also plan to launch our smart toilet seats and other lifestyle products under our own brand “iHA” in e-commerce platform, including Alibaba.com which our Group already had a platform for marketing our products since August 2018.

We strategically intend to launch the smart toilet seats in the PRC market in the first half of FY2022, in view of the growing market demand in the PRC. We intend to market the smart toilet seats through online platforms. According to the Industry Report, while both PRC and Japan are two top largest demand countries of smart toilet seats in the world, the PRC is a fast-growing market for smart toilet seats as compared to Japan, which is a mature market. The smart toilet seats market in the PRC has been driven by the continuous increase of residents’ income and increasingly strengthened health awareness. The retail value of smart toilet seats in the PRC increased from US\$193.5 million in 2014 to US\$1,078.9 million in 2019, representing a CAGR of 41.0%. On the contrary, the retail value of smart toilet seats in Japan slightly decreased from US\$767.0 million in 2014 to US\$747.6 million in 2019. As driven by the continuous increase of residents’ income and increasingly strengthened health awareness, the retail value of smart toilet seats in the PRC is expected to increase to US\$2,162.3 million in 2024, representing an increase of US\$1,083.4 million from 2019 to 2024. Currently players from various industries are entering the market of smart toilet seats in the PRC since the market is expected to keep growing rapidly. These players can be divided into five categories: international sanitary ware brands, international electrical appliances brands, domestic sanitary ware brands, domestic electrical appliances brands and innovated brands. The market of smart toilet seats in the PRC is still fragmented and there is

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no dominant player in the market currently. It is of low possibility that the market of smart toilet seats in China will be saturated in the next three years considering the continuous growth of market size and fragmented landscape.

Based on the Industry Report, in 2019, there are more than 500 different players competing in China's lifestyle electrical appliances manufacturer market, most of which are domestic brands, the top five industry players in the lifestyle electrical appliances manufacturer market in China account for less than 35% of the total market, in terms of revenue which are not dominating the market. Therefore, taking also into consideration our competitive edge, our Directors believe that we will be able to get a share of the market when we launch our product. Despite there is no contractual obligation in the master purchasing agreements we entered into with our customers which would limit our ability to carry on a OBM business, we endeavour to market our products in a way not in direct competition with our existing customers. Our Directors are of the view that it is not likely our Group will lose its existing customers after developing its OBM business given that (i) our Group will focus on the PRC market which is not the primary market and/or the principal place of operation of our major customers; and (ii) our Group will explore new opportunities in developing our OBM business to the extent that we will not overlap with our existing ODM customers in terms of product types, for example, we will focus on smart toilets for OBM expansion. To the best of our Directors' knowledge, information and belief having made all reasonable enquiry, our Group's existing customers are not selling smart toilet seats in the PRC.


We intend to utilise (i) approximately HK\$7.5 million or approximately 8.2% of our net proceeds from the Global Offering for the development and production of moulds for smart toilet seats; (ii) approximately HK\$2.6 million or approximately 2.8% of our net proceeds from the Global Offering for setting up the new production lines for smart toilet seats; and (iii) approximately HK\$1.8 million or approximately 1.9% of our net proceeds from the Global Offering for hiring project engineers, structure engineers, electrical engineers and testing engineers for development of smart toilet seats.

### **Enhancing our sales and marketing efforts in the global market including the PRC market**

We plan to increase our investments in sales and marketing function, in particular the PRC market to cope with our business expansion plan. During the Track Record Period, our Group's sales and marketing activities mainly included handling purchase orders received from our customers, coordinating with our production teams for execution of purchase orders, communicating with our customers on their requests and feedbacks exploring with them the potential business opportunities. We believe that one of our keys to success is to achieve customer satisfaction by, among others, demonstrating to our customers that their purchase orders are closely monitored and their requests and feedbacks are timely handled through our delegated sales and marketing team. This helps us to retain our customers and gain more orders from them. Through 30 years of experience, our Group is well-established with strong production capabilities, product research and development capabilities, strong customer and product base. Our Directors identified the needs to allocate resources to actively promote our aforesaid strengths with a view to attracting potential customers to approach us for our ODM services. We started to advertise our ODM services in the internet by entering into a service agreement with Alibaba.com in August 2018. Alibaba.com is a leading third-party e-commerce platform in the PRC market. Further, in view of the increasing trend of e-commerce in the PRC market pursuant to the Industry Report, we also plan to take advantage of Alibaba.com or other third-party e-commerce website(s) to market our products which are to be launched under our own "iHA" brand in retail market. To maintain our third-party e-commerce

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website, we have plan to regularly update our product portfolio and business information in order to promote our expertise in the industry. We also have plan to engage a service provider to conduct statistical analysis for our third-party e-commerce website for us to review its hit rate and promotional effectiveness.

In addition, to implement our plan to launch our own  brand and to introduce our new smart toilet seat products to the retail market, in particular the PRC market, we plan to engage a marketing agent to design plans for brand building, develop marketing and promotional plan for the listing of our products in the market, work out the yearly marketing strategy for the brand and establish and execute marketing model for our new smart toilet seat products. The engagement package includes analysis about the strength and market positioning of our products, so as to customise the marketing strategy and promotional material for our products.

Along with the growth of our business and the expected increase in the use of the third-party e-commerce website we established, we expect to involve more human resources for website management and maintenance. Also, we plan to increase our capital investment for the third-party e-commerce website. In light of above, we intend to utilise approximately HK\$3.2 million or approximately 3.5% of our net proceeds from the Global Offering including (i) approximately HK\$1.6 million for engaging a marketing agent for brand development, marketing for product listing and establishment of marketing system; (ii) approximately HK\$0.4 million for setting up the third-party e-commerce website and engaging a service provider for the statistics analysis for the third-party e-commerce website and general expenses for the operational services and maintenance of the third-party e-commerce website; and (iii) approximately HK\$1.1 million for recruitment of three business development officers and one sales manager with experience in sales, marketing and e-commerce in respect of personal and lifestyle electrical appliances.

### **Upgrading our information technology systems and design aided software**

To cope with the business growth, our Directors believe that continued investment in information technology system is necessary in order to increase our overall efficiency and capacity in product design, development and manufacture. We intend to utilise approximately HK\$4.0 million or approximately 4.3% of our net proceeds from the Global Offering for upgrading our design aided software and our various information technology systems, including our computer operation system and a new centralised ERP system to cope with our business growth. We believe that the system upgrade and the new software will allow us to enhance our client management and communications between various departments as well as to rapidly respond to the changes of supply chain and purchase orders, and to facilitate data analysis on our inventory control, product design, production scheduling and logistic planning.

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## BUSINESS MODEL

We are principally engaged in the design, developments, manufacturing and sale of personal care and lifestyle electrical appliances for international brand owners on an ODM basis. Typically, our ODM business starts with receiving customer's request in co-designing and developing a new product. The product design and development process will be commenced once our customers confirmed our quotation. After the product development process is completed, the customers will place purchase orders with us according to their demand. We will then arrange for procurement of raw materials and start production. The finished products, being principally personal care and lifestyle electrical appliances, are exported to overseas countries and regions including the U.S., Japan and Europe.

## OUR PRODUCTS

We provided a wide variety of personal care electrical appliances, which can be broadly classified into three major categories, namely (i) hair styling series, including hair dryers, hair straighteners and curling irons, (ii) grooming series, including clippers, nose trimmers and eyebrow trimmers; and (iii) beauty care series, including various kinds of beauty care devices. To a lesser extent, we also co-design and develop with our customers and sell certain lifestyle electrical appliances such as electric irons and bread makers.

The following table sets forth the breakdown of our revenue by product category for the years indicated:

	FY2018		FY2019		FY2020	
	Revenue <i>HK\$'000</i>	% of total revenue %	Revenue <i>HK\$'000</i>	% of total revenue %	Revenue <i>HK\$'000</i>	% of total revenue %
Personal care electrical appliances						
— Hair styling series	178,836	66.4	232,289	74.4	299,196	82.6
— Grooming series	61,623	22.9	52,871	16.9	36,171	10.0
— Beauty care series	2,222	0.8	1,753	0.6	1,298	0.4
Sub-total	242,681	90.1	286,913	91.9	336,665	93.0
Lifestyle electrical appliances	12,300	4.6	9,749	3.1	5,769	1.6
Others <sup>(Note)</sup>	14,242	5.3	15,577	5.0	19,660	5.4
<b>Total</b>	<b>269,223</b>	<b>100.0</b>	<b>312,239</b>	<b>100.0</b>	<b>362,094</b>	<b>100.0</b>

*Note:* Others mainly represented sales of moulds and tools and spare parts.

During the Track Record Period, the majority of our revenue was derived from our hair styling series which represented approximately 66.4%, 74.4% and 82.6% of our total revenue, respectively. The continuous increase in our revenue derived from the sales of our products in the hair styling series was due to the increase in demand of our such products in the U.S. and Europe market.



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The following table sets forth the sales volume and the average selling prices of our personal care and lifestyle electrical appliances for the years indicated:

	FY2018		FY2019		FY2020	
	Sales volume '000 unit	Average selling price HK\$	Sales volume '000 unit	Average selling price HK\$	Sales volume '000 unit	Average selling price HK\$
Personal care electrical appliances						
— Hair styling series	1,106.2	161.7	1,461.6	158.9	1,735.7	172.4
— Grooming series	1,635.4	37.7	1,430.5	37.0	1,086.8	33.3
— Beauty care series	12.0	185.2	11.9	147.3	8.5	152.7
Lifestyle electrical appliances	50.5	243.6	44.3	220.1	17.1	337.4

The average selling price of our products may vary greatly depending on a number of factors, including the level of customisation, technical specification, specific requirements of our customers as well as costs of raw materials. For factors affecting future price trend of our personal care electrical appliances, please refer to the section headed “Industry Overview” of this prospectus.

### **Hair styling series**

Our products in the hair styling series mainly include hair dryers, hair straighteners and curling irons. During the Track Record Period, our Group’s revenue generated from the hair styling series amounted to approximately HK\$178.8 million, HK\$232.3 million and HK\$299.2 million, respectively, representing approximately 66.4%, 74.4% and 82.6% of total revenue, respectively. The target customers of our hair styling series are renowned brand owners/manufacturers of personal care electrical appliances which include T3, Customer M, Sharp and Koizumi Seiki during the Track Record Period. Some of our hair dryers, being the major products in our hair styling series, were finally sold by our customers in the

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high-end markets of the U.S. and Japan, with their recommended retail price of over US\$100 per unit. According to the Industry Report, a hair dryer with unit retail price of US\$100 and above is considered to be in high-end market.



### Hair dryers

Example features:

- Fast drying with high air volume of 1.36 cubic metre per minute and air speed of 12 metre per second
- Tourmaline coating on heating elements emitting infrared ray that aids drying
- Light weight design



### Hair straighteners

Example features:

- Ultra thin design (29.5 mm thick at the front and 36.5 mm thick at the middle)
- 1.4 inches wide heating plates in comparison to most straighteners which has one inch wide heating plates
- Fast heat up and high temperature (reaching 190°C in 90 seconds)
- Ceramic coating on heating plates for a smooth surface for hair to glide on



### Curling irons

Example features:

- 1.75 inch wide barrel
- Fast heat up and high temperature (reaching 190°C in 90 seconds)
- ceramic coating on barrel and clip for a smooth surface for hair to glide on

## Grooming series

Our products in grooming series mainly include clippers, trimmers, nose trimmers and eyebrow trimmers. During the Track Record Period, our Group's revenue generated from our grooming series amounted to approximately HK\$61.6 million, HK\$52.9 million and HK\$36.2 million, respectively, representing approximately 22.9%, 16.9% and 10.0% of total revenue, respectively. The target customers of our grooming series are renowned brand owners/manufacturers of personal care electrical appliances which include Koizumi Seiki and Customer Group A.



### eyebrow trimmers

Example features:

- 0.3 mm ultra thin cutter for close shaving
- Slim and compact design
- Multiple inter-changeable shaver heads for body, face and eyebrow
- Water-proof for easy cleaning
- Battery operated
- Two comb attachments (5mm/8mm)
- Protective cap which can stand

**Beauty care series**

Our products in the beauty care series mainly include various beauty care devices. During the Track Record Period, our Group’s revenue derived from our beauty care series amounted to approximately HK\$2.2 million, HK\$1.8 million and HK\$1.3 million, respectively, representing approximately 0.8%, 0.6% and 0.4% of our total revenue, respectively. The target customers of our beauty care series are renowned brand owners/manufacturers of personal care electrical appliances which include Koizumi Seiki.



**Ion facial rollers**

Example features;

- positive iontophoresis for cosmetics absorption with 3 different levels
- negative iontophoresis for cleansing with 3 different levels
- Roller head for massage



**Cleansing brushes with sonic pulses**

Example features;

- combine brush rotation and sonic pulse to enhance cleansing effect
- Special brush head design: replaceable nylon brush head and non-replaceable silicon brush head, its narrow design is tailor-made to clean areas that is hard to reach
- warming end at the rear end of the product helps open up pores for deep cleansing



**Ion rollers for eyes and lips**

Example features;

- warmth to improve circulation
- vibration for massaging
- positive iontophoresis for absorption of cosmetics absorption
- unique head shape suitable to use around eye and lip

**Lifestyle electrical appliances**

Our lifestyle electrical appliances mainly include electric irons and bread makers. During the Track Record Period, our Group’s revenue generated from the sales of lifestyle electrical products amounted to approximately HK\$12.3 million, HK\$9.7 million and HK\$5.8 million, respectively, representing approximately 4.6%, 3.1% and 1.6% of total revenue, respectively. The target customers of our lifestyle electrical products include customers with international brands.



**Bread makers**

Example features:

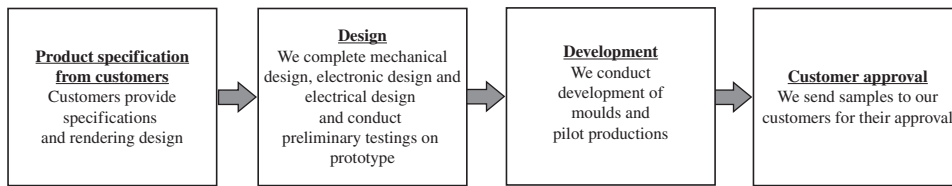
- Heating method: Induction heat and conventional heating coil. Induction heat for even heating to ensure the quality of baking
- Triple sensory controls: Water temperature sensor, air temperature sensor, baking pot temperature sensor
- Air duct to regulate baking temperature and ensure baking quality because the yeast added in the dough is very sensitive to temperature
- Ceramic coating on the baking pot
- Both wheat flour and rice flour can be used, rice flour for gluten-allergic end users

**DESIGN, RESEARCH AND DEVELOPMENT**

We place great efforts on our product design and development. Our research and development activities mainly include co-design and development with our customers, and we also conduct self-design and development. For co-design and development, our Group has been able to develop a broad range of personal care and lifestyle electrical appliances, and work closely with our customers in product design and modelling. During the Track Record Period, we co-developed 18, ten and 12 new products with our customers, respectively. For self-design and development, we are in the process of research and development of a smart toilet seat product, which is a lifestyle electrical appliance product. Such new product is expected to be launched in the first half of FY2022.

**Co-design and development process**

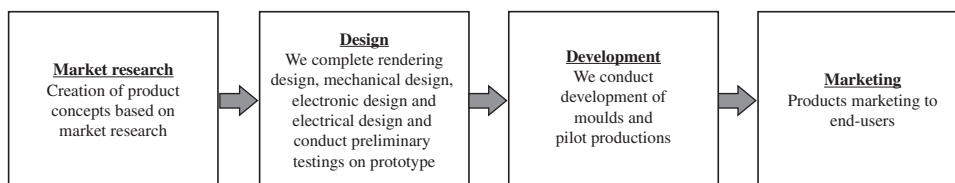
The following chart sets out the co-design and development process initiated by our customers:



During the Track Record Period, the majority of the co-design and development of products were initiated by our customers. We will provide quotation to our customers for the product design and development, and we normally determine our quotations after considering the following factors: (i) the complexity of the works involved; (ii) our labour involved; (iii) estimated procurement costs; (iv) estimated overheads; (v) comparable market retail price; (vi) the order quantity; (vii) our marketing strategies; and (viii) import tariff borne by our customers. We will commence our product design and development process once our customers confirmed our quotations. The quotation provided by us to our customers will include the product unit price and fees to be incurred in the product design and development process. Typically, our customers are responsible for the development fees, prototype costs, application costs for safety testing and certifications, and moulding and tooling costs. Depending on the negotiation with our customers, the development fees and moulding and tools were charged to our customers in separate transactions or amortised with future product sales. Upon commencement of the product design and development, we will formulate our product development plan within a specified timeframe, which will set out preliminary schedule for each step including delivering mechanical, electrical and electronic designs, prototypes, moulding and pilot productions.

**Self-design and development process**

The following chart sets out the self-design and development process initiated by us:



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For self-design and development, the creation of product concepts is based on market research, with the primary aim to develop new personal care and lifestyle electrical appliance products with our own “iHA” brand to expand our customer base (i.e. OBM customers) and increase our profitability. We have registered our own trademark “iHA” in Hong Kong in July 2018 and in the PRC in November 2017. Leveraging on our expertise and experience, technological know-how and research and development capabilities, we carry out research and development activities with the initiatives to develop new products with better quality and new features. As at the Latest Practicable Date, our self-design and development project in progress include a smart toilet seat.

As our Group placed emphasis on developing a broad range of products, we kept increasing our resources on research and development. During the Track Record Period, our research and development expenses were increasing and at HK\$4.8 million, HK\$8.2 million and HK\$8.7 million, respectively. According to our research and development policy, our expenditure relating to research and development mainly comprises salary of our research and development staff and materials, components and parts used in research and development activities. The research and development expenditure incurred in the research stage is recognised as expense, and among other things, when our research and development project comes to a stage when the project becomes more feasible and our Directors believe they are able to bring us certain economic benefits, the expense will be capitalised. Based on above, our expenditure on research and development was recognised as expense during the Track Record Period.

### **Research and development team**

As at the Latest Practicable Date, our Group’s research and development team comprised 24 engineers and is led by two chief engineers. Most of our engineers hold bachelor’s degree or tertiary degree in engineering field with an average of 10 years experience in product design and development. For details of biography of our two chief engineers, please refer to the section headed “Directors and Senior Management — Senior management” of this prospectus. Our research and development department is primarily responsible for developing new products and conducting market research to keep our Group abreast of the specifications and industrial requirements of the market.

### **Research and development achievements**

Our Directors believe our commitment to research and development enables us to anticipate consumer preference and develop the high quality products that satisfy our customers’ needs. We have capabilities to create and produce personal care and lifestyle electrical appliances with various functions for our customers. As at the Latest Practicable Date, we owned 32 patents in the PRC in respect of electrical design, innovation and technologies.

During the Track Record Period, some of the hair styling products we co-designed and developed with our customers had received awards from various lifestyle magazines and websites in the U.S. and Japan, for example “*The Knot Magazine*”, “*Allure*”, “*GetNavi*” and “*Home Appliances Watch*”, in respect of their aesthetic design and functions.

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The table below sets out examples of our research and development achievements during the Track Record Period and up to the Latest Practicable Date.

Year	Products	Product Category	Nature of design	Features
2017	PCI + LED Hair dryer	Hair styling series	Co-designed with Sharp	<ul style="list-style-type: none"> <li>— plasmacluster ions</li> <li>— far infrared LED function</li> <li>— electronic sensor and control for constant blow temperature</li> <li>— unique massage attachment</li> </ul>
2018	PCI Scalp massager	Hair styling series	Co-designed with Sharp	<ul style="list-style-type: none"> <li>— plasmacluster ions</li> <li>— unique massage head</li> <li>— rechargeable design</li> </ul>
2019 <sup>Note</sup>	Smart toilet seat	Lifestyle electrical appliance	Self-designed and developed	<ul style="list-style-type: none"> <li>— basic functions include heating, cleaning, drying, deodorization, sterilization, lighting, sit sensing etc.</li> <li>— value-added functions include UV disinfection, automatic flip, alternate flushing of warm and cold water, mobile flushing, massage function achieved by the change of water volume, energy saving function etc.</li> <li>— plan to apply for CCC certification for the PRC market</li> </ul>
2019	Heat-sensing intelligent hair dryer	Hair styling series	Co-designed with Customer M	<ul style="list-style-type: none"> <li>— temperature sensor detects hair temperature and automatically adjust dryer temperature to avoid over-heating</li> <li>— carbon body emits far infra-red rays to facilitate drying of hair</li> <li>— ioniser gives out negative ions to tame hair</li> <li>— brushless motor for long life</li> <li>— decorative LED indications for different modes of dryer</li> </ul>
2020	Beauty care device	Beauty care series	Co-designed with Customer M	<ul style="list-style-type: none"> <li>— radio frequency heats the skin's deeper layers</li> <li>— ultrasonic vibrator inside the electrode tip gives the skin a subtle vibration</li> </ul>

*Note:* We started our research and development of the smart toilet seat in 2019, and we strategically intend to launch the smart toilet seats in the PRC market in the first half of FY2022.

### PRODUCTION PROCESS

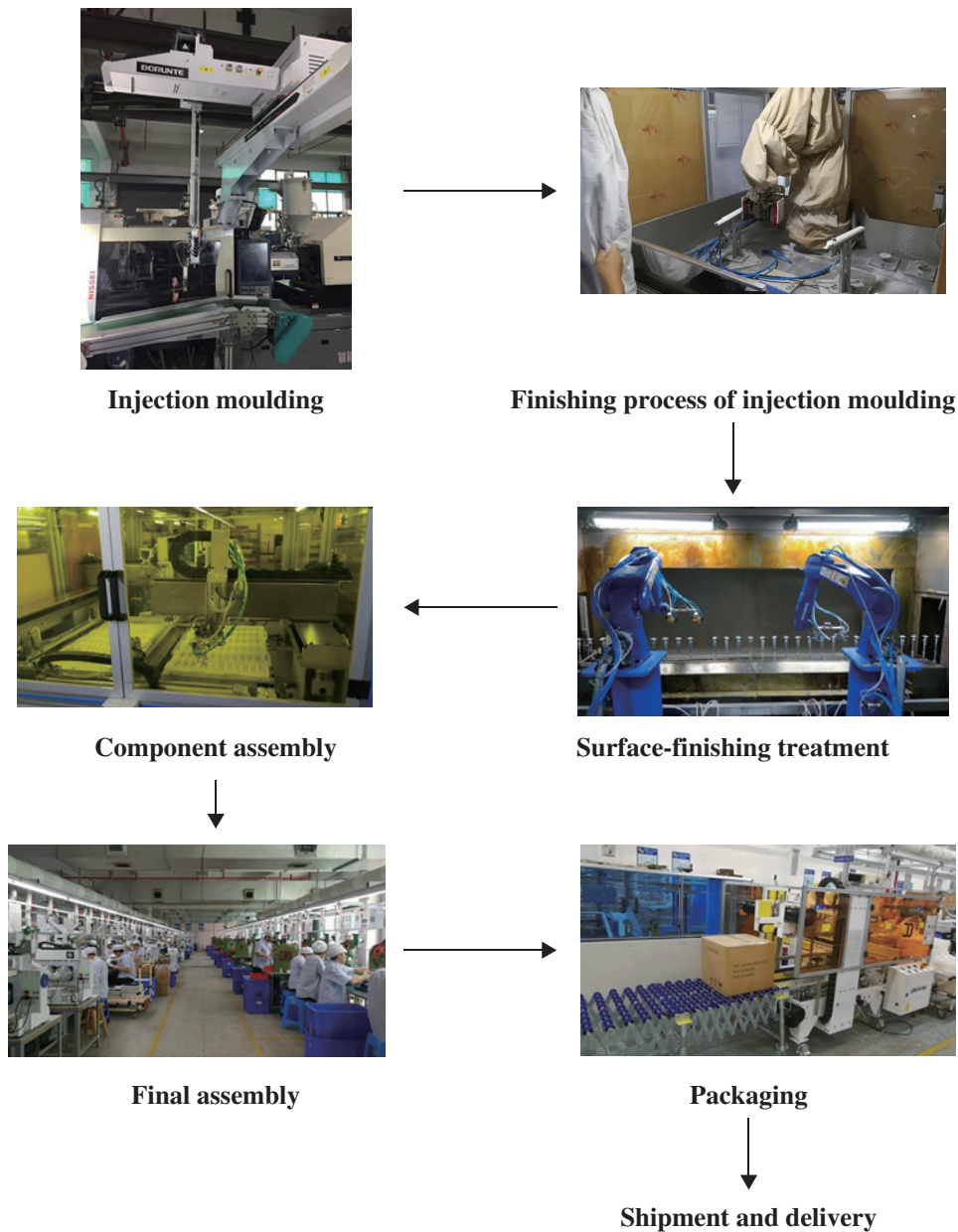
We generally entered into master purchase agreements with our customers. We will normally be informed of their purchase forecast or order three to 12 months in advance to devise our production plan. In the case of certain raw materials (such as motors, blades and PCBA) that may require a relatively longer delivery time, we will consider arranging the procurement earlier. The frequency of our

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customers to place orders mainly depends on their sales of our products in the market, ranging from every one to few months. Upon receiving purchase orders from our customers, we will procure raw materials and arrange production according to the purchase orders which generally specifies the types of products procured, quantity, unit price and expected delivery date. Most of the production is carried out in our Shenzhen Factory, except for some surface finishing treatment such as electroplating, which we outsource to subcontractors.

For a typical production process, it usually takes approximately 11 to 19 days from receiving the purchase orders to delivering the finished products to our customers.

The chart below illustrates our production process:



### **Injection moulding**

Injection moulding is a manufacturing process of producing plastic parts of different shapes and specifications by injecting molten plastic material into a mould. Injection moulding is performed by our plastic injection moulding machines, which can be classified into small, medium, large and extra-large sized machines by their various clamping forces, enabling us to produce plastic parts with various sizes.

### **Finishing process of injection moulding**

The plastic parts are degated and polished (if appropriate) after the injection moulding process in order to optimise the appearance of the plastic parts. Then we conduct various inspections and tests including structure inspection by trial assembly, dimensions inspection by measurement tools and colour inspection to ensure the quality of our plastic parts. The processes of injection moulding and polishing normally take two to five days.

### **Surface-finishing treatment**

Surface-finishing treatment mainly includes spray painting and electroplating. Spray painting enable us to paint the plastic components and parts with designated colour. We have spray painting lines with different degrees of automation equipped with robotic arms in our spray painting section. Further, our metal components and parts may be processed with electroplating. Electroplating is the process of plating a layer of metal onto another material by electrolysis, mainly applied to prevent corrosion of metal components and parts and for decorative purpose. During the Track Record Period, we outsourced some of our surface-finishing treatment process to third-party subcontractors. For details of our subcontracting activities, please refer to the paragraphs headed “Our subcontractors” below in this section. We carry out a number of inspections and testings for processed items, such as appearance and colour inspections, heat resistance test, adhesive test and alcohol and abrasion resistance test. The process of surface-finishing treatment normally takes three to five days.

### **Component assembly**

We have various components assembly lines where we perform component assembly work and minor processing work. For example, in preparation of final assembly, we assemble small parts such as wires, motors and screws together to form larger components. We also print our customers’ labels on the surface of products. Our component assembly lines are equipped with various machineries and equipment to aid our workers in performing various tasks, including pad printing machines, soldering machines and screwing machines. After completion of this process, we conduct appearance inspection by comparison with samples, structure inspection by trial assembly, dimensions inspection by measurement tools and performance tests such as compressive strength test, temperature test and electrical insulation test. The process of component assembly normally takes three to five days.

### **Final assembly**

At the final assembly lines of our production section, our workers assemble parts of products together in sequence to form the finished product. Our quality assurance staff perform tests at the final assembly lines to check the assembled products in respect of their appearance, electrical insulation and performance. We also measure the weight of our products before packaging to ensure that all parts and components are assembled properly. The appearance inspections include colour inspection, structural



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inspection to check whether there is structural dislocation and raised edges. The performance tests include electrical insulation test, temperature test for heat-generating products such as hair straighteners and curling items and ion amount test.

### **Packaging**

Once the finished products have passed the relevant tests, they will be packaged and prepared for shipping. Our finished products will be stored in our warehouse before shipping. The processes of final assembly and packaging normally take around one to two days.

### **Shipment and delivery**

We engage Independent Third Party logistics companies to arrange for the delivery of products from our production plant in Shenzhen to the forwarders at the designated ports of shipment of our customers, generally on FOB terms. During the Track Record Period, a small portion of our products were delivered to our customers in the PRC. The process of such delivery normally takes around two days.

### **PRODUCTION PLANT**

Our production plant is located in Shenzhen, the PRC. As at Latest Practicable Date, the aggregated gross floor area of our production plant was approximately 44,278.7 sq.m. which was situated on a plot of land with a site area of approximately 29,978.5 sq.m. Our production plant comprised fifteen buildings and accommodated various production machinery and equipment. For further information of our production plant, please refer to the paragraphs headed “Properties” in this section.

### **PRODUCTION LINES AND MACHINERY**

The primary machinery and equipment which are owned by us and used in our production process include plastic injection moulding machines, robotic arm spray painting machines and punching machines, etc.. Most of these machines were sourced from Japan and the PRC and have estimated useful life of ten years. As at the Latest Practicable Date, the age of our major production machinery and equipment ranged from one year to 22 years. We adopt a straight-line depreciation method for our machinery and equipment. During the Track Record Period, our Group had purchased new machinery and equipment of approximately HK\$17.1 million, HK\$8.5 million and HK\$11.9 million, respectively.

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The table below sets out the details of the major machinery which are owned by us and used in our production process as at the Latest Practicable Date:

Type of machines	Functions	Year(s) of service range	Quantity (units)
Plastic injection moulding machines	Manufacturing of plastic parts	one year–20 years	50
Punching machines	Stamping flat-sheet materials to produce form-features	6–22 years	33
Hydraulic press machines	Stretching of flat-sheet materials to form large contoured parts	6–21 years	8
Robotic arm spray painting machines	Spray painting of plastic and metal parts	2–10 years	10
Spray painting lines	Spray painting of parts	3–10 years	7
High temperature tunnel oven	Baking and transporting of parts	2–22 years	2
Pad printing machines	Printing on surfaces being shaped unconventionally	one year–3 years	12
Automatic soldering machines	Connecting of electronic parts	one year–4 years	4
Automatic screwdriver machines	Fastening and loosening of screws	one year–4 years	11
Mould testing machines	Mould testing	6–8 years	4
Dual-colour injection machines	Attaching rubber or plastic with different colour into the plastic parts	21 years	2

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The table below sets out a breakdown of number of our major machineries by remaining useful life as at the Latest Practicable Date:

	<b>Remaining useful life</b>		
	<b>more than zero</b>	<b>but less than</b>	<b>five to</b>
	<b>zero year</b>	<b>five years</b>	<b>ten years</b>
Number of major machineries	39	36	68

As per the applicable accounting policies adopted by our Group, depreciation of our machineries is calculated using the straight line method at 10% per annum to allocate their costs to their residual values over the estimated useful lives of the machineries. The estimated useful life of our production lines to derive future economic benefits from the use of our machineries is ten years. The residual values and useful lives of the machineries are reviewed and adjusted if appropriate, at each balance sheet date. Though certain machineries are used over ten years, the machineries may not be operated at an optimal level. Our Group will continue to maintain the condition of such machineries, if economically viable.

We conduct regular maintenance and inspection of our machinery aiming to maintain the operation of our machinery and equipment at an optimal level. We have an internal maintenance team responsible for carrying out periodic inspection, routine cleaning and maintenance of our production equipment depending on the machine operating frequency and cycle. We maintain records of maintenance and repairment of our machinery and equipment. During the Track Record Period, the repair and maintenance costs incurred were approximately HK\$3.8 million, HK\$3.8 million and HK\$2.0 million, respectively.

During the Track Record Period, we did not encounter any material difficulty in relation to the sourcing of machinery and did not experience any material failure or equipment breakdown in our production facility leading to material fluctuation in cost of production or prolonged production interruption.

As advised by our PRC Legal Advisers, we have obtained all material licenses, permits and certificates necessary for the production activities carried out at our production facilities in the PRC during the Track Record Period and up to the Latest Practicable Date.

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### Production capacity and utilisation rate

For illustrative purposes only, the following table sets out our production capacity, production volume and utilisation rate of our production facility during the Track Record Period:

	FY2018	FY2019	FY2020
<b>Small plastic injection moulding machines</b>			
<b>(clamping force of 50 to 110 tonnes)</b>			
Number of plastic injection moulding machines	19	19	19
Designated production capacity (thousand units)	29,832.9	29,832.9	28,556.2
Actual production volume (thousand units)	42,964.6	37,058.8	39,690.0
Average utilisation rate (%)	144.0	124.2	139.0
<b>Medium plastic injection moulding machines</b>			
<b>(clamping force of 120 to 180 tonnes)</b>			
Number of plastic injection moulding machines	19	19	19
Designated production capacity (thousand units)	14,788.9	14,788.9	14,276.8
Actual production volume (thousand units)	13,264.6	13,666.1	13,298.2
Average utilisation rate (%)	89.7	92.4	93.1
<b>Large plastic injection moulding machines</b>			
<b>(clamping force of 200 to 280 tonnes)</b>			
Number of plastic injection moulding machines	11	11	11
Designated production capacity (thousand units)	4,105.3	4,105.3	4,080.1
Actual production volume (thousand units)	2,640.0	3,713.0	5,332.2
Average utilisation rate (%)	64.3	90.4	130.7
<b>Extra large plastic injection moulding machines</b>			
<b>(clamping force of more than 300 tonnes)</b>			
Number of plastic injection moulding machines	1	1	1
Designated production capacity (thousand units)	218.6	218.6	218.6
Actual production volume (thousand units)	31.9	33.9	2.0
Average utilisation rate (%)	14.6	15.5	0.9
<b>Overall</b>			
Number of plastic injection moulding machines	50	50	50
Designated production capacity (thousand units)	48,945.7	48,945.7	47,131.7
Actual production volume (thousand units)	58,901.1	54,471.8	58,322.4
Average utilisation rate (%)	120.3	111.3	123.7

*Notes:*

- Our plastic injection moulding machines are responsible for the manufacture of plastic parts and components which make up the structural component of all of our products. Further, while the injection moulding process is followed by various steps including finishing process of injection moulding, surface-finishing treatment and component and final assembly, it is the bottleneck of our Group's overall production process. Since the injection moulding process is

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the first step, bottleneck and hence, the most critical step of our production process, we consider the production capacity and the utilisation rate of our Group's plastic injection moulding machines are the most appropriate parameters to reflect the actual situation of our production plant.

2. The designated production capacity is calculated by the aggregation of the numbers of plastic units estimated to be produced by plastic injection moulding machines per year. The above calculation is based on the theoretical maximum production rates of plastic units per 20 hours a days (two shifts) of small plastic injection moulding machines and that per 18 hours a day (two shifts) of medium, large and extra large plastic injection moulding machines. Our plastic injection moulding machines operate 236 working days per year based on five-day work schedule and deducting 24 days including the statutory holidays and the Chinese new year holidays. Due to the suspension of operation of our Shenzhen Factory during 3 to 18 February 2020, our plastic injection moulding machines operated 224 days in FY2020.
3. Estimated production utilisation rate is calculated by dividing the annual output of the plastic injection moulding machines for the year by the designated production capacity for the year.

During the Track Record Period, our Group's production capacity had significantly contributed from our small and medium plastic injection moulding machines.

The utilisation rate of our small plastic injection moulding machines decreased from approximately 144.0% for FY2018 to approximately 124.2% for FY2019, due to the decrease in demand of our grooming products, partially offset by the significant increase in sales volume of hair styling products. The utilisation rates of our small plastic injection moulding machines increased to 139.0% for FY2020, mainly attributable to the increase in sales volume of hair styling products.

The average utilisation rate of our medium plastic injection moulding machines remained relatively stable at approximately 89.7% for FY2018 and approximately 92.4% for FY2019, mainly attributable to the increase in sales volume of hair styling products, partially offset by decrease in sales volume of grooming products. The utilisation rates of our medium plastic injection moulding machines remained relatively stable at approximately 93.1% for FY2020, mainly attributable to the decrease in sales volume of grooming products and partially offset by increase in sales volume of hair styling products.

## QUALITY CONTROL

We place great emphasis on the quality of our products. We have adopted stringent quality assurance procedures throughout each stage in the entire production processes from the inspection of raw materials to finished products. We have our IQC Laboratory for testing the quality of the incoming raw materials and parts and components purchased from suppliers and processed by subcontractors. We also have our reliability test laboratory serving a purpose of continuously monitoring the reliability and function stability of new products, starting from the development stage to three months after the products have been launched in markets. Our quality control team is responsible for developing and implementing the quality control policy, which specifies various quality control tests for different kinds of products.

### 1. Raw materials inspection

In order to ensure the quality of raw materials, our quality control team conducts stringent tests and sample inspections in the IQC Laboratory. We use X-Ray RoHS detector to check whether there is any banned hazardous metal (i.e. under RoHS standard) contained in the incoming materials or parts and

components. We also inspect the appearance, structure, dimensions and performance of raw materials and parts and components delivered from our suppliers or subcontractors against our inspection standards, to detect any defects in the raw materials or parts and components.

## **2. Prototypes and engineering samples testing**

We will produce a prototype as part of the product design and development process such prototype is produced for evaluation and testing of a new design. Our product design is not materialised until the prototype is produced. We then perform a series of testings on the prototype to ensure it performs as designed. Currently we do not have our own prototype production facilities and hence, we need to outsource all the prototype production tasks to external prototype production services providers. In order to ensure the quality of the prototype, we also implement stringent quality control check on the configurations and specifications of the prototype produced by the external prototype production services providers.

After the prototype development, we will produce engineering samples and arrange such samples to be tested by external testing centres to ensure the samples pass the relevant safety standards.

## **3. Production process inspection**

Our quality control team conducts quality control tests such as appearance inspection, structure inspection, dimensions inspection and performance tests on each stage of the production process and on the finished products before packaging. For instance, our appearance inspection mainly includes visual checking on the appearance of the parts, by comparison with samples specified by our customers, in order to detect if there is any discrepancy of colour or other features of the appearance of the parts. We conduct structure inspection in order to avoid any structural dislocation and ensure proper assembly of the components, our structure inspections are conducted mainly by trial installation of the components to samples. Our dimensions inspection is mainly conducted by usage of projectors and measurement tools to ensure the sizes of the parts we produced are accurate, which accuracy is important for subsequent assembly. We also conduct various performance tests such as compressive strength test, heat resistance test, electrical insulation test, temperature test, adhesive test, and alcohol and abrasion resistance test, in order to ensure the quality of the parts and our products meet relevant quality and safety requirements and standards. Items failing to pass the check will be discarded or reproduced after the quality control team's evaluations. Before shipment, our quality control team will continually check whether there is any discrepancy in the colour or the structure of the finished products, in order to meet the specifications of our customers.

## **4. Finished products inspection**

Our finished products will generally be inspected again before they are packed for delivery, so as to ensure that they meet the specifications of our customers.

We place great emphasis on the quality and safety of our products and have implemented a comprehensive quality control system to closely monitor each stage of the production process and ensure product quality. We have ISO 9001:2015 accreditation in relation to our quality management system standard. Our design and manufacturing of personal care electrical appliances have been assessed and

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certified by recognised international safety standards of the shipping destinations, including the U.S. (e.g.: ETL Certification and UL Certification), Japan (e.g.: PSE mark), Europe (e.g.: CE mark, IEC standards, GS Marking and CB Certification), and the PRC (e.g.: CCC Certification).

### PRODUCT RETURN, WARRANTY AND LIABILITY

We generally offer warranty period of up to 24 months for our products. As a general policy, we will accept any product return made due to defects caused by us and bear the relevant costs. In the event that we receive complaints from our customers about the quality of our products, depending on the circumstances of each case, we usually repair or replace the defective products for our customers, and we will conduct an investigation to ascertain the cause of the defects. If the defects are caused by our suppliers, we would seek compensation from them.

During the Track Record Period, there were two incidents of product return. In FY2018, Tiger Corp requested product return for 1,984 units of bread makers as Tiger Corp discovered certain screws forming part of the bread makers failed to fulfil the RoHS standard during its internal checking before putting to the market. After rework, we re-shipped the 1,984 units to Tiger Corp. Our Group incurred expenses of approximately HK\$149,000 from the product return. Following the product return, we conducted an investigation and it was concluded that the non-compliance of environmental requirements was due to a batch of unqualified screws supplied by our supplier. According to our internal control procedures at that time, we relied on the relevant qualification certificates provided by the supplier as one of our approved suppliers and carried out sample checking on our incoming raw materials due to the fact that our raw materials such as screws, plastic particles, electric components, etc. are of large quantity and small in size. During our sample checking procedures, such unqualified screws were not discovered. Such supplier subsequently compensated us for HK\$128,000 for our loss in this incident. After the incident, we ceased procuring the category of unqualified screws from such supplier. As at the Latest Practicable Date, such supplier remained as one of our suppliers in the approved suppliers list which is subject to yearly review of performance and we considered that such incident was an one-off event. Subsequent to the incident and up to the Latest Practicable Date, no similar incidents happened again. Tiger Corp remained as our customer as at the Latest Practicable Date. In FY2019, we identified slight defects in our production process for a batch of curling irons we shipped to T3 which might impact their durability. We voluntarily reported the incident to T3 which subsequently returned 802 unsold units to us. After rework, we re-shipped the 802 units to T3. Our Group incurred expenses including shipment fee and labour cost of approximately HK\$27,000 from this incident of product return. Our Directors confirm that we are not involved in any violations of any laws or regulations or investigation by any authorities relating to these two product return incidents.

Set out below are the enhanced internal control measures of our Group to prevent the reoccurrence of the defects in the production processes:

- delegating our quality control team to monitor the changes on the product safety requirements such as EMC and UL standards and environmental requirements such as the RoHS standard that are related to our products. In case there is any change in the requirements, we shall inform our supplier/sub-contractor/staff and provide training to our staff timely;
- delegating our quality control team to keep appropriate and comprehensive record of valid third-party certificate/quality report on the products they supplied to us and requiring our suppliers to furnish us with the most updated quality report where necessary;

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- extending the sampling size and checking scope of our sample checking procedures for our incoming raw materials, especially for raw materials that are of large quantity and small in size;
- providing training to our staff regularly to ensure they have a better understanding on relevant requirement on quality of raw materials and our products; and
- requiring our suppliers/sub-contractors to provide us their training record which proving their staff have relevant knowledge on the quality and compliance requirement of the product that they supplied.

Our Directors confirmed that our Group has adopted the above internal control measures to prevent re-occurrence of similar incidents in the future. Based on the results of the follow-up interview, the Internal Control Consultant is of the view that the internal control measures of our Company are adequate and effective.

Saved for the above, we did not experience any significant quality defects or product claims or refunds or returns from our customers or remedies in respect of our products which materially and adversely affected our business, operations or financial condition during the Track Record Period and up to the Latest Practicable Date. Our Directors consider that the amount of returned products and the relevant expenses incurred was insignificant and no provision for product return had been made during the Track Record Period. For details of risk of potential product liability, please refer to section headed “Risk Factors — Any failure to ensure the quality of our products could harm our business, any significant defect found in our products may, among other things, jeopardise our business reputation, lead to litigation and adversely affect our business.” of this prospectus.

Our Directors confirm that we comply with the product safety standards of the jurisdictions to which we shipped our products. Our Directors believe that our commitment to high quality helps strengthen the recognition and trust from our customers, which subsequently translates to increased orders with us.

## SALES AND MARKETING

We primarily acquire customers by the following ways: (i) referrals by our current customers; and (ii) direct approach by potential customers after learning our industry reputation and our current customer base. Our customers will usually visit our Shenzhen Factory to assess our research and development capabilities and production capabilities. After they are satisfied with our capabilities, they will begin the co-design and development process with us, and after they approve our samples, they will place orders with us.

Our sales and marketing team is principally responsible for handling purchase orders received from our customers, co-ordinating with our production facility for execution of purchase orders, and communicating with customers on their requests and feedbacks as well as possible business opportunities. To ensure the information flow among parties are smooth, efficient in a timely manner, our sales and marketing team work closely with customers, our product design and development team and our production team from the receipt of purchase orders to the delivery of products. We also seek satisfaction feedbacks from our customers on our cooperation such as our products quality and services every year in order to continuously improve our products and services and enhance customer



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satisfaction. Our general manager and our sales and marketing team regularly visit our customers to exchange market update, promote our products and to maintain close business relationship with our customers. Our customers will also regularly visit our Shenzhen Factory to discuss ongoing projects, explore opportunities of new projects and share business and market information.

It is our plan to continuously enhance our marketing efforts and expand our marketing network, in particular, we started to advertise our ODM services in the internet by entering into an agreement with Alibaba.com in August 2018. Alibaba.com is a leading third-party e-commerce platform in the PRC market. Through such e-commerce platform, we also plan to market our self-developed lifestyle products such as smart toilet seats or future products to be launched under our own “iHA” brand in retail market. For details of our plan to enhance our marketing efforts and expand our marketing network by third-party online platforms, please refer to the paragraphs headed “Our business strategies — Enhancing our sales and marketing efforts in the global market including the PRC market” in this section.

### **Pricing policy**

Our pricing is generally determined based on a cost-plus pricing model with the markup, which is made with reference to the following factors: (i) the complexity of the works involved; (ii) our labour involved; (iii) estimated procurement costs; (iv) estimated overheads; (v) comparable market retail price; (vi) the quantity orders of the same purchase; (vii) our marketing strategies; and (viii) import tariff borne by our customers. For new customers, we may consider providing them with better offers in the early stage of business development.

We generally do not offer sales rebates to our customers. During the Track Record Period, Customer Group A required us to provide sales rebate as an incentives to them when their purchases exceed a predetermined benchmark amount. After considering (i) the potential increase in sales of our grooming products to Customer Group A as stimulated by the sales rebate; (ii) total purchase volume from Customer Group A; and (iii) the business relationship between Customer Group A and us, we offered sales rebate to them. The terms of the arrangement include the range of annual sales benchmarks and the respective percentage of annual purchase rebate amounts and were generally reviewed and negotiated annually. If Customer Group A’s purchases exceed the predetermined benchmark amount, we will offer a rebate which offset their accounts receivable to them. During the Track Record Period, the sales rebate we offered to Customer Group A amounted to approximately HK\$2.3 million, HK\$1.7 million and HK\$1.0 million, respectively.

### **Payment term and credit policy**

During the Track Record Period, our sales were principally denominated in US\$ and settled by way of telegraphic transfers.

We generally granted our customers a credit period ranging from 30 to 120 days. The payment method and the credit period were granted after having considered the respective customer’s known financial position, credit track record, quantity of orders and future business prospects. For a new customer, we would generally require it to pay a deposit which is usually equivalent to 30% of contract amount to ensure payment capability of the customer. Our accounting department is responsible for preparing monthly account receivables aging report, which is distributed to the management for monitoring purpose and alerting them of overdue balances. In the event that there is an overdue balance,

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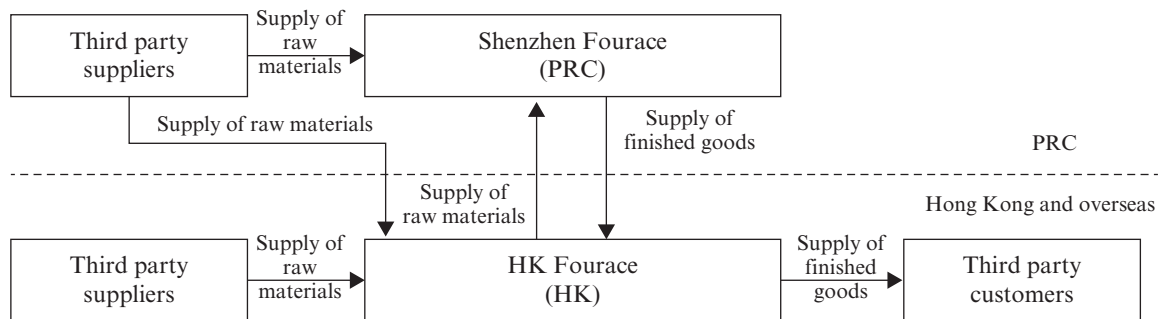
sales and marketing personnel and senior management will liaise with the relevant customers to seek prompt settlement. During the Track Record Period, we had not experienced any major defaults in payments or bad debts from our customers which may materially affect our financial condition and operating results.

### Seasonality of our sales

We do not have particular high or low seasons on the demand of our products throughout the year. Our Directors believe that such stable demand is due to our international customer base which balanced the fluctuation in demand of our products arising from high and low seasons of a particular country. As a result, neither our business nor our revenue was subject to any material seasonality during the Track Record Period.

### Transfer pricing arrangements

During the Track Record Period, our operations were mainly in Hong Kong and the PRC, and we had conducted business with customers worldwide. Production of our Group's products was carried out by Shenzhen Fourace in our production facility in Shenzhen. Shenzhen Fourace purchased raw materials from third party suppliers as well as from HK Fourace for production. The products manufactured by Shenzhen Fourace were mainly sold to HK Fourace, for its onward distribution to overseas third party customers. The diagram below illustrates the aforesaid business and logistic flow of our products within our Group during the Track Record Period:



As illustrated above, the following transactions were regarded as our intra-group transactions relating to our transfer pricing arrangement (the “**Covered Transactions**”) during the Track Record Period:

- Sales of raw materials by HK Fourace to Shenzhen Fourace
- Sales of finished goods by Shenzhen Fourace to HK Fourace

During the Track Record Period, our Group's Covered Transactions were the tangible goods buy-sell transactions between Shenzhen Fourace and HK Fourace. Among those transactions, Shenzhen Fourace functioned as a contract manufacturer by providing products to HK Fourace based on orders. Our Group has engaged an Independent Transfer Pricing Tax Adviser, namely Shenzhen Qianhai PricewaterhouseCoopers Business Consulting Co., Limited to conduct a transfer pricing review, including a benchmarking study, to evaluate the transfer pricing arrangement in relation to the above-mentioned intra-group transactions. By employing the prescribed third party database, the study

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presented a comparable search where quantitative and qualitative screening criteria were used to come up with a set of comparable independent companies and construct an arm's length profit range based on the latest three year financials of the comparable companies accordingly. Based on the analysis, the three-years weighted average full cost markup generated by Shenzhen Fourace from their cross-border intra-group transactions with HK Fourace during the Track Record Period were within the arm's length profit range. Based on the transfer pricing review, the Independent Transfer Pricing Tax Adviser is of the view that the Group has been in compliance with the relevant transfer pricing laws and regulations in both Hong Kong and the PRC during the Track Record Period.

We adopted arm's length principle to determine the selling prices of the intra-group transactions among our Group after taking into account their respective responsibilities for driving the economic activity, such as manufacturing, product development, sales and distribution, etc. to apportion reasonable profits among these entities according to their roles and functions within our Group and the costs involved. Based on the transfer pricing review, our Directors (after consultation with our Independent Transfer Pricing Tax Adviser) are of the view that the intra-group transactions conducted between Shenzhen Fourace and HK Fourace during the Track Record Period satisfied the arm's length principle from both the PRC and Hong Kong transfer pricing perspectives, and potential additional tax liability in relation to transfer pricing for our Group, if any, should not be material. In addition, Shenzhen Fourace has prepared contemporaneous transfer pricing documentation for each year since the intra-group transactions conducted during the Track Record Period has exceeded the relevant transfer pricing documentation threshold, of which our Directors (after consultation with our Independent Transfer Pricing Tax Adviser) confirm that our Group are in compliance with the applicable transfer pricing regulations in the PRC, including the transfer pricing documentation requirement according to the applicable regulations. Based on the foregoing, our Directors were of the view, and the Sponsor concurred, that our Group is in compliance with the applicable transfer pricing laws and regulations in Hong Kong and the PRC. As confirmed by the Directors, our Group's transfer pricing arrangements have not been challenged or investigated by any relevant tax authority in Hong Kong and the PRC during the Track Record Period and up to the Latest Practicable Date.

Please refer to the section headed "Regulatory Overview — Laws and regulations in Hong Kong — Laws and regulations relating to the transfer pricing regulations" of this prospectus for further information about the transfer pricing related laws and regulations in Hong Kong. Please refer to the section headed "Regulatory Overview — Laws and regulations in the PRC — Taxation — Implementation regulations for special tax adjustments (Trial)" of this prospectus for further information about the transfer pricing related laws and regulations in the PRC.

We have taken various measures to ensure our ongoing compliance with relevant transfer pricing laws and regulations in jurisdictions where we operate, including: (i) identification of updates on transfer pricing laws and regulations and assessment of related risks on our Group; (ii) regular review on transfer pricing policy and exposure; (iii) monitoring the implementation of internal control policy on tax-related matters, including ensuring the intra-group transactions are properly recorded, filed and maintained for inspection to avoid any discrepancy before any filing to the relevant tax authorities; and (iv) designating our accounting manager to regularly monitor intra-group transactions and report to Mr. Tsang Kai Ming, our Chief Financial Officer, to ensure such transactions can satisfy with the arm's length principle. Given that the relevant intra-group related party transactions have been in compliance with the relevant transfer pricing laws and regulations in both Hong Kong and the PRC during the Track Record Period based on our Independent Transfer Pricing Tax Adviser's analysis mentioned above, our

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Independent Transfer Pricing Tax Adviser is of the view that the above transfer pricing measures are sufficient to ensure future compliance from the transfer pricing perspective if the management continue to fully implement those measures.

### OUR CUSTOMERS

Over the years of our operations, we have built a strong global customer portfolio mainly comprising international brand owners. The majority of our customers are well-known multinational personal care electrical appliances brand owners.

### Geographical Coverage

During the Track Record Period, we mainly exported our products to overseas market, where the United States, Japan and Europe are the major destinations. During the Track Record Period, our sales derived from Japan, the United States and Europe markets contributed in aggregate approximately HK\$258.3 million, HK\$298.3 million and HK\$345.2 million, accounting for approximately 95.9%, 95.5% and 95.4% of our total revenue, respectively. The following table sets forth a breakdown of our revenue by shipment destination during the Track Record Period:

	FY2018		FY2019		FY2020	
	Revenue <i>HK\$'000</i>	Percentage of Revenue %	Revenue <i>HK\$'000</i>	Percentage of Revenue %	Revenue <i>HK\$'000</i>	Percentage of Revenue %
Japan	97,807	36.3	92,535	29.6	119,132	32.9
United States	97,179	36.1	152,292	48.8	196,365	54.3
Europe	63,346	23.5	53,428	17.1	29,747	8.2
Others <sup>(Note)</sup>	<u>10,891</u>	<u>4.1</u>	<u>13,984</u>	<u>4.5</u>	<u>16,850</u>	<u>4.6</u>
Total	<u>269,223</u>	<u>100.0</u>	<u>312,239</u>	<u>100.0</u>	<u>362,094</u>	<u>100.0</u>

*Note:* Others mainly include Australia, Canada, the PRC and other countries within the Asia Pacific region.

### Our Major Customers

As at the Latest Practicable Date, our business relationships with our five largest customers ranged from approximately two to 18 years. Our Directors believe such well-established relationships stem from the recognition of our product quality and timely completion of customers' orders under delivery schedules. Our Directors believe that such relationships help preserve the loyalty of our customers and reinforce commitment from our customers to place further orders with us.

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Set out below is a breakdown of our revenue by our top five customers during the Track Record Period and their respective background information:

For FY2018

Rank	Customer	Principal business <sup>(Note 1)</sup>	Major types of products purchased from our Group	Credit period and payment method	Revenue derived HK\$'000	% to our total revenue	The year when business relationship started
1	T3	Distribution of household appliances including hair styling products	Hair styling series and others	60 days. By telegraphic transfer	107,844	40.1	2009
2	Sharp Group	Manufacture and sale of telecommunications equipment, electrical appliances and general electronic application equipment and components	Hair styling series and others	45-60 days. By telegraphic transfer	45,796	17.0	2011
3	Customer Group A	Manufacture and sales of personal care and hygiene products	Grooming series	75 days. By telegraphic transfer	44,949	16.7	2005
4	Koizumi	Manufacture and trade of home appliances and household products	Hair styling series, grooming series, beauty care series, lifestyle electrical appliances and others	35 days. By telegraphic transfer	37,931	14.1	2002
5	Sunbeam Group	Manufacture, design, marketing and distribution of household consumer products and small appliances	Grooming series and others	45-90 days. By telegraphic transfer	12,538	4.7	2002

For FY2019

Rank	Customer	Principal business <sup>(Note 1)</sup>	Major types of products purchased from our Group	Credit period and payment method	Revenue derived HK\$'000	% to our total revenue	The year when business relationship started
1	T3	Distribution of household appliances including hair styling products	Hair styling series and others	60-120 days. By telegraphic transfer	166,600	53.4	2009
2	Sharp Group	Manufacture and sale of telecommunications equipment, electrical appliances and general electronic application equipment and components	Hair styling series and others	45-60 days. By telegraphic transfer	46,365	14.8	2011
3	Customer Group A	Manufacture and sales of personal care and hygiene products	Grooming series	75 days. By telegraphic transfer	41,705	13.4	2005
4	Koizumi	Manufacture and trade of home appliances and household products	Hair styling series, grooming series, beauty care series, lifestyle electrical appliances and others	35 days. By telegraphic transfer	37,145	11.9	2002
5	Sunbeam Group <sup>(Note 2)</sup>	Manufacturing, design, marketing and distribution of household consumer products and small appliances	Grooming series and others	45-90 days. By telegraphic transfer	8,081	2.6	2002

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For FY2020

Rank	Customer	Principal business <sup>(Note 1)</sup>	Major types of products purchased from our Group	Credit period and payment method	Revenue derived <i>HK\$'000</i>	% to our total revenue	The year when business relationship started
1	T3	Distribution of household appliances including hair styling products	Hair styling series and others	60-120 days. By telegraphic transfer	199,039	55.0	2009
2	Sharp Group	Manufacture and sale of Telecommunications equipment, electrical appliances and general electronic application equipment and components	Hair styling series and others	45-60 days. By telegraphic transfer	50,113	13.8	2011
3	Customer M	Planning, development, production and sales of beauty equipment, health equipment and cosmetics	Hair styling series and others	30% deposit in advance and 30-60 days for the remaining balance By telegraphic transfer	41,464	11.5	2017
4	Koizumi	Manufacture and trade of home appliances and household products	Hair styling series, grooming series, beauty care series, lifestyle electrical appliances and others	35 days. By telegraphic transfer	33,652	9.3	2002
5	Customer Group A	Manufacture and sales of personal care and hygiene products	Grooming series	75 days. By telegraphic transfer	32,123	8.9	2005

*Note:*

- Such information is extracted from the latest annual report, business registration or websites of the respective companies.
- During FY2019, our Group was unable to reach an agreement with the Sunbeam Group in respect of the price of certain of our products. Subsequently, our Group and the Sunbeam Group have mutually agreed to cease further business co-operation and the Sunbeam Group has agreed to compensate us the raw material and parts we held for the manufacture of it products.

As confirmed by our Directors, none of our Directors, their respective close associates or any Shareholder (who or which, to the best knowledge of our Directors, owned more than 5% of the issued share capital of our Company as at the Latest Practicable Date), has any interests in any of the five largest customers during the Track Record Period. All the above five largest customers are Independent Third Parties.

### Customer Concentration

During the Track Record Period, our Group's sales to our five largest customers amounted to HK\$249.1 million, HK\$299.9 million and HK\$356.4 million, representing approximately 92.6%, 96.1% and 98.5% of our revenue, respectively. In particular, our Group's sales to T3, our largest customer, amounted to HK\$107.8 million, HK\$166.6 million and HK\$199.0 million during the Track Record Period, representing approximately 40.1%, 53.4% and 55.0% of our revenue, respectively.

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We recorded an increasing trend of revenue derived from T3 during the Track Record Period and more than half of our revenue was contributed by T3 for FY2019 and FY2020. Nonetheless, our Directors are of the view that this customer concentration will not constitute a significant risk to our Group because of the following reasons:

(i) *Mutual reliance with T3*

T3 was founded in 2005 and is based in California, the U.S.. It principally engages in the sales of high-end hair styling tools through online platform and a network of dealers and salons in the U.S. and worldwide. The hair styling tools offered by T3 mainly include hair dryers, flat irons, hair straighteners and hair brushes. A majority of T3's hair dryers being sold in the retail market are over US\$100 per unit. According to the Industry Report, the total revenue of T3 was approximately US\$100.0 million and T3 was one of the top 20 brands in the global hair dryer market in 2019. As advised by T3, as it does not have any in-house manufacturing operation, it has to rely on third-party suppliers for product development and manufacturing. Since FY2018, T3 has developed a new distribution channel of their products in the U.S. which significantly boosted their demand on our products. We have started our business relationship with T3 since 2009, when T3 has engaged us to co-design, develop and manufacture hair styling products, including hair dryers, hair straighteners and curling irons on an ODM basis. Since the commencement of our business relationship with T3 up to the Latest Practicable Date for over ten years, there has not been any material disruption in the business relationship between us. Our Directors believe that our long and stable business relationship with T3 is due to the following reasons:

(a) *We have been the largest hair styling product supplier of T3*

As advised by T3, they do not have any in-house manufacturing operation for hair styling products. During the Track Record Period, all of their hair styling products were purchased from three separate suppliers in the PRC, including our Group, on an ODM basis. Among these three suppliers, we were the largest hair styling product supplier to them in terms of purchase amount, which accounted for approximately 50% of their total purchases of hairstyling products during the Track Record Period, and we have become the largest supplier of T3 since 2014. Being the largest supplier of T3 with established relationship and trust on our Group's product quality over the years, we consider it is unlikely for T3 to cease cooperation with us.

(b) *Our product research and development capabilities are vital to T3's continuous business growth*

According to the Industry Report, the business growth of brand owners of personal care electrical appliances who do not have in-house manufacturing operation largely depends on, among other things, the product research and development capabilities of the ODM service providers. Also, if the brand owners satisfy with the product research and development capabilities of the ODM service providers, they will typically develop a long term business relationship with the ODM service providers to co-design and develop new products in order for them to focus resources on brand building and sales channel management. Leveraging the established trust between T3 and our Group over years of cooperation and in conformity to the aforesaid understanding from the Industry Report, T3 continuously engaged us to co-design and develop new hair styling products during the Track Record Period to facilitate

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their business growth, amounting to eight, five and four models, respectively. Having considered the increasing cooperation in co-design and development of products, coupled with our position of being the largest supplier of T3 as mentioned above, our Directors believe that T3 largely relies on our product research and development capabilities.

*(c) T3 is in the course of execution of strategic business plan which prefers stable relationship with suppliers*

Since the third quarter of FY2018, T3 has developed a new distribution channel of its products which significantly boosted T3's demand on our products. As a result, our Group's sales to T3 increased significantly from approximately HK\$107.8 million for FY2018 to approximately HK\$166.6 million for FY2019 and further to HK\$199.0 million for FY2020. Pursuant to the confirmed sales orders and the preliminary forecast provided by T3 and as estimated by our Directors, the expected purchase amount from T3 for FY2021 would be no less than approximately HK\$187.2 million, representing a decrease of approximately 5.9% as compared to that of FY2020. Our Directors believe that such decrease was mainly attributable to the potential impact of the Outbreak on global economy and as result, T3 has been more cautions in forecasting the future annual demand on our products. Nevertheless, based on the Industry Report, the retail sales value of personal care electrical appliances market in the U.S. is expected to maintain an upward trend during 2019 to 2024 and also their growth prospect after the development of the new distribution channel, our Directors expect that our sales to T3 would continue to increase in the future. Our Directors believe that it is highly unlikely for T3 to consider to shift to another ODM service provider during the course of execution of such strategic business plan due to the uncertainties and risks associated with switching to a new major supplier, including any disagreement in business terms, potential delay in product delivery, unexpected product quality problem, etc.

During the Track Record Period and as at the Latest Practicable Date, our Group had not entered into an exclusivity arrangement with T3 in respect of its purchase from our Group. In spite of that, (i) during the Track Record Period, our Group had been the largest hair styling products supplier to T3 in terms of purchase amount; (ii) T3 had a decade of established business relationship with our Group and was satisfied with our Group's product quality during the Track Record Period, evidenced by the significant increasing trend in our revenue from approximately HK\$107.8 million to HK\$199.0 million from FY2018 to FY2020 generated by our sales to T3; and (iii) the pricing arrangement between T3 and our Group had been mutually satisfactory and commercially beneficial to both parties during the Track Record Period and up to the Latest Practicable Date. Therefore, our Directors consider that our Group has a close bond and mutual reliance with T3, which put our Group in an advantageous and strong position in furtherance of our cooperation with T3.

Moreover, our Directors believe that our strong design, research and development capabilities and the wide range of products offered by us form the cornerstone of our consistent and positive relationship with T3, which our Directors believe will remain stable going forward. As T3 is in the course of implementing its business strategy developed in FY2018, our Group's sales to T3 has increased significantly from FY2018 to FY2020. Taking into consideration the abovementioned, and supported by our Group's synergic business strategies in view of T3's business plan, including (i) our Group's desire to enhance our production capability in acquiring new production



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machineries; and (ii) our Group's plan to develop our prototype centre, EMC test laboratory and UL/ETL/CCC certified standard testing laboratory, our Directors believe that the risk that our relationship with T3 will materially and adversely change or terminate is low.

### *(ii) Business Development Plan*

Our business development plan to further reduce the risk of customer concentration include (a) continuous expansion of our Group's ODM business; and (b) development of OBM business to expand customer base and increase profitability.

#### *(a) Continuous expansion of our Group's ODM business*

As a result of our strong production capability and research and development capabilities to meet specific standard and/or requirement of various personal care and lifestyle electrical appliances from our customers who are all international renowned brand owners, we were approached by a number of brand owners in the personal care and lifestyle electrical appliance industry to seek for business cooperation with us during the Track Record Period and up to the Latest Practicable Date. Among the brand owners who approached us, we accepted to provide ODM service to Customer M, which is a leading beauty devices and cosmetics company based in Japan, in relation to hair styling and beauty care electrical appliances in FY2017. As at the Latest Practicable Date, we have completed the co-design and development of two models of hair dryers and beauty care devices with Customer M, and such products were launched in September 2019 and April 2020, respectively. Customer M contributed approximately HK\$41.5 million of our revenue for FY2020, and ranked our third largest customer for FY2020. As at the Latest Practicable Date, we received confirmed sales orders of not less than approximately HK\$41.3 million for products delivered or to be delivered for FY2021. Pursuant to the confirmed sales orders and the preliminary forecast provided by Customer M and as estimated by our Directors, our sales to Customer M are expected to be approximately HK\$70.9 million for FY2021.

#### *(b) Development of OBM business to expand customer base and increase profitability*

As discussed in the paragraphs headed "Our business strategies" in this section, we intend to develop our own brand "iHA" to expand our customer base (i.e. OBM customers) and increase our profitability. To start with, on 19 July 2019, we entered into a legally binding letter of intent with a major customer incorporated in Japan to sell certain models of products that we co-designed and developed for and sold to them under our own brand globally except in Japan. Further, as at the Latest Practicable Date, we were in the process of research and development of smart toilet seats which is planned to launch under our own brand "iHA". Our Directors are of the view that these efforts in developing the OBM business will bring us with more business opportunities, reduce our reliance on our major customers while maintaining the steady growth of our business at the same time.

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### Salient terms of master purchase agreements with customers

We have entered into certain master purchase agreements with our customers during the Track Record Period. Salient terms of master purchase agreements with our customers are as below:

- Product specification* : All detailed terms, specifications, quality assurance standards, and requirements will be specified in the technical documents or variable contractual terms.
- Term of agreement* : The term will usually be one to three years, generally the agreement may be automatically renewed on a year to year basis unless either party gives the written notice of the termination to the agreement to the other party before the expiration. In some circumstances, the agreement may be renewed by the written agreement of all parties.
- Supply of materials* : We usually procure the materials by ourselves.
- Purchase quantity* : Purchase quantity may be specified in the purchase orders.
- Price and payment* : All detailed price and payment terms may be specified in the purchase orders or variable contractual terms.
- Delivery details* : The delivery details including the delivery date may be specified in each individual purchase order. The delivery term is normally FOB.
- Inspection* : We may be required to provide reports of inspection or testing for final products as to the compliance with the specified specification or quality standards. Some customers have the rights to inspect the products by themselves at the ultimate destination within a specified period. Some customers are allowed to inspect our premises, production process, facilities, records and the manufactured units pursuant to the agreement.
- Quality control* : We conduct quality control measures to ensure the quality of our products to meet specified quality standards.
- Warranty* : We warranty that (1) our products shall be of good and merchantable quality with the suitable packaging, free from any defects in manufacture; (2) our performance and products shall comply with all relevant quality standards, laws and regulations; and (3) our products shall not violate any intellectual property rights of any third party.
- Indemnity/insurance* : We are required to hold harmless, defend and indemnify the customers from and against any liability, loss, cost and expense arising out of or in connection with the death of or injury to any person, or damage to property of any person resulted from any purchase, sale, or use of the manufactured units. We should assume our own risk and take our own insurance.

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- Confidentiality* : We shall keep confidential regarding the information and materials, and also manufacturing know-how, including knowledge of methods and processes, detailed manufacturing data, and specifications.
- Intellectual property rights* : The rights of the designs or intellectual properties developed at the cost of the customer should be retained by the customer.
- Termination* : Certain agreements may be terminable immediately upon written notice by one party to the other if
- (i) the other party is under proceeding of bankruptcy relief, any petition for the appointment of a receiver, liquidator, assignee, trustee, sequestrator and any of such proceedings is permitted to remain for a period (e.g. 45 days), or
  - (ii) material default of any party without the written consent of the other.

During the Track Record Period, there had been no minimum purchase requirement or exclusivity terms in the master purchase agreements with our customers.

As confirmed by our Directors, during the Track Record Period and up to the Latest Practicable Date, we did not have any material breach of the master purchase agreement with our customers as mentioned above. Further, save and except for the two product return incidents disclosed in the section headed “Business — Product return, warranty and liability” in this prospectus, we had no product quality issues and/or disputes with regard to our sales to our customers during the Track Record Period and up to the Latest Practicable Date.

Our sales are generally conducted on the basis of confirmed purchase orders which set out the specific terms for a particular batch of orders, including shipment terms, payment terms, delivery date, product description, price and quantity.

Our Directors have confirmed that during the Track Record Period and up to the Latest Practicable Date, we had not received any material claim nor material product return from our customers relating to any liability arising from or in connection with the use of our products.

### **RAW MATERIALS AND SUPPLIERS**

#### **Raw materials**

Our major raw materials mainly include electrical components, metal materials, plastic particles and painting materials. Generally, our purchases are made based on the purchase orders we receive from our customers, save and except for certain raw materials (such as motor, blades and PCBA) that may require a relatively longer delivery time, we will consider arranging the procurement upon receiving the purchase forecast from our customers in advance. During the Track Record Period, the cost of raw materials amounted to HK\$129.4 million, HK\$149.3 million and HK\$152.5 million, respectively, representing 63.7%, 65.7% and 60.2% of our total cost of sales, respectively. We can generally pass on the increase in purchase costs to our customers. In general, we enter into master purchase agreements

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which may often include pre-agreed pricing with our customers. According to the master purchase agreement with our customers, there may also be a price adjustment mechanism to adjust the price when a certain situation arises such as an increase of material or labour cost exceeding 10% over a prolonged period. We closely monitor the raw material costs and labour costs. Our finance department collects data of raw material costs and labour cost and submits them to our management for them to assess the production cost of our products. When there are verifiable increases in raw material cost and labour cost related to the manufacturing of our products, we may provide our customers with about two months prior written notice, setting out evidence of the increase in raw material or labour cost, and proposed price increase in the unit price of our product as a result of the increase in raw material cost or labour cost, and we may increase the price after obtaining approval from our customers. There had been no material price adjustment during the Track Record Period.

In order to avoid over-reliance on a single source of supply, we maintain more than one supplier for each category of our major raw materials. During the Track Record Period, we had not encountered any material shortage, delay or major difficulty in the procurement of raw materials from our suppliers. Our Directors do not foresee that we will encounter any difficulty in sourcing raw materials in the future.

For more details about the sensitivity analysis in the impact of hypothetical fluctuations in various of our direct material costs on our profit before taxation during the Track Record Period, please refer to the section headed “Financial Information — Key factors affecting our financial condition and results of operations — Direct material costs” of this prospectus.

### **Procurement process**

Our procurement department is responsible for sourcing raw materials, obtaining quotations and negotiating with the suppliers. Upon receiving the production notice issued by the sales department, our procurement department will place purchase order of the relevant materials based on current inventory level and input into the ERP system according to the actual demand. Our Directors believe that our procurement department plays a pivotal role in ensuring the delivery of products to our customers in time and of satisfactory quality.

### **Selection and evaluation of suppliers**

We purchase raw materials from a number of suppliers. Our suppliers’ manufacturing facilities are mainly located in Shenzhen and Dongguan which are in proximity to our Shenzhen Factory. We follow a stringent standard to select our suppliers and only purchase from our suppliers enlisted in our internal list of pre-approved suppliers. As at the Latest Practicable Date, we had 682 suppliers in our approved suppliers list. The factors that we take into account include the production capabilities, technological level, financial reputation and quotations obtained from the suppliers. In this connection, we may conduct on-site inspection and due diligence investigation on the suppliers. Further, a yearly review of this approved list of suppliers, for example site visits to the suppliers’ office is carried out by us and the under-performed suppliers will be removed from such list. Further, we will monitor the quality and delivery time of the materials that we ordered from our suppliers from time to time, and we require our suppliers to comply with relevant standards in relation to human health and the environment, such as RoHS/WEEE/REACH standards, for certain raw materials supplied.

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### Our major suppliers

During the Track Record Period, purchases attributable to our five largest suppliers amounted to approximately HK\$34.6 million, HK\$39.1 million and HK\$47.9 million, respectively, representing approximately 26.2%, 27.2% and 30.8% of our total purchase, respectively. During the same period, purchases attributable to our largest supplier amounted to approximately HK\$7.6 million, HK\$10.3 million and HK\$11.8 million, respectively, representing approximately 5.8%, 7.2% and 7.6% of our total purchase, respectively. The tables below set out the details of our five largest suppliers during the Track Record Period:

For FY2018

Rank	Supplier	Principal business <sup>(Note 2)</sup>	Location	Major raw materials supplied	Credit period and payment method	Purchase amount HK\$'000	% to our total purchase %	The year when business relationship started
1	Shenzhen Noke Technology Co., Ltd.* (深圳市諾科科技有限公司)	Manufacturing and trading of electronic boards	Shenzhen, the PRC	PCBA	30-60 days By bank transfer	7,640	5.8	2014
2	Sharp Group	Manufacture and sale of telecommunications equipment, electrical appliances and general electronic application equipment and components	Hong Kong	Ion generator	30-60 days By cheque or bank transfer	7,356	5.6	2011
3	Luen Ming Electric Works Company Limited and its affiliates <sup>(Note 1)</sup>	Manufacturing and trading of power supply products	Hong Kong	AC adapter and leakage protection switch	60-90 days By cheque or bank transfer	7,266	5.5	1988
4	Vista Metal Parts Ltd.	Trading of metal parts	Hong Kong	Blades	60-90 days By cheque or bank transfer	6,877	5.2	2000
5	Shenzhen Longtao Motor Co., Ltd.* (深圳市龍濤電機有限公司)	Manufacturing and trading of electrical motors	Shenzhen, the PRC	Electrical motors	30-60 days By bank transfer	5,466	4.1	2015

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### For FY2019

Rank	Supplier	Principal business <sup>(Note 2)</sup>	Location	Major raw materials supplied	Credit period and payment method	Purchase amount HK\$'000	% to our total purchase %	The year when business relationship started
1	Luen Ming Electric Works Company Limited and its affiliates <sup>(Note 1)</sup>	Manufacturing and trading of power supply products	Hong Kong	AC adapter and leakage protection switch	60-90 days By cheque or bank transfer	10,299	7.2	1988
2	Sharp Group	Manufacture and sale of telecommunications equipment, electrical appliances and general electronic application equipment and components	Hong Kong	AC adapter and leakage protection switch	30-60 days By cheque or bank transfer	8,434	5.9	2011
3	Shenzhen Noke Technology Co., Ltd.* (深圳市諾科科技有限公司)	Manufacturing and trading of electronic boards	Shenzhen, the PRC	PCBA	30-60 days By bank transfer	7,531	5.2	2014
4	Qunwei (Xiamen) Industry and Trade Co., Ltd.* (群維(廈門)工貿有限公司)	Manufacturing and trading of paper products	Dongguan, the PRC	Packaging material box	60-90 days By bank transfer	6,641	4.6	2017
5	Dongguan Xindianwei Electronics Co., Ltd.* (東莞市芯電威電子有限公司)	Manufacturing and trading of electronic products	Dongguan, the PRC	PCBA	30-60 days By bank transfer	6,154	4.3	2013

### For FY2020

Rank	Supplier	Principal business <sup>(Note 2)</sup>	Location	Major raw materials supplied	Credit period and payment method	Purchase amount HK\$'000	% to our total purchase %	The year when business relationship started
1	Dongguan Xindianwei Electronics Co., Ltd.* (東莞市芯電威電子有限公司)	Manufacturing and trading of electronic products	Dongguan, the PRC	PCBA	30-60 days By bank transfer	11,795	7.6	2013
2	Luen Ming Electric Works Company Limited and its affiliates <sup>(Note 1)</sup>	Manufacturing and trading of power supply products	Hong Kong	AC adapter and leakage protection switch	60-90 days By cheque or bank transfer	10,614	6.8	1988
3	Shenzhen Noke Technology Co., Ltd.* (深圳市諾科科技有限公司)	Manufacturing and trading of electronic boards	Shenzhen, the PRC	PCBA	30-60 days By bank transfer	10,542	6.8	2014
4	Sharp Group	Manufacture and sale of telecommunications equipment, electrical appliances and general electronic application equipment and components	Hong Kong	Ion generator	30-60 days By cheque or bank transfer	8,161	5.2	2011
5	Qunwei (Xiamen) Industry and Trade Co., Ltd.* (群維(廈門)工貿有限公司)	Manufacturing and trading of paper products	Dongguan, the PRC	Packaging material box	60-90 days By bank transfer	6,828	4.4	2017

#### Notes:

- Luen Ming Electric Works Company Limited and its affiliates are held by common shareholders.
- Such information is extracted from the latest annual report, business registrations or websites of the respective companies.

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Our Directors believe that we have maintained good business relationships with our suppliers. During the Track Record Period and up to the Latest Practicable Date, we did not encounter any material difficulty in sourcing raw materials for our production. Given the abundance of suppliers in the market, our Directors do not anticipate any material difficulties in sourcing and we do not enter into long-term contract with them.

As confirmed by our Directors, none of our Directors, their respective close associates or any Shareholder (who or which, to the best knowledge of our Directors, owned more than 5% of the issued share capital of our Company as at the Latest Practicable Date) has any interest in any of our five largest suppliers during the Track Record Period. All the above five largest suppliers are Independent Third Parties.

### **Salient terms of master purchase agreements with suppliers**

We generally enter into master purchase agreements with our suppliers and place purchase orders with them upon receipt of purchase orders from our customers. Our purchase orders are entered with our suppliers on an order-by-order basis, which generally specify the name, quantity, price and delivery of the material that we purchased. The terms of the master purchase agreement with each supplier may vary. Our typical master purchase agreement contains details of procurement, delivery, indemnity, warranties, and quality requirements. Certain salient terms of our master purchase agreements with suppliers are listed as below.

- |  |   |  |
|--|---|--|
| <i>Quality requirement</i>             | : | The goods supplied must meet the specification and quality standard required by us and the relevant applicable laws.   |
| <i>Quality control</i>                 | : | We shall conduct quality inspections to the goods delivered by our suppliers pursuant to the quality requirement specified in the supply agreement. The non-conforming goods will be generally returned to our suppliers and all the relating expenses shall borne by our suppliers. |
| <i>Quantity</i>                        | : | To be specified in purchase orders.  |
| <i>Term of agreement</i>               | : | Most of the term ranges from one to two years.   |
| <i>Delivery details</i>                | : | To our factory in Shenzhen or our Hong Kong office or our designated locations. The costs of delivery are normally covered by our suppliers.   |
| <i>Credit terms and payment method</i> | : | To be specified in purchase orders.  |
| <i>Breach liability</i>                | : | Our suppliers shall be responsible for all claims arising on account of quality problems, delay or other non-conformities with specifications.   |
| <i>Product warranty</i>                | : | Warranty period of 15 months from the date of quality acceptance.  |

## BUSINESS

### OVERLAPPING OF MAJOR CUSTOMERS — SUPPLIERS

During the Track Record Period, there were occasions where our Group sourced raw materials from our customer. Such raw materials were parts and components, including ion generators and razor blades that were necessary for the production of our products to the same customers, of which our customers required us to purchase such parts and components from them.

The table below sets forth the information of our major customers — suppliers during the Track Record Period:

#### 1. Sharp Group

	FY2018	FY2019	FY2020
<b>Our sales to Sharp Group</b>			
Revenue ( <i>HK\$'000</i> )	45,796	46,365	50,113
Percentage to our Group's total revenue	17.0%	14.8%	13.8%
Gross profit margin	26.3%	25.9%	32.4%
<b>Our purchase from Sharp Group</b>			
Purchase ( <i>HK\$'000</i> )	7,356	8,434	8,161
Percentage of our Group's total purchases	5.6%	5.9%	5.2%

#### 2. Sunbeam Group

	FY2018	FY2019	FY2020
<b>Our sales to Sunbeam Group</b>			
Revenue ( <i>HK\$'000</i> )	12,538	8,081	327
Percentage to our Group's total revenue	4.7%	2.6%	0.1%
Gross profit margin	17.9%	25.2%	17.2%
<b>Our purchase from Sunbeam Group</b>			
Purchase ( <i>HK\$'000</i> )	584	—	—
Percentage of our Group's total purchases	0.4%	—	—

Our Directors confirmed that negotiations of the terms of our sales to and purchases from these customers — suppliers were conducted separately and as a result, the sales and purchases were neither inter-connected with nor inter-conditional upon each other. Our Directors confirmed that, during the Track Record Period, the products we purchased from these customers — suppliers were not the same as those products we previously sold to these customers — suppliers. The terms of transactions with these entities are normal commercial terms and similar to those transactions with our other customers and suppliers.

To the best knowledge and belief of our Directors after making all reasonable enquiries, these customers — suppliers and their respective ultimate beneficial owners are Independent Third Parties. As confirmed by our Directors, none of our Directors, their respective close associates or any Shareholders who or which, to the best knowledge of our Directors, owned more than 5% of the issued share capital of our Company as at the Latest Practicable Date, has any interests in any of the major overlapping customers and suppliers during the Track Record Period.



## **OUR SUBCONTRACTORS**

During the Track Record Period, we have engaged subcontractors which were Independent Third Parties for certain parts of the production process, all of which are located in the PRC. The subcontracted production processes are those not our area of expertise, including mould production, new products' prototype production, metal parts production, solvent-based spray painting and electroplating works. Our quality control team will inspect and test the quality of the incoming parts completed the subcontracted processes. During the Track Record Period, our subcontracting costs were approximately HK\$6.2 million, HK\$8.7 million and HK\$16.9 million, which accounted for approximately 3.1%, 3.8% and 6.7% of our cost of sales respectively.

As confirmed by our Directors, none of our Directors, their respective close associates or any Shareholder (who or which, to the best knowledge of our Directors, owned more than 5% of the issued share capital of our Company as at the Latest Practicable Date) has any interest in any of our five largest subcontractors during the Track Record Period. All these five largest subcontractors are Independent Third Parties.

### **Salient terms of master subcontracting agreements**

We generally enter into master subcontracting agreements with our subcontractors and we place purchase orders with our subcontractors on an order-by-order basis. The purchase orders generally specify the type of service, quantity, unit price and credit term. Our master subcontracting agreements contain details of procurement or service, delivery, indemnity, warranties, and quality requirements. Certain salient terms of our master subcontracting agreements are set out as below:

- Term of agreement* : Term of agreements are generally range from one to two years.
- Quality requirement* : The goods supplied must meet the specifications and quality standard required by us and the relevant applicable laws.
- Quality control* : We shall conduct quality inspections to the goods delivered by our subcontractors pursuant to the quality requirement specified in the master subcontracting agreement. The non-conforming goods will be generally returned to our subcontractors and all the relating expenses shall borne by our subcontractors.
- Quantity* : To be specified in purchase orders.
- Delivery details* : To our factory in Shenzhen or our Hong Kong office or our designated locations. The costs of delivery are normally covered by our subcontractors.
- Credit terms and payment method* : To be specified in purchase orders.
- Breach liability* : Our subcontractors shall be responsible for all claims arising on account of quality problems, delay or other non-conformities with specifications.
- Product warranty* : Warranty period of 15 months from the date of quality acceptance.

## BUSINESS

### INVENTORY

We actively monitor our inventories, which mainly include raw materials, work in progress and finished products. We have undertaken several measures to maintain appropriate levels of inventory. Generally, we source raw materials from our suppliers for production after our customers have placed their orders save and except for certain raw materials (such as motors, blades and PCBA) that may require a relatively longer delivery time, we will consider arranging the procurement upon receiving the purchase forecast from our customers in advance. As such, we normally do not maintain a high level of inventory of raw materials. For finished goods, we also maintain a very limited number of finished products in our warehouses as most finished products are delivered directly to our customers upon the completion of production. Our procurement department closely monitors our inventories, including inventory levels, age and turnover rate. We also conduct monthly stock takes of our inventories, which are coordinated by the production department and finance department.

As at the end of FY2018, FY2019 and FY2020, our inventory balances were approximately HK\$42.1 million, HK\$36.8 million and HK\$36.0 million, respectively, and the average inventory turnover days were approximately 65.4 days, 63.4 days and 52.5 days, respectively. Please refer to the section headed “Financial Information — Principal components of our current assets and current liabilities — Inventories” of this prospectus for further information. During the Track Record Period, we made no provision for slow-moving inventories.

### MARKET AND COMPETITION

The personal care electrical appliance OEM/ODM market in China is relatively fragmented with top ten companies occupying a market share of approximately 17.5%. Our Group accounted for approximately 1.3% of total personal care electrical appliance OEM/ODM market in China and ranked the third in such market in terms of export revenue in 2019.

Majority of our revenue was derived from sales to the United States, Japan and Europe market during the Track Record Period. Customer demand for our Group’s personal care electrical appliances going forward will be primarily affected by the demand and performance of the United States, Japan and Europe markets. Our targeted markets in which we sell our products are forecasted to maintain a stable growth, with the expected total retail sales value of personal care electrical appliances in the United States, Japan and Europe growing from approximately US\$6.5 billion, US\$2.3 billion and US\$6.7 billion, in 2019 to US\$8.1 billion, US\$2.7 billion and US\$8.1 billion in 2024, respectively.

We mainly compete on product quality and research and development capabilities. We believe that we can compete effectively by virtue of our well-established relationship with our customers which are international brand owners, strong presence in the personal care electrical appliances industry, strong and established product design and development capabilities, stringent quality assurance system and our experienced and dedicated management team. For details of the competitive landscape and market position of the industry we are in, please refer to the section headed “Industry Overview — Competitive landscape of personal care electrical appliance OEM/ODM market in China” of this prospectus.

## **HEALTH, WORK SAFETY**

We are subject to certain rules and regulations on health and work safety. For details, please refer to the section headed “Regulatory Overview” of this prospectus.

We place great emphasis on occupational health and safety of our employees. Our administrative department is responsible for devising all safety related policies and overseeing the implementation of such policies. We have established work safety policies and operating procedures to ensure that our operations are in compliance with applicable work safety laws and regulations. We conduct daily safety inspections of various workshops to ensure safety in work environment. We have also adopted a series of policies including fire drill policy, accident handling policy, occupational disease prevention responsibility system, to minimise damage and improve our reaction time in handling accidents that may happen in our Shenzhen Factory. We have reported the occupational disease hazardous factors in accordance with The Law of the PRC on the Prevention and Control of Occupational Diseases (中華人民共和國職業病防治法) and applicable work safety laws and regulations. We also provide our employees with training programs on work safety to ensure that all of our employees are aware of our safety procedures and policies, which include on-board safety training, production accident training, safe work in confined space training etc.

In response to the Outbreak, we have implemented stringent measures in our Shenzhen Factory to prevent COVID-19 infections in our factory. As understood from the local authority officer, these measures were acceptable to the local authority. As such, our Directors are of the view that the hygiene measures adopted by our Group can effectively prevent and control the COVID-19 infections, and safeguard the occupational health and safety of our employees. These measures include but is not limited to:

1. provide training to employees to increase their awareness of health protection;
2. establish a team of 15 members responsible for monitoring the hygiene condition of our Shenzhen Factory and reporting any abnormal health condition of our employees to our Directors and management team timely;
3. measure the body temperature of all employees before entering into the factory area to ensure no employees with COVID-19 symptoms are working in our factory;
4. provide sanitary masks to employees and mandatorily require them to wear sanitary masks before entering into our factory, and provide disinfection products including hand cleansing gel and alcohol disinfectant to employees for their personal hygiene;
5. clean and disinfect the factory area using chlorine-containing disinfectant; and
6. reserve area for immediate quarantine of employees who have developed respiratory symptoms for further transferral to appropriate medical facilities.

The cost for implementing the above hygiene measures is approximately HK\$120,000 per month, mainly spent on the purchase of sanitary masks, hand cleansing gel, alcohol disinfectant and chlorine-containing disinfectant.

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During the Track Record Period and up to the Latest Practicable Date, as confirmed by our Directors, we complied with all applicable labour and safety laws and regulations in all material respects, none of our employees was involved in any major workplace accident in the course of their employment, and we were not subject to any disciplinary actions with respect to labour protection issues, nor did we experience any claims for personal or property damage that, individually or in aggregate, had a material effect on our financial condition and results of operations.

### ENVIRONMENTAL MATTERS

As advised by our PRC Legal Advisers and confirmed by our Directors, we are subject to certain PRC laws and regulations in relation to environmental protection. Please refer to the section headed “Regulatory Overview” of this prospectus for further information relation to the applicable laws and regulations.

We regard environmental protection as an important corporate responsibility and place great emphasis on implementing environmental protection measures in our daily operations. Our Directors believe that the production process of our principal business does not create any excessive environmental pollution, the impact of our operations on the environment is minimal and we have taken all necessary internal environmental protection measures, such as engaging professional parties to dispose of our industrial waste. In 2017, we also engaged professional parties to carry out modification works by installing a pollutants treatment system for the gas emitted in the spray painting and moulding processes. During the Track Record Period, our capital expenditure for environmental compliance arisen from treating waste water and exhaust gas were approximately HK\$1.5 million, HK\$1.4 million and HK\$1.5 million, respectively. Our Directors are of the view that the annual cost of compliance with applicable environmental laws and regulations in the PRC was immaterial during the Track Record Period and we do not expect that our annual costs of compliance with applicable environmental matters to increase materially in the near future, subject to any future changes in applicable environmental laws and regulations which may arise.

During the Track Record Period and up to Latest Practicable Date, as confirmed by our PRC Legal Advisers and Directors, save as disclosed in this paragraph, we had complied with all applicable environmental laws and regulations in the PRC in all material respects and obtained pollutant discharge licences. Our Group has obtained confirmation dated 24 May 2019 from Shenzhen Ecological Environmental Bureau Guangming Administration\* (深圳市生態環境局光明管理局) confirming that during the Track Record Period, there had been one fine of RMB170,000 imposed on us on 31 May 2017 in relation to the excessive discharge of waste water for which we have paid up the fine and have taken rectification actions subsequently rendering us to comply with the relevant environmental regulations. In April 2018, we were granted with a pollutant discharge licence with new scope of discharging air pollutant in addition to waste water discharge. In a document issued by Shenzhen Ecological Environmental Bureau Guangming Administration\* on 25 March 2019, it confirmed that our rectification works comply with the requirement and our 2017 environmental credit rating has been restored to “Environmental Friendly Enterprise (環保良好企業)”. Having considered that we were granted with the pollutant discharge licence with additional scope and restored environmental credit rating subsequent to the non-compliance incident, our PRC Legal Advisers advised that the abovementioned non-compliance is not a material non-compliance.

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### EMPLOYEES

As at the Latest Practicable Date, we have 829 employees in our Group. The following table sets forth the breakdown of our employees by function and geographical locations:

Employee by function	Number of employees by geographical locations		Total
	PRC	Hong Kong	
Directors and senior management	2	6	8
Product design and development	43	—	43
Production	608	—	608
Procurement	47	—	47
Quality control	70	—	70
Sales and marketing	6	4	10
Finance, accounting	9	2	11
Administration	31	1	32
<b>Total</b>	<u>816</u>	<u>13</u>	<u>829</u>

We provide regular safety training to our employees to ensure that they are aware of the hazards at work and regular on-board training relating to our products or our production process. For further details, please refer to the paragraphs headed “Health, work safety” above in this section.

### Remuneration

Our employees’ remuneration depend on their particular duties and their performance. Our general workers are paid according to the Shenzhen minimum wage standard, and the basic salary of our management, engineering, and technical staff are generally determined with reference to the same industry standards and they may be entitled allowance and bonus based on their performance evaluation. We conduct employee performance review annually to evaluate and adjust our employees’ remuneration. We enter into individual employment agreements with our employees, with terms covering, among other things, positions, salaries, working hours, annual leave and other benefits. During the Track Record Period, our total staff costs amounted to approximately HK\$67.0 million, HK\$68.2 million and HK\$75.9 million, respectively.

### Training

We provide regular internal training to our employees for better understanding of our business and operation, such as courses about RoHS, 5S, ERP computer system, management and execution were held to enhance the knowledge and proficiency of our staff in particular areas.

We believe that this will also increase the overall competitiveness of our workforce. We strive to ensure that our employees are equipped with the required skills and safety knowledge when performing their duties.

Our Directors confirm that we did not experience any significant disputes with our employees or disruption to our operations due to labour disputes, nor did we experience any difficulty in the recruitment and retention of personnel during the Track Record Period and up to the Latest Practicable Date. Our employees in the PRC have established a labour union.

For our Hong Kong operations, we have participated in the mandatory provident fund prescribed by the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong). For more information on the Hong Kong laws and regulations in relation to mandatory provident funds, please refer to the section headed “Regulatory Overview — Laws and regulations in Hong Kong” in this prospectus. In the PRC, we have participated in a number of social security funds pursuant to applicable PRC laws and regulations, including funds for basic endowment insurance, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance, and the housing provident fund. For more information of the PRC laws and regulations in relation to social security funds, please refer to the section headed “Regulatory Overview — Laws and regulations in the PRC” of this prospectus.

### **Employment agencies**

To optimise our administrative costs in human resources by obtaining additional workforce to avoid any temporary labour shortage, we engaged three employment agencies to source our required manpower during the Track Record Period. Through employment agencies, we sourced an average number of 33, 88 and 220 temporary workers per month, respectively during the Track Record Period. All of these temporary staff recruited by employment agencies were production workers to relieve our production pressures. The significant increase in the average monthly number of temporary workers in FY2020 was primarily due to the surge in our production needs since July 2019 mainly due to surge in purchase orders from T3. The fees paid to the employment agencies for sourcing temporary staff was approximately HK\$1.2 million, HK\$3.0 million and HK\$11.3 million, respectively during the Track Record Period. Our Group will strive to source the same temporary staff from such agencies and such agencies are regularly monitored and assessed by our Group. In addition, to ensure satisfactory performance of workers sourced from employment agencies, all temporary staff are also required to attend on-going trainings provided by our Group. The salient terms of our employment agency agreements are as shown below.

### **Salient terms of employment agency agreements**

<i>Terms of the engagement of employees:</i>	A specified period, one to three months.
<i>Number and details of the personnel to be sourced:</i>	Number of personnel to be sourced and the details such as age range and health status.
<i>Salary:</i>	The salary of the sourced personnel will be calculated based on a specified hourly rate. And the salary of the foreman will be charged at a fixed monthly rate.

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<i>Salary computation:</i>	At the specified period of each month or after the end of the employment agency agreement, the employment agency produces an invoice showing the number of hours attended by the personnel referred by it with the relevant fees computed. Upon checking against our record, we arrange payment to the employment agency.
<i>Social insurance and other related insurance of personnel referred:</i>	Social insurance and other related insurance in respect of the personnel sourced are contributed by the relevant employment agency.
<i>Termination:</i>	By mutual agreement or upon breach of the agreement by any party of the agreement

Our Directors believe that the use of employment agencies is a normal practice in the industry and such arrangement could ease our administrative burden. All of these employment agencies that we used are Independent Third Parties.

### INTELLECTUAL PROPERTY

We recognise the importance of protecting and enforcing our intellectual property rights. Due to the ODM nature of our business, although we are entrusted by our customers to co-design and develop products, intellectual property rights arising from the design of our products generally belong to our customers. Generally, this arrangement is stipulated under the agreements entered into with our customers.

As at the Latest Practicable Date, we had three registered software copyrights in the PRC, 32 granted patents in the PRC, 13 registered trademarks in the PRC, four registered trademarks in Hong Kong. We had applied registrations of 16 patents in the PRC. We are also the registered owner of the domain name [www.fourace.com](http://www.fourace.com). Details of our registered intellectual property rights which we consider to be or may be material to our business are set out in the section headed “Appendix V — Statutory and General Information — B. Further information about our business — 2. Intellectual property rights” of this prospectus.

As at the Latest Practicable Date, we are not aware of any infringement (i) by our Group of any intellectual property right owned by any third party; or (ii) by any third party of any intellectual property rights owned by us. During the Track Record Period and up to the Latest Practicable Date, there had not been any pending or threatened material claim made against us, nor had there been any material claim made by us against third parties, with respect to the infringement of intellectual property rights owned by us or third parties.

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## PROPERTIES

### The PRC

As at the Latest Practicable Date, we owned, leased or used the following properties:

#### 1. *Dongguan properties*

As at the Latest Practicable Date, we owned the units 904, 1004 and 1104, No. 8 Yongya Villa, Huancheng Road, Huangjiang Town, Dongguan City, Guangdong, the PRC with total area of 280.9 sq.m. for senior staff dormitory. For details, please refer to “Appendix III — Property Valuation” to this prospectus.

#### 2. *Shenzhen Properties*

As at the Latest Practicable Date, we leased two parcels of land (i.e. the Shenzhen Land) from an Independent Third Party which are adjacent to each other for our Shenzhen Factory, details of which are summarised in the table below:

Location	Site area	Lessor	Lease terms	Usage
Longfei (Baojing lot) of Shiwei Section, Jiangshi Village, Gongming Town, Bao'an District, Shenzhen, the PRC	19,978.5 sq.m.	Shiwei Economic Cooperative	from 1 January 1994 to 31 December 2043	Industrial land (collectively-owned construction land)
Shiweipinggang, Jiangshi Village, Gongming Town, Bao'an District, Shenzhen, the PRC	10,000.0 sq.m.	Shiwei Economic Cooperative	from 3 June 1999 to 31 December 2043	Industrial land (collectively-owned construction land)

The land lease fee we paid up in respect of the Shenzhen Land amounted to an aggregate of RMB4.1 million, comprising the land lease fee of RMB3.0 million for the parcel of land with 19,978.5 sq.m. and the land lease fee of RMB1.1 million for the parcel of land with 10,000.0 sq.m.. Our Directors confirm, after consulting Shiwei Economic Cooperative, the landlord of our Shenzhen Land who also owned other collectively-owned land parcels at close proximity of our Shenzhen Land, that the practice of paying up the land lease fee before the expiry of the relevant lease agreements was in line with the industry norm for the lease of collectively-owned construction land at the time of entering into the lease agreements of our Shenzhen Land. According to the Industry Consultant, based on the interview with other economic cooperative companies in Shenzhen also engaging in leasing of land at the material time, they are of the view that it was an industry norm to pay the land lease fee far before the expiry of the relevant lease. During the Track Record Period, our expenses for management fees for the Shenzhen Land were approximately HK\$392,000, HK\$312,000 and HK\$280,000, respectively. Our Directors confirmed that all of our current leases were negotiated on an arm's length basis with reference to the prevailing market rates and/or other factors (including location of the land) at the time of entering into the lease agreements.



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There is no provision for refund of land lease fee stipulated in our land lease contracts with Shiwei Economic Cooperative. Nevertheless, according to our interview with Shiwei Economic Cooperative, it confirmed that the land lease fee will be refunded to us on pro rata basis upon our request. Given we started the lease of Shenzhen Land in 1993 and 1999 until 2043, the land lease fee refund on pro rata basis is far below the current market rate of another land with comparable size and location due to the appreciation of the real estate market in Shenzhen over the period. As such, the land lease fee refund is not an incentive for us to cease using the Shenzhen Land.

To ascertain our legal right to use the Shenzhen Land, which is a collectively-owned construction land, we obtained a letter from Shenzhen Planning and Land Resources Committee Guangming Administration Office\* (深圳市規劃和國土資源委員會光明管理局) which confirmed that the planned purpose of the Shenzhen Land is industrial use. The landlord of the Shenzhen Land, Shiwei Economic Cooperative, confirmed that it held the ownership right and land use right of Shenzhen Land and is entitled to lease Shenzhen Land to HK Fourace pursuant to the lease agreements. Further, pursuant to our interview with the local authority of Shenzhen Municipality, the Shenzhen Land was occupied by our Group for industrial use which was in line with the planned land use of it and hence, the authority acknowledged that the lease of the Shenzhen Land between our Group and Shiwei Economic Cooperative was valid and our Group was entitled to use the land and the buildings then erected thereon within the lease period.

As advised by our PRC Legal Advisers, the aforesaid local authority was the competent authority to confirm the validity of the lease agreements of the Shenzhen Land. Accordingly, since the lease of the Shenzhen Land between our Group and Shiwei Economic Cooperative was valid, our Group has the right to use the Shenzhen Land and the buildings erected thereon within the lease period.

We have constructed 15 buildings which mainly included production facilities, electricity room, warehouse, staff dormitories, and office buildings on the Shenzhen Land with an aggregate gross floor area of approximately 44,278.7 sq.m. (“**Shenzhen Factory Buildings**”). As at the Latest Practicable Date, since the Shenzhen Factory Buildings were erected on a leased land of which we do not have a legal title of ownership, we were unable to obtain the planning permits, construction permits and certificate for passing construction completion inspection for certain or all of the Shenzhen Factory Buildings. For further details, please refer to the paragraphs headed “Legal and Compliance — Non-compliance” in this section.

None of our properties in the PRC forms part of our Company’s properties activities. Nevertheless, the carrying amount of property interests of our Shenzhen Factory Building exceeded 15% of the total assets value of our Group. We appointed AVISTA Valuation Advisory Limited, an independent property valuer, to assess the fair value of our Shenzhen Factory Buildings as at 30 June 2020. The text of the valuer’s letter, summary of the valuation and its valuation certificate prepared by AVISTA Valuation Advisory Limited in connection with its valuation are set out in “Appendix III — Property Valuation” to this prospectus.

As at the Latest Practicable Date, save the Shenzhen Factory Buildings, no single property interest that forms part of non-property activities has a carrying amount of 15% or more of our total assets. Accordingly, save the Shenzhen Factory Buildings, all other properties are exempt from compliance with the valuation requirements under the Listing Rules and the Companies (WUMP) Ordinance. Pursuant to

Rule 5.01A of the Listing Rules, a listing applicant's property interests that do not form part of its property activities are exempt from the valuation requirement if the carrying amount of the property interests are below 15% of its total assets. A similar exemption applies under section 6 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, with respect of the requirement under section 342(1) of the Companies (WUMP) Ordinance and paragraph 34(2) of the Third Schedule to the Companies (WUMP) Ordinance. Each property interest that forms part of its property activities with a carrying amount below 1% of its total assets, where the total carrying amount of such property interests not valued does not exceed 10% of its total assets is also exempt from the valuation requirement.

### **Redevelopment of the Shenzhen Land**

#### *Development of Bishi Road\* (碧石路)*

Pursuant to the statutory plan published by Shenzhen Planning and Natural Resources Administrative Bureau\* (深圳市規劃和自然資源局) in respect of the development of Gongming Jiangshi district\* (公明將石地區), the Shenzhen government is planning to construct, among others, a new road, i.e. Bishi Road\*, which will pass through the site of our Shenzhen Factory. In particular, the Bishi Road\* primarily affects the outermost area of our main production building and a major portion of our warehouse which are currently in use.

According to our interview with local authorities of Shenzhen Municipality on 10 June 2019, we were advised that, among other things, (i) the planned Bishi Road\* is not a main road and the Shenzhen Land will remain to be an industrial use land; and (ii) the construction work of the planned Bishi Road\* was not anticipated to start in three-years' time. We also attended a meeting with the representatives from various local authorities related to the land use of the Shenzhen Land, including Matian Street Office\* (馬田街道辦事處) (*Note*) and Shiwei Economic Cooperative. During the meeting, Matian Street Office\* confirmed that it will coordinate with the relevant government authorities responsible for construction and urban planning to consider shifting the planned location of Bishi Road\* towards our warehouse to avoid affecting our main production building. Our landlord of the Shenzhen Land, Shiwei Economic Cooperative also confirmed that it would coordinate the same matter regarding the shifting of the road location. In the event that the construction of Bishi Road\* begins and affects our production facility, including the main production building and/or the warehouse, it will pay our Group relevant compensations received from the government according to the actual situation.

Nevertheless, our Directors confirm that (i) the potentially affected outermost area of our main production building does not have material impact on our Group's production activities; and (ii) we obtained quotations from Independent Third Parties who engage in real estate agency business for leasing a vacant factory for the use of our warehouse, if our warehouse is demolished due to the construction of Bishi Road\*.

Subsequent to the interview with local authorities of Shenzhen Municipality on 10 June 2019, we obtained confirmation letters from Shiwei Economic Cooperative, our landlord of Shenzhen Land, dated 25 September 2019 and Matian Street Office\* dated 26 September 2019. According to these confirmation letters, we were further advised that, among other things, (i) there is no change to the

<sup>1</sup>*Note:* The Matian Street Office\* is the street office of the Guangming District Government of Shenzhen (深圳市光明區人民政府).

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previous advices in the aforesaid meeting with the representatives from various local authorities related to the land use of the Shenzhen Land; and (ii) a six month notice will be given by the relevant authorities to our Group before the commencement of the construction planning of the planned Bishi Road\* (碧石路) or the implementation of the Redevelopment Plan.

### *Proposed redevelopment plan*

The landlord of the Shenzhen Land, Shiwei Economic Cooperative, passed a shareholder resolution in 2015 to implement a redevelopment plan with the Shenzhen Land (the “**Redevelopment Plan**”). According to a confirmation letter from Shiwei Economic Cooperative dated 21 September 2018, we were advised that, among other things, (i) the Redevelopment Plan was preliminarily approved by Shiwei Economic Cooperative only but has not been officially approved by the relevant government authorities; (ii) before the commencement of the Redevelopment Plan, Shiwei Economic Cooperative will discuss with Shenzhen Fourace in advance regarding the compensation plan in accordance with the applicable laws and regulations, including pecuniary compensation or granting our Group another land with good title in the same area, aiming to minimise the impact on the operation of Shenzhen Fourace; and (iii) the Redevelopment Plan is not expected to be implemented within five years’ time. Pursuant to an interview with Shiwei Economic Cooperative on 17 December 2019, we were given to understand that the Redevelopment Plan is currently suspended. As informed by Shiwei Economic Cooperative during the interview, the Redevelopment Plan has to fulfil a number of requirements before submitting to the relevant government authorities for approval. One of the major requirements is that Shiwei Economic Cooperative has to obtain title certificates for at least 60% of land involved in the Redevelopment Plan. However, there is significant impediment to such requirement as Shiwei Economic Cooperative has encountered significant difficulties in obtaining the required title certificates which covered at least 60% of the land involved in the Redevelopment Plan. In view of the aforesaid, Shiwei Economic Cooperative confirmed that the Redevelopment Plan is currently suspended and is difficult to be materialised. As such, the Directors are of the view the Redevelopment Plan is unlikely to be implemented in the foreseeable future.

In view of the possible implications of the construction of the planned road and the Redevelopment Plan, we have in place a backup plan of relocation to Huizhou, the PRC in which we have entered into a pre-lease contract with an Independent Third Party. For further details, please refer to the paragraphs headed “Properties — Backup plan — relocation to Huizhou site” in this section.

### *Implications of our Shenzhen Factory Buildings on urban planning*

Pursuant to the interviews with the relevant local authorities of Shenzhen Municipality on 10 June 2019, they confirmed that the Bishi Road\* was not a main road, while the slight adjustment on the location of it did not seriously affect urban planning, the relevant government authorities responsible for construction and urban planning would consider shifting the planned location of Bishi Road\* to affect only our warehouse. As advised by our PRC Legal Advisers, based on the above confirmation from the local authorities of Shenzhen Municipality, our Shenzhen Factory Buildings do not seriously affect urban planning based on the fact that Bishi Road\* is not a main road and the relevant government authorities will consider shifting the location of Bishi Road\* as confirmed by the relevant local authorities.

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In relation to the Redevelopment Plan, as confirmed by Shiwei Economic Cooperative and Matian Street Office, it was preliminarily approved by Shiwei Economic Cooperative only but has not been officially approved by the relevant government authorities. Further, as advised by Shiwei Economic Cooperative, to proceed with the Redevelopment Plan, they will have to obtain title certificates for at least 60% of land involved in the Redevelopment Plan which they encountered significant difficulties in obtaining the same since the land parcels are fragmented and commercial negotiations are required with each of the stakeholders involved. As such, the Redevelopment Plan is currently suspended and there is no definite timeframe for the implementation of the Redevelopment Plan.

### **Backup plan — relocation to Huizhou site**

We entered into a pre-lease contract dated on 22 May 2019, as supplemented by a supplemental pre-lease contract dated 30 August 2019 (the “**Pre-lease Contracts**”), with an Independent Third Party (the “**Pre-lease Property Landlord**”) as a backup plan, by which we can relocate our production facilities to the Pre-lease Property (as defined below) and continue our production therein (i) in the unlikely event that the aforementioned title defect of the Shenzhen Factory Buildings cannot be rectified and we are forced to demolish the Shenzhen Factory Buildings, or (ii) in the event of the implementation of the planned Bishi Road\* (碧石路) seriously affected our Shenzhen Factory and/or the implementation of Redevelopment Plan. Pursuant to the Pre-lease Contracts, Shenzhen Fourace has been granted a pre-lease option to lease a production plant with a total gross floor area of approximately 20,000 sq.m. at Hon Da (International) Industrial Park, Luoyang Town, Boluo County, Huizhou\* (惠州市博羅縣羅陽鎮鴻達(國際)工業園區) (the “**Pre-lease Property**”) for a period of three years. The validity period of the Pre-lease Contracts is five years starting from 1 June 2019. The Pre-lease Property is expected to be utilised for manufacturing and warehousing functions. Despite the gross floor area of the Pre-lease Property was less than that of our existing production facilities, our Directors consider that it is sufficient to accommodate (i) our core production workshop comprising plastic injection moulding lines, spray painting lines and component and final assembly lines, including the new machineries to be acquired using the net proceeds which took up an aggregated gross floor area of approximately 16,800 sq.m. in our existing production plant; (ii) our existing testing departments, and laboratories and prototype production centre to be established pursuant to our future development plan which are expected to take up an aggregated gross floor area of approximately 2,000 sq.m.; and (iii) our administrative office which is expected to take up a gross floor area of approximately 1,200 sq.m.. We plan to further lease properties for staff dormitory and additional warehousing. In respect of our needs for non-core production facilities, additional warehousing facilities, and staff dormitory, we have obtained certain quotations from an Independent Third Party who engages in real estate agency business for the use of non-core production facilities, additional warehousing and staff dormitory within the close vicinity of the Pre-lease Property. As such, our Directors expect that there would be no significant impediment for our Group to lease nearby properties for our non-core production facilities, additional warehousing and staff dormitory when needed. Based on the foregoing, our Directors considered that the Pre-lease Property and the additional properties to be leased for our non-core production facilities, additional warehousing and staff dormitory have sufficient space to fully absorb the production activities of the Shenzhen Factory.

Pursuant to the Pre-lease Contracts, Shenzhen Fourace paid a consideration of RMB240,000 to the Pre-lease Property Landlord for the pre-lease option, and during the five years’ validity period, the Pre-lease Property Landlord may lease the Pre-lease Property to other parties before our exercise of the pre-lease option to move in, but the Pre-lease Property Landlord shall deliver the Pre-lease Property to us

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within 60 days of our notice to exercise the pre-lease option. In case the Pre-lease Property is not available, the Pre-lease Property Landlord will seek alternative comparable industrial property for us at its cost. Towards the expiry of the Pre-Lease Contract and in the event that we are still subject to the risk of demolition, we will seek to either renew the Pre-lease Contracts or engage in another arrangement similar to the Pre-lease Contracts with another Independent Third Party. Our Directors considered, after due enquiries with an Independent Third Party who engages in real estate agency business, there would be also other alternative industrial properties (other than the Pre-lease Property) of comparable size and similar usage and within the close vicinity of the Pre-lease Property for long-term lease, including the industrial properties in several industrial parks in Huizhou. Our Directors believe that it would not be difficult to lease alternative industrial properties of comparable size and similar usage within the close vicinity of the Pre-lease Property due to abundant available industrial properties for lease purpose in Huizhou. According to our PRC legal advisers, the Pre-lease Contract is legally valid and binding on both parties to the Pre-lease Contracts.

Based on quotations obtained by our Group and our Directors' estimation, the total relocation costs of our Group's production plant, which include demolition of the Shenzhen Factory Buildings, relocation of our Group's plant and machineries and office equipment and acquisition of fixtures and furniture for the new production plant would be approximately HK\$7.0 million which our Directors considered that such amount will not have material impact to our Group's financial position. As advised by Matian Street Office and the Shiwei Economic Cooperative, since the planned Bishi Road\* (碧石路) and the Redevelopment Plan have not yet been implemented, currently there is no specific information about the compensation policy. The compensation amount will be discussed in accordance with the market standard when the planned Bishi Road\* (碧石路) or the Redevelopment Plan is implemented. Nonetheless, any compensation received would be used to cover the relocation cost and any excess amount incurred for the relocation will be funded by internal resources.

In the event that we are required to demolish or move out from the Shenzhen Factory Buildings, we will be informed by the relevant authorities six months in advance. We will exercise our right under the Pre-lease Contracts to request the Pre-lease Property Landlord to enter into a formal lease agreement with us for the lease of Pre-lease Property. We expect that the renovation of the Pre-lease Property will be completed within three months. After the completion of the renovation, we will start moving, installing and calibrating our production lines, which we endeavour to complete within another three months. We have devised the following arrangements to minimise the potential loss of our revenue caused by the relocation. After receiving the notice of construction of the planned Bishi Road\* (碧石路) or commencement of the Redevelopment Plan and confirming that our Group's production facilities are required to relocate, we plan to procure with our customers their six-month purchase forecasts and confirm their purchase orders in advance. Based on the purchase forecasts or purchase orders received, we plan to commence production for the products which are expected to be delivered during the relocation period in advance through increasing the daily working hours of our production facilities by working overtime before the relocation starts. Based on a number of factors including but not limited to the amount of buffer stock, the planned production schedule and the inflated wages of the year of relocation, we expect the additional cost of approximately RMB1.8 million will be incurred for producing the products in advance through increasing the daily working hours of the production facilities and working overtime. In addition, we plan to relocate our machineries by phases, with an aim to maintain certain level of production capacity of our Shenzhen Factory. Based on the above, our Directors expect that our Group can substantially fulfill the customers' orders during the relocation period and the loss of revenue caused by the relocation of the production facilities can be minimised.

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For illustration purpose only, in the case that we cannot fulfil the customers' order during the relocation period, which could be due to limited production capacity in preparing the buffer stock or reduced production capacity during the relocation period, we expect the maximum loss of revenue could be amounted to 12.5% of our Group's annual sales.

Despite the aforesaid relocation plan, we consider that there is no imminent need to and it is not commercially beneficial for us to relocate the factory to Huizhou now with detailed justifications set out below:

### *Rectification measures proactively taken by our Group*

We have proactively taken steps to rectify the title defects of (i) Qualified Left-over Buildings (as defined under the paragraphs headed "Legal and compliance — non-compliance" in this section) in accordance with the applicable laws and regulations and (ii) the non-Qualified Left-over Buildings to the extent possible. As advised by our PRC Legal Advisers, pursuant to the Detailed Rules for the Implementation of the Interim Regulation on Real Estate Registration (不動產登記暫行條例實施細則), the owner of a building applying for the title certificate shall prove its ownership of the collectively-owned land use right. As such, given that Shenzhen Factory Buildings were built and owned by us on a piece of collectively-owned land, no title certificates can be issued to us in respect of Shenzhen Factory Buildings which caused the title defects.

Nevertheless, as disclosed in the paragraphs headed "Legal and compliance — non-compliance — 1. Title defect of our Shenzhen Factory Buildings" of this section, we have made application to rectify the title defects of six out of 11 Qualified Left-over Buildings. The remaining five Qualified Left-over Buildings that we did not make rectification application comprising power distribution facilities which only had an aggregate gross floor area of less than 800 sq.m. and were insignificant to our operation. On 13 November 2019, the Standing Committee of the Shenzhen Municipal People's Congress amended the Implementing Rules of Shenzhen Special Economic Zone on Dealing Historical Illegal Buildings used for Production and Business (《深圳經濟特區處理歷史遺留生產經營性違法建築若干規定》) (the "Implementation Rules"). Pursuant to an interview conducted with relevant local authorities of Shenzhen Municipality, the application window for Left-over Buildings was reopened with reference to the amended Implementation Rules. As confirmed by Matian Street Office\*, we shall submit the rectification application for our remaining five Qualified Left-over Buildings after we have reached an agreement with Shiwei Economic Cooperative in respect of the party being the applicant to the rectification application and there is no specific deadline imposed on us. Our Directors confirm that we have begun to prepare for the rectification application of the remaining five Qualified Left-over Buildings. As at the Latest Practicable Date, the representatives from relevant local authorities had performed site inspection regarding the remaining five Qualified Left-over Buildings and we were in negotiation with Shiwei Economic Cooperative regarding the rectification applications for the remaining five Qualified Left-over Buildings, which was suspended due to the outbreak of COVID-19. Our Directors expect to resume the negotiation with Shiwei Economic Cooperative after the travel restrictions to and from the PRC imposed by Hong Kong and the PRC are lifted. Further, our Directors undertake to expedite the negotiation with Shiwei Economic Cooperative after the travel restrictions are lifted and to proceed with the rectification application for the remaining five Qualified Left-over Buildings once we have reached an agreement with Shiwei Economic Cooperative. Qualified application is then proceeded to the district office for inspection of the Left-over Buildings.

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In respect of the non-Qualified Left-over Buildings, we have also taken steps to rectify the title defects to the extent possible. However, we were unable to make rectification application in respect of the remaining four out of the 15 Shenzhen Factory Buildings due to the statutory constraints as mentioned above. As advised by our PRC Legal Advisers, the four illegal buildings do not fall within the scope of the Decision of the Standing Committee of Shenzhen Municipal People's Congress for Handling Illegal Buildings Left over from the Process of Rural Urbanisation\* (深圳市人民代表大會常務委員會關於農村城市化歷史遺留違法建築的處理決定) (the “**Decision**”), and currently, there is no equivalent policies or regulations to rectify the title defects of such buildings. Having said the above, we have nonetheless proactively sought an alternative way to address the title defects in respect of the four illegal buildings. As advised by our PRC Legal Advisers, based on the interviews with local authorities of Shenzhen Municipality, we were given to understand that, our Group is of low risk to be ordered to move out from or demolish the four illegal buildings on the condition that the four illegal buildings satisfied the safety requirements. Accordingly, we have engaged an independent housing safety appraisal agency (a qualified construction engineering company with registered engineers) to assess the safety conditions of the Shenzhen Factory Buildings, including the four illegal buildings and ensure the buildings have satisfied the safety requirements. In July 2019, we obtained a safety appraisal report in respect of each of the Shenzhen Factory Buildings. According to the safety appraisal report, the Shenzhen Factory Buildings (including the illegal buildings) can be safely used in accordance with the relevant load bearing requirement. As advised by our PRC Legal Advisers, based on the interviews with the relevant PRC government authorities and the aforementioned safety appraisal report, the risk of our Group being ordered to move out from or dismantle the illegal buildings is low. Further, our Directors undertake that our Group will relocate the functions of the illegal building to nearby vacant factory if we are ordered to move out from or dismantle the illegal buildings. We also obtained quotations from Independent Third Parties who engage in real estate agency business for leasing a vacant factory with similar size in close proximity to Shenzhen Factory Buildings. Based on the quotations obtained, we estimate that the monthly rental would be less than RMB0.2 million for a vacant factory with a gross floor area of approximately 6,800 sq.m. to 8,000 sq.m. which will be sufficient to accommodate the existing functions carried out by the four illegal buildings.

Accordingly, we have endeavoured to address the risk of title defects notwithstanding the statutory constraints. On the basis that the relevant demolition risk is low, our Directors are of the view that the title defects do not constitute an imminent risk for us to relocate our factory.

### ***The proposed development of Bishi Road and Redevelopment Plan***

#### ***Bishi Road\* (碧石路)***

As disclosed in the paragraphs headed “Properties — Redevelopment of the Shenzhen Land — Development of Bishi Road\* (碧石路)” in this section, we had actively liaised with Matian Street Office\* regarding the proposed development of Bishi Road\*. As confirmed by Matian Street Office\*, it will coordinate with the relevant government authorities responsible for construction and urban planning to avoid the Bishi Road\* affecting our main production building. Based on the current proposed development plan and as confirmed by our Directors, the Bishi Road\* will affect the outermost area of our main production building and a major portion of our warehouse which shall not have material impact on the core production functions. Furthermore, our Directors are confident that in such circumstances, we can source alternative warehouse facility in close proximity to our production facilities and there will

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not be substantial interruption to our operation caused by the proposed development of the Bishi Road\*. Therefore, our Directors believe that there is no imminent need for us to relocate due to the proposed development of Bishi Road\*.

### *Redevelopment Plan*

Pursuant to the interview with the landlord of Shenzhen Land, Shiwei Economic Cooperative, on 17 December 2019, there is further update on the Redevelopment Plan. We were given to understand that the Redevelopment Plan is currently suspended. As informed by Shiwei Economic Cooperative, the Redevelopment Plan has to fulfil a number of requirements before submitting to the relevant government authorities for approval. One of the major requirements is that Shiwei Economic Cooperative has to obtain title certificates for at least 60% of land involved in the Redevelopment Plan. However, as confirmed by Shiwei Economic Cooperative, there is significant impediment to such requirement as Shiwei Economic Cooperative has encountered significant difficulties in obtaining the required title certificates which covered at least 60% of the land involved in the Redevelopment Plan since the land parcels are fragmented and commercial negotiation are required with each of the stakeholders involved. In view of the aforesaid, Shiwei Economic Cooperative confirmed that the Redevelopment Plan is currently suspended and is difficult to be materialised. As such, our Directors are of the view the Redevelopment Plan is unlikely to be implemented in the foreseeable future.

### *Commercial justifications*

Based on the above, we face no imminent risk of relocation, given the risk that our Group being ordered to dismantle Shenzhen Factory Buildings is low and the proposed development of Bishi Road\* and Redevelopment Plan are not expected to significantly affect the operation of our Group. In such circumstances, our Directors are of the view that remaining our production operation in the Shenzhen Factory is more commercially justifiable as compared to relocating the our factory to Huizhou at the time being having considered the following reasons:

- (i) Shenzhen Fourace has a long operating history at our current production facilities. Shenzhen Fourace has been operating since 1996 for over 20 years. Riding on our long operating history in Shenzhen, we have established close relationships with local authorities, Shiwei Economic Cooperative and our major suppliers, subcontractors and employees which are beneficial to our business. For example, Matian Street Office\* confirmed that it will coordinate with the relevant government authorities to adjust the construction plan of Bishi Road\* to minimise the impact on our Group because of the well-established relationship between our Group and the local authorities;
- (ii) the relocation at the time being will jeopardise our bargaining power in respect of the compensation to be granted by Shiwei Economic Cooperative. As disclosed in the paragraphs headed “Properties — Redevelopment of the Shenzhen Land” in this section, in the event that the construction of Bishi Road\* begins and the road seriously affected our Shenzhen Factory, Shiwei Economic Cooperative will pay us relevant compensations received from the government according to the actual situation at that time. Further, in respect of the Redevelopment Plan and in the unlikely event that the Redevelopment Plan is implemented, Shiwei Economic Cooperative will discuss with Shenzhen Fourace in advance regarding the compensation plan in accordance with the applicable laws and regulations, including pecuniary compensation or granting us another land with good title in the same area, aiming



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to minimise the impact on the operation of Shenzhen Fourace. Our Directors believe that, as the aforesaid compensation to be granted is not fixed and will be determined based on negotiation between our Group and Shiwei Economic Cooperative, we will have a stronger bargaining power in such negotiation should the Shenzhen Fourace continue to operate in and occupy Shenzhen Factory Buildings at the time of implementing the proposed development of Bishi Road\* and Redevelopment Plan as compared to the event that we had already completed the relocation at our own cost which may lead to less compensation to be obtained by us. As such, we believe that the relocation at the time being will not be the most beneficial to us and our Shareholders as a whole;

- (iii) as disclosed in the paragraphs headed “Properties — Backup plan — relocation to Huizhou site” in this section, the relocation cost of approximately HK\$7 million only includes demolition of the Shenzhen Factory Buildings, relocation of our plant and machineries and office equipment and acquisition fixture and furniture of the new production plant. In addition to the relocation cost of approximately HK\$7 million, we also need to adopt special arrangements for the implementation of relocation plan, for instances, to prepare for buffer stock and arrange for over-time working schedules; to pack, transport and test calibrated equipment; to register with the local authorities and other housekeeping matters and there are risk of failure to these arrangements. For example, as disclosed in the paragraphs headed “Properties — Backup plan — relocation to Huizhou site” in this section, in the case that we cannot fulfil the customers’ order during the relocation period, the maximum loss of revenue could be amounted to 12.5% of our annual sales;
- (iv) in addition to (iii) above, our management would like to focus our resources in developing the relationship with our existing customers which is crucial to our business expansion. Our sales have been increasing over the Track Record Period, in particular, following T3’s business expansion in the U.S. in particular for their onward sales through their own distribution channel established since FY2018. Our sales is expected to continue to increase based on the expected demand from Customer M. The successful cooperation with these customers requires the devotion and commitment from our management. Hence, we prefer to devote human resources and management’s attention to cope with our expansion, which would be the most beneficial to us since we do have a good relocation plan.

In light of (i) there is no imminent risk of relocation; (ii) the long operating history of Shenzhen Fourace for over 20 years in the current location; (iii) potential loss of compensation to us from Shiwei Economic Cooperative; (iv) importance of giving management’s attention to our expansion plan; and (v) the additional burden of HK\$7 million relocation costs and the associated risk of loss of 12.5% of annual sales regarding the relocation, our Directors believe that it is not necessary and commercially not justified for us to relocate our existing operation in Shenzhen Factory to Huizhou at the time being.

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### Hong Kong

As at the Latest Practicable Date, we owned the following properties:

Location	Gross floor area	Usage
Unit 7, 13/F Vanta Industrial Centre Nos. 21–33 Tai Lin Pai Road Kwai Chung New Territories Hong Kong (“Unit 7, 13/F Vanta Industrial Centre”)	4,986 sq.ft.	It was used as our office from 1 February 2010 up to 31 May 2019. We moved our office to the current location at Manhattan Centre and Unit 7, 13/F Vanta Industrial Centre is used as our godown since March 2019.
Unit 9, 12/F Vanta Industrial Centre Nos. 21–33 Tai Lin Pai Road Kwai Chung New Territories Hong Kong (“Unit 9, 12/F Vanta Industrial Centre”)	2,390 sq.ft.	As at the Latest Practicable Date, the property was subject to a tenancy agreement for a term commencing on 1 September 2019 and expiring on 31 August 2021 at a monthly rent of HK\$28,000, inclusive of rates, government rent and management fee. The tenancy agreement can be renewed for one year. It is leased to the tenant, an Independent Third Party, for industrial use.

As at the Latest Practicable Date, we leased the following property for our Hong Kong office:

Location	Gross floor area	Rental amount	Lessor	Lease terms	Usage
Unit Nos. 1106–07, 11/F Manhattan Centre, 8 Kwai Cheong Road, Kwai Chung, N.T., Hong Kong	1,938 sq.ft.	HK\$37,000 per month exclusive of rate, management fee and air-conditioning maintenance fee	Manhattan Centre Limited	from 15 March 2019 to 14 March 2021	Office

As at the Latest Practicable Date, save and except for Unit 9, 12/F Vanta Industrial Centre, all properties are used for non-property activities as defined under Rule 5.01 of the Listing Rules. Pursuant to Rule 5.01A(1) of the Listing Rules, a valuation report to disclose valuation information is required for all property used for property activities, except those with a carrying amount below 1% of the total assets. Therefore, Unit 9, 12/F Vanta Industrial Centre is exempt from the valuation requirement as the carrying amount of this property activity is below 1% of our total assets.

### INSURANCE AND SOCIAL SECURITY PAYMENTS

We maintain insurance policies to safeguard against risks and unexpected events. We determine the levels of coverage based on our assessment of risk exposure. As at the Latest Practicable Date, we purchased insurance in our places of business operations to cover the following aspects: (i) liability in respect of product safety incidental to accidental bodily injury or loss or damage to the property of third parties; (ii) employee’s compensation to cover our liability in respect of their death, injury, disability

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due to works; (iii) transportation of our goods; and (iv) damage of properties. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we did not make any claim in respect of the insurance policies taken out by us.

According to the Social Insurance Law of the PRC and the Regulations on the Administration of Housing Provident Fund, we are obliged to provide social insurance and housing provident fund contribution for our PRC employees. For details of our Group's non-compliance regarding the social insurance and housing provident fund, please refer to paragraphs headed "Legal and compliance — Non-compliance" below in this section. In compliance with MPFSO, we also make contributions to relevant registered scheme for our employees in Hong Kong.

Taking into account the prevailing industry practice and our current operations, our Directors confirmed that our current insurance policies provide sufficient coverage of the risks to which we may be exposed to and are in line with the industry norm.

### LEGAL AND COMPLIANCE

#### Licences, approvals and permits

During the Track Record Period and up to the Latest Practicable Date, we have obtained and renewed all the necessary licences and permits from appropriate regulatory authorities, all of which are in full force and effect, and have complied with all the applicable laws and regulations in relation to our business and operations in all material respects in the PRC and Hong Kong. For details of the relevant laws and regulations, please refer to the section headed "Regulatory Overview" of this prospectus.

The table below sets forth the key licenses, permits and approvals necessary for our operations as at the Latest Practicable Date.

Licences, permits and approvals	Issuing authority	Entity granted	Date of grant	Expiry date
Business licence	Shenzhen Administration of Market Supervision and Management* (深圳市市場監督管理局)	Shenzhen Fourace	1 November 2016	Not specified
Filing and Registration Form of Foreign Trade Operator* (對外貿易經營者備案登記表)	Shenzhen Guangming New District Economic Service Bureau* (深圳市光明新區經濟服務局)	Shenzhen Fourace	15 March 2018	Not specified
Customs declaration certificate* (報關單位註冊登記證書)	Shenzhen Customs	Shenzhen Fourace	3 July 2015	Long term
Guangdong Province Pollutant Discharge Permit* (廣東省污染物排放許可證)	Shenzhen Bao'an District Environmental Protection and Water Resources Bureau* (深圳市寶安區環境保護和水務局)	Shenzhen Fourace	11 April 2018	10 April 2023

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Since the establishment of each of the members of our Group and up to the Latest Practicable Date, we had not experienced any failure in applying for the renewal of our respective operation licences and permits.

### **Legal proceedings**

As at the Latest Practicable Date, none of our Company, any of our subsidiaries or any of our Directors was a party to any material litigation, arbitration or claim that could have a material adverse effect on our financial condition or results of operations.

### **Non-compliance**

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, save for the non-compliance matters disclosed below and those disclosed in the paragraphs above, we had fully complied with all applicable laws and regulations in the PRC and Hong Kong in all material aspects. As advised by our Independent Transfer Pricing Tax Adviser, our intra-group arrangements were in compliance with the relevant rules and regulations governing transfer pricing in the PRC and Hong Kong during the Track Record Period and up to the Latest Practicable Date.

#### **1. Title defect of our Shenzhen Factory Buildings**

##### *Summary of non-compliance incidents*

As at the Latest Practicable Date, our Shenzhen Factory Buildings are erected on the Shenzhen Land which is collectively-owned construction land leased by us. Since our Shenzhen Factory Buildings were built on leased land of collectively-owned construction land nature and were built without the approval of relevant planning and land authority, pursuant to Land Administration Law of the People's Republic of China (2019 Amendment)\* (中華人民共和國土地管理法(2019修正)) and the Urban and Rural Planning Law of the People's Republic of China\* (中華人民共和國城鄉規劃法), we are unable to obtain the planning permits, construction permits and certificate for passing construction completion inspection and hence, the building ownership certificates for certain or all of our Shenzhen Factory Buildings. As advised by our PRC Legal Advisers, pursuant to Detailed Rules for Implementation of the Interim Regulation on Real Estate Registration\* (不動產登記暫行條例實施細則), the owner of a building applying for the title certificate shall prove its ownership of the collectively-owned land use right. As such, given that Shenzhen Factory Buildings were built and owned by our Group on a piece of collectively-owned land, no title certificates can be issued to our Group in respect of Shenzhen Factory Buildings.

##### *Reason for non-compliance*

The reason for the non-compliance is that we did not have a comprehensive understanding of the legal restrictions of building on a land.

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*Relevant laws, potential legal consequences and maximum penalties and other financial losses (where applicable)*

Pursuant to Urban and Rural Planning Law of the PRC (2019 Amendment)\* (中華人民共和國城鄉規劃法(2019修正)), we may be forced to demolish the Shenzhen Factory Buildings. Further, a maximum penalty of 10% of the construction costs of the Shenzhen Factory Buildings (being approximately HK\$4.3 million) may be imposed on our Group.

Pursuant to Construction Law of the PRC\* (中華人民共和國建築法), the Administrative Measures for the Construction Licensing of Construction Projects\* (建築工程施工許可管理辦法) and Construction Quality Management Regulations (建設工程質量管理條例) of the PRC, a maximum penalty of 2% of the construction costs (being approximately HK\$0.9 million), may be imposed on our Group for the Shenzhen Factory Buildings.

The Standing Committee of Shenzhen Municipal People's Congress issued the Decision which was effective since 2 June 2009 and amended on 5 September 2019 for the purpose of expediting the handling of illegal buildings in Shenzhen. Pursuant to the Decision, illegal buildings that fulfill certain conditions are classified as left-over buildings (the "**Left-over Building(s)**") which include, among others:

- (i) illegal buildings built before 5 March 1999 that do not meet the requirements of the Rules of Shenzhen Special Economic Zone on Dealing Historical Illegal Private Houses\* (深圳經濟特區處理歷史遺留違法私房若干規定) and the Rules of Shenzhen Special Economic Zone on Dealing Historical Illegal Buildings Used for Production and Business\* (深圳經濟特區處理歷史遺留生產經營性違法建築若干規定); or
- (ii) all kinds of buildings built after 28 October 2004 and before the implementation of the Decision, except for the illegal buildings that are approved by the Shenzhen government to resume construction work or to begin the construction.

Our Directors confirm that, 11 out of 15 our Shenzhen Factory Buildings met the abovementioned conditions and were qualified as Left-over Buildings (the "**Qualified Left-over Building(s)**"). On 4 September 2018, the Shenzhen Municipal People's Government issued the Measures of the Shenzhen Municipal People's Government on Dealing Historical Illegal Buildings for Business and Amenity Use from the Process of Rural Urbanisation\* (深圳市人民政府關於農村城市化歷史遺留產業類和公共配套類違法建築的處理辦法) (the "**Measures**") which was effective since 10 October 2018, which further stipulates the detailed rectification procedures of obtaining the property ownership certificate for Left-over Buildings for business and amenity use. Pursuant to the Measures, Qualified Left-over Buildings can be used temporarily if they satisfy the relevant safety requirements. In addition, the aforementioned procedures mainly include:

- (i) Street office\* (街道辦事處) performs preliminary examination on the application. As at the Latest Practicable Date, we made rectification applications for six out of the 11 Qualified Left-over Buildings as we gave high priority to those six buildings which are related to our core production facilities and staff dormitories, including main production building, metal parts and spray painting production workshop and four staff dormitories. The remaining five Qualified Left-over Buildings that we did not make application comprising power distribution facilities which only had an aggregate gross floor area of

less than 800 sq.m. and were insignificant to our operation. On 13 November 2019, the Standing Committee of the Shenzhen Municipal People's Congress amended the Implementation Rules. Pursuant to an interview conducted with relevant local authorities of Shenzhen Municipality, the application window for Left-over Buildings was reopened with reference to the amended Implementation Rules. As confirmed by Matian Street Office\*, we shall submit the rectification application for our remaining five Qualified Left-over Buildings after we have reached an agreement with Shiwei Economic Cooperative in respect of the party being the applicant to the rectification application and there is no specific deadline imposed on us. Our Directors confirm that we have begun to prepare for the rectification application of the remaining five Qualified Left-over Buildings. As at the Latest Practicable Date, the representatives from relevant local authorities had performed site inspection regarding the remaining five Qualified Left-over Buildings and we were in negotiation with Shiwei Economic Cooperative regarding the rectification applications for the remaining five Qualified Left-over Buildings, which was suspended due to the outbreak of COVID-19. Our Directors expect to resume the negotiation with Shiwei Economic Cooperative after the travel restrictions to and from the PRC imposed by Hong Kong and the PRC are lifted. Further, our Directors undertake to expedite the negotiation with Shiwei Economic Cooperative after the travel restrictions are lifted and to proceed with the rectification application for the remaining five Qualified Left-over Buildings once we have reached an agreement with Shiwei Economic Cooperative. Qualified application is then proceeded to the district office for inspection of the Left-over Buildings.

- (ii) The district office will issue a consultation letter to district planning and land resources administration department after confirming the nature of the Left-over Buildings falls under the scope of the Measures. As at the Latest Practicable Date, the district office has not issued a consultation letter for the six Qualified Left-over Buildings which we have made application.
- (iii) The district planning and land resources administration department is responsible for reviewing the land use where the Left-over Buildings were situated. If such land use is in conformity to the planned land use of the relevant land parcel, the authority will proceed and then confirms the gross site area of the land, building coverage rate and length of land use right. It is also responsible to calculate the land premium payable.

Pursuant to the Measures, the land premium should be calculated at 50% of the land price based on the Notice of Shenzhen Municipality on Base Land Price for 2006\* (深圳市2006年度公告基準地價的通告) issued by Shenzhen Municipal Bureau of Land Resources and Housing Management\* (深圳市國土資源和房產管理局). Based on the confirmation letter from Matian Street Office\* dated 26 September 2019, the current land price for the purpose of calculating the land premium of our Shenzhen Land is RMB310 per sq.m. In addition, a fine of RMB30 per sq.m. is also payable by the applicant. Based on the aforementioned bases, our Directors estimate that, pursuant to the Measures, the maximum land premium amounts to approximately RMB2.6 million (based on the estimated gross site area of 9,915 sq.m. of the 11 Qualified Left-over Buildings) and the maximum fine amounts to approximately RMB1.1 million (based on the gross floor area of 38,046.4 sq.m. of the 11 Qualified Left-over Buildings). Both the

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forementioned maximum land premium and fine refer to the 11 Qualified Left-over Buildings only. Notwithstanding the foregoing, the land premium payable for obtaining the land ownership shall be determined by the district planning and land resources administration department, and the fine shall be determined by the district office.

- (iv) The applicant shall obtain designated property safety appraisal report and fire safety report for the Qualified Left-over Buildings and file them with the district housing and construction bureau for record or for further inspection. As an alternative, the applicant can submit other valid certificates in respect of property safety and fire safety, which would be subject to review by the district housing and construction bureau. In respect of property safety, as at the Latest Practicable Date, we have obtained the property safety appraisal report for our Shenzhen Factory Buildings prepared by an independent housing safety appraisal agency. In respect of fire safety, as confirmed by our Directors,
- (i) certain of our Shenzhen Factory Buildings, including eight out of the 11 Qualified Left-over Buildings required certain level of fire extinguishment equipment pursuant to the Shenzhen Fire Brigade Guangming District Brigade\* (深圳市消防支隊光明區大隊) (the “**Brigade**”); (ii) the relevant buildings have been equipped with the required fire extinguishment equipment; (iii) we have filed the relevant fire inspection acceptance (消防備案) regarding the fire safety of the relevant buildings with the Brigade; and (iv) there has been no follow-up action taken by the Brigade in respect of fire safety of our Shenzhen Factory Buildings after such filing. Based on the foregoing, our Directors are of the view that our Group’s Qualified Left-over Buildings are in satisfactory condition to fulfill the property safety and fire safety requirements upon the review by the district housing and construction bureau.

Upon the completion of the above procedures, the district office will issue a certificate of handled Left-over Buildings for obtaining the land use right certificate and the building ownership certificate. According to the Measures, the relevant governmental authorities will not issue planning permits, construction permits and certification for passing construction completion inspection after the Group obtains the land use right certificate and building ownership certificate.

### *Latest status/remedial actions for rectifying non-compliance incidents*

#### (i) Qualified Left-over Buildings

Pursuant to the interview with relevant local authorities of Shenzhen Municipality, which are competent authorities, on 10 June 2019, they confirmed that since:

- the land use of the land where Shenzhen Factory Buildings situated were in conformity to the planned land use; and
- our Shenzhen Factory did not seriously affect urban planning with bases set out in paragraphs headed “Properties — The PRC — Redevelopment of the Shenzhen Land — Implications of our Shenzhen Factory Buildings on urban planning” in this section,

we could continue to occupy and use the Qualified Left-over Buildings and we will not be ordered to move out from or dismantle the Qualified Left-over Buildings. Further, based on a safety appraisal report prepared by an independent housing safety appraisal agency, our Shenzhen Factory

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Buildings, including the Qualified Left-over Buildings and other illegal buildings, can be safely used in accordance with the relevant load-bearing capacity, which means the maximum weight the building can bear.

As advised by our PRC Legal Advisers, based on the above confirmation from the local authorities of Shenzhen Municipality and the aforementioned safety appraisal report, the risk of our Group being ordered to move out from or dismantle the Qualified Left-over Buildings is low.

(ii) Other illegal buildings

Pursuant to the interview with relevant local authorities of Shenzhen Municipality, which are competent authorities, on 10 June 2019, they confirmed that for buildings that are not qualified as Left-over Buildings, only those seriously affected urban planning or with serious potential safety problems would be dismantled and the occupant of such buildings would be order to move out. They also confirmed that our Shenzhen Factory did not seriously affect urban planning with bases set out in paragraphs headed “Properties — The PRC — Redevelopment of the Shenzhen Land — Implications of our Shenzhen Factory Buildings on urban planning” in this section.

Moreover, based on a safety appraisal report prepared by an independent housing safety appraisal agency, Shenzhen Factory Buildings, including the Qualified Left-over Buildings and other illegal buildings can be safely used in accordance with the relevant load-bearing capacity, which means the maximum weight the building can bear.

As advised by our PRC Legal Advisers based on the above confirmation from the local authorities of Shenzhen Municipality which are competent authorities and the abovementioned safety appraisal report, the risk of our Group being order to move out from or dismantle the Shenzhen Factory Building which are not Qualified Left-over Buildings is low. The relevant local authorities further confirmed that if we dismantled the Shenzhen Factory Buildings which were not qualified as Left-over Buildings upon request from relevant local authorities, generally, we would not be penalised in current practice.

Based on the aforementioned interview results and the aforementioned advice given by our PRC legal advisers, our Group plans to continue to use (i) the six Qualified Left-over Buildings that we had already made application for rectification; (ii) the five Qualified Left-over Buildings that we began to prepare to make application for rectification and (iii) the other illegal buildings that are not qualified as Left-over Buildings until the event, which is of low risk, that the local authorities officially order our Group to move out from or to dismantle the Shenzhen Factory Buildings.



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As advised by our PRC Legal Advisers, since we are the lessee of the Shenzhen Land, when our application regarding the Qualified Left-over Buildings proceeds, we will have to reach an agreement with Shiwei Economic Cooperative and issue an undertaking to the Street Office to confirm that (i) we and Shiwei Economic Cooperative agree with the land requisition; (ii) no compensation for requisition of land is required to be paid by the government; (iii) the commercial interests relating to the Qualified Left-over Buildings are agreed between us and Shiwei Economic Cooperative. Such commercial interests include (i) the consideration to be paid by us to Shiwei Economic Cooperative for obtaining the land ownership; and (ii) the parties responsible for or the share of the land premium and penalty to be paid to the government. Our Directors will consider and compare the benefits and costs of such application with our back up plan to relocate our production plant and determine whether to further proceed with the rectification procedures, including paying the land premium and fine. As advised by our PRC Legal Advisers, since (i) as at the Latest Practicable Date, we have not received any notice from Matian Street Office\* in respect of proceeding the rectification procedures of the Qualified Left-over Buildings following the applications; (ii) we have not proceeded the rectification application at the moment, we are now not required and have not paid any land premium and fine. Based on the above and the fact that the risk of our Group being ordered to move out from or dismantle the Qualified Left-over Buildings is low as advised by our PRC Legal Advisers, we have not made any provision in relation to the land premium and fine. In this connection, our Directors have devised a back up plan for the situation that the title defects could not be rectified. For details, please refer to the paragraphs head “Properties — The PRC — Backup plan — relocation to Huizhou site” in this section.

### *Measures taken/to be taken to prevent future breaches and ensure on-going compliance*

The below measures will be taken to prevent future breaches and ensure ongoing compliance:

- (i) In the case that we are in doubt about the legal compliance issue relation to leasing a property, we will consult external lawyers for their legal advice;
- (ii) To provide training to our management, in particular, relating to the requirements and steps of obtaining the land use right certificate and property ownership certificate; and
- (iii) To devise a checklist in relation to legal compliance issue on leasing of properties which is to be applied in each of the future transaction.

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The table below summarises the other non-compliance incidents of our Group of the applicable laws and regulations during the Track Record Period and up to the Latest Practicable Date:

Summary of non-compliance incidents	Reason(s) for non-compliance	Relevant laws, potential legal consequences and maximum penalties and other financial losses (where applicable)	Latest status/Remedial actions for rectifying non-compliance incidents	Measures taken/to be taken to prevent future breaches and ensure on-going compliance
<b>2. Failure to provide adequate social insurance</b>				
<p>During the Track Record Period, Shenzhen Fourace did not make adequate social insurances contributions for certain employees as required by relevant laws.</p> <p>During the Track Record Period, our Group failed to pay the social insurance contributions for certain of our employees in the amount of approximately RMB2.2 million, RMB2.2 million and RMB2.7 million, respectively.</p>	<p>The reasons for the non-compliance are primarily due to: (i) our employees in human resources department handling the social insurance did not have a comprehensive understanding of the legal requirement in relation to social insurance contribution; (ii) certain of our employees were unwilling to bear or make up their own part in such social scheme imposed by local authorities, so we were unable to pay on behalf of them; and (iii) certain employees have made the social insurance contribution in their hometown and did not want to add additional contribution.</p>	<p>According to the Social Insurance Law of the PRC (中華人民共和國社會保險法), if the employers fail to fully contribute to social insurance fund on time, the social insurance administration department may demand the employer to make full contributions or to pay the shortfall within a prescribed time period and impose a late fee of 0.05% of the total outstanding balance per day. If we fail to do so within the prescribed period as requested by the relevant social insurance authorities, we may be subject to a fine ranging between one to three times the amount of the total outstanding balance. We will make full contributions or to pay the shortfall within a prescribed time period if demanded by the social insurance administration department. The maximum penalty against us, being 0.05% of the total outstanding balance in recent two years per day (pursuant to the relevant social insurance laws and regulations of Shenzhen as the limitation period for claims in relation to social insurance is two years), we estimate that the maximum penalty will be approximately RMB0.9 million as at 31 March 2020.</p>	<p>As at the Latest Practicable Date, our Group has already registered with the competent social insurance authorities. Our Group will make adequate social insurance contributions for all employees within three years. We obtained written confirmation letter (the “<b>Social Insurance Confirmation Letters</b>”) from the relevant competent government authority in charge of human resources and social security in Shenzhen, namely Shenzhen Social Insurance Fund Administration Bureau (深圳市社會保險基金管理局) dated 15 May 2019, 29 September 2019 and 17 April 2020, respectively and we conducted an interview with Shenzhen Social Insurance Fund Administration Bureau Guangming Branch* (深圳市社會保險基金管理光明分局) on 24 May 2019.</p>	<p>We have assigned the head of our finance departments in Shenzhen Fourace to perform regular review on the social insurance reports and contributions of employees in a regular basis. To prevent recurrence of the non-compliance incidents in relation to under-contributions of social insurance, we have also adopted the following internal control procedures:</p> <ul style="list-style-type: none"> <li>(i) all employees are required to sign a confirmation to comply with staff handbook which specified that our employees shall comply with the laws and regulations, and to cooperate with Shenzhen Fourace, in making contributions of social insurance in compliance with the relevant laws and regulations;</li> <li>(ii) adoption of internal guidelines and policies to ensure the list of employees of Shenzhen Fourace have been properly kept and up-to-date; and</li> <li>(iii) review on social insurance contribution will be conducted on a regular basis.</li> </ul>

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Summary of non-compliance incidents	Reason(s) for non-compliance	Relevant laws, potential legal consequences and maximum penalties and other financial losses (where applicable)	Latest status/Remedial actions for rectifying non-compliance incidents	Measures taken/to be taken to prevent future breaches and ensure on-going compliance
			<p>Pursuant to the Social Insurance Confirmation Letters, Shenzhen Fourace had no record of administrative penalties due to breach of any laws or regulations related to social insurance during the Track Record Period. Pursuant to the interview, there has been no complaints received and no dispute or legal proceedings from employees of Shenzhen Fourace; and under the circumstances that there has been no relevant complaints received, Shenzhen Fourace will not be required to pay the outstanding balance of social insurance contributions or be imposed with administrative penalties resulting from the failure to comply with the Social Insurance Law of the PRC. As full amount of social insurance contribution will also correspondingly increase the contribution amount by our employees, we are in the process of communicating with our employees with a view to seeking their cooperation and understanding in complying with the applicable laws. In any event, we undertake that we will comply with the requirements in full by the first half of 2022. During the interview with Shenzhen Social Insurance Fund Administration Bureau Guangming Branch, the authority agreed that we can gradually rectify the non-compliance incident and they acknowledged our rectification plan.</p>	

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Summary of non-compliance incidents	Reason(s) for non-compliance	Relevant laws, potential legal consequences and maximum penalties and other financial losses (where applicable)	Latest status/Remedial actions for rectifying non-compliance incidents	Measures taken/to be taken to prevent future breaches and ensure on-going compliance
			<p>Based on the abovementioned interview, the competent authority acknowledged and agreed with our rectification plan. Our Directors confirm that the Group received no complaint from any of the employee in relation to the social insurance payments and Shenzhen Fourace will pay the outstanding balance of social insurance contributions and any administrative penalties if we receive complaint from our employees or are ordered by the relevant authority to make full contributions or to pay the shortfall within a prescribed time period. Based on the above, our PRC Legal Advisers are of the view that even that we will only comply with the social insurance requirements in full by the first half of 2022, the risk of the Group being penalised is low. Therefore, considering the risk of our Group being penalised is low, we have not made any provision in relation to the potential penalty.</p>	

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Summary of non-compliance incidents	Reason(s) for non-compliance	Relevant laws, potential legal consequences and maximum penalties and other financial losses (where applicable)	Latest status/Remedial actions for rectifying non-compliance incidents	Measures taken/to be taken to prevent future breaches and ensure on-going compliance
			<p>Save for the above, the Controlling Shareholders will execute the deed of indemnity in favour of our Group whereby they will indemnify our Group and each member of our Group and hold each member of our Group harmless from and against all or any depletion in, loss of or reduction in, the value of our respective assets or increase in our respective liabilities as a result of or being any losses, liabilities or damages suffered by our Group arising out of or in connection with failure to make adequate contributions to social insurance, except for the provision which has been made (if any) for such social insurance contributions during the Track Record Period.</p> <p>Based on the foregoing, our PRC Legal Advisers confirmed that (i) the relevant government authority aforesaid is a competent authority to issue the Social Insurance Confirmation Letters; and (ii) our risk of being ordered for payment of shortfall amount and penalised for such non-compliance is very low.</p> <p>Based on the foregoing, we are of the view that non-compliance incident does not have any material effect on the operations and financial condition of our Group.</p>	

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Summary of non-compliance incidents	Reason(s) for non-compliance	Relevant laws, potential legal consequences and maximum penalties and other financial losses (where applicable)	Latest status/Remedial actions for rectifying non-compliance incidents	Measures taken/to be taken to prevent future breaches and ensure on-going compliance
<b>3. Failure to register with relevant housing provident fund authorities and make adequate housing provident fund contribution</b>				
<p>During the Track Record Period, Shenzhen Fourace did not register with relevant housing provident fund authorities or make adequate housing provident fund contribution for all of our employees as required by relevant laws.</p> <p>During the Track Record Period, our Group failed to pay the housing provident fund contributions for all of our employees in the amount of approximately RMB1.1 million, RMB1.3 million and RMB1.1 million, respectively.</p>	<p>The reasons for the non-compliance are primarily due to (i) our employees in human resources department handling the housing provident fund contribution did not have a comprehensive understanding of the legal requirement in relation to housing provident fund contribution; and (ii) certain of our employees did not required Shenzhen Fourace to pay the housing provident fund due to their personal reasons.</p>	<p>According to the Regulations on the Administration of Housing Provident Fund (《住房公积金管理条例》), if the employers fail to register and establish an account for housing provident fund, the housing provident fund management centre shall order the employer to correct it within a prescribed time limit; where failing to do so at the expiration of the time limit, a fine of not less than RMB10,000 nor more than RMB50,000 shall be imposed. Based on that, the maximum fine should be RMB50,000. As at the Latest Practicable Date, Shenzhen Fourace already registered with the competent housing provident fund authorities, Shenzhen Fourace will not subject to any potential penalty, so we have not made any provision in relation to the potential penalty. Where an employer is overdue in the payment and deposit of, or underpays, the housing provident fund, the housing provident fund management centre shall order it to make the payment and deposit within a prescribed time limit; where the payment and deposit has not been made after the expiration of the time limit, an application may be made to a people's court for compulsory enforcement.</p>	<p>As at the Latest Practicable Date, Shenzhen Fourace had already registered with the competent housing provident fund authorities, and obtained written confirmation letter (the “<b>Housing Provident Fund Confirmation Letter</b>”) dated 17 April 2020 from the relevant competent government authority in charge of housing provident fund in Shenzhen, namely Shenzhen Housing Provident Fund Management Centre* (深圳市住房公积金管理中心), which stipulated that Shenzhen Fourace has opened housing provident fund contribution accounts and no administrative penalties had been imposed.</p> <p>Pursuant to the interview conducted by our PRC legal advisers on 11 June 2019 with Shenzhen Housing Provident Fund Management Centre, in the absence of employee complaints or reports against Shenzhen Fourace, it will not impose any penalty, and it has not received any complaints or reports in relation to housing provident fund contribution against Shenzhen Fourace; and it acknowledged that Shenzhen Fourace can adjust the basis of the housing provident fund contribution.</p>	<p>We have assigned the head of our finance departments in Shenzhen Fourace to perform regular review on the housing provident fund reports and contributions of employees in a regular basis. To prevent recurrence of the non-compliance incidents in relation to under-contributions of housing provident fund, we have also adopted the following internal control procedures:</p> <ul style="list-style-type: none"> <li>(i) all employees are required to sign a confirmation to comply with staff handbook which specified that our employees shall comply with the laws and regulations, and to cooperate with Shenzhen Fourace, in making contributions of housing provident fund in compliance with the relevant laws and regulations;</li> <li>(ii) adoption of internal guidelines and policies to ensure the list of employees of Shenzhen Fourace have been properly kept and up-to-date; and</li> <li>(iii) review on housing provident fund contribution will be conducted on a regular basis.</li> </ul>

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Summary of non-compliance incidents	Reason(s) for non-compliance	Relevant laws, potential legal consequences and maximum penalties and other financial losses (where applicable)	Latest status/Remedial actions for rectifying non-compliance incidents	Measures taken/to be taken to prevent future breaches and ensure on-going compliance
			<p>Our Directors confirm that as at the Latest Practicable Date, Shenzhen Fourace has not received any complaint from any of the employee in relation to the housing provident fund contribution, and in case of any relevant complaints from employees received by Shenzhen Fourace, Shenzhen Fourace will rectify the issue timely, including but not limited to make adequate housing provident fund contribution as required by then relevant laws and policy. We also undertake that we will endeavour to comply with the applicable laws. Nevertheless, as the full amount of housing provident fund contribution will also correspondingly increase the contribution amount by our employees, we are in the process of communicating with our employees with a view to seeking the cooperation and understanding in complying with the applicable laws.</p>	
			<p>Based on the foregoing, our PRC Legal Advisers confirmed that (i) the relevant government authority aforesaid is a competent authority to issue the Housing Provident Fund Confirmation Letter; (ii) our risk of being ordered for payment of shortfall amount for such non-compliance is very low.</p>	

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Summary of non-compliance incidents	Reason(s) for non-compliance	Relevant laws, potential legal consequences and maximum penalties and other financial losses (where applicable)	Latest status/Remedial actions for rectifying non-compliance incidents	Measures taken/to be taken to prevent future breaches and ensure on-going compliance
			<p>Save for the above, the Controlling Shareholders will execute the deed of indemnity in favour of our Group whereby they will indemnify our Group and each member of our Group and hold each member of our Group harmless from and against all or any depletion in, loss of or reduction in, the value of our respective assets or increase in our respective liabilities as a result of or being any losses, liabilities or damages suffered by our Group arising out of or in connection with failure to make adequate contributions to housing provident fund, except for the provision which has been made (if any) for such housing provident fund contributions during the Track Record Period.</p> <p>Based on the foregoing, we are of the view that non-compliance incident does not have any material effect on the operations and financial condition of our Group.</p>	

Our Directors are of the view, and the Sole Sponsor concurs, that the non-compliances (i) did not involve any dishonesty on the part of our Directors or cast any doubt on their integrity or competence; (ii) does not affect our Directors' suitability to act as directors of a listed issuer under Rules 3.08 and 3.09 of the Listing Rules; and (iii) does not affect our Company's suitability for listing under Rule 8.04 of the Listing Rules.

### INTERNAL CONTROL AND RISK MANAGEMENT

Our Directors are responsible for the formulation of and overseeing the implementation of the internal control measures and the effectiveness of risk management system, which is designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance.

In accordance with the applicable laws and regulations, we have established procedures for developing and maintaining internal control and risk management systems. Such systems cover corporate governance, operations, management, legal matters, finance and auditing, as appropriate for our needs. We believe that our internal control systems and risk management are sufficient in terms of comprehensiveness, practicability and effectiveness.



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We have engaged an independent external firm, namely SHINEWING Risk Services Limited, to conduct an evaluation of our internal control system in connection with the Listing. The Internal Control Consultant conducted its work from November to December 2018. We have implemented a number of findings and recommendations regarding corporate governance, accounting and information technology management in its report issued in January 2019. The Internal Control Consultant performed follow-up procedures on our Company's system of internal control with regard to those actions taken by our Company in June 2019. Pursuant to the results of follow-up review, the Internal Control Consultant confirmed that our Company has implemented all applicable recommendations in the follow-up review, and no further issues have been identified.

We have adopted the following internal control measures to enhance our corporate governance:

- Prior to the Listing, our Directors and senior management have attended training sessions on applicable laws and regulations, including the Listing Rules, conducted by our legal advisers. We will continue to arrange, from time to time, various trainings to be conducted by our legal advisers for our Directors, senior management and employees to update them on the relevant laws and regulations. As such, our Directors are aware of the requirements and obligations as directors of a listed issuer pursuant to the Listing Rules and have undertaken to observe and comply with all the relevant rules and regulations.
- We will provide policies, training and/or updates regarding the legal and regulatory requirements relevant to our business operations to our Directors, senior management and employees, in particular, regarding the calculation of the social insurance and housing provident funds under the applicable PRC laws and regulations.
- We have appointed Mr. Tsang Kai Ming as our company secretary who will be responsible for our company secretarial matters of our Group and assist our Directors in implementation and ongoing compliance with internal control measures of our Group. Please refer to the section headed "Directors and Senior Management — Senior management" of this prospectus for further details of the biographical information of Mr. Tsang Kai Ming.
- We have appointed Innovax Capital Limited as our compliance adviser to advise on ongoing compliance with the Listing Rules issues and other applicable securities laws and regulations in Hong Kong. Our Directors have attended training sessions on 8 July 2019 conducted by our Hong Kong legal advisers on, among other things, the obligation, on-going corporate governance requirements and the duties of directors of a company listed on the Stock Exchange; and
- We have also established an audit committee comprising three Independent Non-executive Directors. The primary duties of the audit committees are to provide our Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of our Group, to oversee the audit process and to perform other duties and responsibilities as assigned by our Directors.

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Our Directors confirmed that our Company has taken reasonable steps to establish internal control system and procedures to enhance the control environment at both working and monitoring levels, and the enhanced internal control measures adopted by our Group during the Track Record Period are adequate and effective. Based on the results of the follow-up review, the Internal Control Consultant are of the view, and the Sole Sponsor concurs that the internal control measures of our Company are adequate and effective.

We strive to foster a strong compliance culture among our Group. Our Directors believe that compliance creates value for us and dedicate to cultivating a compliance culture among all of our employees. To ensure such compliance culture is embedded into everyday workflow and set the expectations for individual behaviour across the organisation, we regularly conduct internal compliance checks and inspections, adopt strict accountability internally and conduct compliance training.

## SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, the following persons will, immediately following the completion of the Global Offering and the Capitalisation Issue taking no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme, have beneficial interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the 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:

Name of Shareholder	Nature of Interest	Shares held as at the date of this prospectus and immediately prior to the Capitalisation Issue and the Global Offering		Shares held immediately following the completion of the Capitalisation Issue and the Global Offering	
		Number of Shares (Note 6)	Percentage	Number of Shares (Note 1)	Percentage
Ace Champion (Note 2)	Beneficial owner	1	50%	468,750,000	37.5%
Forever Golden (Note 3)	Beneficial owner	1	50%	468,750,000	37.5%
Mr. SY Li (Note 2)	Interest in controlled corporation	1	50%	468,750,000	37.5%
Ms. HW Sit (Note 3)	Interest in controlled corporation	1	50%	468,750,000	37.5%
Ms. Chan Pan Pan (Note 4)	Interest of spouse	1	50%	468,750,000	37.5%
Mr. Loo Kin Kuen Stephen (Note 5)	Interest of spouse	1	50%	468,750,000	37.5%

*Notes:*

- (1) The calculation is based on the total number of 1,250,000,000 Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering (assuming that the Over-allotment Option is not exercised).
- (2) The entire issued share capital of Ace Champion is beneficially owned by Mr. SY Li who is deemed to be interested in all the Shares held by Ace Champion by virtue of the SFO. Mr. SY Li is a Controlling Shareholder and an executive Director of our Company.
- (3) The entire issued share capital of Forever Golden is beneficially owned by Ms. HW Sit who is deemed to be interested in all the Shares held by Forever Golden by virtue of the SFO. Ms. HW Sit is a Controlling Shareholder.
- (4) Ms. Chan Pan Pan is the spouse of Mr. SY Li. Therefore, Ms. Chan Pan Pan is deemed to be interested in the Shares in which Mr. SY Li is interested under the SFO.

## SUBSTANTIAL SHAREHOLDERS

- (5) Mr. Loo Kin Kuen Stephen is the spouse of Ms. HW Sit. Therefore, Mr. Loo Kin Kuen Stephen is deemed to be interested in the Shares in which Ms. HW Sit is interested under the SFO.
- (6) All interests stated are long positions.

If the Over-allotment Option is fully exercised, the beneficial interests of each of Ace Champion, Forever Golden, Mr. SY Li, Ms. HW Sit, Ms. Chan Pan Pan and Mr. Loo Kin Kuen Stephen will be approximately 36.1%, 36.1%, 36.1%, 36.1%, 36.1%, and 36.1%, respectively.

Except as disclosed in this prospectus, our Directors are not aware of any person who will, immediately following the completion of the Global Offering and the Capitalisation Issue (assuming the Over-allotment Option is not exercised and no Shares are to be issued upon the exercise of any options which may be granted under the Share Option Scheme), have beneficial interests or short positions in any Shares or underlying Shares, which would be required to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in the circumstances at general meetings of any member of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

## **RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS**

### **OUR CONTROLLING SHAREHOLDERS**

Immediately after completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme), 37.5% and 37.5% of the issued share capital of our Company will be owned by Ace Champion and Forever Golden respectively. Ace Champion is a company wholly-owned by Mr. SY Li and Forever Golden is a company wholly-owned by Ms. HW Sit. As each of Mr. SY Li through Ace Champion and Ms. HW Sit through Forever Golden controls more than 30% of voting rights of our Group, they are our Controlling Shareholders within the meaning of the Listing Rules. Notwithstanding her shareholding, Ms. HW Sit has not been and is not involved in the day-to-day management of our Group's operations and is only a passive investor. Despite the absence of an acting in concert agreement between Mr. SY Li and Ms. HW Sit and Ms. HW Sit has the independent voting right over our Group through Forever Golden, Ms. HW Sit confirmed that she did not and would not actively seek to exercise any control or voting rights or exert any influence on the daily operations and managerial decisions of our Group, and she has no intention to act as a director of our Company or our Group since Ms. HW Sit relied on Mr. SY Li for overall supervision, management and execution of business operation of our Group. Ms. HW Sit is working as a senior project manager in a construction consultancy firm. Based on the above, Mr. SY Li is considered to have full control on the management and business development direction of our Group.

Save as disclosed above, there is no other person who will, immediately following the completion of the Global Offering and Capitalisation Issue (without taking into account the allotment and issue of Shares upon the exercise of Over-allotment Option and options to be granted under the Share Option Scheme), be directly or indirectly interested in 30% or more of the Shares then in issue or have a direct or indirect equity interest in any member of our Group representing 30% or more of the equity in such entity.

### **DELINEATION OF BUSINESS**

Each of our Controlling Shareholders and Directors confirms that he/she does 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 the business of our Group and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

### **INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS**

Having considered the following factors, our Directors consider that our Group is capable of carrying on our business independently from our Controlling Shareholders and their respective close associates (other than the members of our Group) upon the Listing.

#### **Financial independence**

We are financially independent of our Controlling Shareholders and their respective close associates. We have established our own finance department with a team of financial staff, who are responsible for financial control accounting and reporting functions of our Company. The finance department is independent from our Controlling Shareholders. We can make financial decisions

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

independently from our Controlling Shareholders and our Controlling Shareholders do not intervene with our use of funds. We have sufficient capital and banking facilities to operate our business independently, and have adequate resources to support our daily operations.

As at 30 June 2020, our Group had held banking facility in the amount of approximately HK\$52.0 million, of which approximately HK\$48.5 million was unutilised. The banking facility was guaranteed by our Controlling Shareholders. All of such personal guarantees will be replaced by corporate guarantee of our Company upon Listing.

### **Operational independence**

Except as disclosed in the section headed “Business” of this prospectus, we own or have the right to use all of the operational facilities relating to our businesses and hold all relevant qualifications and licenses. We currently conduct our principal businesses independently and we have the ability to formulate and implement operational discussion independently. We also communicate with and serve our customers independently. We have sufficient capital, facilities and employees to operate our business independently. Except as set out in the paragraphs headed “Independence from our controlling shareholders — Management independence” in this section, our other employees are independent from, and none of them are remunerated by our Controlling Shareholders and/or their respective associates.

Our Group has established our own organisational structure made up of individual departments, each with specific areas of responsibilities. Our Group had not shared any operational resources, such as office premises, sales and marketing and general administration resources with our Controlling Shareholders and their close associates during the Track Record Period. Our Group has also established a set of internal controls procedures to facilitate the effective operation of our business. With reference to relevant laws and regulations, we have developed a sound corporate governance practice and have adopted our rules of procedure for general meetings, board meetings, and connected transactions.

Our suppliers are all independent from our Controlling Shareholders. We do not rely on our Controlling Shareholders or their close associates and have independent access to our suppliers for the provision of services and materials.

Based on the above, our Directors are satisfied that we have been operating independently from our Controlling Shareholders during the Track Record Period.

### **Management independence**

Although our Controlling Shareholders will maintain controlling interests in our Company upon completion of the Global Offering, the day-to-day management and operations of our Group will be the responsibility of all our executive Directors and senior management of our Company.

The Board comprises three executive Directors and three independent non-executive Directors. Although Mr. SY Li is an executive Director and also a Controlling Shareholder, our management and operation decisions are made by all our executive Directors and senior management, most of whom have served our Group over 10 years and all of whom have substantial experience in the industry in which we are engaged. The balance of power and authority is ensured by the operation of the senior management and our Board. For more details, please refer to the section headed “Directors and Senior Management” of this prospectus.

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Each of our Directors is aware of his or her fiduciary duties as a Director which require, among other things, that he/she acts for the benefit of and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) will abstain from voting at the relevant board meetings of our Company in respect of such transactions and will not be counted in the quorum. In addition, we believe that our independent non-executive Directors can bring independent judgment to the decision-making process of our Board.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that our Company is capable of managing our Group's business independently from our Controlling Shareholders.

### CORPORATE GOVERNANCE MEASURES

Our Company has adopted the Corporate Governance Code as set out in Appendix 14 to the Listing Rules and will comply with the code provisions therein. The Corporate Governance Code sets out principles of good corporate governance in relation to, among other things, directors, the chairman and chief executive officer, board composition, the appointment, re-election and removal of directors, the responsibilities and remuneration of directors and communications with shareholders.

Our Company is also required to comply with the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules, which provides, among other things, prohibitions on directors' dealings in securities and protection of minority shareholders' rights.

We will adopt the following measures to strengthen its corporate governance practice and to safeguard the interests of the Shareholders:

- (a) our Company has appointed Innovax Capital as our compliance adviser to advise on compliance matters in accordance with the Listing Rules;
- (b) the independent non-executive Directors will be responsible for deciding whether or not to allow our Controlling Shareholders and/or their respective close associates to be involved in or participate in a Restricted Business and if so, any conditions to be imposed;
- (c) the independent non-executive Directors may appoint an independent financial adviser and other professional advisers as they consider appropriate to advise them on any matter relating to connected transaction(s) at the cost of our Company;
- (d) compliance with the Listing Rules, in particular strictly observe any proposed transactions between us and connected persons and comply with the reporting, annual review announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules where applicable;
- (e) as required by the Listing Rules, our independent non-executive Directors shall review any connected transactions annually and confirm in our annual report that such transactions have been entered into in our ordinary and usual course of business, are either on normal

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

commercial terms or on terms no less favourable to us than those available to or from independent third parties and on terms that are fair and reasonable and in the interests of our Shareholders as a whole;

- (f) implementation and maintenance of effective risk management and internal controls procedures to identify and manage the risks faced by our Group;
- (g) setting up internal audit functions to provide independent and objective assurance and consulting activity designed to add value and improved our Company's operations and to bring a systematic, disciplined approach to evaluate and improve the effectiveness of risk management and internal control system;
- (h) a Director with actual or potential material interests shall make full disclosure in respect of matters that may have conflict or potentially conflict with any of our interest and abstain from attending the meetings on matters in which such Director or his/her associates have a material interest, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by the remaining non-interested Directors; and
- (i) we are committed that our Board should include a balanced composition of executive Directors and independent non-executive Directors. We have appointed three independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgement and will be able to provide an impartial, external opinion to protect the interests of our public Shareholders. Details of our independent non-executive Directors are set out in the section headed "Directors and Senior Management" of this prospectus.



## DIRECTORS AND SENIOR MANAGEMENT

### BOARD OF DIRECTORS

Our Board currently consists of six Directors, comprising three executive Directors and three independent non-executive Directors. The functions and duties of our Board include determining our business and investment plans, preparing our annual financial budgets and financial reports, formulating proposals for profit distributions as well as exercising other powers, functions and duties as conferred by our Memorandum and Articles. We have also entered into service contracts with each of our executive Directors and letters of appointment with each of our independent non-executive Directors.

The table below shows certain information in respect of our Directors:

Name	Age	Date of joining our Group	Appointment date as a Director	Position	Principal responsibilities	Relationship with other Directors or senior management
<b>Executive Directors</b>						
LI Shu Yeh (李舒野)	74	9 March 1988	29 March 2019	Chairman, executive Director and chief executive officer	Responsible for formulating the overall sales and marketing strategies and business development and making the major decisions of our Group	Father of Ms. SJ Li
LI Sen Julian (李晨)	44	2 August 2001	29 March 2019	Executive Director	Responsible for supervising the overall operations and financial management of our Group	Daughter of Mr. SY Li
TANG Suk Yee (鄧淑儀)	53	6 June 1988	29 March 2019	Executive Director	Responsible for the overall operations and management of Shenzhen Fourace	Nil
<b>Independent Non-Executive Directors</b>						
LIU Kai Yu Kenneth (廖啟宇)	50	21 August 2020	21 August 2020	Independent non-executive Director	Responsible for the provision of independent advice to our Board	Nil
LEUNG Wai Chuen (梁偉泉)	54	21 August 2020	21 August 2020	Independent non-executive Director	Responsible for the provision of independent advice to our Board	Nil
MAN Yun James (文恩)	63	21 August 2020	21 August 2020	Independent non-executive Director	Responsible for the provision of independent advice to our Board	Nil

## DIRECTORS AND SENIOR MANAGEMENT

### Chairman, Executive Director and Chief Executive Officer

**Mr. LI Shu Yeh (李舒野)**, aged 74, is our chairman, executive Director and chief executive officer. Mr. SY Li was appointed as our chairman, executive Director and chief executive officer on 29 March 2019. Mr. SY Li is primarily responsible for formulating the overall sales and marketing strategies and business development and making major decisions of our Group. Mr. SY Li co-founded our Group on 9 March 1988. Mr. SY Li is the father of Ms. SJ Li, our executive Director.

Mr. SY Li has more than 35 years of experience in the small household electrical appliances and personal care electrical appliances industry. Mr. SY Li has been a director of HK Fourace since 9 March 1988, responsible for the overall management, strategic planning and decision-making of HK Fourace.

Mr. SY Li was the chief engineer at Manuick Industrial Company Limited, a manufacturer of electrical appliances from August 1986 to February 1988, responsible for management of engineering technologies, supervision of product design and quality control and management of the manufacturing departments. Mr. SY Li was the chief engineer of Sun Cupid Industries Limited, a company principally engaged in the manufacture of small electrical appliances on an OEM/ODM basis exporting to multinational customers, from March 1980 to June 1986, responsible for new projects development, electrical design and monitoring safety standard of products.

Mr. SY Li obtained his bachelor's degree in mechanical engineering from the Beijing College of Petroleum\* (北京石油學院) (currently known as China University of Petroleum, Beijing\* (中國石油大學(北京))) in the PRC in July 1970.

Mr. SY Li was a legal representative, director, chairman, vice-chairman or assistant general manager of each of the following companies, which were dissolved, the details of which are as follows:

Name of company	Nature of business prior to dissolution	Position	Date of dissolution/revocation	Place of incorporation	Nature of dissolution/revocation
Maria Tang Family Limited	Investment holding (proposed)	Director	28 September 2018	Hong Kong	Striking off under section 746 of the Companies Ordinance (Note 1)
Shenzhen Fourace Dong Chang Electric Co., Ltd (深圳科利東昌電器有限公司)	Manufacture of electrical appliances	Legal representative and chairman	12 December 2012	The People's Republic of China	Revocation of business licence (Note 2)
Meiaishen Electrical Products Manufacturing (Shenzhen) Co., Ltd (美愛神電器製造(深圳)有限公司)	Manufacture and sales of electrical appliances	Vice chairman, director and assistant general manager	4 November 1998	The People's Republic of China	Revocation of business licence (Note 2)

*Notes:*

1. Maria Tang Family Limited had not been carrying on business and did not commence operation, and hence, the company was struck off the Companies Register pursuant to section 746 of the Companies Ordinance by the Registrar of Companies.
2. For details of reason for dissolution, please refer to the section headed "History, Reorganisation and Corporate Structure" of this prospectus.

## DIRECTORS AND SENIOR MANAGEMENT

Mr. SY Li confirmed that there have been no claims against him in relation to the abovementioned companies that have been dissolved and that each of the abovementioned companies was solvent and had no outstanding liabilities before or at the time of being dissolved, and that the abovementioned companies have not been involved in any material non-compliant incidents, claims, litigation or legal proceedings. He also confirmed that there is no wrongful act on his part leading to the above dissolutions of the companies and he is not aware of any actual or potential claim that has been or may be made against him as a result of the above dissolutions, and that no misconduct or misfeasance had been involved in the dissolutions of the companies.

### Other Executive Directors

**Ms. LI Sen Julian (李晨)**, aged 44, is our executive Director. She was appointed as our executive Director on 29 March 2019. Ms. SJ Li is primarily responsible for supervising the overall operations and financial management of our Group. Ms. SJ Li joined our Group in August 2001. Since 17 August 2017, Ms. SJ Li has been a director of HK Fourace. Ms. SJ Li is the daughter of Mr. SY Li, our chairman, executive Director and chief executive officer.

Ms. SJ Li first joined our Group on 2 August 2001 as a sales assistant, responsible for customer management. From August 2003 to June 2006, she served as an assistant general manager of our Group, responsible for customer communications, project management and product pricing. Ms. SJ Li has been the general manager of our Group since June 2006, responsible for the overall supervision of the sales department, quality management and customer relations. Ms. SJ Li has more than 19 years of experience in the personal care electrical appliances industry.

Ms. SJ Li obtained her bachelor's degree in clinical medicine from Tianjin Medical University (天津醫科大學) in the PRC in July 2001.

Ms. SJ Li was a legal representative, director or general manager of each of the following companies, which were dissolved, the details of which are as follows:

Name of company	Nature of business prior to dissolution	Position	Date of dissolution	Place of incorporation	Nature of dissolution
Top Vantage (Hong Kong) Limited	Provision of business consulting and sales agency services, and property investment for rental purposes	Director	26 October 2018	Hong Kong	Striking off under section 746 of the Companies Ordinance (Note 1)
Shenzhen Chuanglilong Electrical Appliances Limited* (深圳創力龍電器有限公司)	Manufacture and sales of electrical appliances	Legal representative, executive director and general manager	22 February 2019	The People's Republic of China	Voluntarily dissolved by a member's resolution (Note 2)

*Note:*

- As confirmed by Ms. SJ Li, Top Vantage (Hong Kong) Limited had ceased to carry on business since 30 September 2015, and hence, the company was struck off the Companies Register pursuant to section 746 of the Companies Ordinance by the Registrar of Companies.
- As confirmed by Ms. SJ Li, Shenzhen Chuanglilong Electrical Appliances Limited\* (深圳創力龍電器有限公司) had not been carrying on business and did not commence operation, and hence, the members of the company resolved to voluntarily dissolve the company.

## DIRECTORS AND SENIOR MANAGEMENT

Ms. SJ Li confirmed that there have been no claims against her in relation to the abovementioned companies that have been dissolved, and that each of the abovementioned companies was solvent and had no outstanding liabilities before or at the time of being dissolved, and that the abovementioned companies have not been involved in any material non-compliant incidents, claims, litigation or legal proceedings. She also confirmed that there is no wrongful act on her part leading to the above dissolutions of the companies and she is not aware of any actual or potential claim that has been or may be made against her as a result of the above dissolutions, and that no misconduct or misfeasance had been involved in the dissolutions of the companies.

**Ms. TANG Suk Yee (鄧淑儀)**, aged 53, is our executive Director. She was appointed as our executive Director on 29 March 2019. Ms. SY Tang is primarily responsible for the overall operations and management of Shenzhen Fourace. Ms. SY Tang joined our Group on 6 June 1988. Ms. SY Tang has more than 30 years of experience in the personal care electrical appliances industry.

Ms. SY Tang first joined our Group on 6 June 1988 as a secretary, where she accumulated experiences of customer management, administration, shipping and operations. Since August 2000, she has served as an assistant factory manager of our Group, responsible for monitoring production progress and shipping. She has been a director of HK Fourace since 17 August 2017 and the executive director and legal representative of Shenzhen Fourace since 22 May 2015, responsible for the overall progress management of the productions of our Group.

Ms. SY Tang completed her tertiary education at Sacred Heart Canossian Convent Commercial School in Hong Kong in June 1985.

Ms. SY Tang was a director of the following company, which was dissolved, the details of which are as follows:

Name of company	Nature of business prior to dissolution	Position	Date of dissolution	Place of incorporation	Nature of dissolution
Maria Tang Family Limited	Investment holding (proposed)	Director	28 September 2018	Hong Kong	Striking off under section 746 of the Companies Ordinance (Note 1)

*Note:*

- As confirmed by Ms. SY Tang, Maria Tang Family Limited had not been carrying on business and did not commence operation, and hence, the company was struck off the Companies Register pursuant to section 746 of the Companies Ordinance by the Registrar of Companies.

Ms. SY Tang confirmed that there have been no claims against her in relation to the abovementioned company that have been dissolved, and that the abovementioned company was solvent and had no outstanding liabilities before or at the time of being dissolved, and that the abovementioned company has not been involved in any material non-compliant incidents, claims, litigation or legal proceedings. She also confirmed that there is no wrongful act on her part leading to the above dissolution of the company and she is not aware of any actual or potential claim that has been or may be made against her as a result of the above dissolutions, and that no misconduct or misfeasance had been involved in the dissolutions of the companies.

## DIRECTORS AND SENIOR MANAGEMENT

### Independent Non-executive Directors

**Mr. LIU Kai Yu Kenneth (廖啟宇)**, aged 50, was appointed as our independent non-executive Director on 21 August 2020. Mr. Liu is the chairman of the audit committee and a member of the nomination committee and remuneration committee of our Company. He is primarily responsible for the provision of independent advice to our Board. He has over 20 years of experience in corporate finance and accounting and auditing.

Mr. Liu worked at Hong Kong Exchanges and Clearing Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 388) from June 2004 to October 2016, with his last position as assistant vice president in IPO Transactions, Listing & Regulatory Affairs Division, responsible for vetting initial public offering applications. Prior to that, he worked at VC CEF Capital Limited (now known as VC Capital Limited) from September 2000 to May 2003, with his last position as an assistant manager in the corporate finance department, responsible for the provision of corporate finance advices to clients, financial analysis, due diligence, document drafting and negotiation of terms. He worked as an audit officer in the internal audit department of Kowloon-Canton Railway Corporation from January 2000 to September 2000, an assistant manager of the audit and control division of the Hong Kong branch of Banque Nationale de Paris from August 1996 to September 1997, an accountant at Ernst & Young from August 1994 to May 1996, and a junior accountant in the audit department of Kwan Wong Tan & Fong (merged with Deloitte Touche Tohmatsu in 1997) from May 1994 to August 1994, responsible primarily for audit and internal control.

Mr. Liu currently serves as an independent non-executive director or independent director in the following listed companies:

Name of entity	Principal business	Period of service	Position and major responsibilities
Hangzhou Tigermed Consulting Co. Ltd., the shares of which are listed on the Main Board of the Stock Exchange (stock code: 3347) and the ChiNext of the Shenzhen Stock Exchange (stock code: 300347)	Provision of clinical research services	From April 2020 to present	Independent non-executive director and independent director, responsible for providing independent opinion and judgment to the board
Tianli Education International Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1773)	Provision of education service	From June 2018 to present	Independent non-executive director, responsible for supervising and providing independent judgment to the board
Sisram Medical Ltd., the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1696)	Provision of energy-based medical aesthetic treatment systems	From August 2017 to present	Independent non-executive director, responsible for bringing independent judgment on corporate actions and operations to the board

## DIRECTORS AND SENIOR MANAGEMENT

Mr. Liu has been a member of the Hong Kong Institute of Certified Public Accountants since July 1999 and a fellow of the Association of Chartered Certified Accountants since April 2004.

Mr. Liu obtained his bachelor of engineering degree in mechanical engineering from Imperial College of Science, Technology and Medicine of the University of London in the United Kingdom in August 1991. He received his master of business administration degree in international banking and finance from the University of Birmingham in the United Kingdom in December 1998.

**Mr. LEUNG Wai Chuen (梁偉泉)**, aged 54, was appointed as our independent non-executive Director on 21 August 2020. Mr. Leung is the chairman of the nomination committee and a member of the audit committee and remuneration committee of our Company. He is primarily responsible for the provision of independent advice to our Board. He has over 25 years of experience in auditing, accounting and financial management and company secretarial matters.

Mr. Leung has been the company secretary of Grand Ming Group Holdings Limited (stock code: 1271), a company the shares of which are listed on the Main Board of the Stock Exchange and principally engages in providing building construction services where he has been responsible for the overall company secretarial matters since 2013. From November 2017 to August 2019, Mr. Leung served as a non-executive director of MOS House Group Limited, a company the shares of which are listed on the Stock Exchange (stock code: 1653) with a principal business of retail and supply of overseas manufactured tiles in Hong Kong, during which he was responsible for supervising and providing strategic advice to the group. He worked as a chief financial officer at Tang Palace (China) Holdings Limited (stock code: 1181), a company the shares of which are listed on the Main Board of the Stock Exchange from 2009 to 2012, and served the same at Sinobest Technology Holdings Ltd (currently known as OKH Global Ltd., the shares of which are listed on the Main Board of the Singapore Exchange (stock code: S3N)) from 2005 to 2008 where he was primarily responsible for their overall financial and accounting management. Mr. Leung served at Neo-Neon Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1868), as a financial controller from December 2008 to May 2009 and as a non-executive director from June 2009 to September 2010, responsible for supervising and providing strategic advice to the group. Mr. Leung also served as a financial controller at WLS Holdings Limited, the shares of which are listed on the GEM of the Stock Exchange (stock code: 8021) from 2001 to 2004, where he was responsible for overseeing their financial matters. From 2000 to 2001, he was an accountant at China Overseas Land & Investment Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 688) where he was primarily responsible for its financial reporting management. Prior to this, Mr. Leung then held senior finance or audit positions in several private companies from 1992 to 2000. From 1989 to 1992, Mr. Leung served as an accountant and subsequently an audit senior at Price Waterhouse (now known as PricewaterhouseCoopers), an international accounting firm, where he was primarily responsible for auditing.

## DIRECTORS AND SENIOR MANAGEMENT

Mr. Leung currently serves as a director in the following listed company:

Name of entity	Principal business	Period of Service	Position and major responsibilities
E Lighting Group Holdings Limited, the shares of which are listed on the GEM of the Stock Exchange (stock code: 8222)	Retail of lighting products and household furniture	From September 2014 to current	Independent non-executive director, chairman of audit committee and member of remuneration and nomination committee, responsible for providing independent judgment on the issue of strategy, performance, resources and standard of conduct of the group

Mr. Leung has been a member of the Hong Kong Institute of Certified Public Accountants since December 1993, a fellow of the Association of Chartered Certified Accountants of the United Kingdom since October 1998, an associate of the Hong Kong Institute of Chartered Secretaries (formerly known as the Hong Kong Institute of Company Secretaries) since November 2004 and The Chartered Governance Institute (formerly known as the Institute of Chartered Secretaries and Administrators) since November 2004 respectively.

Mr. Leung obtained his bachelor of social sciences degree from the University of Hong Kong in Hong Kong in December 1989. He received his master of business administration degree jointly awarded by the University of Wales and the University of Manchester in the United Kingdom in July 2001 through distance learning and his master of business (logistics management) degree from the Royal Melbourne Institute of Technology (now known as RMIT University) in Australia in September 2007 through distance learning.

Mr. Leung was a director of each of the following companies, which were dissolved, the details of which are as follows:

Name of company	Nature of business prior to dissolution	Position	Date of dissolution	Place of incorporation	Nature of dissolution
Prime Talent Global Limited (專業環球有限公司)	Consulting and secretarial services	Director	28 September 2007	Hong Kong	Deregistration ( <i>Note 1</i> )
Prime Talent Limited (專業至誠有限公司)	Consulting and secretarial services	Director	7 March 2003	Hong Kong	Striking off under section 746 of the Companies Ordinance ( <i>Note 2</i> )

*Note:*

- As confirmed by Mr. Leung, Prime Talent Global Limited had not been carrying on business and did not commence operation, and hence, the company was dissolved by deregistration by the Companies Registry.
- As confirmed by Mr. Leung, Prime Talent Limited ceased to carry on business and was subsequently struck off the Companies Register pursuant to section 746 of the Companies Ordinance by the Registrar of Companies.

## DIRECTORS AND SENIOR MANAGEMENT

Mr. Leung confirmed that there have been no claims against him in relation to the abovementioned companies that have been dissolved and that each of the abovementioned companies was solvent and had no outstanding liabilities before or at the time of being dissolved, and that the abovementioned companies have not been involved in any material non-compliant incidents, claims, litigation or legal proceedings. He also confirmed that there is no wrongful act on his part leading to the above dissolutions of the companies and he is not aware of any actual or potential claim that has been or may be made against him as a result of the above dissolutions, and that no misconduct or misfeasance had been involved in the dissolutions of the companies.

**Mr. MAN Yun James (文恩)**, aged 63, was appointed as our independent non-executive Director on 21 August 2020. Mr. Man is the chairman of the remuneration committee and a member of the nomination committee and audit committee of our Company. He is primarily responsible for the provision of independent advice to our Board. He has over 25 years of experience in manufacturing of electrical appliances.

Mr. Man worked at Manuick Industrial Company Limited, a manufacturer of electrical appliances, from March 1984 to January 2004, with his last position as a director, responsible for administration and management of factory affairs, supervision of research and development and design of new products, quality control and customers relations. From May 1981 to March 1984, he served as an electrical engineer of Sun Cupid Industries Limited, a company principally engages in the manufacture of small electrical appliances on an OEM/ODM basis exporting to multinational customers, where he was responsible for customer relations, product design, development of products and safety and quality control. Mr. Man had worked as an engineer in several private companies from January 1979 to May 1981, responsible primarily for development of products and safety and quality control.

Mr. Man obtained his bachelor of science degree in engineering from The University of Hong Kong in Hong Kong in November 1978.

Save as disclosed above, none of our Directors hold any other directorship in any other listed company the securities of which are listed on any securities market in Hong Kong or overseas during the three years immediately preceding the date of this prospectus. Please refer to the section headed “Appendix V — Statutory and General Information” of this prospectus for further information about our Directors, including the particulars of their services contracts and remuneration, and details of the interests of our Directors in the Shares (within the meaning of Part XV of the SFO). Save as disclosed above, there are no other matters in respect of each of our Directors that is required to be disclosed pursuant to Rule 13.51(2) (h) to (v) or paragraph 41(3) of Appendix 1A of the Listing Rules and there is no other material matter relating to our Directors that needs to be brought to the attention of our Shareholders.



## DIRECTORS AND SENIOR MANAGEMENT

### SENIOR MANAGEMENT

The table below shows certain information in respect of members of senior management of our Group:

Name	Age	Position	Principal responsibilities	Date of joining our Group	Relationships with other Directors, supervisors and senior management
TSANG Kai Ming (曾啟明)	57	Chief financial officer and company secretary	Responsible for the financial management and control, corporate finance, treasury investor relations and company secretarial matters of our Group	26 November 2018	Nil
TSANG Wai Tung (曾衛東)	50	Assistant general manager	Responsible for production control and operational management of production facilities of our Group	5 June 2001	Nil
SHIU Pui Fun (邵佩芬)	49	Assistant general manager	Responsible for human resources planning, purchase control and logistics management of our Group	27 November 1990	Nil
LONG Xiao Ge (隆小鵠)	38	Chief engineer	Responsible for supervising development, safety certification and structural engineering of new products of our Group	18 July 2006	Nil
HE Jian (賀健)	48	Chief engineer	Responsible for supervising development and safety certification of new products of our Group	11 March 1997	Nil

**Mr. TSANG Kai Ming (曾啟明)**, aged 57, has been the chief financial officer and company secretary of our Company since 29 March 2019, responsible for financial management and control, corporate finance, treasury, investor relations and company secretarial matters of our Group. Mr. Tsang joined our Group in November 2018 as a financial controller.

## DIRECTORS AND SENIOR MANAGEMENT

Mr. Tsang has more than 30 years of experience in finance and accounting. Prior to joining our Group, he worked in various companies below, responsible mainly for finance and accounting:

Name of entity	Principal business	Period of service	Position and major responsibilities
Bloom & Grow Limited	Marketing, distribution and retail of leading baby, children and maternity brands	From June 2015 to June 2018	Financial controller, responsible for statutory filings, financial reporting and recruitment of finance and accounting staff
Hung Fook Tong Group Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1446)	Production and sales of a variety of herbal and non-herbal products	From September 2010 to May 2015	Financial controller and company secretary, responsible for leading the finance service division, including the finance & accounting department, internal audit department and company secretary department
Popular Holdings Limited, the shares of which are listed on the main board of The Singapore Exchange (stock code: P29)	Publish, distribution, and retail of books	From October 2008 to January 2010	Group internal audit manager, responsible for leading the team of internal auditors in the planning and performance of internal audit assignments for the group
Print-Rite Management Company Limited	Development and manufacture of high-quality aftermarket printer consumables	From November 2007 to October 2008	Senior internal audit and compliance manager, responsible for corporate governance compliance
Hung Hing Printing Group Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 0450)	Integrated and technologically advanced operations in book and packaging printing, consumer products packaging, corrugated box manufacturing and paper trading	From July 2000 to November 2007	Internal audit manager, responsible for the group's internal audit function and risk control
Vitasoy International Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 0345)	Manufacturing and sale of food and beverages	From January 1991 to January 1996	Last position as internal audit manager, responsible for internal audit

## DIRECTORS AND SENIOR MANAGEMENT

Name of entity	Principal business	Period of service	Position and major responsibilities
Magsec Investments (Far East) Limited	Forex and Bullion Trading	From March 1990 to November 1990	Finance & accounting manager, responsible for overseeing accounting and financial matters, preparation of management reports to the board and supervision of statutory audit
Shui On Investment Company Limited (currently known as Shui On (Holdings) Limited) and Shui On Leisure Enterprises Limited (the “ <b>Shui On Group</b> ”)	Property development and investment	From June 1988 to February 1990	Last position as senior internal auditor of the Shui On Group working in the planning and control department in the hotel, food and leisure division, responsible for the performance of routine audit assignment and internal control functions
Amphenol East Asia Limited	Manufacturing of electrical and electronic products	From August 1987 to June 1988	Cost accountant, responsible for financial reporting and budgeting, in particular product costing, inventory, sales, material variances and fixed assets

Mr. Tsang has been an associate of the Hong Kong Institute of Certified Public Accountants since April 1992 and a fellow of the Association of Chartered Certified Accountants since May 1997.

Mr. Tsang obtained his bachelor’s degree in commerce from The University of Southern Queensland (part-time programme) in Australia in April 1999. He obtained a master of management degree from The University of Western Sydney in Australia in October 1998.

**Mr. TSANG Wai Tung (曾衛東)**, aged 50, is an assistant general manager of our Group, responsible for production control and operational management of production facilities of our Group. He has over 18 years of experience in the personal care electrical appliances industry. Mr. Tsang joined our Group in June 2001.

Mr. Tsang was a factory manager of our Group from November 2012 to 29 March 2019, responsible for supervising the overall operations of the production facilities of our Group. He served as a procurement officer, assistant manager and manager of the procurement department of our Group from April 2005 to October 2012, responsible for the management and supervision of the procurement department and quality and costs control of materials of our Group. Mr. Tsang served as a stock keeper of our Group from June 2001 to March 2005, responsible for incoming materials management and customs declarations and cross-border materials delivery. From August 1988 to January 2001, Mr. Tsang served as a department manager in Tele-Art Ltd., responsible for shipping, order management and import and export.

## DIRECTORS AND SENIOR MANAGEMENT

Mr. Tsang completed his secondary education at the Guiyang Rail Division Zunyi Rail Secondary School\* (貴陽鐵路分局遵義鐵路中學校) in the PRC in May 1987.

**Ms. SHIU Pui Fun (邵佩芬)**, aged 49, is an assistant general manager of our Group, responsible for human resources planning, purchase control and logistics management of our Group. She has over 28 years of experience in the personal care electrical appliances industry. Ms. Shiu joined our Group in November 1990.

From November 2018 to 29 March 2019, Ms. Shiu was responsible for the overall logistic and procurement management, import and export and supervision of human resources of our Group. Ms. Shiu has served as the supervisor of Shenzhen Fourace since May 2015, responsible for overall compliance. Ms. Shiu has been the financial director and an assistant factory manager of our Group from August 2000 to October 2018, responsible for the supervision of the accounts departments in Hong Kong and Shenzhen of our Group and logistics of our Group. Ms. Shiu was promoted as a manager of the finance department of our Group in June 1993, responsible for supervision of the accounting departments of our Group and preparation of financial reports. She first joined HK Fourace as an accounts clerk in November 1990, responsible for book keeping.

Ms. Shiu completed her secondary education at the FDBWA Szeto Ho Secondary School in Hong Kong in April 1988.

**Mr. LONG Xiao Ge (隆小鵠)**, aged 38, is a chief engineer of our Group, responsible for supervising development, safety certification and structural engineering of new products of our Group. He has over 12 years of experience in the design and product engineering of personal care electrical appliances. Mr. Long first joined our Group in July 2006 as a project engineer of Fourace Factory, responsible for testing, research and design of new products and progress management of moulds. He was then promoted to a principal engineer of Fourace Factory in August 2010, responsible for trial testing and supervision of structure and specifications of products. Since July 2014, Mr. Long has been a chief engineer of Fourace Factory, responsible for monitoring progress of development of new products, improving technical aspects of existing products, structural engineering and safety certification of new products.

Mr. Long completed his higher education (majoring in mechatronics) at the Hunan Institute of Engineering\* (湖南工程學院) (merged from Xiangtan Electrical and Mechanical Higher Education College\* (湘潭機電高等專科學校) and Hunan Textile Higher Education College\* (湖南紡織高等專科學校) in June 2000) in the PRC in July 2002.

**Mr. HE Jian (賀健)**, aged 48, is a chief engineer of our Group, responsible for supervising development and safety certification of new products of our Group. He has over 20 years of experience in the design and product engineering of personal care electrical appliances. Mr. He first joined our Group in March 1997 as an engineer of Fourace Factory, responsible for development and engineering of new hair dryer products, improving existing products and trial testing. He was then promoted as a principal engineer of Fourace Factory responsible for supervision of the overall design and specifications of our products. Since March 2008, Mr. He has been a chief engineer of Fourace Factory, responsible for monitoring progress of development of new products, safety certification and resolving technical difficulties.

## DIRECTORS AND SENIOR MANAGEMENT

Mr. He completed his tertiary education (majoring in mechanical engineering) at the Shandong Industrial University\* (山東工業大學) (currently known as Shandong University (山東大學)) in the PRC in July 1993.

### COMPANY SECRETARY

**Mr. TSANG Kai Ming (曾啟明)**

The biography of Mr. Tsang Kai Ming is set out in the paragraphs headed “Senior management” in this section.

### BOARD COMMITTEES

We have established the audit committee, the remuneration committee and the nomination committee and delegated various responsibilities to these committees, which assist our Board in discharging its duties and overseeing particular aspects of our Group’s activities.

#### **Audit Committee**

We established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules. The primary duties of the audit committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management system of our Group, to oversee the audit process and to perform other duties and responsibilities as may be assigned by our Board.

The audit committee consists of three members, who are all independent non-executive Directors, being Mr. Liu Kai Yu Kenneth, Mr. Leung Wai Chuen and Mr. Man Yun James. Mr. Liu Kai Yu Kenneth is the chairman of the audit committee.

#### **Remuneration Committee**

We established a remuneration committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules. The primary duties of the remuneration committee include, but without limitation: (i) making recommendations to the Directors regarding our policy and structure for the remuneration of our Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies; (ii) making recommendations to the Board on the remuneration packages of our Directors and senior management; and (iii) reviewing and approving the management’s remuneration proposals with reference to our Board’s corporate goals and objectives.

The remuneration committee consists of five members, being Mr. Man Yun James, Mr. SY Li, Ms. SJ Li, Mr. Liu Kai Yu Kenneth and Mr. Leung Wai Chuen. The remuneration committee is chaired by Mr. Man Yun James.

## DIRECTORS AND SENIOR MANAGEMENT

### Nomination Committee

We established a nomination committee with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules. The primary function of the nomination committee is to review the structure, size and composition of our Board on a regular basis and to make recommendations to our Board regarding any proposed changes to the composition of our Board.

The nomination committee consists of five members, being Mr. Leung Wai Chuen, Mr. SY Li, Ms. SY Tang, Mr. Liu Kai Yu Kenneth and Mr. Man Yun James. The nomination committee is chaired by Mr. Leung Wai Chuen.

### BOARD DIVERSITY POLICY

We have adopted a Board diversity policy which sets out the objective and approach to achieve and maintain diversity on our Board in order to enhance the effectiveness of our Board. The policy provides that our Company should endeavour to ensure equality of opportunity in all aspects of our Group's business and does not discriminate on the grounds of race, gender, disability, nationality, religious or philosophical belief, age, sexual orientation, family status or any other factor. Our Board diversity policy further provides that appointments to our Board should be based on merit that complements and expands the skills and experience of our Board as a whole and will be considered against objective criteria, having due regard for the benefits of diversity on our Board. Taking into account our business model and the backgrounds and experience of our Directors, the composition of our Board satisfies the Board diversity policy.

Our nomination committee is delegated by our Board to be responsible for compliance with relevant code governing Board diversity under the Corporate Governance Code. After the Listing, our nomination committee will review our policy from time to time to ensure its continued effectiveness and we will disclose in our corporate governance report about the implementation of our policy on annual basis.

### CORPORATE GOVERNANCE

Our Company intends to comply with all code provisions in the Corporate Governance Code as set out in Appendix 14 of the Listing Rules except for code provision A.2.1 set out in the Corporate Governance Code, which provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. SY Li, in addition to his duties as our chairman, is also responsible for the corporate strategic planning and overall business development of our Group as the chief executive officer of our Company. Mr. SY Li is one of our co-founders and he has extensive experience and knowledge in the business of our Group and his duties for overseeing our Group's operations are considered to be beneficial to our Group. Our Company considers having Mr. SY Li acting as both our chairman and chief executive officer will provide strong and consistent leadership to our Group and facilitate the efficient execution of our business strategies. Since our Directors would meet regularly to consider major matters affecting operations of our Company, our Directors and the management of our Company believe that this structure will enable our Company to make and implement decisions promptly and efficiently. As a result, we currently do not propose to separate the

## **DIRECTORS AND SENIOR MANAGEMENT**

functions of chairman and chief executive officer. Our Board will continue to review and consider splitting the roles of chairman and chief executive officer at a time when it is appropriate and suitable by taking into account the circumstances of our Group as a whole.

Save as disclosed above, we are in compliance with all code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules.

Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code each financial year and comply with the “comply or explain” principle in our corporate governance report which will be included in our annual report upon the Listing.

### **COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT**

Our Directors and senior management receive compensation from our Group in the form of fees, salaries, allowances and benefits in kind, bonuses and pension scheme contribution and social welfare.

The aggregate sums of approximately HK\$2.5 million, HK\$3.1 million and HK\$4.1 million were entitled by our Directors as remuneration (including fees, salaries, allowances and benefits in kind, bonuses, pension scheme contributions and social welfare) for FY2018, FY2019 and FY2020.

The aggregate amount of remuneration including salaries and other benefits in kind excluding share-based payment which were entitled by our Group to our five highest paid individuals for FY2018, FY2019 and FY2020, was approximately HK\$3.8 million, HK\$4.5 million and HK\$6.4 million, respectively. No remuneration was paid by our Group to the Directors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office in respect of the Track Record Period. Further, none of our Directors has waived or agreed to waive any remuneration during the same periods.

Under the arrangements currently in force and conditional upon the Listing, the estimated aggregate amount of the remuneration and benefits in kind (excluding discretionary benefits or bonuses) payable by our Group to our Directors for FY2021 will be approximately HK\$3.6 million.

Save as disclosed above, none of our Directors received any fees or emoluments in respect of their services to our Group during the Track Record Period.

## DIRECTORS AND SENIOR MANAGEMENT

### COMPLIANCE ADVISER

We have appointed Innovax Capital as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us in the following circumstances:

- (a) in relation to the publication of any regulatory announcement, circular or financial report;
- (b) in relation to a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (c) where we propose to use the net proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results of our Group deviate from any forecast, estimate or other information in this prospectus; and
- (d) where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares or any other matters under Rule 13.10 of the Listing Rules.

The terms of the appointment of Innovax Capital Limited as our compliance adviser shall commence on the Listing Date and is expected to end on the date on which we distribute our annual report of our financial results for the first full financial year commencing after the Listing Date in accordance with Rule 13.46 of the Listing Rules. Such appointment may be subject to extension by mutual agreement.



## SHARE CAPITAL

The following is a description of the authorised and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately after the completion of the Capitalisation Issue and the Global Offering:

*Authorised Share capital:*

	<i>HK\$</i>
10,000,000,000	100,000,000.00
Shares on HK\$0.01 each	

The issued share capital of our Company immediately upon completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised) will be as follows:

*Issued and to be issued, fully paid or credited as fully paid:*

	2 Shares in issue as at the date of this prospectus	0.02
	937,499,998 Shares to be issued pursuant to the Capitalisation Issue	9,374,999.98
	312,500,000 Shares to be issued pursuant to the Global Offering	3,125,000.00
	1,250,000,000 Total	12,500,000.00

Assuming the Over-allotment Option is exercised in full, the issued share capital of our Company immediately upon completion of the Capitalisation and the Global Offering will be as follows:

*Issues and to be issued, fully paid or credited as fully paid:*

	<i>HK\$</i>	
1,250,000,000	12,500,000.00	
Shares on HK\$0.01 each		
	2 Shares in issue as at the date of this prospectus	0.02
	937,499,998 Shares to be issued pursuant to the Capitalisation Issue	9,374,999.98
	Shares to be issued pursuant to the Global Offering (including all Shares which may be issued under the Over-allotment Option)	3,593,750.00
	1,296,875,000 Total	12,968,750.00

### ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and the issue of Shares pursuant to the Global Offering and Capitalisation Issue are made. It takes no account of any Shares which may be issued or repurchased by us pursuant to the general mandate granted to our Directors to issue or repurchase Shares as described below.

## **SHARE CAPITAL**

### **MINIMUM PUBLIC FLOAT**

The minimum level of public float to be maintained by our Company at all times after Listing under Rule 8.08 of the Listing Rules is 25% of its share capital in issue from time to time. The 312,500,000 Offer Shares represent approximately 25% of the issued share capital of our Company upon the Listing.

### **RANKINGS**

The Offer Shares will rank *pari passu* in all respects with all Shares in issue or to be issued as mentioned in this prospectus and, in particular, will qualify for all dividends or other distributions declared, paid or made on the Shares after the date of this prospectus save for entitlements under the Capitalisation Issue.

### **CAPITALISATION ISSUE**

Conditional upon the crediting of our Company's share premium account as a result of the issue of the Offer Shares pursuant to the Global Offering, our Directors are authorised to capitalise an amount of HK\$9,374,999.98 standing to the credit of the share premium account of our Company by applying such sum towards the paying up in full at par a total of 937,499,998 Shares for allotment and issue to our Shareholders whose names are on the register of members of our Company as at the date of the passing of the relevant resolution approving the Capitalisation Issue, on a pro rata basis.

### **CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED**

Pursuant to the Cayman Companies Laws and the terms of the Memorandum and the Articles, our Company may from time to time by ordinary resolution of Shareholders (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its shares into several classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may subject to the provisions of the Cayman Companies Law reduce or redeem its share capital by Shareholders' special resolution. For more details, please refer to the paragraphs headed "Appendix IV — Summary of the Constitution of our Company and Cayman Islands Companies Law — 2. Articles of Association — (a) Shares — (iii) Alteration of capital" of this prospectus.

Pursuant to the Cayman Companies Law and the terms of our Memorandum and Articles of Association, all or any of the special rights attached to the Share or any class of Shares may be carried, modified or abrogated either with the consent in writing of the holders of no less than three-fourth in nominal value of the issued Shares of that class. For more details, please refer to the paragraph headed "Appendix IV — Summary of the Constitution of our Company and Cayman Islands Companies Law — 2. Articles of Association — (a) Shares — (ii) Variation of rights of existing shares or classes of shares" of this prospectus.

Further, our Company will also hold general meetings from time to time as may be required under the Articles, a summary of which is set out in the section headed "Appendix IV — Summary of the Constitution of our Company and Cayman Islands Companies Law" of this prospectus.

## SHARE CAPITAL

### GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general mandate to allot, issue and deal with Shares in the share capital of our Company with a total number of Shares not more than the sum of:

- (a) 20% of the total number of Shares in issue immediately following the completion of Global Offering and the Capitalisation Issue (excluding Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme); and
- (b) the total number of Shares repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares granted to our Directors referred to below.

Our Directors may, in addition to the Shares which they are authorised to issue under this general mandate, allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement, or on the exercise of any option granted or which may be granted under the Share Option Scheme.

This mandate will expire:

- at the conclusion of our Company's next annual general meeting; or
- at the expiry of the period within which our Company is required by any applicable laws or its Articles of Association to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

For further details on this general mandate, please refer to the section headed "Appendix V — Statutory and General Information — A. Further information about our Group — 3. Written resolutions of our Shareholders passed on 21 August 2020" of this prospectus.

### GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general mandate to exercise all the powers of our Company to repurchase not more than 10% of the total number of Shares in issue immediately following the completion of the Global Offering and the Capitalisation Issue (excluding Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme).

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 the applicable laws and the requirements of the Listing Rules. For a summary of the relevant Listing Rules, please refer to the section headed "Appendix V — Statutory and General Information — A. Further information about our Group — 4. Repurchases of our own Shares" of this prospectus.

## SHARE CAPITAL

This mandate will expire:

- at the conclusion of our Company's next annual general meeting; or
- at the expiry of the period within which our Company is required by any applicable laws or its Articles of Association to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is earliest.

Further information on this general mandate is set out in the section headed "Appendix V — Statutory and General Information — A. Further information about our Group — 3. Written resolutions of our Shareholders passed on 21 August 2020" of this prospectus.

### SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. For further details of the principal terms of the Share Option Scheme, please refer to the section headed "Appendix V — Statutory and General Information — D. Share Option Scheme" of this prospectus.

## FINANCIAL INFORMATION

*The following discussion and analysis should be read in conjunction with our consolidated financial statements, together with the accompany notes, included in Appendix I to this prospectus. Our consolidated financial statements have been prepared in accordance with HKFRSs.*

*The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, whether actual outcome and developments will meet our expectations and predictions depend on a number of factors over which we have no control. You should review the section headed “Risk Factors” of this prospectus for a discussion of the important factors that could cause our actual results to differ materially from the results described in or implied by forward-looking statements.*

### OVERVIEW

We are principally engaged in the design, development and manufacturing of personal care and lifestyle electrical appliances on an ODM basis. Our customers are mainly international brand owners with products marketed mainly in the U.S., Japan and Europe. Commencing our operation in 1988, we have accumulated over 30 years of experience in the industry. According to the Industry Report, we were the third largest OEM/ODM service provider of personal care electrical appliances in terms of export revenue in the PRC in 2019. For further details of our scope of business, please refer to the section headed “Business” of this prospectus.

Our revenue increased continuously from approximately HK\$269.2 million for FY2018 to approximately HK\$312.2 million for FY2019 and further increased to approximately HK\$362.1 million for FY2020. Our profit for the year were approximately HK\$30.2 million, HK\$33.8 million and HK\$43.4 million in FY2018, FY2019 and FY2020, respectively.

### KEY FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Consumer demand for our products

A substantial amount of our personal care electrical appliances are sold to our customers on an ODM basis for their resale purpose in the United States, Japan and Europe. As such, our operating results and profitability are closely correlated to the demand for our products from our customers, which in turn is subject to their sales performance in such countries. Hence, it is likely that the demand for our products and results of operation would be affected by whether our customers are able to anticipate taste and preferences of the consumers as we believe this would have a direct impact on their sales performance.

In addition, our customers’ business is susceptible to factors beyond our control such as regional economy, government policies and global market environment, in particular, the uncertainties created from both the Sino-U.S. trade war and the recent outbreak of COVID-19. Any or a combination of such factors could materially and adversely affect our business, financial conditions and results of operations.

## FINANCIAL INFORMATION

### Relationship with our customers and ability to maintain our sales level

Our ongoing growth and profitability are significantly dependent to our ability to maintain close and mutually beneficial relationship with our key customers. During the Track Record Period, our five largest customers accounted for approximately 92.6%, 96.1% and 98.5% of our total revenue, and our largest customer accounted for approximately 40.1% and 53.4% and 55.0% of our total revenue in the corresponding years, respectively. Despite we entered into master purchase agreement with our major customers, they have no commitment to place orders with us. Any significant reduction in purchase from our key customers as a result of the deterioration of business relationship created by factors such as unsatisfaction of our products or services, miscommunication and poor experiences in conflict resolution and disagreement in the pricing of our Group's products, may adversely affect our business, financial conditions and results of operations.

### Product mix

Our revenue and profitability are affected by our product mix as selling prices and profitability vary with types of products. During the Track Record Period, our personal care electrical appliances segment and lifestyle electrical appliances segment had (i) average selling price ranged from HK\$33.3 to HK\$185.2 and HK\$220.1 to HK\$337.4, respectively; and (ii) gross profit margin ranged from 23.5% to 52.5% and 18.3% to 23.3%, respectively. As such, our business, financial conditions and results of operations are significantly affected by the product mix demanded by our customers, which in turn is also dependent to the preference of the consumers.

### Direct material costs

Our direct material costs is a major component of our costs of sales, representing approximately 63.7%, 65.7% and 60.2% of our total cost of sales during the Track Record Period, respectively. Our direct material costs primarily consist of costs of electrical components, packaging materials, metal materials, plastic particles and painting materials. Despite we entered into master purchase agreements with some of our suppliers, the purchase price is not pre-determined in the agreements. Any fluctuation of the market price of our raw materials may materially affect our cost of sales, gross profit margin and our profitability, if we are not able to adjust the selling price of our products accordingly in a timely manner.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the direct material costs on our profit before taxation during the Track Record Period. Fluctuations in our direct material costs are assumed to reflect actual fluctuations for the Track Record Period.

	Decrease/Increase by 2%	Decrease/Increase by 9%	Decrease/Increase by 15%
<b>Change in profit before tax</b>			
<b>(HK\$'000)</b>			
For FY2018	+/- 2,589	+/- 11,649	+/- 19,414
For FY2019	+/- 2,986	+/- 13,436	+/- 22,393
For FY2020	+/- 3,050	+/- 13,727	+/- 22,878

## FINANCIAL INFORMATION

Prospective investors should note that the above analysis on the historical financial information is based on assumptions and is for reference only and should not be viewed as actual effect.

### Direct labour costs

Our production process is labour intensive and our direct labour costs accounted for approximately 22.4%, 19.7% and 19.1% of our total cost of sales during the Track Record Period, respectively. The salary level of workers may increase and adversely affect our results of operations.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in our direct labour costs on our profit before taxation during the Track Record Period. Fluctuations in our direct labour costs are assumed to reflect actual fluctuations for the Track Record Period.

	Decrease/Increase by 2%	Decrease/Increase by 5%	Decrease/Increase by 8%
<b>Change in profit before tax (HK\$'000)</b>			
For FY2018	+/- 911	+/- 2,277	+/- 3,644
For FY2019	+/- 895	+/- 2,237	+/- 3,579
For FY2020	+/- 968	+/- 2,420	+/- 3,872

Prospective investors should note that the above analysis on the historical financial information is based on assumptions and is for reference only and should not be viewed as actual effect.

### Foreign exchange fluctuations

As our sales are primarily settled in US\$ whereas our purchases, production and operating costs are primarily settled in RMB, we are exposed to foreign exchange risk. In addition, we are also exposed to risks associated with currency conversion and the exchange rate system in the PRC.

Our profit margins will be negatively affected to the extent that we are unable to increase the selling prices of our personal care electrical appliances and lifestyle electrical appliances products to our overseas customers to account for any appreciation of the RMB against the US\$. Further, any future significant fluctuations in the exchange rate will result in increases or decreases in our reported costs and earnings, and also adversely affect the carrying value of our non-HKD denominated assets and our equity and, accordingly, our business, financial conditions, operating results and prospects.

In addition, the depreciation of the currency of our targeted markets against the US\$ may decrease the demand of our products from our customer as our products would appear to be more expensive on a relative basis. The decrease in the competitiveness of our products as a result of exchange rate fluctuations may adversely affect our sales and profitability.

### Product design, research and development

Our Group has been able to develop a broad range of personal care and lifestyle electrical appliances, and work closely with our customers in product design and modelling. During the Track Record Period, we co-developed 18, ten and 12 new products with our customers, respectively. Please

## FINANCIAL INFORMATION

refer to the section headed “Business — Design, research and development” of this prospectus for further details. Our Directors believe our Group’s success depends significantly on whether we can successfully co-design and develop products which can satisfy our customers’ needs.

Should there be any failure or delay in our product design and development process our business, results of operations, financial condition and profitability will be materially and adversely affected.

### **BASIS OF PREPARATION, SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES AND JUDGEMENTS**

The principal accounting policies applied in the preparation of the financial information of our Group which are in accordance with the HKFRSs issued by the HKICPA are set forth in detail in note 2 to the Accountant’s Report set out in Appendix I to this prospectus. The historical financial information has been prepared under the historical cost convention.

The preparation of financial information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying our Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial information are disclosed in note 4 to the Accountant’s Report set out in Appendix I to this prospectus.

In identifying accounting policies which we believe are the most critical to our Group’s financial statements, some subjective and complex judgements are always considered by our management when making accounting estimations based on historical experience and other factors that are reasonable under different circumstances. As a result of the inherent uncertainties and significance of the accounting estimates involved, our management has always been reviewing and evaluating our estimates and underlying assumptions on an ongoing basis.

The HKICPA issued, among other, (i) HKFRS 9 “Financial instruments” (“**HKFRS 9**”), replacing the HKAS 39 “Financial instruments” (“**HKAS 39**”) and HKFRS 15 “Revenue from contracts with customers” (“**HKFRS 15**”), replacing the HKAS 18 “Revenue” (“**HKAS 18**”) and HKAS 11 “Construction contracts” (“**HKAS 11**”) and related interpretations which were effective for annual periods beginning on or after 1 January 2018; and (ii) HKFRS 16 “Leases” (“**HKFRS 16**”), replacing HKAS 17 “Leases” (“**HKAS 17**”) and related interpretations which was effective for annual periods beginning on or after 1 January 2019. The impact of the adoption of these standards on our financial statements is as follow:

#### *HKFRS 9*

Our Group has adopted HKFRS 9 on a consistent basis throughout the Track Record Period. The adoption of HKFRS 9 had no significant impact on our Group’s financial position and performance as compared with the requirements of HKAS 39.



## FINANCIAL INFORMATION

### *HKFRS 15*

Our Group has adopted HKFRS 15 on a consistent basis throughout the Track Record Period. The adoption of HKFRS 15 had no significant impact on our Group's financial position and performance as compared with the requirements of HKAS 18.

### *HKFRS 16*

Our Group has elected to early adopt HKFRS 16 on a consistent basis throughout the Track Record Period. The adoption of HKFRS 16 had no significant impact on our Group's financial position and performance as compared with the requirements of HKAS 17.

### **New standards and interpretations not yet adopted**

Certain new accounting standards and interpretations have been published that are not mandatory for the Track Record Period and have not been early adopted by our Group are as follow:

		<b>Effective for accounting year beginning on or after</b>
HKFRS 16 (Amendments)	COVID-19 Related Rent Concessions	1 June 2020
HKAS 1 and HKAS 8 (Amendments)	Definition of material	1 January 2020
HKFRS 3 (Amendments)	Definition of a business	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Hedge accounting	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41 (Amendments)	Annual improvements to HKFRS Standards 2018 to 2020	1 January 2022
HKFRS 3 (Amendments)	Reference to the Conceptual Framework	1 January 2022
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
HKAS 37 (Amendments)	Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

Our Group has already commenced an assessment of the impact of these new or revised standards, interpretations and amendments, certain of which are relevant to our Group's operations. According to the preliminary assessment, our Directors considered that none of these HKFRSs is expected to have a significant impact on our Group's financial positions and results of operations.

## FINANCIAL INFORMATION

### SUMMARY OF RESULTS OF OPERATIONS

The consolidated statements of comprehensive income for the years indicated are summarised below, which are extracted from the Accountant's Report set out in Appendix I to this prospectus:

	<b>FY2018</b>	<b>FY2019</b>	<b>FY2020</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Revenue</b>	269,223	312,239	362,094
Cost of sales	<u>(203,162)</u>	<u>(227,187)</u>	<u>(253,296)</u>
<b>Gross profit</b>	66,061	85,052	108,798
Other income	982	1,862	2,116
Other gains, net	1,558	487	1,382
Selling and distribution expenses	(4,018)	(4,128)	(4,836)
Research and development expenses	(4,813)	(8,162)	(8,722)
Administrative expenses	<u>(22,617)</u>	<u>(32,400)</u>	<u>(43,476)</u>
<b>Operating profit</b>	37,153	42,711	55,262
Finance income	15	15	65
Finance costs	<u>—</u>	<u>—</u>	<u>(245)</u>
<b>Profit before taxation</b>	37,168	42,726	55,082
Income tax expenses	<u>(7,011)</u>	<u>(8,903)</u>	<u>(11,726)</u>
<b>Profit for the year</b>	30,157	33,823	43,356
<b>Other comprehensive income/(loss) for the year</b>			
<i>Item that may be reclassified to profit or loss:</i>			
Currency translation difference	<u>2,126</u>	<u>(2,377)</u>	<u>(2,135)</u>
Other comprehensive income/(loss) for the year, net of tax	<u>2,126</u>	<u>(2,377)</u>	<u>(2,135)</u>
<b>Total comprehensive income for the year</b>	<u><u>32,283</u></u>	<u><u>31,446</u></u>	<u><u>41,221</u></u>

## FINANCIAL INFORMATION

### DESCRIPTION OF SELECTED ITEMS IN THE CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

#### Revenue

Our revenue represents the amounts received and receivable from the sale of our Group's products, net of rebates, returns and sales discount, at the point when control of the goods has transferred to the customers.

Our Group's products comprise of a wide range of personal care electrical appliances which can be broadly classified into three major categories, namely, hair styling series, grooming series and beauty care series. To a lesser extent, we also co-design and develop certain lifestyle electrical appliances including electric iron and bread makers etc..

The following table sets forth a breakdown of our revenue by product category for the years indicated:

	FY2018		FY2019		FY2020	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Personal care electrical appliances						
— Hair styling series	178,836	66.4	232,289	74.4	299,196	82.6
— Grooming series	61,623	22.9	52,871	16.9	36,171	10.0
— Beauty care series	<u>2,222</u>	<u>0.8</u>	<u>1,753</u>	<u>0.6</u>	<u>1,298</u>	<u>0.4</u>
Sub-total	242,681	90.1	286,913	91.9	336,665	93.0
Lifestyle electrical appliances	12,300	4.6	9,749	3.1	5,769	1.6
Others <sup>(Note)</sup>	<u>14,242</u>	<u>5.3</u>	<u>15,577</u>	<u>5.0</u>	<u>19,660</u>	<u>5.4</u>
<b>Total</b>	<b><u>269,223</u></b>	<b><u>100.0</u></b>	<b><u>312,239</u></b>	<b><u>100.0</u></b>	<b><u>362,094</u></b>	<b><u>100.0</u></b>

*Note:* Others mainly represented sales of moulds and tools and spare parts.

Our Group's sales of moulds and tools are related to our product design and development. Typically, our Group commences the product design and development process upon receiving a request from our customers for producing moulds. Once our customers have agreed the product design, we will then engage Independent Third Parties to manufacture the moulds and tools accordingly. We normally charge our customers for the production cost of the moulds on a cost plus basis. Depending on the negotiation with our customers, such charges were charged to our customers in separate transaction or amortised with future product sales.

The continuous increase in total revenue during the period from FY2018 to FY2020 was primarily attributable to the continuous growth of the sales of products in the hair styling series in our personal care electrical appliances segment. During the same period, our hair styling series, comprising hair dryers, hair straighteners and curling irons, were mainly sold to three of our major customers, T3, Sharp and Customer M.

## FINANCIAL INFORMATION

The following table sets forth our sales volume and average selling price by major product category for the years indicated:

	FY2018		FY2019		FY2020	
	Average Sales Volume '000 <i>units</i>	Average Selling Price <i>HK\$</i>	Average Sales Volume '000 <i>units</i>	Average Selling Price <i>HK\$</i>	Average Sales volume '000 <i>units</i>	Average selling price <i>HK\$</i>
Personal care electrical appliances						
— Hair styling series	1,106.2	161.7	1,461.6	158.9	1,735.7	172.4
— Grooming series	1,635.4	37.7	1,430.5	37.0	1,086.8	33.3
— Beauty care series	12.0	185.2	11.9	147.3	8.5	152.7
Lifestyle electrical appliances	50.5	243.6	44.3	220.1	17.1	337.4

With a wide range of electric appliances across different categories, the unit price of our Group's products do vary significantly. The unit price of our Group's products depends on factors such as product types, materials used, complexity of the manufacturing process and product design and specifications. Should there be any change in the product mix demanded by our customers for products with different unit prices, the average selling prices in each of our product category would fluctuate significantly.

During the Track Record Period, our lifestyle electrical appliances had the highest average selling price among all product categories, mainly attributable to the relatively high unit price of our bread makers. The high unit price of our bread makers was mainly due to the high production costs contributed by raw materials, parts and components and direct labour. On the contrary, our grooming series had the lowest average selling price during the Track Record Period, mainly owing to their simpler design and fewer features when comparing to hair styling series and beauty care series.

For the analysis of sales volume and average selling price for each product category, please refer to paragraphs headed "Review of results of operations" in this section.

## FINANCIAL INFORMATION

### Revenue by geographic location

The following table sets forth a breakdown of our revenue by product category and geographic location, based on the location where the deliveries of our Group's products were made, for the years indicated:

	FY2018		FY2019		FY2020	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
<b>Japan</b>						
— Hair styling series	76,939	28.5	75,779	24.2	107,236	29.6
— Grooming series	5,556	2.1	4,904	1.6	4,640	1.3
— Beauty care series	2,222	0.8	1,753	0.6	1,206	0.3
— Lifestyle electrical appliances	12,300	4.6	9,749	3.1	5,769	1.6
— Others <sup>(Note 1)</sup>	<u>790</u>	<u>0.3</u>	<u>350</u>	<u>0.1</u>	<u>281</u>	<u>0.1</u>
	97,807	36.3	92,535	29.6	119,132	32.9
<b>United States</b>						
— Hair styling series	79,653	29.6	136,489	43.8	186,475	51.5
— Grooming series	11,190	4.1	9,107	2.9	4,585	1.3
— Others <sup>(Note 1)</sup>	<u>6,336</u>	<u>2.4</u>	<u>6,696</u>	<u>2.1</u>	<u>5,305</u>	<u>1.5</u>
	97,179	36.1	152,292	48.8	196,365	54.3
<b>Europe</b>						
— Hair styling series	17,241	6.4	13,337	4.3	2,799	0.8
— Grooming series	44,877	16.7	38,860	12.4	26,946	7.4
— Others <sup>(Note 1)</sup>	<u>1,228</u>	<u>0.4</u>	<u>1,231</u>	<u>0.4</u>	<u>2</u>	<u>0.0</u> <sup>(Note 3)</sup>
	63,346	23.5	53,428	17.1	29,747	8.2
<b>Other locations <sup>(Note 2)</sup></b>						
— Hair styling series	5,003	1.9	6,684	2.1	2,686	0.7
— Beauty care series	—	—	—	—	92	0.0 <sup>(Note 3)</sup>
— Others <sup>(Note 1)</sup>	<u>5,888</u>	<u>2.2</u>	<u>7,300</u>	<u>2.4</u>	<u>14,072</u>	<u>3.9</u>
	10,891	4.1	13,984	4.5	16,850	4.6
<b>Total</b>	<u>269,223</u>	<u>100.0</u>	<u>312,239</u>	<u>100.0</u>	<u>362,094</u>	<u>100.0</u>

Note 1: Others mainly represented sales of moulds and tools and spare parts.

Note 2: Other locations mainly included Australia, Canada, the PRC and other countries within the Asia Pacific region.

Note 3: The percentage calculated is less than 0.1%.

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During the Track Record Period, the Japan and United States markets, together, contributed the most to our total revenue. The total contribution from the Japan and United States markets amounted to approximately HK\$195.0 million, HK\$244.8 million and HK\$315.5 million, accounting for approximately 72.4%, 78.4% and 87.2% of our total revenue during the Track Record Period, respectively. In particular, our revenue derived from the United States market increased significantly from FY2018 to FY2020, mainly due to the increase in demand of our products from the hair styling series, primarily from T3. For the Japan market, the revenue decreased in FY2019, primarily due to the decrease in sales of our hair styling products to our customers, including Sharp. The revenue then increased in FY2020 mainly attributable to the increase in sales of our hair styling products to Customer M.

Further, during the Track Record Period, Europe market contributed revenue of approximately HK\$63.3 million, HK\$53.4 million and HK\$29.7 million, respectively. The decrease in revenue derived from the Europe market from FY2018 to FY2020 was primarily due to the combined effect of the decrease in demand of our products from (i) the grooming series, primarily from Customer Group A owing to the reduction in maximum rate of sales rebate offered by us since July 2018; and (ii) the hair styling series, primarily from T3. Our sales to T3 in Europe for FY2018 and FY2019 were higher than that for FY2020, primarily due to the sales of certain customised products with high selling price for T3's cooperation with an international brand and the sales orders of which were one-off in nature.

The following table sets forth our sales volume and average selling price by product category and geographic location, based on the location where the deliveries of our Group's products were made for the years indicated:

	FY2018		FY2019		FY2020	
	Sales volume	Average selling price	Sales volume	Average selling price	Sales volume	Average selling price
	'000 units	HK\$	'000 units	HK\$	'000 units	HK\$
<b>Japan</b>						
— Hair styling series	473.9	162.4	430.9	175.9	454.5	235.9
— Grooming series	114.4	48.6	100.5	48.8	94.6	49.0
— Beauty care series	12.0	185.2	11.9	147.3	7.5	160.8
— Lifestyle electrical appliances	50.5	243.6	44.3	220.1	17.1	337.4
<b>United States</b>						
— Hair styling series	529.3	150.5	934.7	146.0	1,261.8	147.8
— Grooming series	141.9	78.9	146.2	62.3	135.4	33.9
<b>Europe</b>						
— Hair styling series	78.7	219.1	61.0	218.6	10.3	271.7
— Grooming series	1,379.1	32.5	1,183.8	32.8	856.8	31.4
<b>Other locations<sup>(Note)</sup></b>						
— Hair styling series	24.3	205.9	35.0	191.0	9.1	295.2
— Beauty care series	—	—	—	—	1.0	92.0

*Note:* Other locations mainly included Australia, Canada, the PRC and other counties within the Asia Pacific region.

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During the Track Record Period, the fluctuation of sales volume of our products in various geographical locations was generally in line with the respective fluctuation of revenue. Despite the Sino-U.S. trade war, the sales volume to the United States market still recorded a continuous growth during the Track Record Period. Our Directors consider that the sales volume and average selling price of our products delivered to the United States have not been materially affected by the Sino-U.S. trade war during the Track Record Period.

For our hair styling series, its average selling price in Europe was generally higher than those in the U.S. and Japan during the Track Record Period. The reason for such higher average selling price was mainly due to the order placed by our customers in Europe was, in general, smaller in size, which led to a higher unit price charged by us. In FY2020, the average selling price in Japan experienced a noticeable increase as compared to FY2018 and FY2019, mainly owing to the increase in sales of certain new models of hair dryers to Customer M which had relatively higher average selling prices.

Whereas for our grooming series, average selling price recorded in the United States market was generally the highest during the period from FY2018 to FY2019, mainly attributable to the relatively high unit prices of our trimmers and clippers sold to Sunbeam Group. In FY2020, the average selling price of our products from the grooming series sold to the United States market dropped significantly, mainly attributable to the decrease in sales of such trimmers, which had relatively high unit prices, to Sunbeam Group as a result of cessation of business co-operation caused by the disagreement in price of certain products.

### Cost of sales

Our cost of sales primarily consists of direct material costs, direct labour costs and overheads. The following table sets forth a breakdown of our cost of sales for the years indicated:

	FY2018		FY2019		FY2020	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Direct material costs	129,429	63.7	149,285	65.7	152,521	60.2
Direct labour costs	45,546	22.4	44,736	19.7	48,396	19.1
Overheads <sup>(Note 1)</sup>	23,348	11.5	21,913	9.6	25,531	10.1
Subcontracting costs	6,205	3.1	8,668	3.8	16,896	6.7
Cost of moulds and tools	3,684	1.8	5,137	2.3	7,069	2.8
Changes in inventories of finished goods and work in progress <sup>(Note 2)</sup>	<u>(5,050)</u>	<u>(2.5)</u>	<u>(2,552)</u>	<u>(1.1)</u>	<u>2,883</u>	<u>1.1</u>
	<u>203,162</u>	<u>100.0</u>	<u>227,187</u>	<u>100.0</u>	<u>253,296</u>	<u>100.0</u>

*Note 1:* Overheads mainly represent consumables, depreciation, utilities, indirect labour and repair and maintenance expenses.

*Note 2:* Changes in inventories of finished goods and work in progress mainly represent unallocated direct material cost, direct labour costs and overheads. The negative amounts in changes in inventories of finished goods and work in progress reflects the fact that our production exceeds sales.

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Direct material costs is our major component of our cost of sales, representing approximately 63.7%, 65.7% and 60.2% of our total cost of sales during the Track Record Period, respectively. Our direct material costs primarily consists of costs of electrical components, packaging materials, metal materials, plastic particles and painting materials. During the Track Record Period, our Group had purchased certain raw materials and parts and components from our customers. Please refer to the section headed “Business — Overlapping of major customers — suppliers” of this prospectus for further information.

Direct labour costs is another major component of our cost of sales, representing approximately 22.4%, 19.7% and 19.1% of our total cost of sales during the Track Record Period, respectively. Our direct labour costs primarily consists of staff costs and other benefits associated with the employment of both our permanent and temporary workers in Shenzhen Fourace. The following table sets forth the average monthly number and average monthly/hourly wages per permanent and temporary workers of our Group during the Track Record Period:

	FY2018			FY2019			FY2020		
	Average monthly number of workers	Average monthly wages	Average hourly wages	Average monthly number of workers	Average monthly wages	Average hourly wages	Average monthly number of workers	Average monthly wages	Average hourly wages
		HK\$/worker	HK\$/worker		HK\$/worker	HK\$/worker		HK\$/worker	HK\$/worker
Permanent workers	812	4,546.9	18.0	754	4,610.8	18.8	590	5,236.3	23.8
Temporary workers	33	3,124.4	21.1	88	2,863.7	22.1	220	4,283.4	26.2

During the Track Record Period, the average monthly wages of our permanent workers and the average hourly wages of our permanent and temporary workers experienced an increasing trend. However, the average monthly wages of our temporary workers experienced a slight decline in FY2019 as compared to that in FY2018, mainly due to the slight decrease in working hours per temporary worker during the period. Despite the slight decrease in working hours per temporary worker, the average monthly number of temporary workers increased significantly from 33 for FY2018 to 88 for FY2019 in response to the continuous growth of our Group’s business. The average monthly wages of our temporary workers increased significantly to HK\$4,283.4 per worker in FY2020, mainly due to the increase in working hours and average hourly wages of our temporary workers. The average monthly wages per permanent worker during the Track Record Period was higher than that of the temporary worker primarily due to their longer working hours in a month. Taking into consideration of their respective total working hours, the average hourly wages of our temporary workers was higher than that of our permanent workers in each of the respective period, which is in line with the industry practice in the labour market in the PRC as advised by the Industry Consultant. Our Directors believe that the higher average hourly wages offered to our temporary workers (as compared to that of our permanent workers) are justified as the placement of temporary workers allows us to enjoy flexibility in hiring temporary workers for production on needed-basis and without incurring fixed costs.



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The following table sets forth the average monthly/hourly wages per permanent and temporary worker of small electrical appliance manufacturers in Shenzhen for the years indicated:

	2017		2018		2019	
	Average monthly wages HK\$/worker	Average hourly wages HK\$/worker	Average monthly wages HK\$/worker	Average hourly wages HK\$/worker	Average monthly wages HK\$/worker	Average hourly wages HK\$/worker
Permanent workers	4,602.3	19.2	4,773.5	19.9	5,499.5	22.9
Temporary workers	3,098.9	21.5	2,964.7	22.9	4,092.8	25.0

Source: Frost & Sullivan

As advised by the Industry Consultant, with reference to the average monthly wages of permanent and temporary workers of small electrical appliance manufacturers in Shenzhen in calendar year 2017 to 2019, the average monthly wages and hourly wages offered by our Group to our permanent and temporary workers were comparable to our peers and in line with the industry practice.

During the Track Record Period, we have also engaged subcontractors which are Independent Third Parties for certain parts of the production process. Please refer to the section headed “Business — Our subcontractors” of this prospectus for further information.

### Gross profit and gross profit margin

The following table sets forth a breakdown of our gross profit and gross profit margin by product category for the years indicated:

	FY2018		FY2019		FY2020	
	Gross profit HK\$'000	Gross profit margin %	Gross profit HK\$'000	Gross profit margin %	Gross profit HK\$'000	Gross profit margin %
Personal care electrical appliances						
— Hair styling series	41,964	23.5	60,474	26.0	85,808	28.7
— Grooming series	16,359	26.5	17,162	32.5	14,925	41.3
— Beauty care series	<u>1,152</u>	51.8	<u>871</u>	49.7	<u>682</u>	52.5
Sub-total	59,475	24.5	78,507	27.4	101,415	30.1
Lifestyle electrical appliances	2,248	18.3	2,271	23.3	1,092	18.9
Others <sup>(Note)</sup>	<u>4,338</u>	30.5	<u>4,274</u>	27.4	<u>6,291</u>	32.0
<b>Total</b>	<b><u>66,061</u></b>	<b>24.5</b>	<b><u>85,052</u></b>	<b>27.2</b>	<b><u>108,798</u></b>	<b>30.0</b>

Note: Others mainly represented sales of moulds and tools and spare parts.

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During the Track Record Period, our personal care electrical appliances segment, in particular, the hair styling series contributed most of the gross profit of our Group primarily owing to its large revenue contribution.

The increase in our overall gross profit margin from approximately 24.5% for FY2018 to approximately 27.2% for FY2019 was mainly due to the sales of several new models of hair straighteners which had a relatively higher gross profit margin. Our overall gross profit margin then further increased to approximately 30.0% primarily due to the decrease in our direct material costs resulted from (i) the price reduction offered by our suppliers for bulk purchases of raw materials for manufacturing T3's products; and (ii) the depreciation of RMB against HK\$ while most of our raw materials were sourced in the PRC.

During the Track Record Period, our beauty care series had the highest gross profit margin among all product categories, mainly due to the lesser raw materials, labours and parts required in the manufacturing process, despite of its relatively high selling price. On the contrary, our lifestyle electrical appliances had the lowest gross profit margin due to the complexity in design, raw materials and labour involved in its manufacturing process.

The gross profit margins of others, which mainly represented sales of moulds and tools and spare parts, were approximately 30.5%, 27.4% and 32.0% during the Track Record Period, respectively. The relatively lower gross profit margin in FY2019 was mainly attributable to the relatively higher costs incurred.

The following table sets forth a breakdown of our gross profit and gross profit margin by product category and geographic location, based on the location where the deliveries of our Group's products were made for the years indicated:

	FY2018		FY2019		FY2020	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	HK\$'000	%	HK\$'000	%	HK\$'000	%
<b>Japan</b>						
— Hair styling series	16,822	21.9	19,435	25.6	32,442	30.3
— Grooming series	1,976	35.6	1,822	37.2	1,682	36.3
— Beauty care series	1,152	51.8	871	49.7	632	52.4
— Lifestyle electrical appliances	2,248	18.3	2,271	23.3	1,092	18.9
— Others <sup>(Note 1)</sup>	504	63.8	182	52.0	94	33.5
	22,702	23.2	24,581	26.6	35,942	30.2
<b>United States</b>						
— Hair styling series	17,830	22.4	34,094	25.0	51,155	27.4
— Grooming series	1,842	16.5	2,507	27.5	1,930	42.1
— Others <sup>(Note 1)</sup>	2,084	32.9	1,617	24.1	1,482	27.9

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	FY2018		FY2019		FY2020	
	Gross profit	margin	Gross profit	margin	Gross profit	margin
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
	21,756	22.4	38,218	25.1	54,567	27.8
<b>Europe</b>						
— Hair styling series	5,467	31.7	4,533	34.0	953	34.0
— Grooming series	12,541	27.9	12,833	33.0	11,313	42.0
— Others <sup>(Note 1)</sup>	<u>346</u>	<u>28.2</u>	<u>409</u>	<u>33.2</u>	<u>1</u>	<u>50.0</u>
	18,354	29.0	17,775	33.3	12,267	41.2
<b>Other locations<sup>(Note 2)</sup></b>						
— Hair styling series	1,845	36.9	2,412	36.1	1,258	46.8
— Beauty care series	—	—	—	—	50	54.3
— Others <sup>(Note 1)</sup>	<u>1,404</u>	<u>23.8</u>	<u>2,066</u>	<u>28.3</u>	<u>4,714</u>	<u>33.5</u>
	<u>3,249</u>	<u>29.8</u>	<u>4,478</u>	<u>32.0</u>	<u>6,022</u>	<u>35.7</u>
<b>Total</b>	<u><u>66,061</u></u>	24.5	<u><u>85,052</u></u>	27.2	<u><u>108,798</u></u>	30.0

*Note 1:* Others, by product category, mainly represented sales of moulds and tools and spare parts

*Note 2:* Other locations mainly included Australia, Canada, the PRC and other counties within the Asia Pacific region.

During the Track Record Period, the Japan and United States markets, in aggregate, contributed most of our Group's gross profit. The overall gross profit margins for the Japan market and United States market were comparable to each other since the hair styling series, being the major products of those two markets, had comparable gross profit margin in both geographical locations. In FY2018 and FY2019, the gross profit margin of our grooming series in Japan market was generally higher than that in the United States market, mainly attributable to the relatively higher gross profit margin of our grooming products sold to Koizumi in Japan as compared to those sold to Sunbeam Group in the United States. In FY2020, the gross profit margin of our grooming series in the United States market increased significantly primarily owing to the combined effect of (i) the decreased proportion of sales of products, with relatively lower gross profit margin, to Sunbeam Group as a result of cessation of business co-operation caused by the disagreement in price of certain products; and (ii) the increased proportion of sales of products, with relatively higher gross profit margins, to Customer Group A.

For the Europe market, although its gross profit contribution was less than that of the United States and Japan markets, we recorded higher gross profit margin during the Track Record Period. In particular, the hair styling series sold to the Europe market had the highest gross profit margin among all major geographical locations, mainly attributable to their relatively higher average selling price as compared to our products of the hair styling series sold to other geographical locations.

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### Other income

The following table sets forth a breakdown of our other income for the years indicated:

	FY2018		FY2019		FY2020	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Rental income	321	32.7	336	18.1	336	15.9
Government grant	—	—	868	46.6	539	25.5
Sales of scrap materials	201	20.5	218	11.7	784	37.0
Sundry income	460	46.8	440	23.6	457	21.6
<b>Total</b>	<b>982</b>	<b>100.0</b>	<b>1,862</b>	<b>100.0</b>	<b>2,116</b>	<b>100.0</b>

Rental income represented income from an Independent Third Party for renting of the investment property held by us in Hong Kong.

Government grant mainly represented subsidies granted by (i) Economy, Trade and Information Commission of Shenzhen Municipality\* (深圳市經濟貿易和信息化委員會) and Science, Technology and Innovation Commission of Shenzhen Municipality\* (深圳市科技創新委員會), respectively to our Group for employing advanced technology in our manufacturing process in the PRC; (ii) Service Bureau for Small and Medium-sized Enterprises of Shenzhen Municipality\* (深圳市中小企業服務局) for our business growth and contribution to the statistical database of Shenzhen; and (iii) Shenzhen Social Insurance Fund Management Bureau\* (深圳市社會保險基金管理局) for retaining and providing sufficient unemployment insurance for our staff in the PRC. For government grants we recognised as other income during the Track Record Period, there were no unfulfilled conditions or other contingencies.

Sales of scrap materials represented mainly the sales of the remaining/processed raw materials after the manufacturing process of a product.

Sundry income represented mainly write off of certain of our trade and other payables aged over seven years arising from miscellaneous deficient settlement of trade payables by us. The write off of our trade and other payables over seven years was in accordance with our accounting policy that the chance of receiving demand from counterparties for settlement of such trade and other payables is low.

### Other gains, net

The following table sets forth a breakdown of our other gains, net for the years indicated:

	FY2018		FY2019		FY2020	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Exchange gains, net	1,298	83.3	332	68.2	1,197	86.6
Net gains on disposal of property, plant and equipment	260	16.7	155	31.8	185	13.4
<b>Total</b>	<b>1,558</b>	<b>100.0</b>	<b>487</b>	<b>100.0</b>	<b>1,382</b>	<b>100.0</b>

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Our exchange gains mainly derived from the translations of money in satisfying our various operating needs.


### Selling and distribution expenses

Our selling and distribution expenses accounted for approximately 1.5%, 1.3% and 1.3% of our total revenue during the Track Record Period, respectively. The following table sets forth a breakdown of our selling and distribution expenses for the years indicated:

	FY2018		FY2019		FY2020	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Staff costs	1,392	34.6	1,522	36.9	2,042	42.2
Custom and declaration expenses	1,302	32.5	1,185	28.7	1,401	29.0
Logistic expenses	572	14.2	428	10.4	471	9.7
Entertainment expenses	437	10.9	607	14.7	572	11.8
Certification expenses	315	7.8	386	9.3	350	7.3
<b>Total</b>	<b>4,018</b>	<b>100.0</b>	<b>4,128</b>	<b>100.0</b>	<b>4,836</b>	<b>100.0</b>

Certification expenses represented expense incurred for the purpose of obtaining approvals on satisfying the safety requirements of overseas' authorities for launching new products in the respective market.

### Research and development expenses

Our research and development expenses accounted for approximately 1.8%, 2.6% and 2.4% of our total revenue during the Track Record Period, respectively. Our research and development expenses increased during the Track Record Period, mainly due to increase in number of product development projects. During the Track Record Period, the total spending in research and development of our smart toilet seats, which is one of the products we plan to launch in the PRC market under our own “” brand, including an one-off design and feasibility study fee of approximately HK\$467,000, amounted to approximately HK\$3.2 million. The following table set forth a breakdown of our research and development expenses for the years indicated:

	FY2018		FY2019		FY2020	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Staff costs	3,263	67.8	4,094	50.2	4,842	55.5
Materials and consumables	1,237	25.7	3,629	44.5	2,902	33.3
Depreciation	102	2.1	126	1.5	116	1.3
Utility expenses	211	4.4	188	2.3	191	2.2
Others	—	—	125	1.5	671	7.7
<b>Total</b>	<b>4,813</b>	<b>100.0</b>	<b>8,162</b>	<b>100.0</b>	<b>8,722</b>	<b>100.0</b>

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### Administrative expenses

During the Track Record Period, our administrative expenses accounted for approximately 8.4%, 10.4% and 12.0% of our total revenue, respectively. The following table sets forth a breakdown of our administrative expenses for the years indicated:

	FY2018		FY2019		FY2020	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Staff costs, including Directors' remuneration	13,256	58.6	15,052	46.5	17,011	39.1
Utility expenses	1,418	6.3	1,614	5.0	1,744	4.0
Stamp duty and other taxes	1,298	5.7	1,329	4.1	1,747	4.0
Land and building management fee	970	4.3	893	2.8	1,388	3.2
Motor vehicles and travelling expenses	860	3.8	896	2.8	682	1.6
Repair and maintenance	858	3.8	861	2.7	445	1.0
Depreciation	701	3.1	1,081	3.3	2,508	5.8
Legal and professional fee and auditor's remuneration	612	2.7	1,219	3.7	1,409	3.2
Cleaning and sewage fee	619	2.7	1,241	3.8	1,430	3.3
Office and insurance expenses	635	2.8	685	2.1	767	1.8
Others <sup>(Note)</sup>	1,390	6.2	1,449	4.4	1,435	3.3
Listing expense	—	—	6,080	18.8	12,910	29.7
<b>Total</b>	<b><u>22,617</u></b>	<b><u>100.0</u></b>	<b><u>32,400</u></b>	<b><u>100.0</u></b>	<b><u>43,476</u></b>	<b><u>100.0</u></b>

*Note:* Others mainly included telephone and communication expenses, postage and courier, recruitment expenses, rent and rates, registration and license fee, bank charges, penalties and miscellaneous expenses.

### Finance income

Our finance income represented bank interest income. We recorded finance income of approximately HK\$15,000, HK\$15,000 and HK\$65,000 during the Track Record Period, respectively.

### Finance costs

Our finance costs represented interest on bank borrowings. We recorded finance costs of nil, nil and approximately HK\$245,000 during the Track Record Period, respectively.

### Income tax expenses

Our Group is subject to income tax on an individual legal entity basis on profits arising in or derived from the tax jurisdictions in which companies comprising our Group domicile or operate.

#### (i) Cayman Islands profit tax

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability and has not been subject to any taxation in the Cayman Islands.

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(ii) *BVI income tax*

BVI Fourace was incorporated in the BVI and has not been subject to any taxation in the BVI.

(iii) *Hong Kong profits tax*

HK Fourace was incorporated in Hong Kong and Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the Track Record Period.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “**Bill**”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2.0 million of profits of qualifying group entity in Hong Kong will be taxed at 8.25%, and profits above HK\$2.0 million will be taxed at 16.5%.

(iv) *PRC EIT*

Shenzhen Fourace was incorporated in the PRC and PRC EIT has been provided at the rate of 25% on the estimated assessable profit. PRC withholding tax has been provided at the applicable tax rate on the undistributed profits of Shenzhen Fourace.

The following table sets forth a breakdown of our current and deferred tax expenses for the years indicated:

	FY2018 <i>HK\$'000</i>	FY2019 <i>HK\$'000</i>	FY2020 <i>HK\$'000</i>
<b>Current tax</b>			
Hong Kong profits tax	5,326	5,871	8,585
PRC EIT	1,410	1,247	1,386
<b>Deferred taxation</b>	275	1,785	1,755
<b>Total</b>	7,011	8,903	11,726

Our effective tax rates during the Track Record Period remained relatively stable at approximately 18.9%, 20.8% and 21.3%, respectively with a slightly increasing trend primarily attributable to the increase in listing expense incurred that is not deductible for tax purpose.

Our Directors confirm that as at the Latest Practicable Date: (i) our Group has made all required tax filings under the relevant tax laws and regulations in the PRC and has paid all outstanding tax liabilities due; and (ii) that our Group is not subject to any dispute or potential dispute with the tax authorities in the PRC as at the Latest Practicable Date.

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### REVIEW OF RESULTS OF OPERATIONS

#### FY2020 compared to FY2019

##### *Revenue*

Our revenue increased from approximately HK\$312.2 million for FY2019 to approximately HK\$362.1 million for FY2020, representing an increase of approximately HK\$49.9 million or 16.0%. Such increase was primarily attributable to the increase in revenue from personal care electrical appliances.

##### *(i) Personal care electrical appliances*

Our revenue generated from personal care electrical appliances increased from approximately HK\$286.9 million for FY2019 to approximately HK\$336.7 million for FY2020, representing an increase of approximately HK\$49.8 million or 17.3%. Such increase was mainly attributable to the increase in revenue from the hair styling series of approximately HK\$66.9 million, and partially offset by the decrease in revenue from the (i) grooming series of approximately HK\$16.7 million; and (ii) beauty care series of approximately HK\$455,000.

The increase in revenue from the hair styling series of approximately HK\$66.9 million was mainly attributable to the increase in the sales volume from approximately 1.5 million units for FY2019 to approximately 1.7 million units for FY2020 and the increase in average selling price from approximately HK\$158.9 for FY2019 to approximately HK\$172.4 for FY2020. The increase in sales volume was mainly due to the continuous increase in demand from T3 on our products pursuant to their business expansion in the U.S. in particular for their onward sales through their own distribution channel established since FY2018. In particular, the sales of our products to T3 for their onward sales in such distribution channel increased further from approximately HK\$86.8 million for FY2019 to approximately HK\$141.6 million for FY2020. For the increase in average selling price from FY2019 to FY2020, the primary reason for such increase was owing to the sales of certain new models of hair dryers to Customer M amounted to approximately HK\$34.8 million, with an average selling price of over HK\$400 per unit for FY2020.

The decrease in revenue from the grooming series of approximately HK\$16.7 million was primarily attributable to the decrease in sales volume from approximately 1.4 million units for FY2019 to approximately 1.1 million units for FY2020. Such decrease in sales volume was mainly due to (i) decrease in sales of our eyebrow trimmers to Customer Group A mainly as a result of the reduction of maximum rate of sales rebate offered, from 6% to 3% since July 2018; and (ii) decrease in sales of trimmers to Sunbeam Group as a result of cessation of business co-operation caused by the disagreement in price of certain products.

The decrease in revenue from the beauty care series of approximately HK\$455,000 was mainly attributable to the decrease in sales volume from approximately 11.9 thousand units for FY2019 to approximately nine thousand units for FY2020, mainly due to the decrease in sales to Koizumi in Japan caused by the slight delay in delivery of a specific model of beauty care product, primarily as a result of the outbreak of COVID-19. Such delay in delivery was mutually agreed by Koizumi and our Group and no penalty was imposed. The relevant products were subsequently delivered in April 2020.



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### *(ii) Lifestyle electrical appliances*

Our revenue generated from lifestyle electrical appliances decreased from approximately HK\$9.7 million for FY2019 to approximately HK\$5.8 million for FY2020, representing a decrease of approximately HK\$4.0 million or 40.8%. Such decrease represented the decrease in sales volume from approximately 44.3 thousand units for FY2019 to approximately 17.1 thousand units for FY2020 resulting primarily from the decrease in sales of our electric irons and dish dryers to our customers in Japan. However, such decrease was partially offset by the increase in average selling price from approximately HK\$220.1 for FY2019 to approximately HK\$337.4 for FY2020 primarily due to the increase in sales of our bread makers to Tiger Corp, which had a relatively higher average selling price.

### *Cost of sales*

Our cost of sales increased from approximately HK\$227.2 million for FY2019 to approximately HK\$253.3 million for FY2020, representing an increase of approximately HK\$26.1 million or 11.5%. Such increase was generally in line with our increase in revenue.

### *Direct material costs*

Our direct material costs increased from approximately HK\$149.3 million for FY2019 to approximately HK\$152.5 million for FY2020, representing an increase of approximately HK\$3.2 million or 2.2%. Such increase was mainly attributable to the combined effect of (i) the increase in production and sales to our customers in the United States and Japan; (ii) the price reduction from our suppliers as a result of our bulk purchase of raw materials for producing T3's products; and (iii) the depreciation of RMB against HK\$ while most of our raw materials were sourced in the PRC.

### *Direct labour costs*

Our direct labour costs increased from approximately HK\$44.7 million for FY2019 to approximately HK\$48.4 million for FY2020, representing an increase of approximately HK\$3.7 million or 8.2%. Such increase was mainly attributable to the increase in average monthly number of temporary workers from approximately 88 for FY2019 to 220 for FY2020 arising from the surge in our production needs since July 2019. In particular, the average hourly wages of temporary workers increased from approximately HK\$22.1 for FY2019 to approximately HK\$26.2 for FY2020.

### *Overheads*

Our overheads increased from approximately HK\$21.9 million for FY2019 to approximately HK\$25.5 million for FY2020, representing an increase of approximately HK\$3.6 million or 16.5%. Such increase was in line with our growth in revenue for FY2020 and mainly attributable to (i) the increase in depreciation expenses of approximately HK\$1.9 million as a result of the increase in machinery acquired in FY2020; and (ii) the increase in consumables used of approximately HK\$1.3 million in the course of our production.

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### *Subcontracting costs*

Our subcontracting costs increased from approximately HK\$8.7 million for FY2019 to approximately HK\$16.9 million for FY2020, representing an increase of approximately HK\$8.2 million or 94.9%. Such increase was mainly attributable to the increase in subcontracting activities, in particular electroplating works, for the increase in sales of our hair styling products to T3 and Customer M.

### *Gross profit and gross profit margin*

Our overall gross profit increased from approximately HK\$85.1 million for FY2019 to approximately HK\$108.8 million for FY2020, representing an increase of approximately HK\$23.7 million or 27.9%. Our overall gross profit margin increased from approximately 27.2% for FY2019 to approximately 30.0% for FY2020. Both the increase in our overall gross profit and gross profit margin were mainly attributable to our personal care electrical appliances segment, particularly our hair styling series.

#### *(i) Personal care electrical appliances*

##### *(a) Hair styling series*

Our gross profit from hair styling series increased significantly from approximately HK\$60.5 million for FY2019 to approximately HK\$85.8 million for FY2020, representing an increase of approximately HK\$25.3 million or 41.9%. Such increase was mainly contributed by (i) the increase in our sales to T3, Sharp Group and Customer M; and (ii) the increase in our overall gross profit margin of our hair styling products. Our gross profit margin increased from approximately 26.0% for FY2019 to approximately 28.7% for FY2020. Such increase was mainly attributable to the increase in sales of (i) certain hair straighteners and curling irons, which have a relatively higher gross profit margin with a total revenue contribution of approximately HK\$65.9 million to T3 in the U.S. for their onward sales purpose; and (ii) the new models of hair dryers sold to Customer M amounted to approximately HK\$34.8 million, with a gross profit margin ranged from approximately 31.8% to approximately 34.3% in FY2020.

##### *(b) Grooming series*

Our gross profit from grooming series decreased slightly from approximately HK\$17.2 million for FY2019 to approximately HK\$14.9 million for FY2020, while its gross profit margin grew significantly from approximately 32.5% for FY2019 to approximately 41.3% for FY2020. The increase in gross profit margin was mainly attributable to (i) the decrease in the maximum rate of sales rebate we offered to Customer Group A from 6% to 3% since July 2018; and (ii) the decrease in sales of our grooming products with a relatively lower gross profit margin.

##### *(c) Beauty care series*

Our gross profit from beauty care series decreased slightly from approximately HK\$871,000 for FY2019 and HK\$682,000 for FY2020, representing a decrease of approximately HK\$189,000 or 21.7%, which is generally in line with the decrease in the revenue. Our gross profit margin from beauty care series remained relatively stable at approximately 49.7% for FY2019 and 52.5% for FY2020.

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### *(ii) Lifestyle electrical appliances*

Our gross profit from lifestyle electrical appliances decreased from approximately HK\$2.3 million for FY2019 to approximately HK\$1.1 million for FY2020, representing a decrease of approximately HK\$1.2 million or 51.9%. The gross profit margin decreased from approximately 23.3% for FY2019 to approximately 18.9% for FY2020. Such decrease was mainly attributable to the combined effect of (i) decrease in sales of our electric irons, which had a generally higher gross profit margin to a customer in Japan; and (ii) the increase in sales of our bread makers, which had a relatively lower gross profit margin to Tiger Corp.

### ***Other income***

Our other income increased from approximately HK\$1.9 million for FY2019 to approximately HK\$2.1 million for FY2020 representing an increase of approximately HK\$254,000 or 13.6%. Such increase was mainly due to the increase in sales of scrap materials of approximately HK\$566,000 and partially offset by a decrease in government grant of approximately HK\$329,000.

### ***Other gains, net***

Our other gains, net increased from approximately HK\$487,000 for FY2019 to approximately HK\$1.4 million for FY2020, representing an increase of approximately HK\$895,000 or 183.8%, mainly as a result of the increase in exchange gain of approximately HK\$865,000 arose from the spot rates differences when we converted our cash into various currencies, mainly HK\$ and RMB, to satisfy our various operating needs.

### ***Selling and distribution expenses***

Our selling and distribution expenses increased from approximately HK\$4.1 million for FY2019 to approximately HK\$4.8 million for FY2020, representing an increase of approximately HK\$708,000 or 17.2%. Such increase is generally in line with our increase in revenue generated in the year.

### ***Research and development expenses***

Our research and development expenses remained relatively stable at approximately HK\$8.2 million for FY2019 and HK\$8.7 million for FY2020.

### ***Administrative expenses***

Our administrative expenses increased from approximately HK\$32.4 million for FY2019 to approximately HK\$43.5 million for FY2020, representing an increase of approximately HK\$11.1 million or 34.2%. The increase was primarily attributable to (i) the increase in listing expense of approximately HK\$6.8 million; (ii) the increase in staff costs of approximately HK\$2.0 million mainly due to a bonus granted to our staff; and (iii) the increase in depreciation of approximately HK\$1.4 million mainly from our additional motor vehicles.

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### *Finance income*

Our finance income increased from approximately HK\$15,000 for FY2019 and HK\$65,000 for FY2020, representing an increase of approximately HK\$50,000 or 333.3%. Such increase was mainly attributable to the increase in bank interest income arising from both our pledged bank deposits and cash in bank.

### *Finance costs*

We recorded finance costs of approximately HK\$245,000 for FY2020, from the borrowings from bank in FY2020, while no such costs was incurred for FY2019.

### *Income tax expenses*

Our income tax expenses increased from approximately HK\$8.9 million for FY2019 to approximately HK\$11.7 million for FY2020, representing an increase of approximately HK\$2.8 million or 31.7%. Our effective tax rates increased from approximately 20.8% for FY2019 to approximately 21.3% for FY2020, mainly due to the increase in listing expenses of which is not deductible for tax purpose.

### *Profit for the year*

As a result of the foregoing, our profit for the year increased from approximately HK\$33.8 million for FY2019 to approximately HK\$43.4 million for FY2020, representing an increase of approximately HK\$9.5 million or 28.2%. Our net profit margin increased slightly from approximately 10.8% for FY2019 to approximately 12.0% for FY2020.

## **FY2019 compared to FY2018**

### *Revenue*

Our revenue increased from approximately HK\$269.2 million for FY2018 to approximately HK\$312.2 million for FY2019, representing an increase of approximately HK\$43.0 million or 16.0%. Such increase was primarily attributable to the increase in revenue from sales of personal care electrical appliances, in particular, from hair styling series, and partially offset by decrease in revenue from sales of lifestyle electrical appliances.

#### *(i) Personal care electrical appliances*

Our revenue generated from personal care electrical appliances increased from approximately HK\$242.7 million for FY2018 to approximately HK\$286.9 million for FY2019, representing an increase of approximately HK\$44.2 million or 18.2%. Such increase was mainly attributable to the increase in revenue from the hair styling series of approximately HK\$53.5 million, partially offset by the decrease in revenue from the (i) grooming series of approximately HK\$8.8 million; and (ii) beauty care series of approximately HK\$469,000.

The increase in revenue from the hair styling series of approximately HK\$53.5 million was mainly attributable to the increase in the sales volume from approximately 1.1 million units for FY2018 to approximately 1.5 million units for FY2019. Such increase in sales volume was mainly due to the

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increase in demand from T3 on our products following their development of new distribution channel of their products in the U.S. since FY2018. Our sales to T3 for their onward sales in such new distribution channel increased from approximately HK\$16.1 million for FY2018 to approximately HK\$86.8 million for FY2019.

The decrease in revenue from the grooming series of approximately HK\$8.8 million was primarily attributable to the decrease in sales volume from approximately 1.6 million units for FY2018 to approximately 1.4 million units for FY2019. Such decrease in sales volume was mainly due to (i) decrease in sales of eyebrow trimmers to Customer Group A mainly as a result of reducing the maximum rate of sales rebate we offered to Customer Group A from 6% to 3% since July 2018, with an effective sales rebate rate of approximately 4.1% for FY2019; and (ii) decrease in sales of trimmers to Sunbeam Group mainly as a result of decrease in demand from them.

The decrease in revenue from the beauty care series of approximately HK\$469,000 was mainly attributable to the decrease in average selling price from approximately HK\$185.2 for FY2018 to approximately HK\$147.3 for FY2019. Such decrease in average selling price was mainly due to the increase in sales of products with lower selling prices to Koizumi.

### *(ii) Lifestyle electrical appliances*

Our revenue generated from lifestyle electrical appliances decreased from approximately HK\$12.3 million for FY2018 to approximately HK\$9.7 million for FY2019, representing a decrease of approximately HK\$2.6 million or 20.7%. Such decrease represented the decrease in sales volume of approximately 50.5 thousand units for FY2018 to approximately 44.3 thousand units for FY2019 and decrease in average selling price from approximately HK\$243.6 for FY2018 to approximately HK\$220.1 for FY2019. The larger sales volume of our lifestyle electrical appliances in FY2018 was due to the larger quantity of bread makers and dish dryers which were scheduled for delivery to two of our customers in FY2018. In addition, since these two products were of the highest and the second highest selling price of our Group's lifestyle electrical appliances during the Track Record Period, the decrease in their sales volume also led to the decrease in average selling price of our Group's lifestyle electrical appliances.

### *Cost of sales*

Our cost of sales increased from approximately HK\$203.2 million for FY2018 to approximately HK\$227.2 million for FY2019, representing an increase of approximately HK\$24.0 million or 11.8%. Such increase was in line with our increase in revenue.

### *Direct material costs*

Our direct material costs increased from approximately HK\$129.4 million for FY2018 to approximately HK\$149.3 million for FY2019, representing an increase of approximately HK\$19.9 million or 15.3%. Such increase was mainly attributable to the increase in cost of electrical components and metal materials which collectively accounted for approximately 62.5% of our total direct material costs for the FY2019, in response to our increase in sales.

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### *Direct labour costs*

Our direct labour costs remained relatively stable at approximately HK\$45.5 million and HK\$44.7 million for FY2018 and FY2019, respectively. The direct labour cost did not increase with our Group's revenue, mainly attributable to the acquisition of a number of automated machineries in FY2018, leading to higher production efficiency and hence reduction in unit labour cost.

The higher production efficiencies and reduction in unit labour cost can be illustrated by comparing five best-selling products in FY2019 with revenue recorded also in FY2018. These models included hair straighteners, hair dryers, groomers and curling irons sold to T3, Sharp and Customer Group A with a total revenue contribution of approximately HK\$31.2 million in FY2018 and HK\$36.9 million for FY2019. In such analysis we performed, with higher production efficiencies brought by additional automated machineries, the average unit labour cost for these best-selling products decreased from approximately HK\$33.9 for FY2018 to approximately HK\$27.4 for FY2019.

### *Subcontracting costs*

Our subcontracting costs increased from approximately HK\$6.2 million for the FY2018 to approximately HK\$8.7 million for FY2019, representing an increase of approximately HK\$2.5 million or 39.7%. Such increase was mainly due to the increase in subcontracting activities in respect of spray painting of plastic components with solvent-based paint while our Group was only capable of carrying out spray painting with water-based paint.

### *Overheads*

Our overheads decreased from approximately HK\$23.3 million for FY2018 to approximately HK\$21.9 million for FY2019, representing a decrease of approximately HK\$1.4 million or 6.1%. Despite the growth in revenue for FY2019, the decrease in overheads was mainly attributable to the decrease in consumables used, for example, plastic pallets for carrying our work-in-progress and the decrease in indirect staff costs primarily due to our cost-cutting measures, where job duties were shared among less workers with the introduction of certain automated machineries during FY2018 and FY2019.

### *Gross profit and gross profit margin*

Our overall gross profit increased from approximately HK\$66.1 million for FY2018 to approximately HK\$85.1 million for FY2019, representing an increase of approximately HK\$19.0 million or 28.7%. Our overall gross profit margin increased from approximately 24.5% for FY2018 to approximately 27.2% for FY2019. Both the increase in our overall gross profit and gross profit margin were mainly attributable to our personal care electrical appliances segment, particularly our hair styling series.

#### *(i) Personal care electrical appliances*

##### *(a) Hair styling series*

Our gross profit from hair styling series increased significantly from approximately HK\$42.0 million for FY2018 to HK\$60.5 million for FY2019, representing an increase of HK\$18.5 million or 44.1%. Such increase was mainly contributed by the increase in our sales to T3 and the increase

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in gross profit margin of our hair styling products. Our gross profit margin increased from approximately 23.5% for FY2018 to approximately 26.0% for FY2019. Such increase was mainly attributable to our hair straighteners which generally yield a higher gross profit margin. In particular, during FY2019, we introduced several new models of hair straighteners and the sales of which amounted to approximately HK\$33.9 million and HK\$7.6 million from T3 and Koizumi, respectively. The total sales volume of these new models of hair straighteners amounted to approximately 352,000 units with average selling price ranging from approximately HK\$109.7 to HK\$198.3 in FY2019. Such newly introduced models of hair straighteners had relatively higher gross profit margins ranging from approximately 25.9% to 37.8% with an average of approximately 30.1%, whereas the average gross profit margin of other hair straighteners produced by our Group was approximately 27.3% in FY2019. Among these new models of hair straighteners, the best-selling one in FY2019 which contributed revenue of approximately HK\$31.1 million and had a relatively high gross profit margin of approximately 30.0%. According to the Industry Consultant, the gross profit margins of other industry players producing similar models of hair straighteners with similar shipment destinations as our Group range from approximately 25% to 40%, which is comparable to that of our Group.

### (b) Grooming series

Our gross profit from grooming series remained relatively stable at approximately HK\$16.4 million for FY2018 and approximately HK\$17.2 million for FY2019. The gross profit margin increased from approximately 26.5% for FY2018 to approximately 32.5% for FY2019. Such increase was mainly attributable to reduction in direct labour costs and overheads, mainly resulting from continuous improvement of our Group's production efficiency by increasing the level of automation of our production facilities.

### (c) Beauty care series

Our gross profit from beauty care series decreased from approximately HK\$1.2 million for FY2018 to approximately HK\$871,000 for FY2019, representing a decrease of approximately HK\$281,000 or 24.4%. Such decrease was in line with the decrease in revenue. The gross profit margin remained stable at approximately 51.8% and 49.7% for FY2018 and FY2019, respectively.

### (ii) Lifestyle electrical appliances

Our gross profit from lifestyle electrical appliances remained relatively stable at approximately HK\$2.2 million and HK\$2.3 million for FY2018 and FY2019, respectively. The gross profit margin increased from approximately 18.3% for FY2018 to approximately 23.3% for FY2019. Such increase was mainly attributable to the combined effect of (i) the sales of electric irons which had an increased gross profit margin; and (ii) the decrease in sales of bread makers which had a relatively lower gross profit margin. The increase in gross profit margin for our electric irons was mainly due to (i) more continuous production in FY2019 as compared to FY2018, of which downtime costs were reduced; and (ii) our success in negotiating a higher selling price with our customers during FY2019.

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### *Other income*

Our other income increased from approximately HK\$982,000 for FY2018 to approximately HK\$1.9 million for FY2019, representing an increase of approximately HK\$880,000 or 89.6%. The increase was primarily attributable to government subsidy granted by the Economy, Trade and Information Commission of Shenzhen Municipality.


### *Other gains, net*

Our other gains, net decreased from approximately HK\$1.6 million for FY2018 to approximately HK\$487,000 for FY2019, representing a decrease of approximately HK\$1.1 million or 68.7%. Such decrease was mainly attributable to the decrease in exchange gain of approximately HK\$1.0 million arose from the spot rates differences when we converted our cash into various currencies, mainly HK\$ and RMB, to satisfy our various operating needs.

### *Selling and distribution expenses*

Despite the increase in revenue, our selling and distribution expenses remained stable at approximately HK\$4.0 million and HK\$4.1 million for FY2018 and FY2019, respectively. The reason for having a stable selling and distribution expenses was that our Group had reduced our purchases of raw materials from overseas and hence, the custom and declaration handling expenses was decreased in FY2019.

### *Research and development expenses*

Our research and development expenses increased from approximately HK\$4.8 million for FY2018 to approximately HK\$8.2 million for FY2019, representing an increase of approximately HK\$3.3 million or 69.6%. Such increase was mainly attributable to the increased research and development activities primarily in relation to products co-designed with Customer M and to be launched under our own “” brand.

### *Administrative expenses*

Our administrative expenses increased from approximately HK\$22.6 million for FY2018 to approximately HK\$32.4 million for FY2019, representing an increase of approximately HK\$9.8 million or 43.3%. The increase was primarily attributable to (i) the increase in listing expense of approximately HK\$6.1 million; and (ii) the increase in staff costs of approximately HK\$1.8 million to support our business expansion.

### *Finance income*

Our finance income remained stable at approximately HK\$15,000 for both FY2018 and FY2019, respectively.



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### *Income tax expenses*

Our income tax expenses increased from approximately HK\$7.0 million for FY2018 to approximately HK\$8.9 million for FY2019, representing an increase of HK\$1.9 million or 27.0%. Such increase was primarily due to the increase in profit before tax in FY2019. Our effective tax rates increased from 18.9% for FY2018 to 20.8% for FY2019, mainly due to the increase in profit subject to PRC EIT.

### *Profit for the year*

As a result of the foregoing, our profit for the year increased from approximately HK\$30.2 million for FY2018 to approximately HK\$33.8 million for FY2019, representing an increase of approximately HK\$3.7 million or 12.2%. Our net profit margin decreased slightly from approximately 11.2% for FY2018 to approximately 10.8% for FY2019.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash flows

During the Track Record Period, we have funded our operations primarily with net cash generated from our operations, and our funds were primarily used for purchase of raw materials, various operating expenses and capital expenditure. The following table summaries for the years indicated, our consolidated statements of cash flows:

	<b>FY2018</b>	<b>FY2019</b>	<b>FY2020</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating cash flows before movements in working capital	43,805	51,171	66,948
Changes in working capital	(16,951)	15,216	22,681
Interest received	15	15	65
Income tax paid	<u>(13,029)</u>	<u>(7,759)</u>	<u>(8,142)</u>
Net cash generated from operating activities	13,840	58,643	81,552
Net cash used in investing activities	(28,412)	(36,970)	(25,320)
Net cash used in financing activities	<u>(441)</u>	<u>(25,438)</u>	<u>(45,498)</u>
Net (decrease)/increase in cash and cash equivalents	(15,013)	(3,765)	10,734
Effect on exchange rate difference	(90)	(67)	(161)
Cash and cash equivalents at beginning of the year	<u>64,782</u>	<u>49,679</u>	<u>45,847</u>
Cash and cash equivalents at the end of the year	<u><u>49,679</u></u>	<u><u>45,847</u></u>	<u><u>56,420</u></u>

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### **Net cash generated from operating activities**

For FY2018, the net cash generated from operating activities amounted to approximately HK\$13.8 million, reflecting mainly profit before taxation of approximately HK\$37.2 million, as adjusted by (i) increase in trade payables of approximately HK\$8.2 million mainly due to the procurement of raw materials for processing certain significant sales orders from T3; (ii) depreciation of our fixed assets of approximately HK\$6.9 million; (iii) income tax paid of approximately HK\$13.0 million; (iv) increase in other receivables, deposits and prepayments of approximately HK\$9.3 million mainly due to a large VAT recoverable balance resulting from the prolonged process of completing our export VAT refund; (v) increase in trade receivables of approximately HK\$8.9 million; and (vi) increase in inventories of approximately HK\$8.5 million mainly due to accumulation of raw materials and work-in-progress for processing of certain significant sales order to be delivered in FY2019.

For FY2019, the net cash generated from operating activities amounted to approximately HK\$58.6 million, reflecting mainly profit before taxation of approximately of approximately HK\$42.7 million, as adjusted positively by: (i) decrease in other receivables, deposits and prepayments of approximately HK\$10.2 million due to the reimbursement of the VAT recoverable; (ii) depreciation of fixed assets of approximately HK\$8.6 million mainly arising from the machineries; (iii) decrease in trade receivables of approximately HK\$9.6 million mainly due to the increase in settlement from our customers; (iv) income tax paid of approximately HK\$7.8 million; and (v) decrease in trade payables of approximately HK\$9.5 million mainly due to increase in our settlement.

For FY2020, the net cash generated from operating activities amounted to approximately HK\$81.6 million, reflecting mainly profit before taxation of approximately HK\$55.1 million, as adjusted by (i) increase in trade payables of approximately HK\$15.2 million mainly due to the delay in settlement caused by the temporary suspension of operation of certain of our suppliers in the PRC during the outbreak of COVID-19; (ii) depreciation of our fixed assets of approximately HK\$11.9 million; (iii) increase in accruals and other payables of approximately HK\$7.2 million arising from the increase in accrued staff costs and payment received in advance from our customers; (iv) increase in other receivables, deposits and prepayments of approximately HK\$4.8 million mainly due to the increase in deferred listing expenses; (v) income tax paid of approximately HK\$8.1 million; and (vi) decrease in trade receivables of approximately HK\$3.1 million.

### **Net cash used in investing activities**

For FY2018, the net cash used in investing activities amounted to approximately HK\$28.4 million was mainly contributed by the purchases of property, plant and equipment of approximately HK\$28.1 million.

For FY2019, the net cash used in investing activities amounted to approximately HK\$37.0 million was mainly contributed by (i) purchases of property, plant and equipment of approximately HK\$19.7 million; and (ii) advance to shareholders of approximately HK\$20.0 million.

For FY2020, the net cash used in investing activities amounted to approximately HK\$25.3 million was mainly contributed by purchase of property, plant and equipment of approximately HK\$25.5 million.

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### Net cash used in financing activities

For FY2018, the net cash used in financing activities amounted to approximately HK\$441,000 was mainly due to listing expenses paid.

For FY2019, the net cash used in financing activities amounted to approximately HK\$25.4 million was mainly due to (i) dividend paid of approximately HK\$24.6 million; and (ii) listing expenses paid of approximately HK\$807,000.

For FY2020, the net cash used in financing activities amounted to approximately HK\$45.5 million was mainly due to (i) dividend paid of approximately HK\$40.0 million; (ii) increase in pledged bank deposits of approximately HK\$5.0 million; (iii) net proceeds from bank borrowings of approximately HK\$4.0 million; and (iv) listing expenses paid of approximately HK\$3.8 million.

For the details of year on year comparison of our Group's items of assets and liabilities, please refer to the paragraphs headed "Principal components of our current assets and current liabilities" and "Principal components of non-current assets and non-current liabilities" in this section.

### PRINCIPAL COMPONENTS OF OUR CURRENT ASSETS AND CURRENT LIABILITIES

The following table sets forth the breakdown of our current assets and current liabilities as at the dates indicated:

	As at 31 March			As at 30 June
	2018	2019	2020	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>
<b>Current assets</b>				
Inventories	42,072	36,822	36,018	45,302
Trade receivables	46,475	33,781	34,211	59,516
Contract assets	364	1,043	1,815	1,654
Other receivables, deposits and prepayments	22,417	11,804	13,772	15,202
Amount due from an ultimate shareholder	2,213	—	—	—
Amounts due from related parties	7,914	—	—	—
Income tax recoverable	—	1,112	2,204	—
Pledged bank deposits	—	—	4,974	4,974
Cash and cash equivalents	49,679	45,847	56,420	51,148
	171,134	130,409	149,414	177,796

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	As at 31 March			As at
	2018	2019	2020	30 June
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2020</i> <i>HK\$'000</i> <i>(unaudited)</i>
<b>Current liabilities</b>				
Trade payables	49,389	33,553	44,051	58,732
Accruals and other payables	13,874	15,768	22,567	23,770
Borrowings	—	—	3,972	3,514
Lease liabilities	—	444	424	313
Income tax payable	231	706	3,699	5,753
	<u>63,494</u>	<u>50,471</u>	<u>74,713</u>	<u>92,082</u>
<b>Net current assets</b>	<u>107,640</u>	<u>79,938</u>	<u>74,701</u>	<u>85,714</u>

Based on our unaudited consolidated financial information as at 30 June 2020, our net current assets increased from approximately HK\$74.7 million as at 31 March 2020 to approximately HK\$85.7 million as at 30 June 2020, representing an increase of approximately HK\$11.0 million or 14.7%. Such increase was mainly resulted from the net profit generated during the three months ended 30 June 2020, which was mainly attributable to the sales to certain major customers, including Customer M and T3, subsequent to the resumption of operation of our Shenzhen Factory.

As at 31 March 2020, our net current assets had decreased by approximately HK\$5.2 million or 6.6%, as compared to 31 March 2019, primarily due to the combined effect of (i) dividend payment of approximately HK\$40.0 million; (ii) the increase in trade payables of approximately HK\$10.5 million owing to the delay in settlement caused by the temporary suspension of operations of certain of our suppliers in the PRC during the outbreak of COVID-19; (iii) the increase in accruals and other payables of approximately HK\$6.8 million owing to the increase in accrued staff costs and payment received in advance from our customers, partially offset by (iv) the net profit for the year of approximately HK\$43.4 million; and (v) the increase in pledged bank deposit of approximately HK\$5.0 million.

As at 31 March 2019, our net current assets had decreased by approximately HK\$27.7 million or 25.7%, as compared to 31 March 2018, primarily due to the combined effect of (i) dividend payment of approximately HK\$53.0 million; (ii) the decrease in trade receivables of approximately HK\$12.7 million owing to the increase in settlement from our customers; (iii) the decrease in other receivables, deposits and prepayments of approximately HK\$10.6 million owing to the reimbursement of the VAT recoverable; (iv) the decrease in inventories of approximately HK\$5.3 million owing to certain significant sales orders delivered in early FY2019, partially offset by (v) the net profit for the year of approximately HK\$33.8 million; and (vi) the decrease in trade payables of approximately HK\$15.8 million owing to the increase in our settlements.

As at 31 March 2019, our net assets had decreased by approximately HK\$21.6 million or 10.1%, as compared to 31 March 2018, primarily due to (i) dividend paid of HK\$53.0 million; and partially offset by (ii) the record of net profit of approximately HK\$33.8 million for the year ended 31 March 2019.

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### Working Capital

We intend to finance our working capital with cash generated from our operating activities, the net proceeds from the Global Offering and banking facilities. We will closely monitor the level of our working capital, particularly for our future plans which may utilise significant amount of working capital.

Details of the funds necessary to meet our existing operations and to fund our future plans are set out in the section headed “Future Plans and Use of Proceeds” of this prospectus.

### Working Capital Sufficiency Statement

Our Directors are of the opinion that after taking into account our cash generating capacities, the existing financial resources available to us, the available banking facilities and the estimated net proceeds from the Global Offering, we have sufficient working capital for our working capital requirements for at least the next 12 months from the date of this prospectus.

### Inventories

Our inventories consist of raw materials, work-in-progress and finished goods. Our raw materials mainly comprised electrical components, packaging materials, metal materials, plastic particles and painting materials. Work-in-progress comprises semi-finished products, including processed metal and plastic and assembled components. Finished goods represent our electrical appliances which are ready to be sold. The following table sets forth a breakdown of our inventory balances as at the dates indicated:

	<b>As at 31 March</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	25,939	18,908	21,609
Work-in-progress	8,217	9,939	11,094
Finished goods	<u>7,916</u>	<u>7,975</u>	<u>3,315</u>
<b>Total</b>	<b><u>42,072</u></b>	<b><u>36,822</u></b>	<b><u>36,018</u></b>

Our balance of inventories decreased from approximately HK\$42.1 million as at 31 March 2018 to approximately HK\$36.8 million as at 31 March 2019, representing a decrease of approximately HK\$5.3 million or 12.5% and remained relatively stable at approximately HK\$36.0 million as at 31 March 2020. Our higher balance of inventories as at 31 March 2018 as compared to the balances as at 31 March 2019 and 2020 was mainly attributable to raw materials and work-in-progress accumulated for processing certain significant sales orders to be delivered in early FY2019.

Our management performs regular review on ageing analysis of our inventories and the condition of our inventories, and makes provision against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use in the production. After performing the abovementioned analysis, no provision for impairment of inventories was required during the Track Record Period.

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

	<b>FY2018</b>	<b>FY2019</b>	<b>FY2020</b>
Average inventory turnover days <sup>(Note)</sup>	<u>65.4</u>	<u>63.4</u>	<u>52.5</u>

*Note:* Average inventory turnover days are derived by dividing the arithmetic mean of the opening and ending balance of inventory for the relevant year by the cost of sales and multiplying by 365 days.

Our average inventory turnover days remained relatively stable at approximately 65.4 days and 63.4 days for FY2018 and FY2019, respectively. For FY2020, our average inventory turnover days decreased to approximately 52.5 days, primarily owing to certain significant deliveries of our products made close to the year end in FY2020.

As at 31 July 2020, approximately HK\$30.4 million or 84.3% of our inventories as at 31 March 2020 had been utilised/sold subsequently.

### Trade receivables

Our trade receivables represented the outstanding amounts receivable by us from our customers for the sale of our products. The carrying amount of most of our trade receivables are denominated in US\$. The following table sets forth our trade receivables as at the dates indicated:

	<b>As at 31 March</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	<u>46,475</u>	<u>33,781</u>	<u>34,211</u>

Our trade receivables decreased from approximately HK\$46.5 million as at 31 March 2018 to approximately HK\$33.8 million as at 31 March 2019, representing a decrease of approximately HK\$12.7 million or 27.3% and remained relatively stable at approximately HK\$34.2 million as at 31 March 2020. Our higher balance of trade receivables as at 31 March 2018 as compared to the balances as at 31 March 2019 and 2020 was mainly attributable to the sales of our Group's products to T3 for their onward sales in the newly developed distribution channel, of which the delivery was made in February 2018 and yet to be settled as at 31 March 2018.

The following table sets forth an ageing analysis of trade receivables presented based on invoice dates at as the dates indicated:

	<b>As at 31 March</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Up to three months	46,469	33,781	34,211
Three to six months	<u>6</u>	<u>—</u>	<u>—</u>
<b>Total</b>	<u><b>46,475</b></u>	<u><b>33,781</b></u>	<u><b>34,211</b></u>

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We generally grant our customers a credit period ranging from 30 to 120 days. Our Group applies the simplified approach to provide credit losses prescribed by HKFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. We consider the shared credit risk characteristics to measure the expected credit losses. Based on the assessment, the expected credit loss rate of trade receivables is close to zero on the basis that the customers had good payment and no default history. Therefore, no loss allowance provision for our Group's trade receivables balances had been provided.

The following table sets forth our average trade receivables turnover days for the Track Record Period:

	<b>FY2018</b>	<b>FY2019</b>	<b>FY2020</b>
Average trade receivables turnover days <sup>(Note)</sup>	<u>53.9</u>	<u>46.9</u>	<u>34.3</u>

*Note:* Average trade receivables turnover days are derived by dividing the arithmetic mean of the opening and ending balance of trade receivables by revenue for the relevant year and multiplied by 365 days.

Our average trade receivables turnover days were within the credit period we granted to our customers. The decreasing trend of our average trade receivables turnover days during the Track Record Period was mainly attributable to the timely settlement from our customers.

As at 31 July 2020, approximately HK\$34.2 million, representing approximately 100.0% of our trade receivables as at 31 March 2020, had been settled.

### Contract assets

As at 31 March 2018, 2019 and 2020, we recorded contract assets of approximately HK\$364,000, HK\$1.0 million and HK\$1.8 million, respectively, representing our Group's right to consideration in exchange for services that our Group has transferred to the customer in relation to moulding and tooling services. These contract assets were and will be settled together with our Group's sales of products as per the negotiations with our customer. Our higher balance of contract assets as at 31 March 2019 and 2020 was primarily attributable to the mould production for T3 during the product design and development process in FY2019 and FY2020.

The following table sets forth our average trade receivables and contract assets turnover days for the Track Record Period:

	<b>FY2018</b>	<b>FY2019</b>	<b>FY2020</b>
Average trade receivables and contract assets turnover days <sup>(Note)</sup>	<u>54.3</u>	<u>47.7</u>	<u>35.7</u>

*Note:* Average trade receivables and contract assets turnover days are derived by dividing the arithmetic mean of the opening and ending balance of the total of trade receivables and contract assets by revenue for the relevant year and multiplied by 365 days.

The fluctuation of our average trade receivables and contract assets turnover days are similar to the fluctuation of our average trade receivables turnover days.

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### Other receivables, deposits and prepayments

The following table sets forth a breakdown of our other receivables, deposits and prepayments as at the dates indicated:

	<b>As at 31 March</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Deposits	199	71	197
Prepayments	3,137	4,340	3,503
Deferred listing expenses	1,792	2,286	5,617
Other receivables	1,361	544	820
VAT recoverable	<u>15,928</u>	<u>4,563</u>	<u>3,635</u>
	<u><u>22,417</u></u>	<u><u>11,804</u></u>	<u><u>13,772</u></u>

Our other receivables, deposits and prepayments decreased from approximately HK\$22.4 million as at 31 March 2018 to approximately HK\$11.8 million as at 31 March 2019, representing a decrease of approximately HK\$10.6 million or 47.3%. Such decrease was mainly attributable to the reimbursement of our Group's VAT recoverable during FY2019. Our Group's VAT recoverable was mainly arisen from our export sales business. The larger VAT recoverable balance as at 31 March 2018 was mainly due to the prolonged process of completing our export VAT refund for FY2018.

As at 31 March 2020, our other receivables, deposit and prepayment then increased to approximately HK\$13.8 million, representing an increase of approximately HK\$2.0 million or 16.7%. Such increase was mainly attributable to the increase in deferred listing expense of approximately HK\$3.3 million, and partially offset by the decrease in VAT recoverable of approximately HK\$928,000 primarily owing to the reduction in the rate of VAT from 16% to 13% since 1 April 2019.

### Income tax recoverable

Our income tax recoverable as at 31 March 2019 and 2020 represented the super deductions for up to 175% of the research and development expenses relating to certain eligible projects during FY2019 and FY2020 but yet to be recovered by Shenzhen Fourace from the tax authority.

### Pledged bank deposits

We had deposits of approximately US\$642,000 (equivalent to approximately HK\$5.0 million) placed with the bank as to secure our borrowing of approximately HK\$4.0 million as at 31 March 2020. For details, please refer to the paragraphs headed "Indebtedness — Borrowing" below in this section.

### Amount due from an ultimate shareholder

Please refer to the paragraphs headed "Material related party transactions — (a) Balances with related parties and an ultimate shareholder" below in this section for further details.



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### Amounts due from related parties

Please refer to the paragraphs headed “Material related party transactions — (a) Balances with related parties and an ultimate shareholder” below in this section for further details.

### Trade payables

Our trade payables represented the outstanding amounts payable by us to our suppliers for the procurement of raw materials and to subcontractors for the procurement of sub-contracting services. The following table sets forth our trade payables as at the dates indicated:

	<b>As at 31 March</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	49,389	33,553	44,051

Our trade payables decreased from approximately HK\$49.4 million as at 31 March 2018 to approximately HK\$33.6 million as at 31 March 2019, representing a decrease of approximately HK\$15.8 million or 32.1%. The higher payable balance as at 31 March 2018 was mainly due to the purchase of raw materials in preparation of the upcoming sales to T3 and Sharp. The balance then increased to approximately HK\$44.1 million as at 31 March 2020, representing an increase of approximately HK\$10.5 million or 31.3%. Such increase was primarily due to the delay in payment caused by the temporary suspension of operation of us and our suppliers during the Outbreak.

The following table sets forth the ageing analysis of our trade payables as at the dates indicated, based on the invoice date:

	<b>As at 31 March</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one month	15,355	13,775	17,240
One to two months	6,755	4,987	6,091
Two to three months	13,747	9,421	4,122
Over three months	13,532	5,370	16,598
	<b>49,389</b>	<b>33,553</b>	<b>44,051</b>

The credit terms of trade payables granted to the Group are usually cash on delivery and from 30 to 90 days. The higher balances of trade payables aged over three months as at 31 March 2018 and 2020 was mainly attributable to the delay in settlement for certain of our electrical components and metal materials suppliers.

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The following table sets forth our average trade payables turnover days for the Track Record Period:

	<b>FY2018</b>	<b>FY2019</b>	<b>FY2020</b>
Trade payables turnover days <sup>(Note)</sup>	<u>73.7</u>	<u>66.6</u>	<u>55.9</u>

*Note:* Average trade payables turnover days are derived by dividing the arithmetic mean of the opening and ending balance of trade payables by cost of sales for the relevant year and multiplied by 365 days.

Our average trade payables turnover days were within the credit period granted to us by the suppliers and subcontractors at approximately 73.7 days, 66.6 days and 55.9 days during the Track Record Period, respectively. The slightly longer average trade payables turnover days for FY2018 and FY2019 were mainly attributable to the higher balance of trade payables as at 31 March 2018.

As at 31 July 2020, approximately HK\$38.9 million, representing approximately 88.3% of our trade payables as at 31 March 2020, had been settled.

### Accruals and other payables

The following table sets forth the breakdown of our accruals and other payables as at the dates indicated:

	<b>As at 31 March</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Accrued staff costs	5,912	4,959	9,374
Accrued listing expenses	—	3,372	3,364
Other accruals	1,303	1,328	1,071
Contract liabilities	3,853	2,182	5,478
Provision for employees' benefits	1,303	1,295	1,301
Other payables	<u>1,503</u>	<u>2,632</u>	<u>1,979</u>
<b>Total</b>	<b><u>13,874</u></b>	<b><u>15,768</u></b>	<b><u>22,567</u></b>

Our accruals and other payables increased from approximately HK\$13.9 million as at 31 March 2018 to approximately HK\$15.8 million as at 31 March 2019, representing an increase of approximately HK\$1.9 million or 13.7%. Such increase was primarily due to (i) the increase in accrued listing expenses of approximately HK\$3.4 million; (ii) the increase in other payables of approximately HK\$1.1 million mainly in relation to additions of leasehold improvement for our production plant, partially offset by (iii) the decrease in contract liabilities of approximately HK\$1.7 million, mainly due to the decrease in advance payments received from our customers; and (iv) the decrease in accrued staff costs of approximately HK\$953,000, primarily due to decrease in number of staff resulting from increasing level of automation.

## FINANCIAL INFORMATION

As at 31 March 2020, our accruals and other payables further increased to approximately HK\$22.6 million, representing an increase of approximately HK\$6.8 million or 43.1%. Such increase was primarily due to the (i) increase in accrued staff costs of approximately HK\$4.4 million arising mainly from the bonus granted to our staff and the increase in number of temporary workers in satisfying our growing production needs; and (ii) the increase in contract liabilities of approximately HK\$3.3 million, mainly due to advance payments received from Customer M and T3 for the manufacture of tools.

### Income tax payable

Our income tax payable was approximately HK\$231,000, HK\$706,000 and HK\$3.7 million as at each of the year end of the Track Record Period. The balance of tax payable as at 31 March 2020 was particularly large, as compared to the balances as at 31 March 2018 and 2019, mainly due to the increase in profit for HK Fourace in FY2020.

### PRINCIPAL COMPONENTS OF OUR NON-CURRENT ASSETS AND NON-CURRENT LIABILITIES

	As at 31 March		
	2018	2019	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current assets</b>			
Right-of-use assets	2,037	2,778	2,276
Property, plant and equipment	95,768	104,506	116,155
Investment property	795	760	725
Deposits and prepayments	6,162	5,046	1,684
Deferred income tax assets	<u>1,992</u>	<u>980</u>	<u>6</u>
	<u>106,754</u>	<u>114,070</u>	<u>120,846</u>
<b>Non-current liabilities</b>			
Lease liabilities	—	407	—
Deferred income tax liabilities	<u>1,577</u>	<u>2,338</u>	<u>3,063</u>
	<u>1,577</u>	<u>2,745</u>	<u>3,063</u>

### Right-of-use assets

As at 31 March 2018, our right-of-use assets represented our Group's leases in relation to two pieces of land in the PRC. As at 31 March 2019 and 31 March 2020, in addition to the land leases, our right-of-use assets also included a lease of office premises in Hong Kong.

## FINANCIAL INFORMATION

### Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The following table sets forth the carrying amounts of our property, plant and equipment as at the dates indicated:

	<b>As at 31 March</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Factories and buildings	44,692	43,077	41,547
Leasehold improvements	19,980	26,147	30,762
Machinery	26,904	29,367	34,784
Moulds and tools	2,427	1,531	5,052
Motor vehicles	1,230	3,747	2,717
Office equipment	<u>535</u>	<u>637</u>	<u>1,293</u>
<b>Total</b>	<b><u>95,768</u></b>	<b><u>104,506</u></b>	<b><u>116,155</u></b>

Our property, plant and equipment increased from approximately HK\$95.8 million as at 31 March 2018 to approximately HK\$104.5 million as at 31 March 2019, mainly attributable to the increase in leasehold improvements of our production plant. Our property, plant and equipment then further increased to approximately HK\$116.2 million as at 31 March 2020, mainly attributable to (i) the acquisition of machineries for our increasing production needs; (ii) the increase in leasehold improvements of our factory in the PRC; and (iii) the increase in moulds and tools as a result of the release of a number of new products mainly for Sharp and T3.

As at 31 March 2020, certain of our buildings with carrying amounts amounted to approximately HK\$4.1 million were secured for our borrowing. For details, please refer to the paragraphs headed “Indebtedness — Borrowing” below in this section.

### Investment property

Our investment property represented a property at unit 9, 12/F, Vanta Industrial Centre, Nos. 21–33 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong that we held for earning rental income. During the Track Record Period, such property was leased to an Independent Third Party under a tenancy agreement for a term from 1 September 2017 to 31 August 2019 at a monthly rent of HK\$28,000, inclusive of rates, government rent and management fee, which was subsequently renewed for a term from 1 September 2019 to 31 August 2021 at the same monthly rent.

Our investment property is initially measured at costs, including related transaction costs, and subsequently measured at cost less depreciation and impairment loss. The decrease in net book value of the investment properties represented the depreciation for the respective years.

## FINANCIAL INFORMATION

Independent valuations were performed on the investment property by independent professionally qualified valuers as at each of the respective year end during the Track Record Period. Pursuant to the independent valuations, the fair values of our investment property were approximately HK\$9.1 million, HK\$9.7 million and HK\$8.6 million as at each of the year end during the Track Record Period, respectively. Since the fair values were higher than the carrying amount, there were no impairment indicators on our investment property.

As at 31 March 2020, our investment property was secured for our borrowings. For details, please refer to the paragraphs headed “Indebtedness — Borrowing” below in this section.

### **Deposits and prepayments**

As at 31 March 2018, 2019 and 2020, we recorded deposits and prepayment of approximately HK\$6.2 million, HK\$5.0 million and HK\$1.7 million, respectively which mainly represented prepayments for acquisition of property, plant and equipment. Our lower balance of such prepayments as at 31 March 2020 was mainly owing to the transfer of certain of the prepayments to leasehold improvements in relation to our factory in the PRC during FY2020.

### **Deferred income tax assets**

As at 31 March 2018, 2019 and 2020, our deferred income tax assets were approximately HK\$2.0 million, HK\$1.0 million and HK\$6,000, respectively. Our deferred tax assets mainly represented the temporary differences between the tax bases and the carrying amounts from decelerated depreciation allowances in respect of our Group’s property, plant and equipment.

### **Deferred income tax liabilities**

As at 31 March 2018, 2019 and 2020, our deferred income tax liabilities were approximately HK\$1.6 million, HK\$2.3 million and HK\$3.1 million, respective. Our deferred income tax liabilities mainly represented (i) the temporary differences between the tax bases and the carrying amounts arising from accelerated tax depreciation in respect of our Group’s property, plant and equipment; and (ii) the provision of withholding tax on undistributed profits of Shenzhen Fourace.

### **CAPITAL EXPENDITURES**

Our capital expenditures primarily represented the purchase of property, plant and equipment amounted to approximately HK\$31.0 million, HK\$19.8 million and HK\$24.8 million during the Track Record Period, respectively.

Our Group’s projected capital expenditure are subject to revision based on any future changes in our business plan, market conditions, and economic and regulatory environment. For details, please refer to the section headed “Future Plans and Use of Proceeds” of this prospectus.

## FINANCIAL INFORMATION

### CONTRACTUAL COMMITMENTS

#### Capital commitments

As at 31 March 2018, 2019 and 2020, we had the following capital commitments:

	As at 31 March		
	2018	2019	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted but not provided for:			
Property, plant and equipment	<u>2,482</u>	<u>2,145</u>	<u>1,466</u>

#### Operating lease commitments — as lessor

As at 31 March 2018, 2019 and 2020, we had commitments for future minimum lease receivables in respect of our investment property under non-cancellable operating leases in Hong Kong as follows:

	As at 31 March		
	2018	2019	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	<u>140</u>	<u>140</u>	<u>140</u>

### INDEBTEDNESS

The following table sets forth our indebtedness as at the dates indicated:

	As at 31 March			As at
	2018	2019	2020	30 June
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2020</i>
				<i>(unaudited)</i>
Non-current liabilities				
Lease liabilities	—	407	—	—
Current liabilities				
Lease liabilities	—	444	424	313
Borrowing	<u>—</u>	<u>—</u>	<u>3,972</u>	<u>3,514</u>
Subtotal	<u>—</u>	<u>444</u>	<u>4,396</u>	<u>3,827</u>
<b>Total</b>	<u>—</u>	<u>851</u>	<u>4,396</u>	<u>3,827</u>

## FINANCIAL INFORMATION

### Lease liabilities

The lease liabilities represent the net present value of the future lease payments for our Group's leased office premises in Hong Kong.

### Borrowing

We had bank borrowing of nil, nil, approximately HK\$4.0 million and HK\$3.5 million as at 31 March 2018, 2019 and 2020 and 30 June 2020, respectively, which were denominated in Hong Kong dollar with a floating interest rate and effective rate per annum of approximately 3.7% and 2.8% as at 31 March 2020 and 30 June 2020, respectively. The total balance of bank borrowing as at 31 March 2020 and 30 June 2020 were repayable on demand and were secured by (i) a legal charge over an industrial property of our Group held for our own use in Hong Kong with net book value amounted to approximately HK\$4.1 million and HK\$4.0 million as at 31 March 2020 and 30 June 2020, respectively; (ii) a legal charge over an industrial property of our Group held for earning rental income in Hong Kong with net book value amounted to approximately HK\$725,000 and HK\$716,000 as at 31 March 2020 and 30 June 2020, respectively; (iii) a charge over a deposit by our Group placed with the bank amounted to approximately US\$642,000 (equivalent to approximately HK\$5.0 million as at 31 March 2020 and 30 June 2020); and (iv) personal guarantees from our Controlling Shareholders.

As at 30 June 2020, being the latest practicable date for the purpose of indebtedness statement, we had banking facilities of approximately HK\$52.0 million, of which approximately HK\$48.5 million was unutilised. We are not committed to draw down the unutilised amount. We intended to utilise such facilities for our working capital purposes, including purchase of raw materials to support our business operation.

The material covenants of our bank borrowing include maintaining (i) the tangible net worth of not less than HK\$150.0 million in respect of HK Fourace; and (ii) a gearing ratio at no more than 0.7. During the Track Record Period and up to the Latest Practicable Date, we had not defaulted on our repayments or any other obligations in any material respect under our agreement of bank borrowing.

The aforementioned guarantees by our Controlling Shareholders will be released upon Listing and will be replaced by corporate guarantee by our Company. In addition, the covenant of maintaining the tangible net worth of HK\$150.0 million in respect of HK Fourace will be raised to HK\$200.0 million upon listing. Our Directors expect that our Group will be able to meet the relevant debt covenants upon Listing, taking into account of our Group's profitability and the net proceeds from the Global Offering. For details, please refer to section headed "Relationship with the Controlling Shareholders — Independence from our Controlling Shareholders — Financial independence" of this prospectus.

Save as disclosed above in this section, as at the Latest Practicable Date, we did not have any other outstanding mortgages, charges, pledges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances (other than normal trade bills) or acceptance credits, guarantees or any material contingent liabilities.

## FINANCIAL INFORMATION

### OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into, nor do we expect to enter into, any off-balance sheet arrangements. In addition, we have not entered into any derivative contracts that are indexed to our equity interests and classified as owners' equity. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or that engages in leasing, hedging or research and development services with us.

### KEY FINANCIAL RATIOS

The following table sets forth the key financial ratios of our Group for the Track Record Period:

	FY2018	FY2019	FY2020
Gross profit margin (%) <sup>(Note 1)</sup>	24.5	27.2	30.0
Net profit margin (%) <sup>(Note 2)</sup>	11.2	10.8	12.0
Return on assets (%) <sup>(Note 3)</sup>	10.9	13.8	16.0
Return on equity (%) <sup>(Note 4)</sup>	14.2	17.7	22.5
Interest coverage (times) <sup>(Note 5)</sup>	N/A	N/A	225.6

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

	As at 31 March		
	2018	2019	2020
Current ratio (times) <sup>(Note 6)</sup>	2.7	2.6	2.0
Quick ratio (times) <sup>(Note 7)</sup>	2.0	1.9	1.5
Gearing ratio (%) <sup>(Note 8)</sup>	N/A	N/A	2.1
Net debt to equity ratio <sup>(Note 9)</sup>	N/A	N/A	Net cash position

*Notes:*

- Gross profit margin is calculated based on our gross profit of the relevant years divided by our revenue of the corresponding years and multiplied by 100%. Please refer to the paragraphs headed "Review of results of operations" above in this section for more details on our gross profit margins.
- Net profit margin is calculated based on our profit for the relevant years divided by our revenue of the corresponding years and multiplied by 100%. Please refer to the paragraphs headed "Review of results of operations" above in this section for more details on our net profit margins.
- Return on assets is calculated based on our profit for the relevant years divided by our total assets as at the end of the corresponding years and multiplied by 100%.
- Return on equity is calculated base on our profit for the relevant years divided by our total equity as at the end of the corresponding years and multiplied by 100%.



## FINANCIAL INFORMATION

5. Interest coverage is calculated by dividing operating profit by finance costs for each corresponding years. As our Group did not have any finance costs for FY2018 and FY2019, the interest coverage is not applicable for the respective years.
6. Current ratio is calculated by dividing our total current assets by our total current liabilities as at the end of each of the respective years.
7. Quick ratio is calculated based on our total current assets less inventories as at the end of the relevant years divided by our total current liabilities as at the end of the corresponding years.
8. Gearing ratio is calculated by dividing our interest-bearing borrowing by our total equity as at the end of each of the respective years and multiplied by 100%. As our Group did not have any interest-bearing borrowing as at 31 March 2018 and 2019, the gearing ratio is not applicable.
9. Net debt to equity ratio is calculated by dividing our interest-bearing borrowing net of cash and cash equivalents by our total equity as at the end of each of the respective years and multiplied by 100%. As our Group did not have any interest-bearing borrowing as at 31 March 2018 and 2019, the net debt to equity ratio is not applicable as at the respective year end dates. As at 31 March 2020, as the cash and cash equivalent of our Group is larger than our interest-bearing borrowing, we resulted in a net cash position and therefore the net debt to equity ratio is also not applicable.

### Return on assets

Our return on assets increased from approximately 10.9% for FY2018 to approximately 13.8% for FY2019, primarily due to the combined effect of (i) the increase in profit for the year by approximately 12.2% and (ii) the decrease in total assets by approximately 12.0%. Our return on assets then increased from approximately 13.8% for FY2019 to approximately 16.0% for FY2020, primarily due to the increase in profit for the year by approximately 28.2%, which outweighed the increase in total assets by approximately 10.5%.

### Return on equity

Our return on equity increased from approximately 14.2% for FY2018 to approximately 17.7% for FY2019, primarily due to the combined effect of (i) the increase in profit for the year by approximately 12.2% and (ii) the decrease in total equity by approximately 10.1%. Our return on equity then increased to approximately 22.5% for FY2020, primarily due to the increase in profit for the year by approximately 28.2% while total equity remained relatively stable.

### Interest coverage

During the Track Record Period, we recorded interest coverage of nil, nil and approximately 225.6 times, respectively. The increase in interest coverage for FY2020 was in relation to increase in finance costs incurred from bank borrowings.

### Current ratio

Our current ratio remained stable at approximately 2.7 times and 2.6 times as at 31 March 2018 and 2019, respectively. Our current ratio then decreased to approximately 2.0 times as at 31 March 2020, primarily due to the increase in current liabilities by approximately 48.0% resulted mainly from the increase in trade payables by approximately 31.3% and increase in accruals and other payables by approximately 43.1%, which outweighed the increase in current assets of approximately 14.6%.

## FINANCIAL INFORMATION

### Quick ratio

Our quick ratio remained stable at approximately 2.0 times and 1.9 times as at 31 March 2018 and 2019, respectively. Our quick ratio then decreased to approximately 1.5 times as at 31 March 2020. The fluctuation of quick ratio was generally in line with the fluctuation of our current ratio as we maintained similar level of inventories as at the respective year end.

### Gearing ratio

As at 31 March 2018, 2019 and 2020, our gearing ratio were nil, nil and approximately 2.1%, respectively. The increase in gearing ratio as at 31 March 2020 was in relation to the increase in bank borrowing.

### CONTINGENT LIABILITIES

As at 30 June 2020, being the latest practicable date for the purpose of determining the contingent liabilities of our Group, we did not have any material contingent liabilities. Save as disclosed in the paragraphs headed “Indebtedness” in this section, our Group did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges or hire purchases commitments, guarantees, material covenants, or other material contingent liabilities as at the Latest Practicable Date. As at the same date, we had not guaranteed the indebtedness or any Independent Third Parties.

### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to markets risks from changes in market rates and prices, such as interest rates, credit and liquidity. Our Group’s activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest-rate risk), credit risk and liquidity risk. Our Group’s overall risk management programme focuses on the volatility of financial markets and seeks to minimise potential adverse effects on the Group’s financial performance. Our Group uses derivative financial instruments to manage certain risk exposures occasionally.

Details of the risk to which we are exposed are set out in note 3 to the Accountant’s Report, the text of which is set out in Appendix I to this prospectus.

## FINANCIAL INFORMATION

### MATERIAL RELATED PARTY TRANSACTIONS

With respect to the material related party transactions set forth in the Accountant's Report in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms or such terms that were no less favourable to our Group than those available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole. For details, please refer to note 33 of the Accountant's Report in Appendix I.

#### (a) Balances with related parties and an ultimate shareholder

The following table sets forth a breakdown of our amounts due from related parties and an ultimate shareholder as at the dates indicated:

	<b>As at 31 March</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Amounts due from related parties</b>			
Mr. PJ Sit	7,558	—	—
Champion Dragon Holdings Limited <i>(Note)</i>	356	—	—
Ms. SY Tang	—	—	—
	<u>7,914</u>	<u>—</u>	<u>—</u>
<b>Amount due from an ultimate shareholder</b>			
Mr. SY Li	<u>2,213</u>	<u>—</u>	<u>—</u>

*Note:* Champion Dragon Holdings Limited is held by Ms. SJ Li.

Our amounts due from related parties and an ultimate shareholder were non-trade in nature, unsecured, interest-free and with no agreed term of repayment. In particular, the amounts due from Mr. PJ Sit, a former shareholder of HK Fourace, of HK\$7.6 million, was settled during FY2019, of which (i) approximately HK\$5.5 million was settled by a set-off arrangement between Ms. HW Sit, Mr. PJ Sit and HK Fourace; (ii) the remaining balance of approximately HK\$2.1 million was settled by cash.

#### (b) Advance to an ultimate Shareholder

During FY2019, a non-trade, unsecured and interest-free advance of approximately HK\$20.0 million was provided to Ms. HW Sit. The amount was settled by way of dividend during FY2019.

## FINANCIAL INFORMATION

### DIVIDENDS

Our Company does not have a dividend policy or any pre-determined dividend distribution ratio. The declaration of dividend is subject to the discretions of our Board. We may distribute dividends by way of cash or by other means that our Board considers appropriate. Any declaration of final dividend is subject to the applicable laws and regulations including the Companies Law, and our Articles which require also the approval of our Shareholders. Our Board may recommend a distribution of dividends in the future after taking into account our results of operation, financial condition, operating requirements, capital requirements, Shareholder's interests, future development requirement and any other conditions that our Board may deem relevant. Any future declarations of dividends may or may not reflect our historical declarations of dividends.

In FY2019, a subsidiary of our Group declared dividend of approximately HK\$53.0 million, of which (i) approximately HK\$8.4 million was offset against amounts due from a related party and an ultimate Shareholder; (ii) approximately HK\$20.0 million was offset against an advance to an ultimate Shareholder; and (iii) approximately HK\$24.6 million was settled by cash.

In FY2020, our Company declared dividend in the amount of approximately HK\$40.0 million, which has been fully settled by cash on 14 February 2020.

Subsequent to the Track Record Period and up to the Latest Practicable Date, our Company had not declared or paid dividend.

### DISTRIBUTABLE RESERVES

Our Company was incorporated in the Cayman Island on 29 March 2019 and is an investment holding company. As of 31 March 2020, we had retained earnings of approximately HK\$976,000, which are available for distribution to our Shareholders.

### RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

After due and careful consideration, our Directors confirm that there has been no material adverse change in our financial or trading position or prospects since 31 March 2020 and up to the date of this prospectus, and there is no event since 31 March 2020 which would materially affect the information shown in Accountant's Report in Appendix I.

For details of our recent development, please refer to the section headed "Summary — Recent development and no material adverse change — Impact of outbreak of COVID-19 on our Group" of this prospectus.

### PROPERTY INTERESTS

AVISTA Valuation Advisory Limited, an independent professional property valuer, has valued our property interests comprising our Group as at 30 June 2020. Details of the valuations are summarised in Appendix III to this prospectus. Except for the property interests in Appendix III to this prospectus, no single property interest that forms part of our non-property activities has a carrying amount of 15% or more of our total assets.

## FINANCIAL INFORMATION

Disclosure of the reconciliation of the aggregate amount of carrying values of our Group's property interests, including factories and buildings and leasehold improvements as at 31 March 2020 and the valuations of relevant property interests as at 30 June 2020 as required under Rule 5.07 of the Listing Rules are set out below.

	<i>HK\$'000</i>
<b>Net book amount of the property interests held by and rented by our Group as at 31 March 2020</b>	66,440
Movement of net book value during the period from 1 April 2020 to 30 June 2020 (Unaudited)	<u>(958)</u>
<b>Net book amount of the property interests held by and rented by our Group as at 30 June 2020 (Unaudited)</b>	65,482
Less: Net book amount of the property interests rented by our Group without commercial value due to lack of building ownership certificates or relevant title certificates or could not be freely transferred in the market as at 30 June 2020	<u>(61,074)<sup>(Note)</sup></u>
Net book amount of the property interests held by our Group as at 30 June 2020 (Unaudited)	4,408
Valuation of the property interests held by our Group as at 30 June 2020	<u>5,190</u>
Net valuation surplus	<u><u>782</u></u>

*Note:* The relevant property interests comprised the property interests rented by our Group as stated in note 4 to "Group II — Property interests rented by the Group in the PRC" of the valuation certificate contained in the Property Valuation set forth in Appendix III to this prospectus. For reference purpose, AVISTA Valuation Advisory Limited are of the opinion that the depreciated replacement cost of the buildings (excluding the land) as at 30 June 2020 would be HK\$60.2 million assuming all relevant title certificates have been obtained and the property could be freely transferred in the market.

### LISTING EXPENSES

The total listing expenses in relation to the Global Offering (based on the mid-point of the Offer Price range stated in this prospectus and assuming no Over-allotment Option will be exercised), mainly comprising fees paid or payable to professional parties and underwriting fees and commission, are expected to be approximately HK\$64.6 million (representing approximately 41.3% of the gross proceeds from the Global Offering), of which, (i) approximately HK\$38.7 million is expected to be capitalised and deducted from equity upon completion of the Global Offering under the relevant financial reporting standards; and (ii) approximately HK\$25.9 million is expected to be recognised as expenses in profit or loss. In respect of the total amount charged or to be charged to our profit or loss, approximately HK\$19.0 million has been charged to our profit or loss during the Track Record Period and the remaining HK\$6.9 million is expected to be charged to our profit or loss after the Track Record Period.

## **FINANCIAL INFORMATION**

### **UNAUDITED PRO FORMA FINANCIAL INFORMATION**

Please refer to the section headed “Appendix II — Unaudited Pro Forma Financial Information” of this prospectus.

### **DISCLOSURE REQUIRED UNDER THE LISTING RULES**

Our Directors have confirmed that, as at the Latest Practicable Date, there were no circumstances which would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

## FUTURE PLANS AND USE OF PROCEEDS

### FUTURE PLANS

Please refer to the section headed “Business — Our business strategies” of this prospectus for details of our future plans.

### USE OF PROCEEDS

We estimate that the aggregate net proceeds from the Global Offering (after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering), assuming an Offer Price of HK\$0.50, being the mid-point of the indicative Offer Price range and that the Over-allotment Option is not exercised, will be approximately HK\$91.7 million. We currently intend to apply the net proceeds from the Global Offering in the following manner:

1. approximately HK\$49.9 million or approximately 54.5% of the net proceeds from the Global Offering will be used for expanding and upgrading our production facilities to enhance our production capabilities, including:

**(a) Acquiring new and replacing our plastic injection moulding machines**

approximately HK\$25.4 million or approximately 27.8% of the net proceeds from the Global Offering for acquisition and replacement of our plastic injection moulding production lines and ancillary equipment, among which:

- (i) approximately HK\$12.9 million or approximately 14.1% of the net proceeds from the Global Offering will be used for replacement of aged plastic injections moulding machines; and
- (ii) approximately HK\$12.5 million or approximately 13.7% of the net proceeds from the Global Offering will be used for acquisition of new plastic injections moulding machines and ancillary machines and equipment.

**(b) Increasing the level of automation of our Group’s production lines**

*(I) Spray painting production lines*

approximately HK\$13.3 million or approximately 14.5% of the net proceeds from the Global Offering for enhancing our spray painting production lines, among which:

- (i) approximately HK\$8.9 million or approximately 9.7% of the net proceeds from the Global Offering will be used for purchase of automated mechanical robot arms and other automated devices and equipment; and
- (ii) approximately HK\$4.4 million or approximately 4.8% of the net proceeds from the Global Offering will be used for enhancing the production environment by replacement of a high-temperature furnace, acquiring three sets of dehumidifier and establishing a dust-free workshop.

## FUTURE PLANS AND USE OF PROCEEDS


### (II) *Assembly production lines*

approximately HK\$11.2 million or approximately 12.2% of the net proceeds from the Global Offering for enhancing our assembly production lines, among which:

- (i) approximately HK\$1.5 million or approximately 1.6% of the net proceeds from the Global Offering will be used for purchase of conveyor belts and work station infrastructure optimisation and upgrading of assembly production lines;
- (ii) approximately HK\$1.4 million or approximately 1.5% of the net proceeds from the Global Offering will be used for purchase of automated minor processing machines;
- (iii) approximately HK\$5.8 million or approximately 6.3% of the net proceeds from the Global Offering will be used for purchase of automated assembly-related machines and equipment;
- (iv) approximately HK\$2.0 million or approximately 2.2% of the net proceeds from the Global Offering will be used for purchase of automated packaging machines; and
- (v) approximately HK\$0.5 million or approximately 0.6% of the net proceeds from the Global Offering will be used for purchase of automated testing machines relating to our assembly production lines.

2. approximately HK\$22.7 million or approximately 24.8% of the net proceeds from the Global Offering for enhancing our research and engineering capabilities, among which:

- (a) approximately HK\$19.2 million or approximately 20.9% of the net proceeds from the Global Offering will be used for improving our product design and engineering centre, which will include:
  - (i) Establishing a prototype laboratory;
  - (ii) Establishing a EMC test laboratory; and
  - (iii) establishing a UL/ETL/CCC certified standard testing laboratory.
- (b) approximately HK\$3.5 million or approximately 3.9% of the net proceeds from the Global Offering will be used for strengthening our design and development capabilities by recruiting additional research and development personnel.

3. approximately HK\$11.9 million or approximately 12.9% of the net proceeds from the Global Offering will be used for introducing new products carrying our own “” brand.

4. approximately HK\$3.2 million or approximately 3.5% of the net proceeds from the Global Offering will be used for enhancing our sales and marketing efforts in the global market including the PRC market.



## FUTURE PLANS AND USE OF PROCEEDS

5. approximately HK\$4.0 million or approximately 4.3% of the net proceeds from the Global Offering will be used for upgrading our information technology system and design-aided software.

Assuming that the Over-allotment Option is not exercised at all, if the final Offer Price is set at the highest or lowest point of the indicative Offer Price range, the net proceeds from the Global Offering will increase or decrease by approximately HK\$25.0 million, respectively.

Assuming that the Over-allotment Option is exercised in full, we estimate that the additional net proceeds from the offering of these additional Shares to be received by us, after deducting underwriting fees and estimated expenses payable by us, will be approximately (i) HK\$22.5 million, assuming the Offer Price is fixed at the high-end of the indicative Offer Price range, being HK\$0.60 per Offer Share; (ii) HK\$18.7 million, assuming the Offer Price is fixed at the mid-point of the indicative Offer Price range, being HK\$0.50 per Offer Share; and (iii) HK\$15.0 million, assuming the Offer Price is fixed at the low-end of the indicative Offer Price range, being HK\$0.40 per Offer Share.

The net proceeds will be used in the same proportions as disclosed above irrespective of: (i) whether the Offer Price is determined at the highest or lowest point of the indicative Offer Price range; and (ii) whether the Over-allotment Option is exercised.

To the extent that the net proceeds from the Global Offering are not immediately applied to the above purposes, we will deposit the net proceeds from the Global Offering into short-term demand deposits.

### BASES AND ASSUMPTIONS


The future plans set out by our Directors are based on the following bases and assumptions:

- we will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the future plans relate;
- there will be no material changes in existing laws, rules and regulations, or other governmental policies relating to our Group, or in the political, economic or market conditions in which our Group operates;
- there will be no change in the funding requirement for each of the near term future plans described in this prospectus from the amount as estimated by our Directors;
- there will be no material changes in the bases or rates of taxation applicable to the activities of our Group;
- there will be no disasters, natural, political or otherwise, which would materially disrupt the business or operations of our Group;
- there will be no change in the effectiveness of the qualifications and licences obtained by our Group; and

## FUTURE PLANS AND USE OF PROCEEDS

- we will not be materially affected by the risk factors as set out in the section headed “Risk Factors” of this prospectus.

### REASONS FOR THE LISTING

We intend to raise funds by the Global Offering in order to facilitate the implementation of our business strategies which we regard it as our Group’s long-term development. The net proceeds from the Global Offering will enable us to have sufficient financial resources to achieve our business strategies which will further strengthen our production and research and development capability and in particular, we plan to upgrade our production facilities, enhance our product design and engineering capability and introduce new products carrying our own brand . Notwithstanding that we had cash and cash equivalents of approximately HK\$51.1 million as at 30 June 2020 based on our unaudited management accounts and we had unutilised loan facilities of approximately HK\$48.5 million as at 30 June 2020, they were reserved for the increasing working capital needs of our Group along with our continuously growing business scale which are expected to be more than HK\$50.0 million, representing our Group’s two-month operating expenses, including the expenses for purchase of raw materials to support our business as driven by the growing demand of our customers. As such, we expect that the cash and cash equivalents and unutilised banking facilities available to us were not sufficient for implementation of our Group’s expansion strategies.

Taking into account the increasing demand of our Group’s products and exceeded utilization of our plastic injection moulding machines, our Directors realise the imminent need for further capital to expand our business to capture the expected increasing demand of personal care and lifestyle electrical appliance products from the market worldwide. Our Directors further considered that the major parts of the expansion plan involves acquisition of machinery and equipment that could be readily transferred from the existing production plant and reinstalled at the new production plant in case of the potential dismantlement of our Shenzhen Factory Buildings, which is of low risk, and only HK\$8.2 million or approximately 8.9% of the net proceeds from the Global Offering was attributable to making structural changes to the Shenzhen Factory, so the spending for the expansion plan can be justified. We had considered debt financing such as bank loan as an alternative way to finance our expansion plan, but resolved to proceed with the Global Offering instead of debt financing as our Group had no affluent security or assets in Hong Kong and the PRC to be pledged for obtaining further banking facilities on favourable terms. Also, our Directors are of the view that the interest expenses to be incurred from debt financing of our expansion plan in long-run will impose continuous financial burden to our Group given the trend of increasing interest rate in recent years. Furthermore, we believe that it is advantageous for us to expand our source of capital to implement our business strategy rather than placing heavy reliance on our internal resources and bank financing. Our Directors considered that the Listing of our Company will be beneficial to our Company and its Shareholders as a whole after taking into account the aforesaid factors and summarised below (notwithstanding the dilution effect to our Controlling Shareholders):

1. *Imminent fund raising platform:* We will be able to raise net proceeds from the Global Offering to facilitate the implementation of our business strategies.
2. *Long-term fund raising platform:* Apart from continuously using our internal resources and bank borrowings, we will also enjoy more flexibility and gain access to a variety of fund raising avenues, including the issuance of equity and debt securities, to fund our medium to long-term development as and when necessary.

## FUTURE PLANS AND USE OF PROCEEDS

3. *Strengthening the competitiveness of our Group:* The Listing will enhance the level of competitiveness of our Group, which may in turn lead to the establishment and strengthening of business relationship with new and existing customers, increase our Group's market share and attract strategic investors for our Group.
4. *Enhance our market reputation:* As our Group's customers are international brand owners of personal care and lifestyle electrical appliances, our Directors consider that public awareness and market reputation are crucial for the preservation of our market position in a global perspective. Further, we target to expand our business in the PRC market via e-commerce platform. We considered that the increased level of information transparency for our Group after the Listing will enhance the confidence of customers of our Group.
5. *Maximise shareholders' interest:* The Listing will enhance the liquidity of the Shares which offer an opportunity for the Shareholders to freely trade the Shares in the Stock Exchange and hence, the Global Offering will enlarge and diversity our shareholder base.

Accordingly, our Directors are of the view that it is necessary and appropriate for our Company to apply for a Listing to fulfill our business plans and future growth.

## UNDERWRITING

### **HONG KONG UNDERWRITERS** (in alphabetical order)

Aristo Securities Limited  
CEB International Capital Corporation Limited  
Chuenman Securities Limited  
Yue Xiu Securities Company Limited

### **UNDERWRITING ARRANGEMENTS AND EXPENSES**

#### **Hong Kong Public Offering**

##### *Hong Kong Underwriting Agreement*

Pursuant to the Hong Kong Underwriting Agreement, we are offering initially 31,250,000 Hong Kong Offer Shares (subject to reallocation) for subscription by way of the Hong Kong Public Offering at the Offer Price on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein and certain other conditions set forth in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agree to subscribe or procure subscription for, their respective applicable proportions of the Hong Kong Offer Shares now being offered and which are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms or otherwise, prior to 8:00 a.m. (Hong Kong time) on the Listing Date.

##### *Grounds for termination*

The obligations of the Hong Kong Underwriters to subscribe or procure subscriptions for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination. The Sole Sponsor and/or the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) shall have the absolute right by notice in writing to our Company to terminate the Hong Kong Underwriting Agreement with immediate effect at any time prior to 8:00 a.m. on the Listing Date (the “**Termination Time**”) if any of the following events shall occur prior to the Termination Time:

- (a) there develops, occurs, exists or comes into force:
  - (i) any change or development involving a prospective change or development, or any event or series of events resulting or likely to result in or representing a change or development (whether or not permanent), or any prospective change or development in, local, national, regional or international financial, political, military, industrial, legal, economic, currency market, credit, fiscal or regulatory or market matters or conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets, credit markets, and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Hong Kong dollar or the Renminbi against any

## UNDERWRITING

foreign currencies) in or affecting Hong Kong, the PRC, the Cayman Islands and the BVI, the United States, the United Kingdom, the European Union (or any member thereof), Japan, Singapore or any other jurisdiction relevant to any member of our Group (collectively, the “**Relevant Jurisdictions**”, each a “**Relevant Jurisdiction**”); or

- (ii) any new law or regulation or any change or development involving a prospective change in any existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any Relevant Jurisdiction; or
- (iii) any event or series of events in the nature of force majeure (including, without limitation, acts of government, labour disputes, strikes, lock-outs, fire, explosion, flooding, earthquake, civil commotion, riots, public disorder, declaration of a national or international emergency, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God, epidemic, pandemic, outbreak of disease (including without limitation COVID-19, Severe Acute Respiratory Syndromes (SARS), Middle East Respiratory Syndromes (MERS), H5N1, H1N1, swine or avian influenza or such related/mutated forms), economic sanctions, in or affecting any Relevant Jurisdiction; or
- (iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any Relevant Jurisdiction; or
- (v) (A) any moratorium, suspension, restriction or limitation on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the American Stock Exchange, the London Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange and the Shenzhen Stock Exchange, or (B) a general moratorium on commercial banking activities in any Relevant Jurisdiction declared by the relevant authorities, or a disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services procedures or matters in or affecting any Relevant Jurisdiction; or
- (vi) any change or development or event involving a prospective change in taxation or exchange controls (or the implementation of exchange controls), currency exchange rates or foreign investment regulations in any Relevant Jurisdiction; or
- (vii) any imposition of economic sanction or withdrawal of trading privileges, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdiction; or
- (viii) the commencement by any judicial, regulatory, governmental or political body or organisation of any action, claim or proceedings against any Director or an announcement by any judicial, regulatory, governmental or political body or organisation that it intends to take any such action; or
- (ix) 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

## UNDERWRITING

- (x) a demand by any tax authority for payment for any tax liability for any member of our Group; or
- (xi) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (xii) the chairman or chief executive officer of our Company vacating his office; or
- (xiii) an authority or a political body or organisation in a jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director; or
- (xiv) save as disclosed in the section headed “Business — Legal and compliance — Non-compliance” of this prospectus, a contravention by any member of our Group of the Listing Rules or any applicable laws or regulations in the Cayman Islands, Hong Kong, the PRC and the BVI; or
- (xv) an order or petition is presented for the winding up or liquidation of our Company or any of our subsidiaries, or our Company or any of our subsidiaries make any compromise or arrangement with our creditors or enter into a scheme of arrangement or any resolution is passed for the winding-up of our Company or any of our subsidiaries or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of our Company or any of our subsidiaries or anything analogous thereto occurs in respect of our Company or any of our subsidiaries; or
- (xvi) a demand by any creditor for repayment or payment of any of our Company’s indebtednesses or those of any of our subsidiaries or in respect of which our Company or any of our subsidiaries is liable to its stated maturity; or
- (xvii) any loss or damage sustained by our Company or any of our subsidiaries as a result of a breach of our respective obligations or non-compliance with the applicable laws and regulations (however caused and whether or not the subject of any insurance or claim against any person); or
- (xviii) any litigation or claim being threatened or instigated against our Company or any of our subsidiaries or the warrantors as defined in the Hong Kong Underwriting Agreement (the “**Warrantors**”); or
- (xix) a prohibition on our Company for whatever reason from allotting or selling the Offer Shares pursuant to the terms of the Global Offering; or
- (xx) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of our Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law or regulation; or
- (xxi) other than with the approval of the Joint Global Coordinators, the issue or requirement to issue by our Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offer and sale of our Shares)

## UNDERWRITING

pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or

- (xxii) any event which give rise or would give rise to liability on the part of our Company pursuant to the indemnity provisions in the Hong Kong Underwriting Agreement; or
- (xxiii) any change or prospective change in, or a materialisation of, any of the risks set out in the section headed “Risk Factors” of this prospectus,

and which, individually or in aggregate, in the sole opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters),

- (A) has or may have or will have or is likely to have a materially adverse effect, whether directly or indirectly, on the assets, liabilities, business, general affairs, management, shareholders’ equity, profits, losses, trading position, results of operations, prospects, position or condition, financial or otherwise, or performance of our Company or our subsidiaries as a whole; or
  - (B) has or may have or will have or is likely to have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of indications of interest under the International Placing; or
  - (C) makes, may make or will or is likely to make it impracticable, inadvisable or inexpedient for any part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to proceed or to be performed or implemented as envisaged or to market the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus; or
- (b) there has come to the notice of the Joint Global Coordinators or any of the Hong Kong Underwriters after the date of the Hong Kong Underwriting Agreement:
- (i) that any statement contained in the Offering Documents (as defined in the Hong Kong Underwriting Agreement), the formal notice or any announcements in the agreed form issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has or may become untrue or incorrect or misleading in a material respect, or that any forecast, expression of opinion, intention or expectation contained therein is not fair and honest and based on reasonable assumptions with reference to the facts and circumstances then subsisting; or
  - (ii) that any matter has arisen or has been discovered which, had it arisen or been discovered immediately before the date of this prospectus which would or might constitute a material omission from this prospectus or the Application Forms and/or in any notices or announcements issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or

## UNDERWRITING

- (iii) that any of the warranties given by our Company or the Warrantors as set out in the Hong Kong Underwriting Agreement or the International Underwriting Agreement is (or would when repeated be) untrue, inaccurate or misleading or having been breached; or
- (iv) that any matter, event, act or omission which gives or is likely to give rise to any liability of our Company or the Warrantors out of or in connection with any breach, inaccuracy and/or incorrectness of the warranties as set out in the Hong Kong Underwriting Agreement or the International Underwriting Agreement and/or pursuant to the indemnities given by our Company, the Warrantors or any of them under the Hong Kong Underwriting Agreement; or
- (v) that any breach of any of the obligations or undertakings of any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than the Hong Kong Underwriters or the International Underwriters); or
- (vi) that any material adverse change or prospective material adverse change in the assets, liabilities, business, general affairs, management, shareholders' equity, profits, losses, trading position, results of operations, prospects, position or condition, financial or otherwise, or performance of our Company and/or our subsidiaries as a whole, whether or not arising in the ordinary course of business, as determined by the Joint Global Coordinators in their sole and absolute discretion; or
- (vii) that our Company withdraws this prospectus and/or the Application Forms; or
- (viii) that approval by the Listing Committee of the listing of, and permission to deal in, our Shares (including any additional Shares that may be issued pursuant to the exercise of Over-allotment Option) to be issued or sold (including any additional Shares that may be issued or sold pursuant to the exercise of the options that may be granted under the Share Option Scheme) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the date of approval of the Listing, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (ix) that any of the experts described in the paragraphs headed "Appendix V — Statutory and General information — E. Other information — 11. Qualifications of Experts" of this prospectus, has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears.



## UNDERWRITING

### **Undertakings given to the Stock Exchange pursuant to the Listing Rules**

#### *Undertakings by our Company*

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that no further Shares or securities convertible into our equity securities of our Company (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue at any time 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 in certain prescribed circumstances.

#### *Undertakings by our Controlling Shareholders*

Pursuant to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has undertaken to our Company and the Stock Exchange that except pursuant to the Capitalisation Issue, the Global Offering, the Stock Borrowing Agreement, the Over-allotment Option and the grant of options or exercise of options to be granted under the Share Option Scheme, he/she/it 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 shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities of our Company in respect of which it/he/she is shown by this prospectus to be the beneficial owner(s); and
- (b) in the period of six months commencing on the date on which the period referred to in the immediate preceding paragraph 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 our Shares or securities referred to in the immediate preceding paragraph above to such an extent that immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it/he/she would cease to be a Controlling Shareholder.

Note 2 to Rule 10.07(2) of the Listing Rules provides that such rule does not prevent a Controlling Shareholder from using our Shares beneficially owned by it as security (including a charge or a pledge) in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan.

Pursuant to Note 3 of Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders has further undertaken to our Company and the Stock Exchange respectively that, within the period commencing on the date by reference to which disclosure of its/his/her 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 will immediately inform us and the Stock Exchange of:

- (a) any pledges or charges of any Shares beneficially owned by it/him in favour of an authorised institution pursuant to Note 2 of Rule 10.07(2) of the Listing Rules for a bona fide commercial loan, and the number of Shares so pledged or charged; and

## UNDERWRITING

- (b) any indications received by it/him, either verbal or written, from the pledgee or chargee that any Shares of our Company pledged or charged Shares will be disposed of.

We will also inform the Stock Exchange as soon as we have been informed of the matters (if any) by any of our Controlling Shareholders (or its/his/her respective shareholders) and disclose such matters by way of an announcement which is published on the website of the Stock Exchange as soon as possible after being so informed by any of our Controlling Shareholders (or its/his/her respective shareholders).

### **Undertakings given to the Hong Kong Underwriters**

#### *Undertakings by our Company*

Pursuant to the Hong Kong Underwriting Agreement, we have undertaken to the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, and the Hong Kong Underwriters that, except pursuant to the Global Offering (including the Over-allotment Option), the grant of options or issue of our Shares upon exercise of such options pursuant to the Share Option Scheme, the Stock Borrowing Agreement and unless in compliance with the requirements of the Listing Rules, we will not, without the prior written consent of the Joint Global Coordinators (acting for themselves and on behalf of the other Hong Kong Underwriters), at any time from the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the Listing Date:

- (a) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of our share capital or other securities of our Company or any interest therein (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such share capital or securities or any interest therein); or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein; or
- (c) enter into any transaction with the same economic effect as any transaction described in paragraphs (a) or (b) above; or
- (d) offer to or agree to enter into, any such transaction described in paragraphs (a), (b) or (c) above;

whether any such transaction described in paragraphs (a), (b) or (c) above is to be settled by delivery of Shares or other securities, in cash or otherwise.

Similar undertakings are expected to be given by us to the International Underwriters under the International Underwriting Agreement.

## UNDERWRITING

### *Undertakings by our Controlling Shareholders*

Each of our Controlling Shareholders has undertaken with the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that:

- (i) during the first six months immediately following the Listing Date (the “**First Six-Month Period**”), except pursuant to the Global Offering, each of the Controlling Shareholders will not and will procure that none of its/his/her associates or companies controlled by it/him/her or any nominee or trustee holding in trust for it/him/her will, without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the other Hong Kong Underwriters), at any time:
  - (a) offer, mortgage, hypothecate, pledge, charge, sell, contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of) our Shares, either directly or indirectly, conditionally or unconditionally, or any of our share or debt capital or our other securities or any interest therein (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein owned directly or indirectly by each of the Controlling Shareholders (including holding as a custodian) or with respect to which each of the Controlling Shareholders have beneficial ownership) (collectively the “**Lock-up Shares**”). The foregoing restriction is expressly agreed to preclude each of the Controlling Shareholders from engaging in any hedging or other transaction which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of the Lock-up Shares even if such Shares would be disposed of by someone other than each of the Controlling Shareholders. Such prohibited hedging or other transactions would include without limitation any short sale or any purchase, sale or grant of any right (including without limitation any put or call option) with respect to any of the Lock-up Shares (except for certain Lock-up Shares pledged in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) as security for a bona fide commercial loan) or with respect to any security that includes, relates to, or derives any significant part of its value from such Shares; or
  - (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; or
  - (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or
  - (d) agree or contract to, or publicly announce any intention to enter into, any transaction described in (a) or (b) or (c) above, whether any such transaction described in (a) or (b) or (c) above is to be settled by delivery of Shares or such other securities, in cash or otherwise; or

## UNDERWRITING

- (ii) at any time during the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), entered into any of the transactions specified in paragraphs (a), (b) or (c) above or offer to or agree to or announce any intention to effect any such transaction such that any Controlling Shareholder, directly or indirectly, would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company.

### **International Placing**

#### *International Underwriting Agreement*

In connection with the International Placing, the International Underwriting Agreement is expected to be entered into among our Company, the Controlling Shareholders, our executive Directors, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, and the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions set out therein, severally agree to purchase the International Placing Shares or procure purchasers for the International Placing Shares.

We expect to grant to the International Underwriters the Over-allotment Option exercisable by the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) at any time from the date of the International Underwriting Agreement until the 30th day after the last date for lodging of applications under the Hong Kong Public Offering, i.e. Saturday, 3 October 2020, to require us to allot and issue up to an aggregate of 46,875,000 additional Shares, representing 15% of the initial Offer Shares, at the same price per Offer Share under the International Placing to solely cover over-allocations, if any, in the International Placing.

The International Underwriting Agreement is expected to provide that it may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors will be reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed. Pursuant to the International Underwriting Agreement, our Company and the Controlling Shareholders will give undertakings similar to as those given under the Hong Kong Underwriting Agreement as described in the section headed “Underwriting — Underwriting arrangements and expenses — Undertakings given to the Hong Kong Underwriters” of this prospectus.

### **COMMISSION AND EXPENSES**

The underwriting commission of the Underwriters is 17.0% of the aggregate Offer Price of all the Offer Shares (including the Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option). In addition, our Company shall pay to the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) an incentive fee of up to 3.0% of the aggregate Offer Price of all the Offer Shares. For unsubscribed Hong Kong Offer Shares reallocated to the International Placing, if any, the International Underwriters will be paid an underwriting commission at the rate applicable to the International Placing and such commission will be paid to the International Underwriters, but not the Hong Kong Underwriters.

Based on an Offer Price of HK\$0.50 per Offer Share (being the mid-point of the indicative Offer Price and assuming the Over-allotment Option is not exercised), we will bear the underwriting commission, together with the Stock Exchange listing fee, SFC transaction levy, Stock Exchange trading fee, legal and other professional fees, printing and other fees and expenses relating to the Global

## UNDERWRITING

Offering, which are estimated in aggregate to be approximately HK\$64.6 million. If the Over-allotment Option is exercised by the Joint Global Coordinators (for themselves and on behalf of the Underwriters), the commission, SFC transaction levy and Stock Exchange trading fee, relating thereto shall be borne by us.

### **Hong Kong Underwriters' interests in our Group**

Save as disclosed in the paragraphs headed "Sole Sponsor's interest in our Company" in this section and other than pursuant to the Hong Kong Underwriting Agreement, as at the Latest Practicable Date, none of the Hong Kong Underwriters is interested directly or indirectly in any shares or securities in our Company or any other member of our Group or has any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any shares or securities in our Company or any other member of our Group.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of our Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

### **SOLE SPONSOR'S INDEPENDENCE**

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

### **INDEMNITY**

We have undertaken to indemnify and keep indemnified on demand (on an after-tax basis) and hold harmless each of the Sole Sponsor, the Joint Global Coordinators and the Hong Kong Underwriters (for itself and on trust for its directors, officers, employees, agents, assignees and affiliates) from and against certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

### **COMPLIANCE ADVISER'S AGREEMENT**

Under a compliance adviser's agreement entered into between Innovax Capital and our Company (the "**Compliance Adviser's Agreement**"), our Company appoints Innovax Capital and Innovax Capital agrees to act as the compliance adviser to our Company for the purpose of the Listing Rules for a fee from the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the second full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is earlier.

### **SOLE SPONSOR'S INTEREST IN OUR COMPANY**

Innovax Capital, being the Sole Sponsor, has declared its independence pursuant to Rule 3A.07 of the Listing Rules. Save for the advisory and documentation fees to be paid to Innovax Capital as the Sole Sponsor to the Global Offering, its obligations under the Underwriting Agreements and any interests in securities that may be subscribed by it pursuant to the Global Offering, neither Innovax

## **UNDERWRITING**

Capital nor any of its associates has or may, as a result of the Global Offering, 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).

No director or employee of Innovax Capital who is involved in providing advice to our Company has or may, as a result of the Global Offering, have any interest in any class of securities of our Company or other company in our Group (including options or rights to subscribe for such securities but, for the avoidance of doubt, excluding interests in securities that may be subscribed for or purchased by any such director or employee pursuant to the Global Offering).

No director or employee of Innovax Capital has a directorship in our Company or any other company in our Group.

### **MINIMUM PUBLIC FLOAT**

Our Directors will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Global Offering.

### **RESTRICTIONS ON THE OFFER SHARES**

No action has been taken to permit a public offering of the Offer Shares other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

## **STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING**

### **THE GLOBAL OFFERING**

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering.

The Global Offering consists of:

- (a) the Hong Kong Public Offering of 31,250,000 Shares (subject to reallocation) in Hong Kong as described below under the paragraph headed “The Hong Kong Public Offering” below; and
- (b) the International Placing of 281,250,000 Shares (subject to reallocation and the Over-allotment Option) outside the United States in reliance on Regulation S.

You may apply for the Hong Kong Offer Shares or if qualified to do so, indicate an interest in the International Placing Shares, but you may not apply in both.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as institutional and professional investors in Hong Kong. The International Placing will involve selective marketing of the International Placing Shares to institutional and professional investors and other investors expected to have a sizeable demand for the International Placing Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Underwriters are soliciting from prospective investors indications of interest in acquiring the International Placing Shares. Prospective investors will be required to specify the number of International Placing Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price.

The number of Hong Kong Offer Shares and International Placing Shares to be offered under the Hong Kong Public Offering and the International Placing, respectively, may be subject to reallocation as described under the paragraphs headed “Pricing and allocation” below in this section and, in the case of the International Placing, the Over-allotment Option as set out in “Over-allotment Option and Stock Borrowing Agreement” below in this section.

### **PRICING AND ALLOCATION**

#### **Indicative range of the Offer Price**

The Offer Price will not be more than HK\$0.60 per Offer Share and is expected to be not less than HK\$0.40 per Offer Share, unless otherwise announced no later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be lower than the bottom end of the indicative range of the Offer Price stated in this prospectus.

## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

### Price payable on application

Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK\$0.60 for each Hong Kong Offer Share (plus brokerage, SFC transaction levy and Stock Exchange trading fees). If the Offer Price is less than HK\$0.60, appropriate refund payments (including brokerage, SFC transaction levy and the Stock Exchange trading fees attributable to the surplus application monies) will be made to applicants. For further details, please refer to the section headed “How to Apply for Hong Kong Offer Shares — 14. Despatch/collection of share certificates and refund monies” of this prospectus.

### Determining the Offer Price

The International Underwriters are soliciting from prospective investors indications of interest in acquiring the International Placing Shares. Prospective investors will be required to specify the number of the International Placing Shares they would be prepared to acquire either at different prices or at a particular price.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (acting for themselves and on behalf of the other Underwriters) and our Company on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, 4 September 2020 or such later date as may be agreed among the Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) but no later than Sunday, 6 September 2020.

If, for any reason, the Joint Global Coordinators (acting for themselves and on behalf of the other Underwriters) and our Company are unable to reach agreement on the Offer Price on or before Sunday, 6 September 2020, the Global Offering will not proceed and will lapse.

### Reduction in Offer Price range and/or number of Offer Shares

The Joint Global Coordinators (for themselves and on behalf of the Underwriters), may where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, reduce the indicative Offer Price range and/or the number of Offer Shares below those stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and on the website of our Company at [www.fourace.com](http://www.fourace.com) a notice of the reduction in the indicative Offer Price range and/or number of Offer Shares. In addition, we will:

- (i) issue a supplemental prospectus updating investors of the reduction in the indicative offer price together with an update of all financial and other information in connection with such change;
- (ii) extend the period under which the offer was open for acceptance to allow potential investors sufficient time to consider their subscriptions or reconsider their existing subscriptions; and



## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

- (iii) give potential investors who had applied for the Offer Shares the right to withdraw their applications given the change in circumstances.

Upon issue of such a notice, the revised indicative Offer Price range and/or number of Offer Shares will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company will be fixed within such revised range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change materially as a result of such reduction.

Before submitting applications for Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range and/or number of Offer Shares may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. In the absence of any such announcement so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon by the Joint Global Coordinators (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. However, if the number of Offer Shares and/or the Offer Price range is reduced, applicants under the Hong Kong Public Offering 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.

In the event of a reduction in the number of Offer Shares, the Joint Global Coordinators may, at their discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Placing, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering.

### **Allocation**

The Offer Shares to be offered in the Hong Kong Public Offering and the International Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators.

Allocation of the Offer Shares under the International Placing will be determined by the Joint Global Coordinators and will be based on a number of factors including the level and timing of demand, 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, and/or hold or sell Shares after the listing of our Shares on the Stock Exchange. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of our Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and our Shareholders as a whole.

Allocation of the Offer Shares under the Hong Kong Public Offering will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary depending on the number of Hong Kong Offer Shares validly applied for by applicants. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some

## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The final Offer Price, the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Placing, the basis of allocations of our Hong Kong Offer Shares, and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering are expected to be made available in a variety of channels in the manner described in the section headed “How to Apply for our Hong Kong Offer Shares — 11. Publication of results” in this prospectus.

### **Announcement of Offer Price and basis of allocations**

The Offer Price is expected to be announced on Monday, 14 September 2020, and the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Placing, and the basis of allocations of the Hong Kong Offer Shares are expected to be announced on Monday, 14 September 2020, which will be published on the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company at [www.fourace.com](http://www.fourace.com).

### **CONDITIONS OF THE GLOBAL OFFERING**

Acceptance of all applications for the Offer Shares will be conditional on, among other things:

- the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, our Shares to be issued pursuant to the Global Offering and the Capitalisation Issue and any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options granted under the Share Option Scheme, and such listing and permission not subsequently having been revoked prior to the commencement of dealings in our Shares on the Stock Exchange;
- the Offer Price having been duly determined and the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any conditions by the Sole Sponsor (acting for itself and on behalf of other Underwriters)) and such obligations not being terminated in accordance with the terms of the respective agreements,

in each case, on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date that is 30 days after the date of this prospectus, i.e. Wednesday, 30 September 2020.

The consummation of each of the International Placing and the Hong Kong Public Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with their respective terms.

## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will publish a notice of the lapse of the Global Offering on the websites of our Company at [www.fourace.com](http://www.fourace.com) and the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) on the next day following such lapse.

In the above situation, we will return all application monies to the applicants, without interest and on the terms set forth in the section headed “How to Apply for Hong Kong Offer Shares” of this prospectus. In the meantime, we will hold all application monies in a separate bank account or separate bank accounts with the receiving bank or other bank(s) licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

We expect to issue Share certificates for the Offer Shares on Monday, 14 September 2020. However, these Share certificates will only become valid certificates of title if (a) the Global Offering has become unconditional in all respects and (b) the right of termination as described in the section headed “Underwriting” of this prospectus has not been exercised, which is expected to be at 8:00 a.m. (Hong Kong time) on the Listing Date.

### THE HONG KONG PUBLIC OFFERING

The Hong Kong Public Offering is a fully underwritten public offer (subject to agreement as to pricing and satisfaction or waiver of the other conditions set forth in the Hong Kong Underwriting Agreement including those described in the paragraphs headed “Conditions of the Global Offering” above) for the subscription in Hong Kong of, initially, 31,250,000 Offer Shares at the Offer Price, representing 10.0% of the initial number of the Offer Shares (subject to reallocation and assuming that the Over-allotment Option is not exercised). Subject to the reallocation of Offer Shares between the International Placing and the Hong Kong Public Offering, the Hong Kong Offer Shares will represent 2.5% of the enlarged number of our Shares in issue immediately after completion of the Global Offering and the Capitalisation Issue, assuming that the Over-allotment Option is not exercised and any options which may be granted under the Share Option Scheme are not exercised.

The total number of the Offer Shares available under the Hong Kong Public Offering will initially be divided into two pools for allocation purposes as follow:

- Pool A: The Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for the Offer Shares with a total subscription amount of HK\$5 million (excluding brokerage, SFC transaction levy, and Stock Exchange trading fee payable thereon) or less; and
- Pool B: The Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for the Offer Shares with a total subscription amount of more than HK\$5 million (excluding brokerage, SFC transaction levy and Stock Exchange trading fee payable thereon) and up to the value of Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Hong Kong Offer Shares in one pool (but not both pools) are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly.

## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Applicants can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B but not from both pools. We will reject multiple or suspected multiple applications between the two pools and reject multiple or suspected multiple applications within pool A or pool B. In addition, any applications for more than 50% of the 31,250,000 Hong Kong Offer Shares initially included in the Hong Kong Public Offering (that is, 15,625,000 Hong Kong Offer Shares) will be rejected.

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him or her or it that he or she or it and any person for whose benefit he or she or it is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest of, any International Placing Shares, and such applicant's application is liable to be rejected if the undertaking and/or confirmation is breached or untrue (as the case may be) or he or she or it has been or will be placed or allocated International Placing Shares.

### REALLOCATION

Pursuant to Guidance Letter HKEX-GL91-18 issued by the Stock Exchange and Practice Note 18 of the Listing Rules, the allocation of Offer Shares between the Hong Kong Public Offering and the International Placing is subject to reallocation on the following basis:

- (a) Where the International Placing Shares are fully subscribed or oversubscribed:
  - (i) if the Hong Kong Offer Shares are not fully subscribed, the Joint Global Coordinators (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 Hong Kong Offer Shares to the International Placing in such amount as the Joint Global Coordinators (for themselves and on behalf of the Underwriters) deem appropriate;
  - (ii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents less than 15 times of the number of Offer Shares initially available under the Hong Kong Public Offering, then up to 31,250,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Placing, increasing the total number of Offer Shares available under the Hong Kong Public Offering to 62,500,000, representing 20% of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option);
  - (iii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times of the number of Offer Shares initially available under the Hong Kong Public Offering, then up to 62,500,000 Offer Shares will be reallocated to the Hong Kong Public Offering from the International Placing, increasing the total number of Offer Shares available under the Hong Kong Public Offering to 93,750,000, representing 30% of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option);
  - (iv) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times of the number of Offer Shares initially available under the Hong Kong Public Offering, then up to 93,750,000 Offer Shares will be reallocated to the Hong Kong Public Offering from the International

## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Placing, increasing the total number of Offer Shares available under the Hong Kong Public Offering to 125,000,000, representing 40% of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option); and

- (v) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more of the number of Offer Shares initially available under the Hong Kong Public Offering, then up to 125,000,000 Offer Shares will be reallocated to the Hong Kong Public Offering from the International Placing, increasing the total number of Offer Shares available under the Hong Kong Public Offering to 156,250,000, representing 50% of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option).
- (b) Where the International Placing Shares are not fully subscribed:
  - (i) If the Hong Kong Offer Shares are not fully subscribed, the Global Offering 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 Global Offering on the terms and conditions of this prospectus, the Application Forms and Underwriting Agreements; and
  - (ii) if the Hong Kong Offer Shares are fully subscribed irrespective of the number of times the number of Offer Shares initially available under the Hong Kong Public Offering, then up to 31,250,000 Offer Shares will be reallocated to the Hong Kong Public Offering from the International Placing, increasing the total number of Offer Shares available under the Hong Kong Public Offering to 62,500,000, representing 20% of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option).

In the event of reallocation of Offer Shares between the Hong Kong Public Offering and the International Placing in the circumstances where the International Placing Shares are fully subscribed or oversubscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed by less than 15 times under paragraph (a)(ii) above or the International Placing Shares are undersubscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed under paragraph (b)(ii) above, irrespective of the number of times of the initial number of the Hong Kong Offer Shares, the maximum total number of Offer Shares that may be reallocated to the Hong Kong Public Offering following such reallocation shall be not more than double the initial allocation to the Hong Kong Public Offering (i.e. up to a maximum of 62,500,000 Offer Shares) and the final Offer Price shall be fixed at the low-end of the indicative Offer Price range (i.e. HK\$0.40 per Offer Share) stated in this prospectus pursuant to HKEX-GL91-18.

In all cases of reallocation of Offer Shares from the International Placing to the Hong Kong Public Offering, the number of Offer Shares allocated to the International Placing will be correspondingly reduced and the additional Offer Shares will be allocated to Pool A and Pool B in equal proportion under the Hong Kong Public Offering.

## **STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING**

### **THE INTERNATIONAL PLACING**

The number of the Offer Shares to be initially offered for subscription and sale under the International Placing will be 281,250,000 Offer Shares, representing 90.0% of the initial number of the Offer Shares (subject to reallocation and assuming that the Over-allotment Option is not exercised). Subject to the reallocation of Offer Shares between the International Placing and the Hong Kong Public Offering, the International Placing Shares will represent 22.5% of the enlarged number of our Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue (before any exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme).

The International Placing is subject to the same conditions set out in “Conditions of the Global Offering” in this section above.

The International Placing will include selective marketing of Offer Shares to professional, institutional and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary businesses involve dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

The International Placing Shares will be allocated in accordance with the book-building process, and is based on several factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the Listing of the Offer Shares on the Stock Exchange. Such allocation is intended to achieve a distribution of the Shares that would allow for the establishment of a solid professional and institutional shareholder base which will be beneficial to our Company and our Shareholders as a whole.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may require any investor who has been offered Shares under the International Placing, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Joint Global Coordinators so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Shares under the Hong Kong Public Offering.

The total number of the Offer Shares to be offered under the International Placing may change as a result of the clawback arrangement as described in the paragraphs headed “Reallocation” above or the exercise of the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

### **OVER-ALLOTMENT OPTION AND STOCK BORROWING AGREEMENT**

In connection with the Global Offering, our Company is expected to grant an Over-allotment Option to the International Underwriters exercisable at the sole discretion of the Joint Global Coordinators (for themselves and on behalf of the International Underwriters).

## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Pursuant to the Over-allotment Option, the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) have the right, exercisable at any time from the date of the International Underwriting Agreement until 30 days from the date of the last day of lodging application under the Hong Kong Public Offering, i.e. Saturday, 3 October 2020, to require our Company to allot and issue up to 46,875,000 additional Shares, representing 15% of the number of the Offer Shares initially available under the Global Offering, at the same price per Offer Share under the International Placing to cover over-allocation in the International Placing, if any, on the same terms and conditions as the Offer Shares that are subject to the Global Offering. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 3.6% of our Company's enlarged issued share capital immediately following the completion of the Global Offering and the Capitalisation Issue and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made in accordance with the requirements of the Listing Rules.

In order to facilitate the settlement of over-allocations under the International Placing, the Stabilising Manager (or any person acting for it) may, at its option, cover such over-allocations by borrowing Shares from Shareholders of our Company under stock borrowing arrangements, or acquire Shares from other sources, including the exercise of the Over-allotment Option.

The Stabilising Manager will enter into the Stock Borrowing Agreement with Ace Champion and Forever Golden, our Controlling Shareholders, whereby the Stabilising Manager may borrow Shares from them on the following conditions:

- (a) such stock borrowing arrangement will be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option;
- (b) the maximum number of Shares to be borrowed from the Controlling Shareholders will be limited to 46,875,000 Shares, being the maximum number of Shares which may be allotted and issued by our Company upon full exercise of the Over-allotment Option;
- (c) the same number of Shares borrowed from the Controlling Shareholders must be returned to it or its nominees (as the case may be) no later than the third business day following the earlier of:
  - (i) the last day on which the Over-allotment Option may be exercised;
  - (ii) the date on which the Over-allotment Option is exercised in full and the Shares to be allotted and issued upon exercise of the Over-allotment Option have been allotted and issued; or
  - (iii) such earlier time as may be agreed in writing between the Controlling Shareholders and the Stabilising Manager;
- (d) the stock borrowing arrangement will be carried out in compliance with all applicable listing rules, laws and other regulatory requirements; and
- (e) no payments will be made to the Controlling Shareholders by the Stabilising Manager in relation to such stock borrowing arrangement.

## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

The stock borrowing arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that it complies with the requirements set out in Rule 10.07(3) of the Listing Rules.

If, for any reason our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) are unable to reach agreement on the Offer Price on or before Sunday, 6 September 2020, the Global Offering will not proceed and will lapse.

### STABILISATION ACTION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the new securities in the secondary market, during a specified period of time, to minimise and, if possible, prevent any decline in the market price of the securities below the Offer Price. Such transactions may be carried out in all jurisdictions where it is permissible to do so, in each case, in compliance with all applicable laws, rules and regulations, including those of Hong Kong (such as the Securities and Futures (Price Stabilizing) Rules under the SFO, as amended, supplemented or otherwise modified from time to time). In Hong Kong, activity aimed at reducing the market price is prohibited and the price at which stabilisation is carried out is not permitted to exceed the Offer Price.

We have appointed Aristo Securities as the Stabilising Manager for the purposes of the Global Offering in accordance with the Securities and Futures (Price Stabilizing) Rules under the SFO, as amended, supplemented or otherwise modified from time to time. In connection with the Global Offering, the Stabilising Manager, its affiliates or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or carry out transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period commencing on the Listing Date and expected to end on the 30th day from the last day for lodging of applications under the Hong Kong Public Offering, i.e. Saturday, 3 October 2020.

Any market purchases of the Shares may be carried out on any stock exchange, including the Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager, its affiliates or any person acting for it to conduct any such stabilising action, which if commenced, will be conducted at the sole and absolute discretion of the Stabilising Manager, its affiliates or any person acting for it and may be discontinued at any time. Any such stabilising activity must cease on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering, i.e. Saturday, 3 October 2020. The number of Shares that may be over-allocated will not exceed the number of Shares that may be allotted and issued by our Company under the Over-allotment Option, namely 46,875,000 Shares in aggregate, which represents 15% of the Shares initially available under the Global Offering.

The types of stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules under the SFO include:

- (a) over-allocation for the purpose of preventing or minimising any reduction in the market price of the Shares;



## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

- (b) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Shares;
- (c) subscribing, or agreeing to subscribe, for the Shares pursuant to the Over-allotment Option in order to close out any position established under (a) or (b) above;
- (d) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimising any reduction in the market price of the Shares;
- (e) selling, or agreeing to sell, the Shares in order to liquidate any position established as a result of those purchases; and
- (f) offering or attempting to do anything described in (b), (c), (d) or (e) above.

The Stabilising Manager, its affiliates or any person acting for it, may take all or any of the above stabilising actions in Hong Kong during the stabilisation period. Specifically, prospective applicants for and investors in the Offer Shares should note that:

- (a) the Stabilising Manager, its affiliates or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares;
- (b) there is no certainty regarding the extent to which and the time period for which the Stabilising Manager, its affiliates or any person acting for it, will maintain such a position;
- (c) investors should be warned of the possible impact of any liquidation of such long position by the Stabilising Manager, its affiliates or any other person acting for them, may have an adverse impact on the market price of the Shares;
- (d) stabilising action cannot be used to support the price of the Shares for longer than the stabilising period, which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on the 30th day from the last date for lodging applications under the Hong Kong Public Offering, i.e. Saturday, 3 October 2020. After this date, no further stabilising action may be taken and therefore the demand for the Shares as well as the price of the Shares may fall;
- (e) there is no assurance that the price of the Shares will stay at or above the Offer Price either during or after the stabilising period by taking any stabilising action; and
- (f) stabilising bids may be made or transactions carried out in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions carried out at a price below the price paid by applicants or investors for the Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilising period.

## **STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING**

### **OVER-ALLOCATION**

In connection with the Global Offering, the Joint Global Coordinators may over-allocate up to and not more than an aggregate of 46,875,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option, which will be exercisable by the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) at their sole discretion, or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means.

### **THE SHARES WILL BE ELIGIBLE FOR CCASS**

All necessary arrangements have been made to enable our Shares to be admitted into the CCASS. If the Stock Exchange grants the listing of, and permission to deal in, our Shares and our Company complies with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

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

### **DEALING ARRANGEMENTS**

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Tuesday, 15 September 2020, dealings in our Shares on the Stock Exchange are expected to commence at 9:00 a.m. on Tuesday, 15 September 2020.

Our Shares will be traded in board lots of 5,000 Shares each and the stock code is 1455.

### **UNDERWRITING ARRANGEMENTS**

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between the Joint Global Coordinators (for themselves on behalf of the Underwriters) and us on the Price Determination Date.

We expect that we will, on or around the Price Determination Date, shortly after determination of the Offer Price, enter into the International Underwriting Agreement relating to the International Placing. The underwriting arrangements, the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarised in the section headed “Underwriting” in this prospectus.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### 1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Placing Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service by the **IPO App** or at **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 Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number; and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, our Company, the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of the **HK eIPO White Form** service for the Hong Kong Offer Shares.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you:

- are an existing beneficial owner of Shares and/or any of our subsidiaries;
- are a Director or chief executive officer of our Company and/or any of our subsidiaries;
- are an associate (as defined in the Listing Rules) of any of the above;
- are a connected person or a core connected person (as defined in the Listing Rules) of our Company or will become a connected person or a core connected person of our Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Placing Shares or otherwise participate in the International Placing.

### 3. APPLYING FOR HONG KONG OFFER SHARES

#### Which application channel to use

For Hong Kong Offer Shares to be issued in your own name, either (i) use a **WHITE** Application Form; or (ii) apply online through **HK eIPO White Form** service at [www.hkeipo.hk](http://www.hkeipo.hk) or the **IPO App**.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### Where to collect the Application Forms and Prospectus

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 31 August 2020 to 12:00 noon on Thursday, 3 September 2020 from:

- (i) the following office of the Hong Kong Underwriters:

Aristo Securities Limited	Room 101, 1/F, On Hong Commercial Building, 145 Hennessy Road, Wanchai, Hong Kong
CEB International Capital Corporation Limited	22/F, AIA Central, 1 Connaught Road Central, Central, Hong Kong
Chuenman Securities Limited	Office A, 10/F, Sang Woo Building, 227–228 Gloucester Road, Wan Chai, Hong Kong
Yue Xiu Securities Company Limited	1003–1005, Siu On Centre, 188 Lockhart Road, Wan Chai, Hong Kong

## HOW TO APPLY FOR HONG KONG OFFER SHARES

- (ii) any of the following branches of the receiving bank, Bank of China (Hong Kong) Limited:

District	Branch Name	Address
Hong Kong Island	Taikoo Shing Branch	Shop G1006, Hoi Shing Mansion, Taikoo Shing, Hong Kong
Kowloon	Kwun Tong Plaza Branch	G1 Kwun Tong Plaza, 68 Hoi Yuen Road, Kwun Tong, Kowloon
New Territories	Kwai Chung Plaza Branch	A18–20, G/F Kwai Chung Plaza, 7–11 Kwai Foo Road, Kwai Chung, New Territories

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 31 August 2020 until 12:00 noon on Thursday, 3 September 2020 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

### Time for lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "BANK OF CHINA (HONG KONG) NOMINEES LIMITED — FOURACE INDUSTRIES 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:

**Monday, 31 August 2020 — 9:00 a.m. to 4:00 p.m.**

**Tuesday, 1 September 2020 — 9:00 a.m. to 4:00 p.m.**

**Wednesday, 2 September 2020 — 9:00 a.m. to 4:00 p.m.**

**Thursday, 3 September 2020 — 9:00 a.m. to 12:00 noon**

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, 3 September 2020, the last application day or such later time as described in the paragraphs headed "10. Effect of bad weather on the opening of the application lists" in this section.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **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 of whom you act:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Sponsor and/or the Joint Global Coordinators (or its agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Cayman Companies Law, the Companies (WUMP) Ordinance, the Companies Ordinance and the Memorandum and Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing nor participated in the International Placing;
- (viii) agree to disclose to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters

## HOW TO APPLY FOR HONG KONG OFFER SHARES

nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or e-Auto Refund payment instruction and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the Share certificate(s) and/or refund cheque(s) in person;
- (xvi) understand that, where the International Placing Shares are undersubscribed and the Hong Kong Offer Shares are oversubscribed, up to 31,250,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Placing, increasing the total number of Hong Kong Offer Shares to 62,500,000 Offer Shares, representing 20% of the initial number of the Offer Shares (other than the Offer Shares that may be issued pursuant to the exercise of the Over-allotment Option);
- (xvii) 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;
- (xviii) understand that our Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xix) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and

## HOW TO APPLY FOR HONG KONG OFFER SHARES

- (xx) (if you are making the application as an agent for the benefit of another person) warrant that
- (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and
  - (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

### **Additional instructions for YELLOW Application Form**

You may refer to the **YELLOW** Application Form for details.

## **5. APPLYING THROUGH HK EIPO WHITE FORM SERVICE**

### **General**

Individuals who meet the criteria in “2. Who can apply” in this section above, may apply through the **HK eIPO White Form** service for the Hong Kong Offer Shares to be allotted and registered in their own names through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) or the **IPO App**.

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 or in the **IPO App**, 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 service**

You may submit your application to the **IPO App** or 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 Monday, 31 August 2020 until 11:30 a.m. on Thursday, 3 September 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, 3 September 2020, or such later time under “10. Effect of bad weather on the opening of the applications lists” in this section below.

### **No multiple applications**

If you apply by means of the **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 Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under the **HK eIPO White Form** more than once and obtaining payment application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.



## HOW TO APPLY FOR HONG KONG OFFER SHARES

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies (WUMP) Ordinance (as applied by section 342E of the Companies (WUMP) Ordinance).

### 6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

#### General

CCASS Participants may give electronic application instructions to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input electronic application instructions for you if you go to:

#### **Hong Kong Securities Clearing Company Limited**

Customer Service Centre  
1/F, One & Two Exchange Square,  
8 Connaught Place,  
Central, Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Global Coordinators and our Hong Kong Branch Share Registrar.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### Giving electronic application instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any International Placing Shares under the International Placing;
  - (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
  - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
  - confirm that you understand that our Company, our Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
  - authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
  - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
  - confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

## HOW TO APPLY FOR HONG KONG OFFER SHARES

- agree that none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Cayman Companies Law, the Companies (WUMP) Ordinance, the Companies Ordinance and the Memorandum and Articles of Association of our Company; and

## HOW TO APPLY FOR HONG KONG OFFER SHARES

- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

### Effect of giving electronic application instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

### Minimum purchase amount and permitted numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 5,000 Hong Kong Offer Shares. Instructions for more than 5,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

### Time for inputting electronic application instructions<sup>(1)</sup>

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

**Monday, 31 August 2020 — 9:00 a.m. to 8:30 p.m.**  
**Tuesday, 1 September 2020 — 8:00 a.m. to 8:30 p.m.**  
**Wednesday, 2 September 2020 — 8:00 a.m. to 8:30 p.m.**  
**Thursday, 3 September 2020 — 8:00 a.m. to 12:00 noon**

*Note:*

- (1) These times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, 31 August 2020 until 12:00 noon on Thursday, 3 September 2020 (24 hours daily, except on Thursday, 3 September 2020, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, 3 September 2020, the last application day or such later time as described in the paragraphs headed “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 Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### **Section 40 of the Companies (WUMP) Ordinance**

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 (as applied by Section 342E of the Companies (WUMP) Ordinance).

### **Personal data**

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving bank, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

## **7. WARNING FOR ELECTRONIC APPLICATIONS**

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facility is 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 Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant will be allotted any Hong Kong Offer Shares. To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application**

## HOW TO APPLY FOR HONG KONG OFFER SHARES

**instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Thursday, 3 September 2020.

### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC, or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

*"Unlisted company" means a company with no equity securities listed on the Stock Exchange.*

*"Statutory control" means you:*

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### 9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for the Hong Kong Offer Shares under the terms set out in the Application Forms.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 5,000 Hong Kong Offer Shares. Each application or electronic application instruction in respect of more than 5,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form or as otherwise specified on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) or the **IPO App**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure and Conditions of the Global Offering — Pricing and allocation — Indicative range of the Offer Price” of this prospectus.

### 10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above;
- a “black” rainstorm warning; or
- Extreme Conditions,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 3 September 2020.

Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings or Extreme Conditions in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Thursday, 3 September 2020 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable” of this prospectus, an announcement will be made in such event.

### 11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Monday, 14 September 2020 on our Company’s website at [www.fourace.com](http://www.fourace.com) and the website of the Stock Exchange at <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 Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company’s website at [www.fourace.com](http://www.fourace.com) and the Stock Exchange’s website at <http://www.hkexnews.hk> by no later than 8:00 a.m. on Monday, 14 September 2020;

## HOW TO APPLY FOR HONG KONG OFFER SHARES

- from the designated results of allocations website at [www.tricor.com.hk/IPO/result](http://www.tricor.com.hk/IPO/result) or [www.hkeipo.hk/IPOResult](http://www.hkeipo.hk/IPOResult) or “Allotment Result” function in the IPO App with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Monday, 14 September 2020 to 12:00 midnight on Sunday, 20 September 2020;
- by telephone enquiry line by calling (852) 3691 8488 between 9:00 a.m. and 6:00 p.m. from Monday, 14 September 2020 to Thursday, 17 September 2020 on a Business Day;
- in the special allocation results booklets which will be available for inspection during opening hours from Monday, 14 September 2020 to Wednesday, 16 September 2020 at the receiving bank’s designated branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure and Conditions of the Global Offering” of 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 HONG KONG OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

#### (i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or through 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 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 (as applied by Section 342E of the Companies (WUMP) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.



## HOW TO APPLY FOR HONG KONG OFFER SHARES

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 Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(iii) If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee 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;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website or in the **IPO App**;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Global Coordinators believe that by accepting your application, it would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### 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\$0.60 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed “Structure and Conditions of the Global Offering — Conditions of the Global Offering” of this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on Monday, 14 September 2020.

### 14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by electronic application instructions to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on Monday, 14 September 2020. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier order(s).

## HOW TO APPLY FOR HONG KONG OFFER SHARES

Share certificates will only become valid certificates of title at 8:00 a.m. on Tuesday, 15 September 2020 provided that the Global Offering has become unconditional and the right of termination described in the section headed “Underwriting” of this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

### **Personal collection**

#### ***(i) If you apply using a WHITE Application Form***

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 14 September 2020 or such other date as announced by our Company on the website of the Stock Exchange at <http://www.hkexnews.hk> or the website of our Company at [www.fourace.com](http://www.fourace.com).

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation’s chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Monday, 14 September 2020, by ordinary post and at your own risk.

#### ***(ii) If you apply using a YELLOW Application Form***

If you apply for 1,000,000 or more Hong Kong Offer Shares, please follow the same instructions as described above for collection of refund cheque(s). If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Monday, 14 September 2020, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant’s stock account as stated in your Application Form on Monday, 14 September 2020, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

- If you apply through a designated CCASS participant (other than a CCASS Investor Participant)

For Hong Kong Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong 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 Hong Kong Public Offering in the manner described in "11. Publication of results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 14 September 2020 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

### *(iii) If you apply through the HK eIPO White Form service*

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, 14 September 2020, 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.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Monday, 14 September 2020, 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 Hong Kong Offer Shares*

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### *Deposit of Share certificates into CCASS and refund of application monies*

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Monday, 14 September 2020, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allocation of the Hong Kong Offer Shares in the manner specified in the paragraphs headed "11. Publication of results" above in this section on Monday, 14 September 2020.

You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 14 September 2020 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Monday, 14 September 2020. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- 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 Monday, 14 September 2020.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### 15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

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

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

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

The following is the text of a report set out on pages I-1 to I-2, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

## ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF FOURACE INDUSTRIES GROUP HOLDINGS LIMITED AND INNOVAX CAPITAL LIMITED

### INTRODUCTION

We report on the historical financial information of Fourace Industries Group Holdings Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) set out on pages I-3 to I-53, which comprises the consolidated balance sheets as at 31 March 2018 and 2019 and 2020, the Company's balance sheets as at 31 March 2019 and 2020, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements for each of the years ended 31 March 2018, 2019 and 2020 (the “**Track Record Period**”) and a summary of significant accounting policies and other explanatory information (together, the “**Historical Financial Information**”). The Historical Financial Information set out on pages I-3 to I-53 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 31 August 2020 (the “**Prospectus**”) in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

### DIRECTORS' RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

### REPORTING ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

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Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **OPINION**

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at 31 March 2019 and 2020 and the consolidated financial position of the Group as at 31 March 2018, 2019 and 2020 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

## **REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "LISTING RULES") AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

### **Adjustments**

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

### **Dividends**

We refer to Note 13 to the Historical Financial Information which contains information about the dividends paid by the Company in respect of the Track Record Period.

### **No statutory financial statements for the Company**

No statutory financial statements have been prepared for the Company since its date of incorporation.

### **PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong

31 August 2020



**I HISTORICAL FINANCIAL INFORMATION OF THE GROUP**

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

The Historical Financial Information is presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	<i>Note</i>	<u>Year ended 31 March</u>		
		<b>2018</b>	<b>2019</b>	<b>2020</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	5	269,223	312,239	362,094
Cost of sales	8	<u>(203,162)</u>	<u>(227,187)</u>	<u>(253,296)</u>
<b>Gross profit</b>		66,061	85,052	108,798
Other income	6	982	1,862	2,116
Other gains, net	7	1,558	487	1,382
Selling and distribution expenses	8	(4,018)	(4,128)	(4,836)
Research and development expenses	8	(4,813)	(8,162)	(8,722)
Administrative expenses	8	<u>(22,617)</u>	<u>(32,400)</u>	<u>(43,476)</u>
<b>Operating profit</b>		37,153	42,711	55,262
Finance income	9	15	15	65
Finance costs	9	<u>—</u>	<u>—</u>	<u>(245)</u>
<b>Profit before taxation</b>		37,168	42,726	55,082
Income tax expenses	10	<u>(7,011)</u>	<u>(8,903)</u>	<u>(11,726)</u>
<b>Profit for the year</b>		<u><u>30,157</u></u>	<u><u>33,823</u></u>	<u><u>43,356</u></u>

	<u>Year ended 31 March</u>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Other comprehensive income/(loss) for the year</b>			
<i>Item that may be reclassified to profit or loss:</i>			
Currency translation difference	<u>2,126</u>	<u>(2,377)</u>	<u>(2,135)</u>
Other comprehensive income/(loss) for the year, net of tax	<u>2,126</u>	<u>(2,377)</u>	<u>(2,135)</u>
<b>Total comprehensive income for the year</b>	<u><u>32,283</u></u>	<u><u>31,446</u></u>	<u><u>41,221</u></u>
<b>Earnings per share for profit attributable to equity holders of the Company for the year</b>			
Basic and diluted earnings per share	<i>14</i> <u><u>15,079</u></u>	<u><u>16,912</u></u>	<u><u>21,678</u></u>

*Note:* The earnings per share presented above has not been taken into account the proposed capitalisation issue pursuant to the resolutions in writing of the shareholders passed on 21 August 2020 because the proposed capitalisation issue has not become effective as at the date of this report (Note 36(b)).

## CONSOLIDATED BALANCE SHEETS

		<b>As at 31 March</b>			
		<b>2018</b>	<b>2019</b>	<b>2020</b>	
<i>Note</i>		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
<b>ASSETS</b>					
<b>Non-current assets</b>					
	Right-of-use assets	15	2,037	2,778	2,276
	Property, plant and equipment	16	95,768	104,506	116,155
	Investment property	17	795	760	725
	Deposits and prepayments	20	6,162	5,046	1,684
	Deferred income tax assets	24	1,992	980	6
			<u>106,754</u>	<u>114,070</u>	<u>120,846</u>
<b>Current assets</b>					
	Inventories	18	42,072	36,822	36,018
	Trade receivables	19	46,475	33,781	34,211
	Contract assets	5	364	1,043	1,815
	Other receivables, deposits and prepayments	20	22,417	11,804	13,772
	Amount due from an ultimate shareholder	33	2,213	—	—
	Amounts due from related parties	33	7,914	—	—
	Income tax recoverable		—	1,112	2,204
	Pledged bank deposits	21	—	—	4,974
	Cash and cash equivalents	21	49,679	45,847	56,420
			<u>171,134</u>	<u>130,409</u>	<u>149,414</u>
	<b>Total assets</b>		<u>277,888</u>	<u>244,479</u>	<u>270,260</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>					
	Share capital	22	—	—	—
	Reserves	23	212,817	191,263	192,484
	<b>Total equity</b>		<u>212,817</u>	<u>191,263</u>	<u>192,484</u>

	<b>As at 31 March</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Lease liabilities	25	—	407
Deferred income tax liabilities	24	<u>1,577</u>	<u>2,338</u>
		<u>1,577</u>	<u>3,063</u>
		----- <u>1,577</u>	----- <u>2,745</u>
			----- <u>3,063</u>
<b>Current liabilities</b>			
Trade payables	26	49,389	33,553
Accruals and other payables	27	13,874	15,768
Borrowing	28	—	—
Lease liabilities	25	—	444
Income tax payable		<u>231</u>	<u>706</u>
		<u>63,494</u>	<u>50,471</u>
		----- <u>63,494</u>	----- <u>50,471</u>
			----- <u>74,713</u>
<b>Total liabilities</b>		<u>65,071</u>	<u>53,216</u>
		----- <u>65,071</u>	----- <u>53,216</u>
			----- <u>77,776</u>
<b>Total equity and liabilities</b>		<u>277,888</u>	<u>244,479</u>
		----- <u>277,888</u>	----- <u>244,479</u>
			----- <u>270,260</u>

## BALANCE SHEETS OF THE COMPANY

		As at 31 March 2019 <i>HK\$'000</i>	As at 31 March 2020 <i>HK\$'000</i>
	<i>Note</i>		
<b>Assets</b>			
<b>Non-current asset</b>			
Investment in a subsidiary	32	—	185,226
<b>Current asset</b>			
Other receivables, deposits and prepayments	20	2,286	5,617
Amount due from a subsidiary	34	<u>—</u>	<u>20,000</u>
<b>Total assets</b>		<u><u>2,286</u></u>	<u><u>210,843</u></u>
<b>Equity</b>			
Share capital	22	—	—
Reserves	23	<u>(6,079)</u>	<u>186,202</u>
<b>Total equity</b>		<u><u>(6,079)</u></u>	<u><u>186,202</u></u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accruals and other payables	27	3,372	3,364
Amount due to a subsidiary	34	<u>4,993</u>	<u>21,277</u>
<b>Total liabilities</b>		<u><u>8,365</u></u>	<u><u>24,641</u></u>
<b>Total equity and liabilities</b>		<u><u>2,286</u></u>	<u><u>210,843</u></u>

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company					Total HK\$'000
	Share capital HK\$'000 (Note 22)	Capital reserve HK\$'000 (Note 23(a))	Statutory reserve HK\$'000 (Note 23(b))	Exchange reserve HK\$'000 (Note 23)	Retained earnings HK\$'000 (Note 23)	
At 1 April 2017	—	2,500	204	(1,543)	179,373	180,534
Profit for the year	—	—	—	—	30,157	30,157
Other comprehensive income:						
— Currency translation difference	—	—	—	2,126	—	2,126
Total comprehensive income	—	—	—	2,126	30,157	32,283
Transaction with owners						
Appropriation (Note 23)	—	—	658	—	(658)	—
At 31 March 2018	—	2,500	862	583	208,872	212,817
At 1 April 2018	—	2,500	862	583	208,872	212,817
Profit for the year	—	—	—	—	33,823	33,823
Other comprehensive loss:						
— Currency translation difference	—	—	—	(2,377)	—	(2,377)
Total comprehensive income	—	—	—	(2,377)	33,823	31,446
Transaction with owners						
Appropriation (Note 23)	—	—	610	—	(610)	—
Dividend paid (Note 13)	—	—	—	—	(53,000)	(53,000)
At 31 March 2019	—	2,500	1,472	(1,794)	189,085	191,263
At 1 April 2019	—	2,500	1,472	(1,794)	189,085	191,263
Profit for the period	—	—	—	—	43,356	43,356
Other comprehensive loss:						
— Currency translation difference	—	—	—	(2,135)	—	(2,135)
Total comprehensive income	—	—	—	(2,135)	43,356	41,221
Transaction with owners						
Appropriation (Note 23)	—	—	829	—	(829)	—
Dividend paid (Note 13)	—	—	—	—	(40,000)	(40,000)
At 31 March 2020	—	2,500	2,301	(3,929)	191,612	192,484

## CONSOLIDATED CASH FLOW STATEMENTS

	Note	Year ended 31 March		
		2018 HK\$'000	2019 HK\$'000	2020 HK\$'000
<b>Cash flows from operating activities</b>				
Net cash generated from operations	29	26,854	66,387	89,629
Interest received		15	15	65
Income tax paid		(13,029)	(7,759)	(8,142)
<b>Net cash generated from operating activities</b>		<u>13,840</u>	<u>58,643</u>	<u>81,552</u>
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment		(28,073)	(19,720)	(25,548)
Proceeds from disposal of property, plant and equipment	29	489	336	228
Advance to ultimate shareholders		(1,072)	(20,000)	—
Advance to a related party		(6)	—	—
Repayment from related parties		250	2,414	—
<b>Net cash used in investing activities</b>		<u>(28,412)</u>	<u>(36,970)</u>	<u>(25,320)</u>
<b>Cash flows from financing activities</b>				
Dividend paid	13	—	(24,631)	(40,000)
Proceeds from bank borrowings		—	—	15,500
Repayment of bank borrowings		—	—	(11,528)
Increase in pledged bank deposits		—	—	(4,974)
Payment of lease liabilities		—	—	(427)
Interest paid		—	—	(245)
Listing expenses paid		(441)	(807)	(3,824)
<b>Net cash used in financing activities</b>		<u>(441)</u>	<u>(25,438)</u>	<u>(45,498)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		(15,013)	(3,765)	10,734
Effect on exchange rate difference		(90)	(67)	(161)
<b>Cash and cash equivalents at beginning of the year</b>	21	<u>64,782</u>	<u>49,679</u>	<u>45,847</u>
<b>Cash and cash equivalents at end of the year</b>	21	<u><u>49,679</u></u>	<u><u>45,847</u></u>	<u><u>56,420</u></u>

## II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

### 1 GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

#### 1.1 General information

Fourace Industries Group Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands on 29 March 2019 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of the Company’s registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacturing and sale of home electrical appliances (the “**Listing Business**”). The ultimate shareholders of the Group are Mr. Li Shu Yeh (“**Mr. Li**”) and Ms. Sit Hor Wan (“**Ms. Sit**”).

#### 1.2 Reorganisation

Prior to the incorporation of the Company and the completion of the reorganisation (the “**Reorganisation**”) as described below, the Listing Business was conducted by Fourace Industries Limited (“**Fourace (HK)**”) and its subsidiary. Fourace (HK) was owned by Mr. Li and Ms. Sit as to 50% and 50% prior to the Reorganisation.

In preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited, the Company underwent the Reorganisation by inserting new holding companies at the top of existing listing business. Upon completion of the Reorganisation, the Company became the holding company of the companies now comprising the Group. The major steps undertaken to effect the Reorganisation are as follows:

- (a) On 29 March 2019, the Company was incorporated in the Cayman Islands. Upon incorporation, one share of HK\$0.01, representing the entire issued share capital of the Company, was allotted and issued to Ace Champion Inc. (“**Ace Champion**”), a company owned by Mr. Li. And on the same day, 1 nil-paid Share was allotted and issued to Forever Golden Inc. (“**Forever Golden**”), a company owned by Ms. Sit. After such allotment, each of Forever Golden and Ace Champion holds 50% of the issued share capital of the Company.
- (b) Fourace Industries Group Limited (“**Fourace (BVI)**”) was incorporated in the British Virgin Islands (“**BVI**”) on 11 April 2019 as the intermediate holding company of the Group. Upon incorporation, one share of US\$1.00, representing the entire issued share capital of Fourace (BVI), was allotted and issued to the Company.
- (c) On 5 June 2019, Fourace (BVI) acquired all of the issued share capital of Fourace (HK) at a consideration of HK\$97,511,806 and HK\$97,511,806, from Mr. Li and Ms. Sit, respectively. Such consideration was satisfied by allotting and issuing 2 shares in Fourace (BVI) to the Company, as directed by Mr. Li and Ms. Sit, respectively. Upon completion of the acquisition, Fourace (HK) became a wholly owned subsidiary of Fourace (BVI).



Particulars of the subsidiaries held by the Group during the Track Record Period are as follows:

Company name	Place of incorporation and kind of legal entity	Date of incorporation	Issued and paid up capital	Effective equity interest held by the Group			As at the date of this report	Principal activities, place of operation
				31 March 2018	31 March 2019	31 March 2020		
<b>Directly held:</b>								
Fourace (BVI)	The BVI, limited liability company	11 April 2019	US\$1	—	—	100%	100%	Investment holdings, Hong Kong <i>Note (i)</i>
<b>Indirectly held:</b>								
Fourace (HK) (“科利實業有限公司”)	Hong Kong, limited liability company	18 August 1987	HK\$2,500,000	100%	100%	100%	100%	Sales and marketing of electrical appliances, Hong Kong <i>Note (ii)</i>
Shenzhen Fourace Electrical Appliances Limited (“深圳科利電器有限公司”)*	People's Republic of China (the “PRC”), limited liability company	22 May 2015	HK\$44,000,000	100%	100%	100%	100%	Manufacturing and supplying of electrical appliances, the PRC <i>Note (iii)</i>

*Notes:*

- (i) No audited statutory financial statements have been issued for this entity as there are no statutory requirements in the respective places of incorporation.
- (ii) The statutory financial statements of this subsidiary for the years ended 31 March 2018 and 2019 were audited by Charles H.C. Cheung & CPA Limited and PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, respectively. Up to the date of this report, the statutory financial statements of this subsidiary for the year ended 31 March 2020 have not been issued.
- (iii) The statutory financial statements of this subsidiary for the years ended 31 December 2017, 2018 and 2019 were audited by Shenzhen Huiheng Certified Public Accountants\* (深圳惠恒會計師事務所).
- \* The English names of the subsidiary and the auditor referred to above represented the best efforts by management of the Company in translating their Chinese names as they do not have official English names.

### 1.3 Basis of presentation

Immediately prior to and after the Reorganisation, the Listing Business had been and continues to be conducted and controlled by Fourace (HK) and its subsidiary. Pursuant to the Reorganisation, the Listing Business was transferred to and held by the Company. The Company has not been involved in any other business prior to the Reorganisation and does not meet the definition of a business. The transaction is merely a recapitalisation of the Listing Business with no change in management and ultimate owners.

Accordingly, the consolidated financial information of the companies now comprising the Group is regarded as a continuation of the Listing Business under Fourace (HK) and its subsidiary and, for the purpose of this report, the Historical Financial Information has been presented using the carrying values of the Listing Business under the consolidated financial statements of the Group for all periods presented, as if the current group structure had been in existence throughout the Track Record Period or since the respective dates of establishments of the combining companies, whichever is earlier.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on consolidation.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The Historical Financial Information of the Group has been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the HKICPA. The Group has consistently adopted HKFRS 9 “Financial Instruments”, HKFRS 15 “Revenue from contracts with customers” and HKFRS 16 “Leases” throughout the Track Record Period. The Historical Financial Information has been prepared under the historical cost convention.

The preparation of the Historical Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

#### (i) *New standards and interpretations not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for these reporting periods and have not been early adopted by the Group.

		<b>Effective for accounting year beginning on or after</b>
HKFRS 16 (Amendments)	COVID-19 Related Rent Concessions	1 June 2020
HKAS 1 and HKAS 8 (Amendments)	Definition of material	1 January 2020
HKFRS 3 (Amendments)	Definition of a business	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Hedge accounting	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41 (Amendments)	Annual improvements to HKFRS Standards 2018 to 2020	1 January 2022
HKFRS 3 (Amendments)	Reference to the Conceptual Framework	1 January 2022
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
HKAS 37 (Amendments)	Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group has already commenced an assessment of the impact of these new or revised standards, interpretation and amendments, certain of which are relevant to the Group’s operations. According to the preliminary assessment made by the directors, management does not anticipate any significant impact on the Group’s financial positions and results of operations.

### 2.2 Subsidiaries

#### *Consolidation*

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

***Business combination***

The Group applies the acquisition method to account for business combinations other than business combination under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRSs.

*Acquisition-related costs are expensed as incurred.*

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKFRS 9 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statements of comprehensive income.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

***Separate financial statements***

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

**2.3 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

## 2.4 Foreign currency translation

### *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK\$, which is the Company's functional and the Group's presentation currency.

### *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statements of comprehensive income within "other gains, net".

### *Group companies*

The results and financial position of all the Group's entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the Group's presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (b) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (c) all resulting currency translation differences are recognised in other comprehensive income.

## 2.5 Right-of-use assets

Right-of-use assets included the rights to use certain properties under leases which are measured at cost. The initial costs of right-to-use assets include the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date;
- Any initial direct costs; and
- Restoration cost.

Right-of-use assets are depreciated over their lease term using the straight-line basis, as follows:

Land	45 to 50 years
Office premises	2 years

## 2.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statements of comprehensive income during the year in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Leasehold improvements	5% or over the remaining period of the lease, whichever is shorter
Factories and buildings	2% or over the remaining period of the lease, whichever is shorter
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles	10%–25%
Machinery	10%
Moulds and tools	33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains, net" in the consolidated statements of comprehensive income.

## 2.7 Investment property

Investment property, principally comprising a leasehold land and building, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. In such cases, the operating lease concerned are accounted for as if it was finance lease. Investment property is initially measured at cost, including related transaction costs. The investment property is subsequently measured at cost less depreciation and impairment loss.

Depreciation of land and building is calculated using the straight-line method to allocate its costs to their residual values over their estimated useful lives, as follows:

— Land portion	Remaining lease term of the land
— Building portion	40 years

The assets' residual value and useful life is reviewed, and is adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

## 2.8 Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. All impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

## 2.9 Financial assets

### 2.9.1 Classification

The Group classifies its financial assets at amortised cost only if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows;

— the contractual terms give rise to cash flows that are solely payments of principal and interest.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

#### *2.9.2 Recognition and measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction cost of financial assets carried at fair value through profit or loss are expensed in the consolidated statements of comprehensive income.

#### *2.9.3 Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and reward of ownership.

### **2.10 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheets when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

### **2.11 Impairment of financial assets**

The Group's financial assets measured at amortised cost are subject to HKFRS 9's expected credit loss model. The Group assesses on a forward looking basis the expected credit losses associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1 sets out the details on how the Group determines whether there has been a significant increase in credit risk.

For trade receivables and contract assets, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables and contract assets. The provision matrix is determined based on historical observed default rates over the expected life of the trade receivables and contract assets with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

For other receivables, the Group measures the impairment as either 12-month expected credit losses or life-time expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of the other receivables has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

### **2.12 Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### **2.13 Trade and other receivables**

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

**2.14 Cash and cash equivalents**

In the consolidated cash flows statements, cash and cash equivalents include cash in hand and deposits held at call with banks with original maturity of three months or less.

**2.15 Share capital**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

**2.16 Trade and other payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**2.17 Lease liabilities**

The Group leases one land and one property to operate as its factory and office premises. Property lease is typically made for fixed periods of two years. Lease terms are negotiated on an individual basis and contain various different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Property leases are recognised as right-of-use assets at the date of which the respective leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate.

**2.18 Current and deferred income tax**

The tax expense for the years comprises current and deferred income tax. Tax is recognised in the consolidated statements of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

***Current income tax***

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet dates in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

***Deferred income tax******Inside basis differences***

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Historical Financial Information. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet dates and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

***Outside basis differences***

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

***Offsetting***

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

**2.19 Employee benefits*****Employee leave entitlements***

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet dates.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

***Pension obligations******Hong Kong***

The Group participates in a pension scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance ("MPF Scheme") for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income up to



a maximum of HK\$1,500 per employee per month. The assets of this pension scheme are held separately from those of the Group in independently administered funds. Other than the contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees in Hong Kong.

#### *The PRC*

In accordance with the rules and regulations in People's Republic of China ("the PRC"), the PRC based employees of the Group participate in a defined contribution retirement benefit plan organised by the relevant provincial government in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries.

The provincial government undertakes to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plan described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administered funds managed by the PRC government.

The Group's contributions to the defined contribution retirement schemes are recognised as employment costs when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

## **2.20 Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

## **2.21 Revenue and income recognition**

Revenue is measured at the fair value of the consideration received or receivable, and represents amount for the sale of goods in the ordinary course of the Group's activity. Revenue is shown net of returns and after eliminating sales within the Group. The Group does not expect to have any contracts where the period between the transfer of the promised goods to the customers and the payment by the customers exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Revenue is recognised when specific criteria have been met for the Group's activity as described below:

### ***Sales of original equipment manufacturer/original design manufacturer ("OEM"/"ODM") products***

The Group manufactures and sells home electrical appliances and spare parts in the wholesale market and provide toolings and moulds to certain corporate customers. Sales of goods transferred at a point in time are recognised when control of the goods has transferred, being when the Group has delivered the products to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. The customers have full discretion over the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products. The Group generally offer warranty period of up to 24 months for our products.

Some contracts (or combined contracts) with customers include multiple deliverables, such as the sales of home electrical appliances and provision of related toolings and moulds. The provision of related toolings and moulds are integrated with the production of the home electrical appliances. They are therefore accounted for as a single performance obligation.

Contracts for sales of home electrical appliances and contracts for provision of related toolings and moulds entered into at or near the same time with the same customers (or related parties of the customers) are combined and accounted for the contracts as a single contract as both promises are regarded as a single performance obligation.

Where the contracts include multiple performance obligations, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin.

Assets are recognised when costs are incurred to fulfil a contract if the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify, the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future and the costs are expected to be recovered. Otherwise, contract costs are recognised as expenses as incurred.

The Group offers retrospective volume rebate based on aggregate sales over a 12 months period. Revenue from these sales is recognised based on the price specified in the contract, net of the return, rebate and sales discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that is highly probable that a significant reversal will not occur. Sales are made with credit terms ranging from 30 to 120 days.

As receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

#### ***Interest income***

Interest income is recognised using the effective interest method.

#### ***Rental income from investment property***

Rental income from investment property is recognised in the consolidated statements of comprehensive income on a straight-line basis over the term of the lease.

### **2.22 Contract assets and contract liabilities**

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assume performance obligations to transfer goods or services to the customer. The combination of those rights and performance obligations give rise to a net asset or net liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as contract assets if the measure of the remaining conditional rights to consideration exceeds the satisfied performance obligations. Conversely, the contract is a liability and recognised as contract liabilities if consideration received (or an amount of consideration is due) from the customer exceeds the measure of the remaining unsatisfied performance obligations.

Contract assets relating to the moulds and tools services are the Group's right to consideration in exchange for services that the Group has transferred to the customer. The contract assets are transferred to trade receivables when the right to bill the customer has been established and receipt of the consideration is conditional only upon the passage of time.

### **2.23 Dividend distribution**

Dividend distribution to the shareholders is recognised as a liability in the consolidated financial statements in the year in which the dividends are approved by the entities' shareholders or directors, where appropriate.

#### 2.24 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

#### 2.25 Research and development

Research expenditure and development expenditure arising from research phase shall be recognised as an expense when it is incurred. Research expenditure and development expenditure arising from development phase that are directly attributable to the design and testing of identifiable and unique intangible asset controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the intangible asset so that it will be available for use or sale
- Management intends to complete the intangible asset and use or sell it
- There is an ability to use or sell the intangible asset
- It can be demonstrated how the software will generate probable future economic benefits, and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

#### 2.26 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statements of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the consolidated balance sheets when the obligation specified in the contract is discharged, cancelled or expired.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

#### 2.27 Borrowing costs

Borrowing costs are charged to the consolidated statements of comprehensive income in the period in which they are incurred.

### 3 FINANCIAL RISK MANAGEMENT

#### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest-rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the volatility of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to manage certain risk exposures occasionally.

***Foreign exchange risk***

The Group mainly operates in Hong Kong and the PRC with majority of the transactions settled in HK\$, Renminbi (“RMB”) and United State dollars (“US\$”). Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the respective entities’ functional currencies.

As at 31 March 2018, 2019 and 2020, certain of the Group’s trade and other payables are denominated in RMB other than the functional currency of the operating unit. If HK\$ has strengthened/weakened by 5% against RMB, with all other variables held constant, the profit before income tax for the years ended 31 March 2018, 2019 and 2020 would have been approximately HK\$58,800, HK\$79,200 and HK\$34,200 higher/lower, respectively.

Since HK\$ is pegged with US\$, there are no significant foreign currency exposure for US\$ dominated financial assets and liabilities.

The remaining assets and liabilities of each company within the Group are mainly dominated in their respective functional currencies. The directors are of the opinion that the volatility of the Group’s profits against changes in exchange rates of foreign currencies arising from these assets and liabilities would not be significant. Accordingly, no sensitivity analysis is performed.

***Cash flow interest-rate risk***

The Group’s interest rate risk arises from bank borrowings. Bank borrowings obtained at variable rates expose the Group to cash flow interest rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

For each of the years ended 31 March 2018, 2019 and 2020, if the interest rates had been 100 basis-points higher/lower with all other variables held constant, profit before income tax for the years ended 31 March 2018, 2019 and 2020 would be nil, nil and HK\$40,000 lower/higher respectively mainly due to the higher/lower interest expenses.

***Credit risk***

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The credit risk of the Group’s financial assets, which comprise cash and cash equivalents and pledged bank deposits, trade receivables, contract assets, other receivables and deposits, amounts due from related companies and amount due from a shareholder, with a maximum exposure equal to the carrying amounts of these instruments.

***(i) Credit risk of cash and cash equivalents and pledged bank deposits***

To manage this risk arising from bank balances, the Group only transacts with reputable banks which are all high-credit-quality financial institutions. There has no recent history of default in relation to these financial institutions. The expected credit loss is close to zero.

***(ii) Credit risk of trade receivables and contract assets***

For trade receivables and contract assets, the debtors have an appropriate credit history. Management considers the credit risk is not high. For new customers, the Company will conduct credit assessment based on credit history and credit information of the customers from overseas affiliated companies. Customers are requested to pay in advance or at delivery if the credit assessment for new customers is unsatisfactory. For existing customers, the Company will conduct monthly credit assessment and based on the results of the assessment to determine whether the credit limit granted should be revised or not. The Company considered that the expected credit risks of them are minimal in view of the history of cooperation with them.

The Group has policies in place to ensure that the credit terms made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers, taking into account their financial position, past experience and other factors. The Group’s credit sales are on credit terms ranged from 30 to 120 days.

Normally the Group does not require collaterals from trade debtors. As at 31 March 2018, 2019 and 2020, the Group's top five debtors accounted for 97.9%, 99.4% and 100.0% of the Group's total trade receivables, respectively, with the largest debtor represents 49.2%, 40.5% and 44.8%, which all existing debtors have no significant default in the past. The directors considered that the expected credit risks of them are minimal in view of the history of cooperation with them, good payment history and forward looking factors.

(iii) *Credit risk of other receivables and deposits, amounts due from related companies and amount due from an ultimate shareholder*

The directors for the Group consider the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on an ongoing basis during the financial year. To assess whether there is a significant increase in credit risk the Group compares risk of a default occurring on the assets as at the reporting date with the risk of default as at the date of initial recognition. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the third party's ability to meet its obligations;
- actual or expected significant changes in the operating results of the third party;
- significant changes in the expected performance and behavior of the third party, including changes in the payment status of the third party.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment/repayable demanded.

A default on a financial asset is when the counterparty fails to make contractual payments/repayable demanded within 90 days of when they fail due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group categories a loan or receivable for write off when a debtor fails to make contractual payments/repayable demanded greater than 90 days past due. Where loans or receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in consolidated statement of comprehensive income.

Based on historical experience, majority of the other receivables and deposits, amounts due from related companies and amount due from an ultimate shareholder were settled shortly upon maturity. Based on historical experience and forward-looking estimates, the counterparties have a strong financial ability to repay the amount, and therefore, the expected credit loss is immaterial.

The Group reviews regularly the recoverable amount of each individual receivable to ensure that adequate impairment losses are made for irrecoverable amounts. Over the term of the financial assets, the Company accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of debtors, and adjusts for forward looking macroeconomic data.

No significant changes to estimation techniques or assumptions were made during the financial year.

***Liquidity risk***

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities.

The Group's primary cash requirements have been for additions of property, plant and equipment, and payments for purchases, operating expenses and dividend. The Group mainly finances its working capital requirements through internal resources.

The Group monitors and maintains a level of cash and cash equivalents considered adequate by the directors to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In the opinion of the directors, the Company does not have any significant liquidity risk.

At 31 March 2020, the Group had the following banking facilities with banks:

	<b>As at 31 March 2020</b> <i>HK\$'000</i>
Banking facilities available	52,000
Banking facilities utilised	<u>(3,972)</u>
Undrawn banking facilities	<u><u>48,028</u></u>

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Where the loan agreement contains a repayment on demand clause which gives the lender the unconditional right to call the loan at any time, the amounts repayable are classified in the earliest time bracket in which the lender could demand repayment. Balances due within twelve months equal their carrying balances, as the impact of discounting is not significant.

	<b>Within 1 year or on demand</b> <i>HK\$'000</i>	<b>Between 1 and 2 years</b> <i>HK\$'000</i>	<b>More than 2 years but less than 5 years</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>As at 31 March 2018</b>				
Trade payables	49,389	—	—	49,389
Other payables	<u>2,806</u>	<u>—</u>	<u>—</u>	<u>2,806</u>
	<u>52,195</u>	<u>—</u>	<u>—</u>	<u>52,195</u>
<b>As at 31 March 2019</b>				
Lease liabilities	444	407	—	851
Trade payables	33,553	—	—	33,553
Other payables	<u>7,332</u>	<u>—</u>	<u>—</u>	<u>7,332</u>
	<u>41,329</u>	<u>407</u>	<u>—</u>	<u>41,736</u>
<b>As at 31 March 2020</b>				
Lease liabilities	424	—	—	424
Trade payables	44,051	—	—	44,051
Other payables	6,414	—	—	6,414
Borrowing	<u>3,972</u>	<u>—</u>	<u>—</u>	<u>3,972</u>
	<u>54,861</u>	<u>—</u>	<u>—</u>	<u>54,861</u>

The following table summarises the maturity analysis of term loan from bank with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreement. The amount includes interest payments computed using contractual rates assuming it remained constant until maturity dates. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to immediate repayment. The directors believe that such borrowing will be repaid in accordance with the scheduled repayment dates set out in the loan agreement.

	<b>Within 1 year or on demand</b>	<b>Between 1 and 2 years</b>	<b>More than 2 years but less than 5 years</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>As at 31 March 2020</b>				
Borrowing	<u>1,981</u>	<u>1,913</u>	<u>317</u>	<u>4,211</u>

*Capital risk management*

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, retain capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowing divided by total equity.

The gearing ratios at 31 March 2020 were as follows:

	<b>As at 31 March 2020</b>
	<i>HK\$'000</i>
Total borrowing	<u>3,972</u>
Total equity	<u>192,484</u>
Gearing ratio	<u>2.1%</u>

#### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group make estimates and assumption concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are discussed below.

##### **Current and deferred income tax**

The Group is subject to income taxes in different jurisdictions. Judgement is required in determining the provision for income taxes in different jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. The Group operates mainly in Hong Kong and the PRC and has transactions with customers and suppliers in different countries. The Group's inter-company transactions and cross-border business arrangements during the ordinary course of business may impose inherent uncertainty over the Group's profit allocation and its respective tax position across different jurisdictions. The tax treatments of these transactions or arrangements may be subject to the interpretation by respective tax authorities in different countries. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

Deferred income tax assets relating to certain temporary differences are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred income tax and income tax expense in the year in which such estimates are changed.

##### **Leasehold improvements and factories and buildings on a leased land**

The Group had a land in the PRC for land use rights of 45-50 years where the Group's leasehold improvements and factories and buildings situated were without land and property ownership certificates. Without the certificates, the existing factories and buildings might be ordered for demolition or confiscated. The directors are of the opinion, based on the advice from the Group's external legal adviser, that the Group has proper right to the occupancy of the leased land and legal entitlement to the constructions thereon. The probability of being evicted on the ground on an absence of property ownership certificate was remote. The carrying amounts of the related leasehold improvements, factories and buildings and right-of-use assets are HK\$55,925,000, HK\$61,031,000 and HK\$64,355,000 as at 31 March 2018, 2019 and 2020, respectively.

#### 5 SEGMENT INFORMATION AND REVENUE

The executive directors of the Company have been identified as the chief operating decision-makers of the Group who review the Group's internal reporting in order to assess performance of the Group on a regular basis and allocate resources.

The Group principally engages in the manufacturing and selling of home electrical appliances. The chief operating decision-maker assesses the performance of the Listing Business based on a measure of operating results and considers the Listing Business in a single operating segment. Information reported to the chief operating decision-maker for the purposes of resources allocation and performance assessment focuses on the operation results of the Group as a whole as the Group's resources are integrated. Accordingly, the Group has identified one operating segment — manufacturing and trading of home electrical appliances.

During the Track Record Period, all of the Group's revenues are from contracts with customers and are recognised at a point in time. Please refer to Note 2.21 for details of accounting policies on revenue recognition.



The Group's revenue by geographical locations, which is determined by the location where the goods were delivered and utilised, is as follows:

	Year ended 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
Japan	97,807	92,535	119,132
United States	97,179	152,292	196,365
Europe	63,346	53,428	29,747
Others ( <i>Note</i> )	10,891	13,984	16,850
	<u>269,223</u>	<u>312,239</u>	<u>362,094</u>

*Note:* Others mainly include Australia, Canada, the PRC and other countries within the Asia Pacific region.

The Group's non-current assets (excluding deferred income tax assets) by geographical location, which is determined by the location in which the asset is located, is as follows:

	As at 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
Hong Kong	8,774	12,008	10,500
The PRC	95,988	101,082	110,340
	<u>104,762</u>	<u>113,090</u>	<u>120,840</u>

Revenue from customers contributing over 10% of the total revenue of the Group is as follows:

	Year ended 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
Customer A	107,844	166,600	199,039
Customer B	37,931	37,145	N/A*
Customer C	45,796	46,365	50,113
Customer D	44,949	41,705	N/A*
Customer E	N/A*	N/A*	41,464
	<u>236,520</u>	<u>291,815</u>	<u>290,616</u>

The five largest customers accounted for approximately 92.6%, 96.1% and 98.5%, respectively, of the revenue of the Group for each of the three years ended 31 March 2018, 2019 and 2020.

\* The corresponding customer did not contribute over 10% of the total revenue of the Group for the respective years.

The Group's revenue by product categories, is as follows:

	Year ended 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
Personal care electrical appliances			
— Hair styling series	178,836	232,289	299,196
— Grooming series	61,623	52,871	36,171
— Beauty care series	<u>2,222</u>	<u>1,753</u>	<u>1,298</u>
Sub-total	<u>242,681</u>	<u>286,913</u>	<u>336,665</u>
Lifestyle electrical appliances	12,300	9,749	5,769
Others <sup>(Note)</sup>	<u>14,242</u>	<u>15,577</u>	<u>19,660</u>
	<u><u>269,223</u></u>	<u><u>312,239</u></u>	<u><u>362,094</u></u>

*Note:* Others mainly represented the moulds and tools and the spare parts.

#### Details of contract assets and liabilities

The Group has recognised the following assets and liabilities related to contracts with customers:

	As at 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
Contract assets	<u>364</u>	<u>1,043</u>	<u>1,815</u>
	As at 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
Contract liabilities <sup>(Note 27)</sup>	<u>3,853</u>	<u>2,182</u>	<u>5,478</u>

*Notes:*

- (i) Contract assets relating to the moulds and tools services increased as at 31 March 2018, 2019 and 2020 due to the change in billing schedule under different contracts.
- (ii) Contract liabilities represent advanced payments received from the customers for goods that have not yet been transferred to the customers. As at 31 March 2018, 2019 and 2020, the contract liabilities mainly included the advance payments received from sale of electrical appliances. The contract liabilities fluctuate during the Track Record Period due to fluctuation in sales with advanced payments.
- (iii) The contract liabilities as at 1 April 2017 is HK\$3,335,000. During the years ended 31 March 2018, 2019 and 2020, all brought-forward contract liabilities at the beginning of the financial year were fully recognised as revenue.
- (iv) All contracts entered by the Group are for periods of one year or less. The Group has applied the practical expedient as permitted by HKFRS 15 and the transaction price allocated to the remaining performance obligations is not disclosed.

## 6 OTHER INCOME

	Year ended 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
Rental income	321	336	336
Government grant	—	868	539
Sales of scrap materials	201	218	784
Sundry income	460	440	457
	<u>982</u>	<u>1,862</u>	<u>2,116</u>

## 7 OTHER GAINS, NET

	Year ended 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
Exchange gains, net	1,298	332	1,197
Net gains on disposal of property, plant and equipment ( <i>Note 29(a)</i> )	260	155	185
	<u>1,558</u>	<u>487</u>	<u>1,382</u>

## 8 EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution expenses, research and development expenses and administrative expenses are analysed as follows:

	Year ended 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
Auditors' remuneration			
— Audit services	139	241	213
— Non-audit services	—	—	—
Land and building management fee	970	893	1,388
Direct material costs ( <i>note 18</i> )	129,429	149,285	152,521
Changes in inventories of finished goods and work in progress ( <i>note 18</i> )	(5,050)	(2,552)	2,883
Cost of moulds and tools	3,684	5,137	7,069
Custom and declaration handling expenses	1,302	1,185	1,401
Depreciation of property, plant and equipment, investment property and right-of-use assets ( <i>note 15, 16 and 17</i> )	6,912	8,615	11,871
Repair and maintenance expenses	3,807	3,841	2,034
Staff costs, including directors' remuneration ( <i>note 11</i> )	66,973	68,213	75,935
Legal and professional fee	473	978	1,196
Logistics expenses	572	428	471
Utilities	8,109	8,202	7,716
Subcontracting costs	6,205	8,668	16,896
Materials and consumables	3,435	4,957	5,533
Listing expenses	—	6,080	12,910
Cleaning and sewage fee	619	1,241	1,430
Other taxes and stamp duty	1,368	1,329	1,747
Other expenses	5,663	5,136	7,116
	<u>234,610</u>	<u>271,877</u>	<u>310,330</u>

## 9 FINANCE INCOME/(COSTS), NET

	Year ended 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
<b>Finance income</b>			
— Bank interest income	15	15	65
<b>Finance costs</b>			
— Interest on bank borrowings	—	—	(245)
<b>Finance income/(costs), net</b>	<u>15</u>	<u>15</u>	<u>(180)</u>

## 10 INCOME TAX EXPENSES

**Income tax on profits**

Income tax on profits arising from Hong Kong has been calculated on the estimated assessable profits at the rate of approximately 16.5% for the years ended 31 March 2018, 2019 and 2020.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying group entity in Hong Kong will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%.

The Group's subsidiary in the PRC are subject to the PRC enterprise income tax at a rate of 25% on estimated assessable profits.

	Year ended 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
Hong Kong profits tax	5,326	5,871	8,585
PRC enterprise income tax	1,410	1,247	1,386
Deferred taxation ( <i>note 24</i> )	<u>275</u>	<u>1,785</u>	<u>1,755</u>
<b>Income tax expense</b>	<u>7,011</u>	<u>8,903</u>	<u>11,726</u>

The difference between the actual income tax expenses charged to the consolidated statements of comprehensive income and the amounts which would result from applying the enacted tax rates to profit before taxation can be reconciled as follows:

	Year ended 31 March		
	2018 HK\$'000	2019 HK\$'000	2020 HK\$'000
Profit before taxation	<u>37,168</u>	<u>42,726</u>	<u>55,082</u>
Tax calculated at domestic tax rates applicable to profits in respective countries	6,592	8,107	10,549
Income not subject to tax	(176)	(174)	(52)
Super deductions from research and development expenditure (note (i))	(722)	(1,184)	(1,552)
Expenses not deductible for tax purpose	999	1,759	2,477
Provision for withholding tax on undistributed earnings of subsidiaries	<u>318</u>	<u>395</u>	<u>304</u>
Income tax expenses	<u>7,011</u>	<u>8,903</u>	<u>11,726</u>

For the years ended 31 March 2018, 2019 and 2020, the weighted average applicable tax rates are 17.7%, 19.0% and 19.2% respectively.

The change in weighted average applicable tax rates for the years ended 31 March 2018, 2019 and 2020 are due to the increase in profit that is subject to PRC corporate tax.

*Note:*

- (i) According to the relevant laws and regulations promulgated by the State Administration of Taxation of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% to 175% of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year.

## 11 STAFF COSTS

	Year ended 31 March		
	2018 HK\$'000	2019 HK\$'000	2020 HK\$'000
Wages, salaries and bonus	64,522	65,237	71,533
Retirement benefit costs — defined contribution plan:			
— Hong Kong	165	132	143
— PRC	<u>2,286</u>	<u>2,844</u>	<u>4,259</u>
	<u>66,973</u>	<u>68,213</u>	<u>75,935</u>

## 12 EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

## (a) Directors' and chief executives' emoluments

Remuneration of every director and the chief executive's is set out below,

	For the year ended 31 March 2018							Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
	Fee	Salary, other allowances and benefits	Discretionary bonus	Housing benefits	Estimated monetary value of other benefits	Employer's contribution to provident fund	Remunerations receivables in respect of office as director		
Executive directors:									
Mr. Li Shu Yeh (Chairman and chief executive officer)	—	1,092	219	—	—	—	—	—	1,311
Ms. Li Sen Julian	—	493	120	—	—	18	—	—	631
Ms. Tang Suk Yee	—	433	109	—	—	18	—	—	560

	For the year ended 31 March 2019							Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
	Fee	Salary, other allowances and benefits	Discretionary bonus	Housing benefits	Estimated monetary value of other benefits	Employer's contribution to provident fund	Remunerations receivables in respect of office as director		
Executive directors:									
Mr. Li Shu Yeh (Chairman and chief executive officer)	—	1,308	300	—	—	—	—	—	1,608
Ms. Li Sen Julian	—	682	180	—	—	18	—	—	880
Ms. Tang Suk Yee	—	472	120	—	—	18	—	—	610

For the year ended 31 March 2020

	Fee	Salary, other allowances	Discretionary bonus	Housing benefits	Estimated monetary value of other benefits	Employer's contribution to provident fund	Remunerations paid or receivables in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors:									
Mr. Li Shu Yeh (Chairman and chief executive officer)	—	1,200	800	—	—	—	—	—	2,000
Ms. Li Sen Julian	—	720	480	—	—	18	—	—	1,218
Ms. Tang Suk Yee	—	480	360	—	—	18	—	—	858

No director and chief executive of the Company waived any emoluments during the Track Record Period.

The emoluments shown above represents remuneration received from the Group by these directors and the chief executives in their capacity as employees to the Group.

Mr. Li Shu Yeh, Ms. Li Sen Julian and Ms. Tang Suk Yee were appointed as the Company's Directors on 29 March 2019.

Mr. Liu Kai Yu Kenneth, Mr. Leung Wai Chuen and Mr. Man Yun James were appointed as independent non-executive directors of the Company on 21 August 2020. During the Track Record Period, the independent non-executive directors had not yet been appointed and received no directors' remuneration in the capacity of directors.

**(b) Directors' retirement benefits**

None of the directors received or will receive any retirement benefits during the Track Record Period.

**(c) Directors' termination benefits**

None of the directors received or will receive any termination benefits during the Track Record Period.

**(d) Consideration provided to third parties for making available directors' services**

During the years ended 31 March 2018, 2019 and 2020, the Company did not pay consideration to any third parties for making available directors' services.

**(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors**

There are no loans, quasi-loans and other dealing in favour of directors, controlled bodies corporate by and connected entities with such directors during the years ended 31 March 2018, 2019 and 2020.

**(f) Directors' material interests in transactions, arrangements or contracts**

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the Track Record Period or at any time during the the Track Record Period.

**(g) Five highest paid individuals' emoluments**

The five individuals whose emoluments were the highest in the Group for the years ended 31 March 2018, 2019 and 2020 include three, three, three and three directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two, two, two and two individuals during the years ended 31 March 2018, 2019 and 2020, respectively are as follows:

	Year ended 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
Salaries, commissions, bonus, other allowances and benefits in kind	1,278	1,311	2,245
Employer's contribution to provident fund	36	36	36
	<u>1,314</u>	<u>1,347</u>	<u>2,281</u>

The emoluments of these individuals are within the following bands:

	Number of individuals		
	Year ended 31 March		
	2018	2019	2020
Emoluments bands			
HK\$Nil–1,000,000	2	2	—
HK\$1,000,000–1,500,000	—	—	2

**13 DIVIDENDS**

For the year ended 31 March 2020, the Company declared dividend of HK\$40,000,000 to its shareholders.

A subsidiary of the Group declared dividends of HK\$Nil and HK\$53,000,000 to its shareholders for the years ended 31 March 2018 and 2019 respectively.

The rates for dividend and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this report.

**14 EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the years ended 31 March 2018, 2019 and 2020.

In determining the weighted average number of shares in issue during the years ended 31 March 2018, 2019 and 2020, 2 shares were deemed to have been in issued on 1 April 2017 as if the Company has been incorporated by then.

	Year ended 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
Profit attributable to equity holders of our Company (HK\$'000)	30,157	33,823	43,356
Weighted average number of shares in issue	<u>2</u>	<u>2</u>	<u>2</u>
Basic earnings per share (HK\$'000) (Note)	<u>15,079</u>	<u>16,912</u>	<u>21,678</u>

Note:

Diluted earnings per share for the years ended 31 March 2018, 2019 and 2020 were the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the years.

The earnings per share presented above has not been taken into account the proposed capitalisation issue pursuant to the resolutions in writing of the shareholders passed on 21 August 2020 because the proposed capitalisation issue has not become effective as at the date of this report (Note 36(b)).



## 15 RIGHT-OF-USE ASSETS

	Land HK\$'000	Office HK\$'000	Total HK\$'000
<b>As at 1 April 2017</b>			
Cost	3,754	—	3,754
Accumulated depreciation	<u>(1,642)</u>	<u>—</u>	<u>(1,642)</u>
Net book amount	<u>2,112</u>	<u>—</u>	<u>2,112</u>
<b>Year ended 31 March 2018</b>			
Opening net book amount	2,112	—	2,112
Depreciation (Note 8)	<u>(75)</u>	<u>—</u>	<u>(75)</u>
Net book amount	<u>2,037</u>	<u>—</u>	<u>2,037</u>
<b>As at 31 March 2018 and 1 April 2018</b>			
Cost	3,754	—	3,754
Accumulated depreciation	<u>(1,717)</u>	<u>—</u>	<u>(1,717)</u>
Net book amount	<u>2,037</u>	<u>—</u>	<u>2,037</u>
<b>Year ended 31 March 2019</b>			
Opening net book amount	2,037	—	2,037
Addition	—	851	851
Depreciation (Note 8)	<u>(75)</u>	<u>(35)</u>	<u>(110)</u>
Net book amount	<u>1,962</u>	<u>816</u>	<u>2,778</u>
<b>As at 31 March 2019 and 1 April 2019</b>			
Cost	3,754	851	4,605
Accumulated depreciation	<u>(1,792)</u>	<u>(35)</u>	<u>(1,827)</u>
Net book amount	<u>1,962</u>	<u>816</u>	<u>2,778</u>
<b>Year ended 31 March 2020</b>			
Opening net book amount	1,962	816	2,778
Depreciation (Note 8)	<u>(75)</u>	<u>(427)</u>	<u>(502)</u>
Net book amount	<u>1,887</u>	<u>389</u>	<u>2,276</u>
<b>As at 31 March 2020</b>			
Cost	3,754	851	4,605
Accumulated depreciation	<u>(1,867)</u>	<u>(462)</u>	<u>(2,329)</u>
Net book amount	<u>1,887</u>	<u>389</u>	<u>2,276</u>

The right-of-use assets represents the lease on land in PRC and office in Hong Kong.

As at 31 March 2018, 2019 and 2020, the Group's right-of-use assets in the PRC with carrying amount of HK\$2,037,000, HK\$1,962,000 and HK\$1,887,000, respectively, represented a leased land where the land owner did not have a proper land certificate. In the opinion of the directors, based on the advice from the Group's external legal adviser, the absence of the land certificate does not impair its carrying value to the Group.

## 16 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Factories and buildings HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Machinery HK\$'000	Moulds and tools HK\$'000	Total HK\$'000
<b>As at 1 April 2017</b>							
Cost	23,539	60,091	1,242	1,208	48,020	1,482	135,582
Accumulated depreciation	(7,870)	(19,335)	(797)	(951)	(36,169)	(219)	(65,341)
Net book amount	<u>15,669</u>	<u>40,756</u>	<u>445</u>	<u>257</u>	<u>11,851</u>	<u>1,263</u>	<u>70,241</u>
<b>Year ended 31 March 2018</b>							
Opening net book amount	15,669	40,756	445	257	11,851	1,263	70,241
Addition	5,584	4,996	247	1,273	17,071	1,802	30,973
Disposal/written off	—	—	—	—	(229)	—	(229)
Depreciation for the year (Note 8)	(1,273)	(1,297)	(157)	(354)	(2,954)	(767)	(6,802)
Exchange difference	—	237	—	54	1,165	129	1,585
Net book amount	<u>19,980</u>	<u>44,692</u>	<u>535</u>	<u>1,230</u>	<u>26,904</u>	<u>2,427</u>	<u>95,768</u>
<b>As at 31 March 2018 and 1 April 2018</b>							
Cost	29,124	65,325	1,490	2,563	67,101	3,515	169,118
Accumulated depreciation	(9,144)	(20,633)	(955)	(1,333)	(40,197)	(1,088)	(73,350)
Net book amount	<u>19,980</u>	<u>44,692</u>	<u>535</u>	<u>1,230</u>	<u>26,904</u>	<u>2,427</u>	<u>95,768</u>
<b>Year ended 31 March 2019</b>							
Opening net book amount	19,980	44,692	535	1,230	26,904	2,427	95,768
Addition	8,053	—	251	2,943	8,466	90	19,803
Disposal/written off	—	—	—	—	(181)	—	(181)
Depreciation for the year (Note 8)	(1,594)	(1,336)	(147)	(345)	(4,196)	(852)	(8,470)
Exchange difference	(292)	(279)	(2)	(81)	(1,626)	(134)	(2,414)
Net book amount	<u>26,147</u>	<u>43,077</u>	<u>637</u>	<u>3,747</u>	<u>29,367</u>	<u>1,531</u>	<u>104,506</u>
<b>As at 31 March 2019 and 1 April 2019</b>							
Cost	36,880	65,043	1,739	5,427	60,471	3,117	172,677
Accumulated depreciation	(10,733)	(21,966)	(1,102)	(1,680)	(31,104)	(1,586)	(68,171)
Net book amount	<u>26,147</u>	<u>43,077</u>	<u>637</u>	<u>3,747</u>	<u>29,367</u>	<u>1,531</u>	<u>104,506</u>
<b>Year ended 31 March 2020</b>							
Opening net book amount	26,147	43,077	637	3,747	29,367	1,531	104,506
Addition	6,798	—	959	—	11,920	5,121	24,798
Disposal/written off	—	—	—	—	(43)	—	(43)
Depreciation for the year (Note 8)	(2,154)	(1,335)	(298)	(1,001)	(5,025)	(1,521)	(11,334)
Exchange difference	(29)	(195)	(5)	(29)	(1,435)	(79)	(1,772)
Net book amount	<u>30,762</u>	<u>41,547</u>	<u>1,293</u>	<u>2,717</u>	<u>34,784</u>	<u>5,052</u>	<u>116,155</u>
<b>As at 31 March 2020</b>							
Cost	43,625	64,841	2,691	5,369	65,685	8,085	190,296
Accumulated depreciation	(12,863)	(23,294)	(1,398)	(2,652)	(30,901)	(3,033)	(74,141)
Net book amount	<u>30,762</u>	<u>41,547</u>	<u>1,293</u>	<u>2,717</u>	<u>34,784</u>	<u>5,052</u>	<u>116,155</u>

Depreciation of the Group's property, plant and equipment has been recognised as follows:

	Year ended 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
Cost of sales	5,926	7,174	9,067
Administrative expenses	<u>876</u>	<u>1,296</u>	<u>2,267</u>
	<u>6,802</u>	<u>8,470</u>	<u>11,334</u>

As at 31 March 2018, 2019 and 2020, the Group leased a land in the PRC for land use rights of 45–50 years where the Group's leasehold improvements and factories and buildings situated were without land and property ownership certificates. Without the certificates, the existing factories and buildings might be ordered for demolition or confiscated. The directors are of the opinion, based on the advice from the Group's external legal adviser, that the Group has proper right to the occupancy of the leased land and legal entitlement to the constructions thereon. The probability of being evicted on the ground on an absence of property ownership certificate was remote. The carrying amounts of the related leasehold improvements, factories and buildings and right-of-use assets are HK\$55,925,000, HK\$61,031,000 and HK\$64,355,000 as at 31 March 2018, 2019 and 2020, respectively.

Bank borrowing is secured on building with a carrying amount of HK\$4,083,000 (Note 28).

#### 17 INVESTMENT PROPERTY

	<i>HK\$'000</i>
<b>As at 1 April 2017</b>	
Cost	1,750
Accumulated depreciation	<u>(920)</u>
Net book amount	<u>830</u>
<b>Year ended 31 March 2018</b>	
Opening net book amount	830
Depreciation ( <i>Note 8</i> )	<u>(35)</u>
Net book amount	<u>795</u>
<b>As at 31 March 2018 and 1 April 2018</b>	
Cost	1,750
Accumulated depreciation	<u>(955)</u>
Net book amount	<u>795</u>
<b>Year ended 31 March 2019</b>	
Opening net book amount	795
Depreciation ( <i>Note 8</i> )	<u>(35)</u>
Net book amount	<u>760</u>
<b>As at 31 March 2019 and 1 April 2019</b>	
Cost	1,750
Accumulated depreciation	<u>(990)</u>
Net book amount	<u>760</u>

HK\$'000

**Year ended 31 March 2020**

Opening net book amount	760
Depreciation ( <i>Note 8</i> )	<u>(35)</u>

Net book amount	<u><u>725</u></u>
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**As at 31 March 2020**

Cost	1,750
Accumulated depreciation	<u>(1,025)</u>

Net book amount	<u><u>725</u></u>
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Depreciation expense has been included in administrative expenses.

Amounts recognised in the consolidated statements of comprehensive income for investment properties are shown below:

	<b>Year ended 31 March</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental income	321	336	336
Other direct operating expenses from property that generated rental income	<u>(41)</u>	<u>(37)</u>	<u>(43)</u>
	<u><u>280</u></u>	<u><u>299</u></u>	<u><u>293</u></u>

An independent valuation of the investment property as at 31 March 2018 and 2019 was performed by an independent professionally qualified valuer, APAC Appraisal and Consulting Limited and as at 31 March 2020 was performed by another independent professional qualified valuer, Avista Valuation Advisory Limited. Both hold a recognised professional qualification and have recent experience in the locations and segments of the investment properties valued.

The investment property was valued by direct comparison method where comparison is made based on prices realised or market prices of comparable properties. Comparable properties of similar size, character and location are carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of market value. As at 31 March 2018, 2019 and 2020, the fair value of the investment property is approximately HK\$9,100,000, HK\$9,700,000 and HK\$8,600,000, respectively.

Bank borrowing is secured on investment property with a carrying amount of HK\$725,000 (*Note 28*).

**18 INVENTORIES**

	<b>As at 31 March</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	25,939	18,908	21,609
Work-in-progress	8,217	9,939	11,094
Finished goods	<u>7,916</u>	<u>7,975</u>	<u>3,315</u>
	<u><u>42,072</u></u>	<u><u>36,822</u></u>	<u><u>36,018</u></u>

The direct material costs recognised as expense and included in cost of sales amounted to HK\$129,429,000, HK\$149,285,000 and HK\$152,521,000 for each of the years ended 31 March 2018, 2019 and 2020, respectively.

The changes in inventories of finished goods and work in progress recognised and (credited)/expensed in cost of sales amounted to HK\$(5,050,000), HK\$(2,552,000) and HK\$2,883,000 for each of the years ended 31 March 2018, 2019 and 2020, respectively.

## 19 TRADE RECEIVABLES

	As at 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
Trade receivables	46,475	33,781	34,211

The Group's sales are on credit terms primarily ranging from 30 to 120 days. At 31 March 2018, 2019 and 2020, the ageing analysis of the trade receivables, based on invoice date, was as follows:

	As at 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
Up to 3 months	46,469	33,781	34,211
3 to 6 months	6	—	—
	<u>46,475</u>	<u>33,781</u>	<u>34,211</u>

The Group applies the simplified approach to provide credit losses prescribed by HKFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The Group overall considers the shared credit risk characteristics to measure the expected credit losses. Based on the assessment, expected credit loss rate of trade receivables is close to zero on the basis that the customers had good payment and no default history. Therefore, the loss allowance provision for these trade receivables balances was not material.

The maximum exposure to credit risk as at 31 March 2018, 2019 and 2020 was the carrying amounts of the trade receivables. The Group did not hold any collateral as security. The carrying amounts of trade receivables approximate their fair values.

The carrying amounts of trade receivables are denominated in the following currencies:

	As at 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
RMB	—	412	—
US\$	46,475	33,369	34,211
	<u>46,475</u>	<u>33,781</u>	<u>34,211</u>

## 20 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group			Company	
	As at 31 March			As at	As at
	2018	2019	2020	31 March	31 March
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Non-current</b>					
Prepayment for purchase of property, plant and equipment	6,162	4,917	1,684	—	—
Deposits	—	129	—	—	—
	<u>6,162</u>	<u>5,046</u>	<u>1,684</u>	<u>—</u>	<u>—</u>
<b>Current</b>					
Deposits	199	71	197	—	—
Prepayments	3,137	4,340	3,503	—	—
Deferred listing expenses	1,792	2,286	5,617	2,286	5,617
Other receivables	1,361	544	820	—	—
VAT recoverable	15,928	4,563	3,635	—	—
	<u>22,417</u>	<u>11,804</u>	<u>13,772</u>	<u>2,286</u>	<u>5,617</u>
	<u>28,579</u>	<u>16,850</u>	<u>15,456</u>	<u>2,286</u>	<u>5,617</u>

The carrying amounts of other receivables, deposits and prepayments are denominated in the following currencies:

	Group			Company	
	As at 31 March			As at	As at
	2018	2019	2020	31 March	31 March
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
RMB	24,908	8,801	8,943	362	694
HK\$	2,350	3,398	5,463	3,622	4,921
US\$	1,321	4,651	1,048	—	—
EUR	—	—	2	22	2
	<u>28,579</u>	<u>16,850</u>	<u>15,456</u>	<u>4,246</u>	<u>5,617</u>

## 21 PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	As at 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
Pledged bank deposits	—	—	4,974
Cash at banks	49,598	45,776	56,360
Cash on hand	81	71	60
	<u>49,679</u>	<u>45,847</u>	<u>56,420</u>
Maximum exposure to credit risk	<u>49,598</u>	<u>45,776</u>	<u>61,334</u>

Pledged bank deposits of the Group are pledged to secure banking facilities granted to the Group (Note 28). The effective interest rate of pledged bank deposits was 0.15% per annum and had a renewal period of 31 days. The carrying amount of the Group's pledged bank deposits was denominated in US\$.

Cash and cash equivalents are denominated in the following currencies.

	As at 31 March		
	2018 HK\$'000	2019 HK\$'000	2020 HK\$'000
US\$	45,918	40,553	46,969
HK\$	2,407	1,781	3,773
RMB	1,317	3,490	5,645
EUR	31	17	27
Japanese Yen	<u>6</u>	<u>6</u>	<u>6</u>
	<u>49,679</u>	<u>45,847</u>	<u>56,420</u>

As at 31 March 2018, 2019 and 2020, cash and cash equivalents of approximately HK\$1,286,000, HK\$3,528,000 and HK\$5,796,000 were held in the PRC banks and were subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

## 22 SHARE CAPITAL

	Number of ordinary shares	Nominal value of ordinary shares HK\$
<i>Authorised:</i>		
As at 29 March 2019 (date of incorporation), 31 March 2019 and 2020	<u>38,000,000</u>	<u>380,000</u>
<i>Issued and fully paid:</i>		
As at 29 March 2019 (date of incorporation)	—	—
Issuance of ordinary shares	<u>2</u>	<u>—</u>
As at 31 March 2019 and 2020	<u>2</u>	<u>—</u>

As of the date of incorporation, the authorised share capital of the Company was HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each.

Upon its incorporation, one nil-paid share was allotted and issued to an initial subscriber who is an independent third party. On 29 March 2019, such subscriber share was transferred to Ace Champion. On 29 March 2019, one nil-paid Share was allotted and issued to Forever Golden.

Upon completion of the Reorganisation, the Company became the holding company of the companies now comprising the Group.

## 23 RESERVES

## Group

	Attributable to owners of the Company				Total HK\$'000
	Capital reserve HK\$'000 (Note a)	Statutory reserve HK\$'000 (Note b)	Exchange reserve HK\$'000	Retained earnings HK\$'000	
<b>Balance at 1 April 2017</b>	2,500	204	(1,543)	179,373	180,534
Profit for the year	—	—	—	30,157	30,157
<b>Other comprehensive income</b>					
Currency translation difference	—	—	2,126	—	2,126
<b>Total comprehensive income for the year</b>	—	—	2,126	30,157	32,283
<b>Transaction with owners:</b>					
Appropriation (Note b)	—	658	—	(658)	—
	—	658	—	(658)	—
<b>Balance at 31 March 2018</b>	2,500	862	583	208,872	212,817
<b>Balance at 1 April 2018</b>	2,500	862	583	208,872	212,817
Profit for the year	—	—	—	33,823	33,823
<b>Other comprehensive loss</b>					
Currency translation difference	—	—	(2,377)	—	(2,377)
<b>Total comprehensive income for the year</b>	—	—	(2,377)	33,823	31,446
<b>Transaction with owners:</b>					
Appropriation (Note b)	—	610	—	(610)	—
Dividend paid (Note 13)	—	—	—	(53,000)	(53,000)
	—	610	—	(53,610)	(53,000)
<b>Balance at 31 March 2019</b>	2,500	1,472	(1,794)	189,085	191,263



	Attributable to owners of the Company				Total HK\$'000
	Capital reserve HK\$'000 (Note a)	Statutory reserve HK\$'000 (Note b)	Exchange reserve HK\$'000	Retained earnings HK\$'000	
<b>Balance at 1 April 2019</b>	2,500	1,472	(1,794)	189,085	191,263
Profit for the year	—	—	—	43,356	43,356
<b>Other comprehensive loss</b>					
Currency translation difference	—	—	(2,135)	—	(2,135)
<b>Total comprehensive income for the year</b>	—	—	(2,135)	43,356	41,221
<b>Transaction with owners:</b>					
Appropriation (Note b)	—	829	—	(829)	—
Dividend paid (Note 13)	—	—	—	(40,000)	(40,000)
	—	829	—	(40,829)	(40,000)
<b>Balance at 31 March 2020</b>	<u>2,500</u>	<u>2,301</u>	<u>(3,929)</u>	<u>191,612</u>	<u>192,484</u>

## Company

	Capital reserve HK\$'000	Accumulated losses/retained earnings HK\$'000	Total HK\$'000
<b>Balance at 29 March 2019 (Date of incorporation)</b>	—	—	—
Loss for the period	—	(6,079)	(6,079)
<b>Total comprehensive loss</b>	—	(6,079)	(6,079)
<b>Balance at 31 March 2019</b>	<u>—</u>	<u>(6,079)</u>	<u>(6,079)</u>
<b>Balance at 1 April 2019</b>	—	(6,079)	(6,079)
Profit for the year	—	47,055	47,055
<b>Total comprehensive income</b>	—	47,055	47,055
<b>Transactions with owners</b>			
Issuance of ordinary shares pursuant to the Reorganisation (Note 32)	185,226	—	185,226
Dividend paid (Note 13)	—	(40,000)	(40,000)
	<u>185,226</u>	<u>(40,000)</u>	<u>145,226</u>
<b>Balance as at 31 March 2020</b>	<u>185,226</u>	<u>976</u>	<u>186,202</u>

*Notes:*

- (a) On 5 June 2019, the entire issued shares of HK Fourace were transferred to BVI Fourace in exchanges of the Company crediting as fully paid at par the two nil-paid shares held by Ace Champion and Forever Golden respectively. The balance represents excess of net assets value of HK Fourace over the nominal value of the two nil-paid shares of the Company.
- (b) The PRC laws and regulations require companies registered in PRC to provide for certain statutory reserves, which are to be appropriated from the profit after income tax (after offsetting accumulated losses from prior years) as reported in their respective statutory financial statements, before profit distributions to equity holders. All statutory reserves are created for specific purposes. A PRC company is required to appropriate an amount of not less than 10% of statutory profits after income tax to statutory surplus reserves, prior to distribution of its post-tax profits of the current year. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. The statutory surplus reserves shall only be used to make up losses of the company, to expand the company's operations, or to increase the capital of the company. In addition, a company may make further contribution to the discretionary surplus reserve using its post-tax profits in accordance with resolutions of the board of directors.

**24 DEFERRED INCOME TAX**

The analysis of deferred income tax assets/(liabilities) is as follows:

	<b>As at 31 March</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred income tax assets:			
— Deferred income tax assets to be recovered within 12 months	118	113	6
— Deferred income tax assets to be recovered after more than 12 months	<u>1,874</u>	<u>867</u>	<u>—</u>
	<u>1,992</u>	<u>980</u>	<u>6</u>
	<b>As at 31 March</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred income tax liabilities:			
— Deferred income tax liabilities to be recovered after more than 12 months	<u>(1,577)</u>	<u>(2,338)</u>	<u>(3,063)</u>

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	<b>Decelerated depreciation allowances</b> <i>HK\$'000</i>	<b>Unrealised profit in inventories</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Deferred income tax assets:			
<b>As at 1 April 2017</b>	1,719	70	1,789
Credited to consolidated statement of comprehensive income	165	48	213
Exchange difference	(10)	—	(10)
<b>As at 31 March 2018 and 1 April 2018</b>	1,874	118	1,992
Charged to consolidated statement of comprehensive income	(1,019)	(5)	(1,024)
Exchange difference	12	—	12
<b>As at 31 March 2019 and 1 April 2019</b>	<u>867</u>	<u>113</u>	<u>980</u>
Charged to consolidated statement of comprehensive income	(858)	(107)	(965)
Exchange difference	(9)	—	(9)
<b>As at 31 March 2020</b>	<u>—</u>	<u>6</u>	<u>6</u>
	<b>Accelerated tax depreciation</b> <i>HK\$'000</i>	<b>Withholding tax</b> <i>HK\$'000</i> <i>(Note i)</i>	<b>Total</b> <i>HK\$'000</i>
Deferred income tax liabilities:			
<b>As at 1 April 2017</b>	(991)	(98)	(1,089)
Charged to consolidated statement of comprehensive income	(170)	(318)	(488)
<b>As at 31 March 2018 and 1 April 2018</b>	(1,161)	(416)	(1,577)
Charged to consolidated statement of comprehensive income	(366)	(395)	(761)
<b>As at 31 March 2019 and 1 April 2019</b>	<u>(1,527)</u>	<u>(811)</u>	<u>(2,338)</u>
Charged to consolidated statement of comprehensive income	(486)	(304)	(790)
Exchange difference	65	—	65
<b>As at 31 March 2020</b>	<u>(1,948)</u>	<u>(1,115)</u>	<u>(3,063)</u>

Note:

- (i) Pursuant to the relevant PRC enterprise income tax rules and regulations, withholding tax is imposed at 5% on dividends declared in respect of profits earned by subsidiaries established in the PRC from 1 January 2008 onwards.

## 25 LEASE LIABILITIES

	As at 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
Minimum lease payments due			
Within 1 year	—	444	424
1–2 years	—	407	—
	<u>—</u>	<u>851</u>	<u>424</u>

The Group leases an office in Hong Kong. These liabilities were measured at net present value of the lease payments during the lease terms that are not yet paid.

## 26 TRADE PAYABLES

The ageing analysis of the trade payables based on invoice date was as follows:

	As at 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
Within 1 month	15,355	13,775	17,240
1–2 months	6,755	4,987	6,091
2–3 months	13,747	9,421	4,122
Over 3 months	13,532	5,370	16,598
	<u>49,389</u>	<u>33,553</u>	<u>44,051</u>

The credit terms of trade payables granted to the Group are usually cash on delivery and from 30 to 90 days.

Trade payables are denominated in the following currencies:

	As at 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
Japanese Yen	2	12	—
US\$	1,759	694	243
HK\$	5,312	4,262	2,890
RMB	42,316	28,585	40,918
	<u>49,389</u>	<u>33,553</u>	<u>44,051</u>

The carrying amounts of the trade payables approximate their fair values.

## 27 ACCRUALS AND OTHER PAYABLES

	Group			Company	
	As at 31 March			As at	As at
	2018	2019	2020	31 March	31 March
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accrued expenses					
— Staff costs	5,912	4,959	9,374	—	—
— Listing expenses	—	3,372	3,364	3,372	3,364
— Others	1,303	1,328	1,071	—	—
Contract liabilities (Note 5)	3,853	2,182	5,478	—	—
Provision for employees' benefit	1,303	1,295	1,301	—	—
Other payables	1,503	2,632	1,979	—	—
	<u>13,874</u>	<u>15,768</u>	<u>22,567</u>	<u>3,372</u>	<u>3,364</u>

The carrying amounts of accruals and other payables are denominated in the following currencies:

	Group			Company	
	As at 31 March			As at	As at
	2018	2019	2020	31 March	31 March
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
US\$	3,135	3,247	5,537	—	115
RMB	8,316	6,686	9,727	405	491
HK\$	<u>2,423</u>	<u>5,835</u>	<u>7,303</u>	<u>2,967</u>	<u>2,758</u>
	<u>13,874</u>	<u>15,768</u>	<u>22,567</u>	<u>3,372</u>	<u>3,364</u>

## 28 BORROWING

	As at 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
Portion of term loan from a bank due for repayment after one year which contain a repayable on demand clause			<u>3,972</u>

The bank borrowing is denominated in HK\$ and bears interest at floating rate and effective rate per annum of 3.72% as at 31 March 2020.

As at 31 March 2020, the Group's bank borrowing of HK\$3,972,000 was guaranteed by Mr. Li and Ms. Sit, which is expected to be released after the proposed listing is successfully completed. Also, the bank borrowing is secured by the pledged bank deposits (Note 21) of HK\$4,974,000, buildings (Note 16) of HK\$4,083,000 and investment property (Note 17) of HK\$725,000 in Hong Kong.

The fair value of the bank borrowing approximates its carrying amount at 31 March 2020. They are determined based on discounted cash flows using a rate based on the borrowing rate of 3.72% and are within level 2 of the fair value hierarchy.

The exposure of the Group's borrowing to interest rate changes and the contractual repricing dates at the end of the reporting period are as follows:

	As at 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
Within 1 year	—	—	3,972

The Group has complied with the financial covenants of its borrowing facilities during the year ended 31 March 2020.

The Group's borrowing was repayable (based on the scheduled repayment dates as set out in the loan agreement without taking into account the effect of the repayment on demand clause) as follows:

	As at 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
Within 1 year	—	—	1,833
Between 1 and 2 years	—	—	1,833
Between 2 and 5 years	—	—	306
	—	—	3,972

## 29 CASH GENERATED FROM OPERATIONS

	Year ended 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
Profit before taxation	37,168	42,726	55,082
Adjustments for:			
Gain on disposal of property, plant and equipment	(260)	(155)	(185)
Interest expenses	—	—	245
Interest income	(15)	(15)	(65)
Depreciation ( <i>Note 15, 16 and 17</i> )	6,912	8,615	11,871
Operating cash flows before movement in working capital:	43,805	51,171	66,948
Inventories	(8,505)	3,086	(607)
Trade receivables	(8,892)	9,630	(3,111)
Contract assets	(261)	(679)	(772)
Other receivables, deposits and prepayments	(9,288)	10,184	4,789
Trade payables	8,205	(9,541)	15,180
Accruals and other payables	1,790	2,536	7,202
Cash generated from operations	26,854	66,387	89,629

**(a) Significant non-cash transactions**

- (i) During the year ended 31 March 2019, dividend of HK\$53,000,000 was declared, out of which HK\$28,369,000 was offset against the amount due from an ultimate shareholder and related parties and did not result in any cash flow.
- (ii) In the consolidated cash flow statements, proceeds from sale of property, plant and equipment are analysed as follows:

	Year ended 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
Net book amount ( <i>Note 16</i> )	229	181	43
Net gains on disposal of property, plant and equipment ( <i>Note 7</i> )	<u>260</u>	<u>155</u>	<u>185</u>
Proceeds from disposal of property, plant and equipment	<u><u>489</u></u>	<u><u>336</u></u>	<u><u>228</u></u>

**(b) Reconciliation of liabilities arising from financing activities**

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flow will be, classified in the Group's consolidated cash flow statements as cash flows from financing activities.

	Borrowings	Lease liabilities	Total
	HK\$'000	HK\$'000	HK\$'000
As at 1 April 2018	—	—	—
Other non-cash movement			
— Increase in right-of-use assets	<u>—</u>	<u>851</u>	<u>851</u>
As at 31 March 2019 and 1 April 2019	—	851	851
Cash flows			
— Proceeds from bank borrowings	15,500	—	15,500
— Repayment of bank borrowings	(11,528)	—	(11,528)
— Payment of lease liabilities	<u>—</u>	<u>(427)</u>	<u>(427)</u>
At 31 March 2020	<u><u>3,972</u></u>	<u><u>424</u></u>	<u><u>4,396</u></u>

## 30 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
<b>Assets as per consolidated balance sheets</b>			
Financial assets at amortised cost:			
Trade receivables	46,475	33,781	34,211
Other receivables and deposits	1,560	615	1,017
Amount due from an ultimate shareholder	2,213	—	—
Amount due from related parties	7,914	—	—
Pledged bank deposits	—	—	4,974
Cash and cash equivalents	49,679	45,847	56,420
Total	<u>107,841</u>	<u>80,243</u>	<u>96,622</u>

	As at 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
<b>Liabilities as per consolidated balance sheets</b>			
Financial liabilities at amortised cost:			
Lease liabilities	—	851	424
Account payables	49,389	33,553	44,051
Accruals and other payables	2,806	7,332	6,414
Borrowing	—	—	3,972
Total	<u>52,195</u>	<u>41,736</u>	<u>54,861</u>

## 31 COMMITMENTS

## (i) Capital commitments

As at 31 March 2018, 2019 and 2020, the Group had the following capital commitments:

	As at 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
Contracted but not provided for:			
— Property, plant and equipment	<u>2,482</u>	<u>2,145</u>	<u>1,466</u>

## (ii) Operating lease commitments — as lessor

At 31 March 2018, 2019 and 2020, the total future minimum lease receivables in respect of the Group's investment property under non-cancellable operating leases were as follows:

	As at 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
Within 1 year	<u>140</u>	<u>140</u>	<u>140</u>



## 32 INVESTMENT IN A SUBSIDIARY

	As at 31 March 2019 <i>HK\$'000</i>	As at 31 March 2020 <i>HK\$'000</i>
Investment in unlisted shares, at cost	—	185,226

The investment in a subsidiary was made on 5 June 2019, which was based on the net asset value of HK Fourace.

## 33 RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control, jointly control or exert significant influence over the other party in holding power over the investee; exposure or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns. Parties are also considered to be related if they are subject to common control or joint control. Related parties may be individuals or other entities.

- (a) Save as disclosed in Note 12 and 13 of this report, the directors of the Company are of the view that the following parties/companies were related parties that had transaction or balances with the Group during the Track Record Periods:

Name of related parties	Relationship with the Group
Mr. Li Shu Yeh	Ultimate shareholder and executive director of the Company
Ms. Li Sen Julian	Executive director of the Company
Ms. Sit Hor Wan	Ultimate shareholder of the Company
Mr. Sit Pan Jit	A close family member of Ms. Sit Hor Wan
Ms. Tang Suk Yee	Executive director of the Company
Champion Dragon Holdings Limited	Controlled by Ms. Li Sen Julian

- (b) Year-end balances with related parties

	As at 31 March		
	2018 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
<b>Amount due from an ultimate shareholder</b>			
Mr. Li Shu Yeh	2,213	—	—
<b>Amounts due from related parties</b>			
Mr. Sit Pan Jit	7,558	—	—
Champion Dragon Holdings Limited	356	—	—
	7,914	—	—

The balances due from related parties are non-trade, unsecured, interest free and with no agreed term of repayment. The Directors considered that the amount would be recovered in 2019. No loss allowance was recognised as expense for the years ended 31 March 2018, 2019 and 2020, see Note 3.1 for further information. The carrying amounts of the amounts due from related parties and a shareholder approximate their fair values and are denominated in the following currencies:

	As at 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
Amount due from an ultimate shareholder			
— HK\$	2,213	—	—
Amounts due from related parties			
— HK\$	7,750	—	—
— US\$	164	—	—
	<u>7,914</u>	<u>—</u>	<u>—</u>

(c) Key management compensation

Key management includes directors (executive and non-executive) and the senior management of the Group. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 March		
	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000
Wages, salaries and bonus	4,180	5,247	7,533
Retirement benefits costs — defined contribution plans:			
— Hong Kong	73	79	90
— PRC	15	16	20
	<u>4,268</u>	<u>5,342</u>	<u>7,643</u>

### 34 AMOUNT DUE FROM/TO A SUBSIDIARY

Amount due from/to a subsidiary was unsecured, interest free and repayable on demand. The carrying amount approximated its fair value and was denominated in HK\$.

### 35 CONTINGENT LIABILITIES

There are no contingent liabilities as at 31 March 2018, 2019 and 2020.

### 36 SUBSEQUENT EVENTS

Save as disclosed elsewhere in this report, the following significant events took place subsequent to 31 March 2020:

- (a) Since late December 2019, there has been an outbreak of COVID-19 (the “Outbreak”). In response to the Outbreak, from early 2020 and up to the date of this report, certain measures have been and continued to be implemented by the governments of various countries/regions including but not limited to implementation of travel restrictions, temporary suspension of operation of factories and requiring corporates to strengthen the epidemic prevention.

Pending development of such subsequent non-adjusting event, the Directors are of the view that the Outbreak will not have significant impact on the Group's primary functions, including sales, purchase and production at the date of this report.

- (b) Pursuant to a written resolution of the shareholders passed on 21 August 2020, subject to the share premium account of the Company being credited as a result of the Global Offering, the Directors are authorised to allot and issue a total of 937,499,998 shares credited as fully paid at par to the existing shareholders of the Company by way of capitalisation of the sum of HK\$9,374,999.98 standing to the credit of the share premium account of the Company.

**III SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared for the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 March 2020 and up to the date of this report. Saved as disclosed in this report, no dividend or distribution has been declared, made or paid by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 March 2020.

<b>APPENDIX II</b>	<b>UNAUDITED PRO FORMA FINANCIAL INFORMATION</b>
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The information set out in this Appendix does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set out in Appendix I to this prospectus, and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" of this prospectus and the Accountant's Report set out in Appendix I to this prospectus.

**A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS**

The following is an illustrative unaudited pro forma statement of adjusted net tangible assets of the Group which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Global Offering on the net tangible assets of the Group attributable to the owners of the Company as at 31 March 2020 as if the Global Offering had taken place on that date.

The unaudited pro forma statement of adjusted net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group had the Global Offering been completed as at 31 March 2020 or at any future date.

The unaudited pro forma statement of adjusted net tangible assets of the Group is based on the consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 March 2020 as set out in the Accountant's Report of the Company, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

	<b>Audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 March 2020<sup>(1)</sup> HK\$'000</b>	<b>Estimated net proceeds from the Global Offering<sup>(2)</sup> HK\$'000</b>	<b>Unaudited pro forma adjusted net tangible assets of the Group attributable to the owners of the Company as at 31 March 2020 HK\$'000</b>	<b>Unaudited pro forma adjusted net tangible assets per Share<sup>(3)</sup> HK\$</b>
Based on an Offer Price of HK\$0.40 per Share	192,484	85,690	278,174	0.22
Based on an Offer Price of HK\$0.60 per Share	192,484	135,690	328,174	0.26

## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

*Notes:*

- (1) The audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 March 2020 has been extracted from the Accountant's Report as set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to the owners of the Company as at 31 March 2020 of HK\$192,484,000.
- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$0.40 per Share and HK\$0.60 per Share, being the low and high end of the indicative Offer Price range respectively, after deduction of the underwriting fees and other related expenses payable by the Company (excluding listing expenses of approximately HK\$18,990,000 which have been charged to the consolidated statements of comprehensive income up to 31 March 2020) and takes no account of any Shares which may be granted and issued by the Company pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandate.
- (3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraph and on the basis that 1,250,000,000 Shares were in issue assuming that the Global Offering and Capitalisation Issue had been completed on 31 March 2020 but takes no account of any Shares which may be granted and issued by the Company pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandate.
- (4) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 31 March 2020.

**B.    REPORT FROM THE REPORTING ACCOUNTANT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*



羅兵咸永道

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE  
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

**TO THE DIRECTORS OF FOURACE INDUSTRIES GROUP HOLDINGS LIMITED**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Fourace Industries Group Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as at 31 March 2020 and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 of the Company's prospectus dated 31 August 2020, in connection with the proposed initial public offering of the shares of the Company, (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2 of the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at 31 March 2020 as if the proposed initial public offering had taken place at 31 March 2020. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information for the year ended 31 March 2020, on which an accountant's report has been published.

**Directors' Responsibility for the Unaudited Pro Forma Financial Information**

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7, *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars*, ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

### **Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### **Reporting Accountant's Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at 31 March 2020 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

<b>APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION</b>
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The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) or standards and practices of any professional body in any other overseas jurisdiction and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

### **Opinion**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**PricewaterhouseCoopers**  
*Certified Public Accountants*  
Hong Kong, 31 August 2020



*The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from AVISTA Valuation Advisory Limited, an independent valuer, in connection with its valuation as at 30 June 2020 of the property interests of the Company.*



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31 August 2020

The Board of Directors  
**Fourace Industries Group Holdings Limited**  
Unit Nos. 1106–1107, 11/F, Manhattan Centre  
8 Kwai Cheong Road  
Kwai Chung, the New Territories  
Hong Kong

Dear Sirs / Madams,

## INSTRUCTIONS

In accordance with the instructions of Fourace Industries Group Holdings Limited (科利實業控股集團有限公司) (the “**Company**”) for us to carry out the valuation of the property interests held by the Company and its subsidiaries (hereinafter together referred to as the “**Group**”) in the People’s Republic of China (the “**PRC**”), we confirm that we have carried out inspection, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property interests as at 30 June 2020 (the “**Valuation Date**”).

## PREMISES OF VALUE

The valuation is our opinion of market value which is defined by the Hong Kong Institute of Surveyors as “*the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion*”.

## BASIS OF VALUATION

In valuing the property interests, we have complied with all the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited (“**Listing Rules**”), the HKIS Valuation Standards (2017 Edition) published by the Hong Kong Institute of Surveyors and the International Valuation Standards published from time to time by the International Valuation Standards Council.

Our valuations exclude an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value or costs of sale and purchase or offset for any associated taxes.

### CATEGORISATION OF PROPERTY INTERESTS

In the course of our valuation, the appraised property interests have been categorised according firstly to type of interests held by the Group, which in turn being classified into the following groups:

Group I — Property interests held by the Group in the PRC

Group II — Property interests rented by the Group in the PRC

### VALUATION METHODOLOGY

In the course of our valuation, unless otherwise stated, we have valued the properties in their designated uses with the understanding that the properties will be used as such (hereafter referred to as “**continued uses**”).

In valuing the portion of the property interests in Group I, we have adopted market approach in our valuation by making reference to comparable market transactions or sale asking in our assessment of the market value of a property interest. This approach rests on the wide acceptance of the market transactions or sale asking as the best indicator and pre-supposes that evidence of relevant transactions or sale asking in the market place can be extrapolated to similar properties, subject to allowances for variable factors.

In valuing the portion of the property interests in Group II, due to the nature of the buildings and structures of the property interests, there are no market sales comparables readily available, we have valued a property on the basis of its depreciated replacement cost. Depreciated replacement cost is defined as “the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimization”. It is based on an estimation of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interests is subject to adequate potential profitability of the concerned business.

### TITLE INVESTIGATION

We have been provided by the Company with copy of extract of the title documents relating to the property interests. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrances that might be attached to the property interests or any amendments which may not appear on the copies handed to us.

However, we have not searched the original documents to verify ownership or to ascertain any amendment. Due to the current registration system of the PRC under which the registration information is not accessible to the public, no investigation has been made for the title of the property interests in

the PRC and the material encumbrances that might be attached. In the course of our valuation, we have relied considerably on the legal opinion given by the Company's PRC legal adviser — Jingtian & Gongcheng, concerning the validity of title of the properties in the PRC.

### **SITE INVESTIGATION**

We have inspected the exterior and, where possible, the accessible portions of the interior of the properties being appraised. The inspection was carried out by Ms. Sarah Lee (Manager of AVISTA Valuation Advisory Limited) on 29 April 2019. However, we have not been commissioned to carry out structural survey nor to arrange for an inspection of the services. We are, therefore, not able to report whether the properties are free of rot, infestation or any other structural defects. We formulate our view as to the overall conditions of the properties taking into account the general appearance, the apparent standard and age of fixtures and fittings and the existence of utility services. Hence it must be stressed that we have had regard to you with a view as to whether the buildings are free from defects or as to the possibility of latent defects which might affect our valuation. In the course of our inspection, we did not note any serious defects. No tests were carried out on any of the services. We have assumed that utility services, such as electricity, telephone, water, etc., are available and free from defect.

We have not arranged for any investigation to be carried out to determine whether or not high alumina cement concrete or calcium chloride additive or pulverised fly ash, or any other deleterious material has been used in the construction of the properties. We are therefore unable to report that the properties are free from risk in this respect. For the purpose of this valuation, we have assumed that deleterious material has not been used in the construction of the properties.

We have not been commissioned to carry out detailed site measurements to verify the correctness of the land or building areas in respect of the properties but have assumed that the areas provided to us are correct. Based on our experience of valuation of similar properties, we consider the assumptions so made to be reasonable.

Moreover, we have not carried out any site investigation to determine the suitability of the ground conditions or the services for any property development erected or to be erected thereon. Nor did we undertake archaeological, ecological or environmental surveys for the property interests. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period. Should it be discovered that contamination, subsidence or other latent defects exists in the properties or on adjoining or neighbouring land or that the properties had been or are being put to contaminated use, we reserve right to revise our opinion of value.

### **SOURCE OF INFORMATION**

Unless otherwise stated, we shall rely to a considerable extent on the information provided to us by the Company or the legal or other professional advisers on such matters as statutory notices, planning approval, zoning, easements, tenure, completion date of building, development proposal, identification of property, particulars of occupation, site areas, floor areas, matters relating to tenure, tenancies and all other relevant matters. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore approximations and for reference only. We have not searched original plans, developer brochures and the like to verify them.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view and we have no reason to suspect that any material information has been withheld.

### VALUATION ASSUMPTIONS

For the properties which are held under long term land use rights, we have assumed that transferable land use rights in respect of the property interests at nominal land use fees has been granted and that any premium payable has already been fully settled. Unless stated otherwise, we have assumed that the respective title owner of the properties have an enforceable title of the property interests and have free and uninterrupted rights to occupy, use, sell, lease, charge, mortgage or otherwise dispose of the properties without the need of seeking further approval from and paying additional premium to the Government for the unexpired land use term as granted. Unless noted in the report, vacant possession is assumed for the property concerned.

Moreover, we have assumed that the design and construction of the properties are/will be in compliance with the local planning regulations and requirements and had been/would have been duly examined and approved by the relevant authorities.

Continued uses assumes the properties will be used for the purposes for which the properties are designed and built, or to which they are currently adapted. The valuation on the property in continued uses does not represent the amount that might be realised from piecemeal disposition of the property in the open market.

No environmental impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed. Moreover, it is assumed that all required licences, consents or other legislative or administrative authority from any local, provincial or national government or private entity or organisation either have been or can be obtained or renewed for any use which the report covers.

It is also assumed that all applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined and considered in the valuation report. In addition, it is assumed that the utilisation of the land and improvements are within the boundaries of the properties described and that no encroachment or trespass exists, unless noted in the report.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

We have further assumed that the properties were not transferred or involved in any contentious or non-contentious dispute as at the valuation date. We have also assumed that there was not any material change of the properties in between dates of our inspection and the valuation date.

**LIMITING CONDITION**

Wherever the content of this report is extracted and translated from the relevant documents supplied in Chinese context and there are discrepancies in wordings, those parts of the original documents will take prevalent.

**CURRENCY**

Unless otherwise stated, all amounts are denominated in Hong Kong Dollars (HKD). Our valuations are summarised below and the valuation certificates are attached.

Yours faithfully,  
For and on behalf of  
**AVISTA Valuation Advisory Limited**  
**Sr Oswald W Y Au**  
*MHKIS(GP) AAPI MSc(RE)*  
*Registered Professional Surveyor (GP)*  
*Director*

*Note:* Mr. Oswald W Y Au holds a Master's Degree of Science in Real Estate from the University of Hong Kong. He is also a member of Hong Kong Institute of Surveyors (General Practice) and Associate Member of Australian Property Institute. In addition, he is a Registered Professional Surveyor (General Practice) registered with Surveyors Registration Board. He has over 10 years' experience in the valuation of properties including Hong Kong, the PRC, the U.S., Canada, East and Southeast Asia including Singapore, Japan and Korea.

## SUMMARY OF VALUES

## Group I — Property interests held by the Group in the PRC

No.	Property	Market value in existing state as at 30 June 2020 <i>HKD</i>	Interest Attributable to the Group	Market value Attributable to the Group as at 30 June 2020 <i>HKD</i>
1.	Unit Nos. 904, 1004 & 1104, No. 8 Yongya Villa, Huancheng Road, Huangjiang Town, Dongguan City, Guangdong Province, the PRC	5,190,000	100%	5,190,000
	Sub-total:	5,190,000	100%	5,190,000

## Group II — Property interests rented by the Group in the PRC

No.	Property	Market value in existing state as at 30 June 2020 <i>HKD</i>	Interest Attributable to the Group	Market value Attributable to the Group as at 30 June 2020 <i>HKD</i>
2.	An Industrial Property located at No. 18 Shi Wei Ping Gang Industrial Zone, Shenzhen City, Guangdong Province, the PRC	No commercial value	100%	No commercial value
	Sub-total:	No commercial value	100%	No commercial value
	Grand Total:	5,190,000	100%	5,190,000

## VALUATION CERTIFICATE

## Group I — Property interests held by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value Attributable to the Company as at 30 June 2020 HKD
1.	Unit Nos. 904, 1004 & 1104, No. 8 Yongya Villa, Huancheng Road, Huangjiang Town, Dongguan City, Guangdong Province, the PRC	<p>The property comprises 3 residential units with a total gross floor area of approximately 280.89 sq.m. of a residential building completed in about 2018.</p> <p>The property is located at Huangjiang Town, Dongguan City, with approximately 11 km to Dongguan East Train station.</p> <p>The land use right of the property have been granted for a term of expiring on 23 February 2063 for residential use.</p>	As at the valuation date, the property is occupied by the Group for residential purpose.	5,190,000  (100% interest attributable to the Company: 5,190,000)

*Notes:*

1. Pursuant to the 3 Sale and Purchase Agreements (Pre-sale) dated 31 August 2016 entered into between 東莞百事威房住開發有限公司 (the Vendor) and 深圳科利電器有限公司 (the Purchaser), the total consideration for the 3 residential properties are RMB4,343,561.
2. Pursuant to a Real Estate Title Certificate — Yue (2019) Dong Guan Bu Dong Chan Quan Di Nos. 0362354, 0362346 & 0362303 dated 24 October 2019, the buildings with a total gross floor area of approximately 280.89 sq.m. have been granted to the Group for residential use for a term expiring on 23 February 2063.
3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
  - a. the Group has legally obtained the Real Estate Title Certificates of the property; and
  - b. the Group is entitled to legally occupy, use, transfer and lease the buildings.
4. In our valuation, we have made reference to some asking price references of some residential property which have characteristics comparable to the subject property. We have adopted the range of unit rates between HKD17,000–HKD20,000 per sq.m. of the gross floor area for the property. The unit rates assumed by us are consistent with the said price reference. Due adjustments to the unit rates of those price reference have been made to reflect factors including but not limited to time, floor, size, location in arriving at the key assumptions.

## VALUATION CERTIFICATE

## Group II — Property interests rented by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value Attributable to the Company as at 30 June 2020 <i>HKD</i>
2.	An Industrial Property located at No. 18 Shi Wei Ping Gang Industrial Zone, Shenzhen City, Guangdong Province, the PRC	<p>The property comprises 2 parcels of land with a total site area of approximately 29,978.50 sq.m. together with various buildings and structures completed between 1995 and 2012 erected thereon.</p> <p>The property have a total gross floor area of approximately 44,278.66 sq.m. and mainly include workshops, warehouses and dormitory with the details as follows:</p>	As at the valuation date, the property is occupied by the Group for industrial purpose.	<p>No commercial value</p> <p>(100% interest attributable to the Company: No commercial value)</p>

Building Name	Gross Floor Area (sq.m.)	Completion Date
Building A	15,605.41	December 1995
Building B	5,618.81	March 1998
Building C	2,449.52	June 1996
Building D	2,255.45	October 2012
Building E	1,403.60	October 2012
Power and generator room 1	376.59	December 1995
Power and generator room 2	209.72	December 1995
Building G	3,567.63	December 1995
Building H	5,184.93	December 1995
Building J	4,272.35	March 2007
Building K	3,036.35	December 1995
Pump room	63.66	October 2010
High-voltage power room	85.54	October 2010
Security room	25.38	October 2010
Warehouse	<u>123.72</u>	July 2004
Total:	<u>44,278.66</u>	

The property is situated on the southeastern side of Jiang Shi Road in Guangming District, with approximately 12 km driving distance to the Guangmingcheng Station and with approximately 24 km driving distance to the Shenzhen International Airport.

The collectively-owned land use right of the property have been leased for a term of approximately 50 years expiring on 31 December 2043 for industrial use.



*Notes:*

1. Pursuant to the 2 collectively-owned land use right tenancy agreements, the land use rights of the 2 parcels of land with a total site area of approximately 29,978.5 sq.m. have been leased to the Group for industrial use. The details are set out as follows:

No.	Lessor	Lease Term	Total Rent (RMB)	Site Area (sq.m.)
1	Bao'an District, Jiangshi Village Shiwei Cooperative Economic Association (寶安區公明鎮將石村石圍經濟合作社)	commencing from 1 January 1994 and expiring on 31 December 2043	2,996,775	19,978
2	Bao'an District, Jiangshi Village Shiwei Cooperative Economic Association (寶安區公明鎮將石村石圍經濟合作社)	commencing from 3 June 1999 and expiring on 31 December 2043	1,050,000	10,000

2. The Group have not obtained valid construction land approval documents (建設用地批准文件), construction land use planning permits (建設用地規劃許可) for the leased land, construction planning permit (建設工程規劃許可證) and/or Building Ownership Certificates (房屋所有權證書) for the building erected of gross floor area of approximately 44,278.66 sq.m.;
3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
- the tenancy agreements mentioned in note 1 are valid;
  - 6 buildings (including Buildings A, B, G, H, J and K) are registered as illegal buildings left over from the process of rural urbanisation ("Left-over Buildings") with no building ownership certificates, while 5 buildings (including power and generator room 1 and 2, pump room, high-voltage power room and security room) are pending to be registered as Left-over Buildings, before handled according to the Measures, the risk of being ordered to dismantle by the relevant PRC authorities is low;
  - 4 buildings (including Buildings C, D, E and warehouse) are classified as other illegal buildings with no building ownership certificates, which has the risk of being ordered to dismantle by the relevant PRC authorities; and
  - the risk of the Group being ordered to move out of the leased land and the buildings in the near future due to the implementation of the Redevelopment plan or the construction of the planned road on the collectively owned land is low.

For details, please refer to the section headed "Business — Legal and compliance — Non compliance — 1. Title defect of our Shenzhen Factory Buildings" in this prospectus.

4. In valuing the properties, we have assigned no commercial value to portion of the property since it could not be freely transferred in the market. For reference purpose, we are of the opinion that the depreciated replacement cost of the buildings (excluding the land) as at the valuation date would be HKD60,200,000 assuming all relevant title certificates have been obtained and the property could be freely transferred in the market.

## APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANIES LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 March 2019 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Company’s constitutional documents consist of its Memorandum of Association (the “Memorandum”) and its Articles of Association (the “Articles”).

### 1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

### 2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 21 August 2020 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

**APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY  
AND CAYMAN ISLANDS COMPANIES LAW**

two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him. Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

*(iii) Alteration of capital*

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

*(iv) Transfer of shares*

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares. The register of members in respect of its listed shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Companies Law in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

**APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY  
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The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

*(v) Power of the Company to purchase its own shares*

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

The board may accept the surrender for no consideration of any fully paid share.

*(vi) Power of any subsidiary of the Company to own shares in the Company*

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

**APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY  
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*(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-

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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

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either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

*(ii) Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount to their nominal value.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

*(iii) Power to dispose of the assets of the Company or any of its subsidiaries*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

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*(iv) Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

*(v) Remuneration*

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or past Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.



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The board may resolve to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted to (i) employees (including directors) of the Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than the Company) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, the Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting, or (ii) any trustee of any trust to whom shares are to be allotted and issued by the Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

*(vi) Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

*(vii) Loans and provision of security for loans to Directors*

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

*(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

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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

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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.

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At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

*(iii) Annual general meetings and extraordinary general meetings*

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

Extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by the Company.

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*(iv) Notices of meetings and business to be conducted*

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers; and
- (ee) the fixing of the remuneration of the directors and of the auditors.

*(v) Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting)

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convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

*(vi) Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

**(f) Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

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At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditor at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

### **(g) Dividends and other methods of distribution**

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

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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.



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**(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.

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### 3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

#### (a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

#### (b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "**Court**"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

#### (c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the

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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.

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**(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

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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 12 April 2019.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

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**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

**(m) Inspection of corporate records**

The notice of registered office is a matter of public record. A list of the names of the current directors and alternate directors (if applicable) is made available by the Registrar of Companies for inspection by any person on payment of a fee. The register of mortgages is open to inspection by creditors and members.

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

**(n) Register of members**

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. The register of members shall contain such particulars as required by Section 40 of the Companies Law. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

**(o) Register of Directors and Officers**

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

**(p) Beneficial Ownership Register**

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, 25% or more 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.

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As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

### **(r) Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

### **(s) Take-overs**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

### **(t) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

### **(u) Economic Substance Requirements**

Pursuant to the International Tax Cooperation (Economic Substance) Law, 2018 of the Cayman Islands ("ES Law") that came into force on 1 January 2019, a "relevant entity" is required to satisfy the economic substance test set out in the ES Law. A "relevant entity" includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands. Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Law.



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**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 section headed "Appendix VI — Documents Delivered to the Registrar of Companies and Available for Inspection" of this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

**A. FURTHER INFORMATION ABOUT OUR GROUP****1. Incorporation**

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 March 2019 under the Cayman Companies Law. Our registered address is at the offices of Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. We have registered a place of business in Hong Kong at Unit Nos. 1106–07, 11/F Manhattan Centre, 8 Kwai Cheong Road, Kwai Chung, New Territories., Hong Kong and have been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 21 June 2019. The address for service of process on our Company in Hong Kong is the same as its principal place of business in Hong Kong as set out above and Ms. Li Sen Julian and Mr. Tsang Kai Ming have been appointed as the authorised representatives of our Company for acceptance of service of process and notices on behalf of our Company in Hong Kong.

As we are incorporated in the Cayman Islands, our corporate structure, our Memorandum of Association and Articles of Association are subject to the relevant laws of the Cayman Islands. A summary of the relevant provisions of our Memorandum of Association and Articles of Association and certain relevant aspects of Cayman Islands company law are set out in Appendix IV to this prospectus.

**2. Changes in share capital of our Company**

As at the date of our 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. One subscriber share of HK\$0.01 par value was allotted and issued nil paid to the initial subscriber on 29 March 2019, which was subsequently transferred to Ace Champion and one share was allotted to Forever Golden on the same date.

The following sets out the changes in our Company's authorised share capital during the two years immediately preceding the date of this prospectus:

- (a) On 21 August 2020, our Company increased its authorised share capital to HK\$100,000,000 divided into 10,000,000,000 Shares with a par value of HK\$0.01 each by the creation of 9,962,000,000 additional Shares.

Immediately following the completion of the Global Offering and the Capitalisation Issue (taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), our authorised share capital upon completion of the Global Offering will be HK\$100,000,000 divided into 10,000,000,000 Shares of HK\$0.01 each, of which 1,250,000,000 Shares will be issued fully paid or credited as fully paid, and 8,750,000,000 Shares, which our Company is authorised to issue, will remain unissued.

Save as disclosed above, there has been no alteration in our Company's share capital since the date of our incorporation.

**3. Written resolutions of our Shareholders passed on 21 August 2020**

Pursuant to the written resolutions of our Shareholders passed on 21 August 2020, our Shareholders at the time resolved that (among other matters):

- (a) the Memorandum of Association and Articles of Association were approved and adopted conditional upon and with effect from the Listing;
- (b) the authorised share capital of our Company was increased from HK\$380,000.00 divided into 38,000,000 Shares to HK\$100,000,000 divided into 10,000,000,000 Shares by the creation of an additional 9,962,000,000 Shares of HK\$0.01 each ranking pari passu in all respect with the then existing Shares;
- (c) conditional upon all the conditions set out in the section headed “Structure and Conditions of the Global Offering” of this prospectus being fulfilled:
  - (i) the Global Offering and the proposed Listing of the Shares on the Main Board of the Stock Exchange was approved and the Board (or any committee thereof established by the Board pursuant to the Articles of Association) be authorised to make or effect such modifications as it thinks fit;
  - (ii) the Board (or any committee thereof established by the Board pursuant to the Articles of Association) was authorised to allot and issue, and approve the transfer of such number of Shares in connection with the Global Offering;
  - (iii) the Over-allotment Option was approved;
  - (iv) the Board (or any committee thereof established by the Board pursuant to the Articles of Association) was authorised to agree the price per Offer Share with the Joint Global Coordinators;
  - (v) conditional on the share premium account of our Company being credited as a result of the Global Offering, the Board (or any committee thereof established by the Board pursuant to the Articles of Association) were authorised to capitalise the sum of HK\$9,374,999.98 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 937,499,998 Shares for allotment and issue to the Shareholders whose names are on the register of members of our Company at the close of business on the day prior to the Listing Date (or such other date and time as they (or any committee thereof established by the Board pursuant to the Articles of Association) may direct) in proportion (as nearly as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then existing holdings in our Company and so that the Shares to be allotted and issued pursuant to this resolution should rank pari passu in all respects with the then existing issued Shares and our Directors were authorised to allot and issue such number of Shares pursuant to the Capitalisation Issue and to give effect to such capitalisation; and

- (vi) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraphs headed “D. Share option scheme” of this Appendix, were approved and adopted and our Directors were authorised to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at our Directors’ absolute discretion to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options which may be granted under the Share Option Scheme and to make application at appropriate time or times to the Stock Exchange for the Listing of and permission to deal in, any Shares or any part thereof that may thereafter from time to time be issued and allotted pursuant to the exercise of the options granted under the Share Option Scheme and to take all such steps as may be necessary, desirable or expedient to implement the Share Option Scheme;
- (d) a general unconditional mandate be given to our Directors to exercise all the powers of our Company to allot, issue and deal with Shares or securities convertible into Shares and to make or grant offers or agreements or options (including any warrants, bonds, notes and debentures conferring any rights to subscribe for or otherwise receive Shares other than warrants, options or similar rights to subscribe for (i) any new Shares or (ii) any securities convertible into new Shares for cash consideration) which might require Shares to be allotted, issued or dealt with, otherwise than pursuant to a rights issue or pursuant to the exercise of any subscription rights attaching to any warrants which may be allotted and issued by our Company from time to time on a specific authority granted by the Shareholders in general meetings or, pursuant to 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, Shares not exceed 20% of the total number of the Shares in issue immediately following the completion of the Global Offering and the Capitalisation Issue (but taking no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the options which may be granted under the Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required to be held by the Companies Law or any applicable Cayman Islands law or the Memorandum or Articles of Association or any applicable laws, or until being revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever occurs first;
- (e) a general unconditional mandate was given to our Directors authorising them to exercise all the powers of our Company to repurchase its own Shares on the Stock Exchange or on any other approved stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the total number of the Shares in issue immediately following the completion of the Global Offering and the Capitalisation Issue (but taking no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the options which may be granted under the Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required to be held by the Companies Law or any applicable Cayman Islands law or the Memorandum or the Articles of Association or any applicable laws, or until being revoked or varied by an ordinary resolution of Shareholders in a general meeting, whichever occurs first;

- (f) the general mandate mentioned in paragraph (d) above be extended by the addition to the total number of Shares in the share capital of our Company which may be allotted or agreed conditionally or unconditionally to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the total number of Shares in the share capital of our Company repurchased by our Company pursuant to the mandate to purchase Shares referred to in paragraph (e) above;
- (g) our Company approved the form and substance of each of the service contracts or letters of appointment made between each of our Directors and our Company.

#### 4. Repurchases of our own Shares

This section includes information relating to the repurchase of our Shares, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

##### *(a) Relevant Legal and Regulatory Requirements*

The Listing Rules permit our Shareholders to grant to our Directors a general mandate to repurchase our Shares that are listed on the Stock Exchange. Such mandate is required to be given by way of an ordinary resolution passed by our Shareholders in a general meeting.

##### *(b) Shareholders' Approval*

All proposed repurchases of Shares (which must be fully paid up) must be approved in advance by ordinary resolutions of our Shareholders in a general meeting, either by way of general mandate or by specific approval of a particular transaction.

On 21 August 2020, our Directors were granted a general unconditional mandate to repurchase up to 10% of the total number of Shares in the share capital of our Company in issue immediately following completion of the Global Offering and Capitalisation Issue on the Stock Exchange or on any other stock exchange on which our securities may be listed and which is recognised by the SFC and the Stock Exchange for this purpose. This mandate will expire at the earliest of (i) the conclusion of our next annual Shareholders' general meeting, (ii) the date by which our next Shareholders' general meeting is required by the Companies Law or any applicable Cayman Islands law or the Memorandum or the Articles of Association or any applicable laws to be held, or (iii) such mandate being revoked or varied by ordinary resolutions of our shareholders in a general meeting (the "**Relevant Period**").

##### *(c) Source of Funds*

Our repurchase of the Shares listed on the Stock Exchange must be funded out of the funds legally available for the purpose in accordance with our Memorandum of Association and Articles of Association and the applicable laws of the Cayman Islands. We may not repurchase our Shares on the Stock Exchange for consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Any repurchases by our Company may be made out of profits, share premium or out of the proceeds of a fresh issue of Shares made for the

purpose of the repurchase and, in the case of any premium payable on the repurchase, out of profits of our Company or out of our Company's share premium account subject to the Companies Law, a repurchase may also be made out of capital.

***(d) Reasons for Repurchases***

Our Directors believe that it is in our Company and our Shareholders' best interests for our Directors to have general authority from our Shareholders to execute repurchases of our Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and our Shareholders.

***(e) Funding of Repurchases***

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with our Memorandum of Association and Articles of Association, the applicable laws of the Cayman Islands and the Listing Rules.

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, it might have a material adverse effect on the working capital and/or the 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 Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

***(f) Share Capital***

The exercise in full of the current repurchase mandate, on the basis of 1,250,000,000 Shares in issue immediately after completion of the Capitalisation Issue and Global Offering, (without taking into account any Shares which may be allotted and issued by our Company pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), could accordingly result in up to 125,000,000 Shares being repurchased by us during the Relevant Period.

***(g) Trading Restrictions***

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the

purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

***(h) Status of Repurchased Shares***

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed.

***(i) Suspension of Repurchase***

A listed company may not make any repurchase of securities at any time after inside information has come to its knowledge until the information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

***(j) Reporting requirements***

Repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following Business Day. In addition, a 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 Main Board 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.

***(k) Connected parties***

The Listing Rules prohibit our Company from knowingly repurchasing the Shares on the Stock Exchange from a "core connected person", which includes a director, chief executive or substantial shareholder of our Company or any of its subsidiaries or a close associate of any of them and a core connected person shall not knowingly sell Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the Listing Rules, our Memorandum of Association and Articles of Association, the Cayman Companies Law and any other applicable laws of the Cayman Islands.

If, as a result of any repurchase of our Shares, a shareholders' proportionate interest in our voting rights increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of us and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of such increase. In the event that the repurchase mandate is exercised in full, the shareholding percentage of each of our Controlling Shareholders would increase by more than 2% and such increase would give rise to an obligation to make a mandatory offer under Rule 26 of the Takeovers Code. Save as disclosed above, our Directors are not aware of any consequences of repurchases which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the repurchase mandate.

No core connected person of our Company has notified our Company that he or she or it has a present intention to sell Shares to our Company, or has undertaken not to do so, if the repurchase mandate is exercised.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No connected person as defined by the Listing Rules has notified us that he or it has a present intention to sell his or its Shares to us, or has undertaken not to do so, if the repurchase mandate is exercised.

## **5. Changes in the Share Capital of Subsidiaries**

Our subsidiaries are referred to in the Accountant's Report, the text of which is set out in Appendix I to this prospectus. Save for the subsidiaries mentioned in the Accountant's Report, we do not have any other subsidiaries. Please refer to the section headed "History, Reorganisation and Corporate Structure" of this prospectus for details relating to the changes to the capital structure of our subsidiaries during the Track Record Period.

## **6. Corporate Reorganisation**

The companies comprising our Group underwent the Reorganisation in preparation for the Listing. Please refer to the section headed "History, Reorganisation and Corporate Structure — Reorganisation" of this prospectus.



## 7. Further information about the Group's subsidiaries

Set out below is a summary of the corporate information of the subsidiaries of our Company:

### (a) *BVI Fourace*

Name of subsidiary:	Fourace Industries Group Limited (科利實業集團有限公司)
Place of incorporation:	BVI
Date of Establishment:	11 April 2019
Nature:	Limited liability company
Paid-up capital	US\$1
Attributable interest to our Group	100%
Business scope:	Investment holding

### (b) *HK Fourace*

Name of subsidiary:	Fourace Industries Limited (科利實業有限公司)
Place of incorporation:	Hong Kong
Date of Establishment:	18 August 1987
Nature:	Limited liability company
Paid-up capital	HK\$2,500,000
Attributable interest to our Group	100%
Business scope:	Design, development and manufacturing of personal care and lifestyle electrical appliances

*(c) Shenzhen Fourace*

Name of subsidiary:	Shenzhen Fourace Electrical Appliances Co., Ltd.* (深圳科利電器有限公司)
Place of incorporation:	the PRC
Date of Establishment:	22 May 2015
Nature:	Limited liability company
Registered capital	HK\$50,000,000
Paid-up capital	HK\$44,000,000
Attributable interest to our Group	100%
Business scope:	Manufacturing and trading of hair dryers and their electrical accessories, electric irons and their electrical accessories, electric clippers and their electrical accessories, electronic parts and their electrical accessories, small household appliances and their electrical accessories, hair styling appliances and their electrical accessories, electric massagers and their electrical accessories, hot air combs and their electrical accessories, plastic accessories, plastic products, hardware products, ovens, and bread machines; import and export of goods and technology (excluding distribution and State controlled or franchised items).
Legal representative:	TANG Suk Yee

## B. FURTHER INFORMATION ABOUT OUR BUSINESS

### 1. Summary of material contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this prospectus that are or may be material:

- (a) Deed of Indemnity;
- (b) Hong Kong Underwriting Agreement; and
- (c) an agreement for the sale and purchase of the entire issued share capital of HK Fourace entered into by our Company, BVI Fourace, Ace Champion, Forever Golden, Mr. SY Li and Ms. HW Sit on 5 June 2019, pursuant to which BVI Fourace purchased 1,250,000 ordinary shares and 1,250,000 ordinary shares in HK Fourace from Mr. SY Li and Ms. HW Sit at the consideration of HK\$97,511,806 and HK\$97,511,806, respectively, which shall be settled by (i) BVI Fourace allotting and issuing two ordinary shares to our Company credited as fully paid at par; (ii) our Company crediting as fully paid at par one nil-paid Share transferred to Ace Champion and one nil-paid Share allotted and issued on 29 March 2019 to Forever Golden; and (iii) Ace Champion allotting and issuing one share to Mr. SY Li credited as fully paid at par, and Forever Golden allotting and issuing one share to Ms. HW Sit credited as fully paid at par.




### 2. Intellectual property rights

As at the Latest Practicable Date, our Group has registered or has applied for the registration of the following intellectual property rights which are material in relation to our Group's business.

#### (a) Trademarks

##### (i) Registered Trademarks

As at the Latest Practicable Date, our Group has registered the following trademarks which are material in relation to our Group's business:

Trademark	Place of registration	Classes	Trademark Number	Validity period
	Hong Kong	8, 11, 21, 35	304797073	10 January 2019 to 9 January 2029
	Hong Kong	11	304598191	16 July 2018 to 15 July 2028
	Hong Kong	8, 21, 35	304811814	24 January 2019 to 23 January 2029

Trademark	Place of registration	Classes	Trademark Number	Validity period
	Hong Kong	8, 11, 21, 35	304985533	9 July 2019 to 8 July 2029
	the PRC	11	21253480A	21 November 2017 to 20 November 2027
	the PRC	35	36222426	14 October 2019 to 13 October 2029
	the PRC	21	36218091	14 December 2019 to 13 December 2029
	the PRC	8	36219377	14 December 2019 to 13 December 2029
<b>FOURACE</b>	the PRC	21	35615867	28 August 2019 to 27 August 2029
<b>FOURACE</b>	the PRC	11	35623869	28 August 2019 to 27 August 2029
<b>FOURACE</b>	the PRC	8	35627353	28 August 2019 to 27 August 2029
<b>FOURACE</b> 科利	the PRC	21	35617067	28 August 2019 to 27 August 2029
科利	the PRC	21	35628439	28 August 2019 to 27 August 2029
	the PRC	8	37730639	7 April 2020 to 6 April 2030
	the PRC	11	37726765	7 April 2020 to 6 April 2030
	the PRC	21	37735829	7 April 2020 to 6 April 2030
	the PRC	35	37712651	7 April 2020 to 6 April 2030

*(b) Software copyrights registered in the PRC owned by Shenzhen Fourace*

No.	Software name	Registration number	Registration date	Right acquisition method
1	Smart Home Remote Control System V1.0	2017SR591281	27 October 2017	Originally obtained
2	Knob magnetic induction thermostat control software V1.0	2017SR591032	27 October 2017	Originally obtained
3	multi-function hydrogen rich water cup control software V1.0	2017SR591270	27 October 2017	Originally obtained

*(c) Patents registered in the PRC owned by Shenzhen Fourace**(i) Patents registered*

No.	Certificate number	Patent No./Application No.	Category	Name	Application Date	Authorisation Announcement Day	Validity period
1	2660934	ZL201510085943.3	Invention	A kind of pressure controlled intelligent hair dryer	23 February 2015	20 October 2017	20 years
2	4437044	ZL201730248508.8	Industrial design	Facial wash metre	16 June 2017	26 December 2017	10 years
3	4437042	ZL201730249108.9	Industrial design	Radio frequency beauty device	16 June 2017	26 December 2017	10 years
4	4368005	ZL201730249110.6	Industrial design	Smart toilet seat	16 June 2017	14 November 2017	10 years
5	4437035	ZL201730248835.3	Industrial design	Photonic beauty device	16 June 2017	26 December 2017	10 years
6	4437046	ZL201730249109.3	Industrial design	Ion beauty rod	16 June 2017	26 December 2017	10 years
7	4437034	ZL201730248506.9	Industrial design	Face Ion beauty device	16 June 2017	26 December 2017	10 years
8	4437043	ZL201730248856.5	Industrial design	Eyelid ion beauty device	16 June 2017	26 December 2017	10 years
9	4521806	ZL201730443924.3	Industrial design	Variable pressure hair dryer	19 September 2017	16 February 2018	10 years
10	4521829	ZL201730443930.9	Industrial design	Short tube handle-less hair dryer	19 September 2017	16 February 2018	10 years
11	4521998	ZL201730443935.1	Industrial design	Variable Pressure hair dryer	19 September 2017	16 February 2018	10 years

No.	Certificate number	Patent No./Application No.	Category	Name	Application Date	Authorisation Announcement Day	Validity period
12	4522074	ZL201730444348.4	Industrial design	Ion Roller beauty device	19 September 2017	16 February 2018	10 years
13	4521905	ZL201730444891.4	Industrial design	Turbo hair dryer	19 September 2017	16 February 2018	10 years
14	4600860	ZL201730443923.9	Industrial design	Comb with pulverisation function	19 September 2017	17 April 2018	10 years
15	4601125	ZL201730443933.2	Industrial design	Bathroom hand dryer	19 September 2017	17 April 2018	10 years
16	4601094	ZL201730443934.7	Industrial design	Long tube handle-less hair dryer	19 September 2017	17 April 2018	10 years
17	4601126	ZL201730443941.7	Industrial design	Handheld bubble making machine	19 September 2017	17 April 2018	10 years
18	4600858	ZL201730443946.X	Industrial design	Personal care comb	19 September 2017	17 April 2018	10 years
19	5688085	ZL201930134112.X	Industrial design	Hair dryer (with diffuser)	28 March 2019	27 March 2020	10 years
20	5688086	ZL201930134116.8	Industrial design	Hair dryer	28 March 2019	27 March 2020	10 years
21	5688087	ZL201930134148.8	Industrial design	Hair dryer (with air nozzle)	28 March 2019	27 March 2020	10 years
22	7436094	ZL201721300807.2	Utility model	A household automatic energy-saving air humidifier	11 October 2017	5 June 2018	10 years
23	7438643	ZL201721033489.8	Utility model	A toilet with blockage alarm function	17 August 2017	5 June 2018	10 years
24	8061584	ZL201820270458.2	Utility model	A touch-type curling device	26 February 2018	9 November 2018	10 years
25	8052648	ZL201820273490.6	Utility model	A hair dryer which can curve hair	26 February 2018	9 November 2018	10 years
26	8064447	ZL201820273489.3	Utility model	A dryer that can absorb moisture	26 February 2018	9 November 2018	10 years
27	8698308	ZL201821144388.2	Utility model	Ozone deodorizing and sterilizing device of the toilet seat	17 July 2018	9 April 2019	10 years
28	8610504	ZL201821125277.7	Utility model	Aspirating supercharged flushing device of the toilet seat	17 July 2018	22 March 2019	10 years

No.	Certificate number	Patent No./Application No.	Category	Name	Application Date	Authorisation Announcement Day	Validity period
29	8694822	ZL201820270438.5	Utility model	Foam facial cleansing device	26 February 2018	9 April 2019	10 years
30	8998278	ZL201821125297.4	Utility model	A toilet seat with child seat	17 July 2018	21 June 2019	10 years
31	10908133	ZL201921341123.6	Utility model	Hair dryer components and hair dryers	14 August 2019	3 July 2020	10 years
32	10609665	ZL201921321264.1	Utility model	Hair dryer components and hair dryers	14 August 2019	26 May 2020	10 years

(ii) *Patents under application*

As at the Latest Practicable Date, our Group was in the course of applying for the registration of the following patents:

No.	Application No.	Category	Name	Application Date
1.	201810161033.2	Invention	Hair dryer with curling function	26 February 2018
2.	201810161031.3	Invention	Hair dryer with moisture absorbing function	26 February 2018
3.	201911111248.4	Invention	Coffee machine control method, device, storage medium and coffee machine	14 November 2019
4.	201921321900.0	Utility model	Hair dryer components and hair dryers	14 August 2019
5.	202020583727.8	Utility model	Hair straightener	17 April 2020
6.	202020583260.7	Utility model	Curling device	17 April 2020
7.	202021164638.6	Utility model	A hair dryer applying folding handle and transmission structure	22 June 2020
8.	202021175169.8	Utility model	A tangible hair straightener with ceramic heating	22 June 2020

No.	Application No.	Category	Name	Application Date
9.	202021164663.4	Utility model	A multi-mode blowing comb applying high speed motor	22 June 2020
10.	202021164815.0	Utility model	A hair dryer with special temperature control	22 June 2020
11.	202020721113.1	Utility model	A detachable water tank in coffee machine	6 May 2020
12.	202020721543.3	Utility model	A storage water heater device in coffee machine	6 May 2020
13.	202020721542.9	Utility model	A coffee machine that can be disassembled	6 May 2020
14.	202020721558.X	Utility model	A pipeline system in coffee machine	6 May 2020
15.	202020721115.0	Utility model	A brewing device in coffee machine	6 May 2020
16.	202020721566.4	Utility model	An electric coffee machine	6 May 2020

**(d) Domain names**

As at the Latest Practicable Date, our Group has registered the following domain name:

Domain Name	Registered Owner	Registration Date	Expiry Date
www.fourace.com	Fourace Industries Limited	24 May 1999	24 May 2021

*Note:* Contents in the domain do not form part of this prospectus.

Save as disclosed above, there are no other domain names, trademarks or other intellectual property rights which are material in relation to our Group's business.



## C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

### 1. Disclosure of Interests

*(a) Interests and short positions of our Directors and the chief executive of our Company in the shares, underlying shares and debentures of our Company and its associated corporations*

So far as our Directors are aware, immediately following completion of the Capitalisation Issue and the Global Offering, and not taking into account of any Share(s) to which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, the interests and short positions of our Directors and chief executive of our Company in the equity or debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO) once the Shares are listed, or which will be required, pursuant to Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules to be notified to us and the Stock Exchange or which will be required pursuant to section 352 of the SFO to be entered in the register referred to therein once the Shares are listed, are as follows:

*Long position in our Shares*

Name of Director/ Chief Executive	Nature of interest	Number and class of securities <i>Note (1)</i>	Approximate percentage of shareholding interest immediately after completion of the Capitalisation Issue and the Global Offering
Mr. SY Li <i>Note (2)</i>	Interest in controlled corporation <i>Note (3)</i>	468,750,000 Shares (L)	37.5%

*Notes:*

- (1) The letter "L" denotes the person's long position in the shares of our Company.
- (2) As at the Latest Practicable Date, Ace Champion is legally and beneficially owned by Mr. SY Li as to 100%. Mr. SY Li is deemed to be interested in the Shares in which Ace Champion is interested in (through its shareholding in our Company) pursuant to Part XV of the SFO.
- (3) Ace Champion, which is a limited liability company incorporated in the BVI, is the legal and beneficial owner of 468,750,000 Shares of our Company, representing approximately 37.5% of the issued share capital of our Company immediately following the completion of the Capitalisation Issue and the Global Offering.

**(b) Interests and short positions of the substantial shareholders in the Shares and Underlying Shares of our Company**

So far as our Directors are aware, assuming no exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, the following persons not being a Director or chief executive of our Company will, immediately following the completion of the Global Offering and Capitalisation Issue and taking no account of any Shares which may be allotted and issued pursuant to the exercise of options to be granted under the Share Option Scheme, have interests or short positions in our Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the 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:

<b>Name of shareholder</b>	<b>Nature of interest</b>	<b>Number and class of securities</b> <sup>Note (1)</sup>	<b>Approximate percentage of shareholding interest immediately after the Capitalisation Issue and the Global Offering</b>
Ace Champion <sup>Note (2)</sup>	Beneficial owner	468,750,000 Shares (L)	37.5%
Forever Golden <sup>Note (3)</sup>	Beneficial owner	468,750,000 Shares (L)	37.5%
Ms. HW Sit <sup>Note (4)</sup>	Interest in controlled corporation	468,750,000 Shares (L)	37.5%
Ms. Chan Pan Pan <sup>Note (5)</sup>	Interest of spouse	468,750,000 Shares (L)	37.5%
Mr. Loo Kin Kuen Stephen <sup>Note (6)</sup>	Interest of spouse	468,750,000 Shares (L)	37.5%

*Notes:*

- (1) The letter “L” denotes the person’s long position in the shares of our Company.
- (2) Ace Champion, which is a limited liability company incorporated in the BVI, is the legal and beneficial owner of 468,750,000 Shares of our Company, representing approximately 37.5% of the issued share capital of our Company.
- (3) Forever Golden, which is a limited liability company incorporated in the BVI, is the legal and beneficial owner of 468,750,000 Shares of our Company, representing approximately 37.5% of the issued share capital of our Company.

- (4) The entire issued share capital of Forever Golden is beneficially owned by Ms. HW Sit who is deemed to be interested in all the Shares held by Forever Golden by virtue of the SFO.
- (5) Ms. Chan Pan Pan is the spouse of Mr. SY Li. Therefore, Ms. Chan Pan Pan is deemed to be interested in the Shares in which Mr. SY Li is interested under the SFO.
- (6) Mr. Loo Kin Kuen Stephen is the spouse of Ms. HW Sit. Therefore, Mr. Loo Kin Kuen Stephen is deemed to be interested in the Shares in which Ms. HW Sit is interested under the SFO.

Save as disclosed above, so far as our Directors are aware, no person (other than members of our Group) will, immediately following the Capitalisation Issue and the completion of the Global Offering, have an interest or a short position in Shares or underlying Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

## 2. Arrangement with our Directors

### (a) *Disclosure of interests of our Directors*

Each of the executive Directors is interested in the Reorganisation and the transactions as contemplated under the material contracts as set out in the paragraphs headed “B. Further information about our business — 1. Summary of material contracts” of this Appendix.

Save as disclosed in this appendix, none of our Directors or their associates were engaged in any dealings with our Group during the two years preceding the date of this prospectus.

### (b) *Service Contracts of our Directors*

#### *Executive Directors*

Each of the executive Directors has entered into a service contract with our Company for a term of three years commencing from the Listing Date until terminated by not less than three months’ notice in writing served by either party on the other. Each of the executive Directors is entitled to their respective basic salaries set out below.

The current basic annual salaries of the executive Directors payable under their service contracts are as follows:

<b>Name</b>	<b>Annual salary</b> <i>HK\$</i>
Mr. SY Li	1.5 million
Ms. SJ Li	1.08 million
Ms. SY Tang	0.6 million

*Independent Non-executive Directors*

Each of the independent non-executive Directors has entered into an appointment letter with our Company under which each of them has agreed to act as the independent non-executive Directors for an initial term of one year commencing from the Listing Date, which shall be renewed and extended automatically for successive terms of one year upon expiry of the then current term until terminated by either party giving not less than three months' written notice to the other expiring at the end of the initial term of their appointment or any time thereafter. The appointments are subject to the provisions of the Articles of Association with regard to vacation of office of Directors, removal and retirement by rotation of Directors. Our independent non-executive Directors, Mr. Liu Kai Yu Kenneth, Mr. Leung Wai Chuen and Mr. Man Yun James are entitled to a director's fee of HK\$252,000 per annum, respectively. Save for directors' fees, none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Save as aforesaid, 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 the employer within one year without the payment of compensation (other than statutory compensation).

**(c) Directors' remuneration**

During the Track Record Period, the aggregate amount of salaries and allowances, discretionary bonus and contributions to pension scheme entitled by our Directors were HK\$2.5 million, HK\$3.1 million and HK\$4.1 million, respectively.

Under the arrangements currently in force and conditional upon the Listing, the estimated aggregate amount of the remuneration and benefits in kind (excluding discretionary benefits or bonuses) payable by our Group to our Directors for FY2021 will be approximately HK\$3.6 million.

**(d) Related party transactions**

During the Track Record Period, some of our banking facilities, including bank borrowings and bank overdrafts, were secured by personal guarantees jointly provided by Mr. SY Li and Ms. HW Sit. It is expected that such personal guarantees will be released upon Listing.

Our amounts due from related parties and an ultimate shareholder were non-trade in nature, unsecured, interest-free and with no agreed term of repayment. In particular, the amounts due from Mr. PJ Sit, a former shareholder of HK Fourace, of HK\$7.6 million, was settled during FY2019, of which (i) approximately HK\$5.5 million was settled by a set-off arrangement between Ms. HW Sit, Mr. PJ Sit and HK Fourace; (ii) the remaining balance of approximately HK\$2.1 million was settled by cash.

For further information, please refer to the section "Financial Information — Material related party transactions" of this prospectus. Details of the related party transactions are also set out under Note 33 to the Accountant's Report in Appendix I to this prospectus.

*(e) Fees or commissions received*

Save as disclosed in the section headed “Underwriting” of this prospectus, none of our Directors nor any of the persons whose names are listed in the paragraph entitled “Qualifications of Experts” in this Appendix had received any commissions, discounts, agency fees, brokerages, or other special terms in connection with the issue or sale of any capital of our Company or any of our subsidiaries within the two years preceding the date of this prospectus.

*(f) Disclaimers*

Save as disclosed in this prospectus:

- (i) so far as our Directors are aware, none of our Directors or chief executive of our Company has any interest or short position in the Shares, underlying Shares and debentures of our Company, or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions of Directors of Listed Issuers contained in Appendix 10 of the Listing Rules, to be notified to our Company and the Stock Exchange, in each case once our Shares are listed;
- (ii) none of our Directors nor any of the parties listed in the paragraph entitled “Qualifications of Experts” in this Appendix has any direct or indirect interest in our promotion of, or in any assets which have, within the two years immediately preceding the issue of this prospectus, been acquired or disposed or leased to us, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (iii) none of our Directors nor any of the parties listed in the paragraph entitled “Consents” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is unusual in its nature or conditions or significant in relation to the business of our Group;
- (iv) save for the Underwriting Agreements, none of the parties listed in the paragraph entitled “Qualifications of Experts” in this Appendix is interested legally or beneficially in any of our Shares or any shares in any of our subsidiaries, or has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities;
- (v) within the two years immediately preceding the date of this prospectus, no commission, discount, brokerage or other special item has been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries;

- (vi) within the two years immediately preceding the date of this prospectus, no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscriptions or agreeing to procure subscriptions of any shares in our Company; and
- (vii) so far as is known to our Directors, none of our Directors or Shareholders who are interested in 5% or more of our issued share capital or their close associates has any interest in either our five largest suppliers or five largest customers.

#### **D. SHARE OPTION SCHEME**

The following is a summary of the principal terms of our Share Option Scheme, conditionally adopted by a written resolution of our Shareholders passed on 21 August 2020. The terms of our Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

##### **1. Purpose of the Share Option Scheme**

The purpose of the Share Option Scheme is to enable the Board to grant share options to selected Eligible Persons as incentives or rewards for their contribution or potential contribution to the growth and development of the our Group.

##### **2. Eligibility of participants of the Share Option Scheme**

The Board may, at its absolute discretion and on such terms as it may think fit, grant share options to any Eligible Person to subscribe at a price calculated in accordance with paragraph 3 below for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme.

The basis of eligibility of any of the Eligible Persons to the grant of share options shall be determined by the Board from time to time on the basis of his contribution or potential contribution to the development and growth of the our Group, provided that no share option shall be granted to any person which would result in our Company being required under applicable securities laws and regulations to issue a prospectus or other offer document in respect thereof, or will result in the breach by our Company or the Directors of any applicable securities laws and regulations or any filing or other requirements arising.

##### **3. Exercise price per Share for the exercise of a share option**

The exercise price per Share payable on the exercise of a share option is to be determined by the Board provided always that it shall be at least the higher of:

- (i) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant (which is deemed to be the date of Board meeting for approving the grant of options), which must be a Business Day; and
- (ii) the average closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange for the five (5) Business Days immediately preceding the date of offer of grant,

provided that the exercise price per Share shall in no event be less than the nominal amount of the Share.

**4. Acceptance of offers**

An offer for the grant of share options must be accepted within thirty (30) days inclusive of the day on which such offer was made. The amount payable by the grantee of a share option to our Company on acceptance of the offer for the grant of a share option is HK\$1.00.

**5. Maximum number of Shares**

- (A) Subject to sub-paragraphs (B) and (C) below, the maximum number of Shares issuable upon the exercise of all share options to be granted under the Share Option Scheme and any other share option schemes of our Company as from the commencement of the Scheme Period (excluding, for this purpose, share options which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) must not in aggregate exceed 10% of the Shares in issue as at the date on which the Share Option Scheme becomes effective i.e. the Listing Date (i.e. 125,000,000 Shares) (the “Scheme Mandate”). The Shares underlying any share options granted under the Share Option Scheme or any other share option schemes of our Company which have been cancelled (but not share options which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) will be counted for the purpose of the Scheme Mandate.
- (B) The Scheme Mandate may be refreshed at any time by obtaining approval of the Shareholders in general meeting provided that the new limit under the refreshed Scheme Mandate must not exceed 10% of the Shares in issue at the date of the Shareholders approval of such refreshed Scheme Mandate. Share options previously granted under the Share Option Scheme or any other share option schemes of our Company (including those exercised, outstanding, cancelled or lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) will not be counted for the purpose of calculating the total number of Shares subject to the refreshed Scheme Mandate.
- (C) Our Company may also, by obtaining separate approval of the Shareholders in general meeting, grant share options beyond the Scheme Mandate provided the share options in excess of the Scheme Mandate are granted only to Eligible Persons specifically identified by our Company before such approval is sought.
- (D) The aggregate number of Shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company must not exceed 30% of the Shares in issue from time to time. No share options may be granted under the Share Option Scheme of our Company if this will result in the limit being exceeded.

**6. Maximum entitlement of each Eligible Person**

The maximum number of Shares issued and to be issued upon the exercise of the share options granted under the Share Option Scheme and any other share option schemes of our Company to any Eligible Person(s) (including cancelled, exercised and outstanding share options), in any 12-month period up to the date of grant shall not exceed 1% of the number of Shares in issue, unless (i) a circular containing the information required by the Listing Rules is despatched to the Shareholders; (ii) the

Shareholders approve the grant of the share options in excess of the 1% limit referred to in this paragraph; and (iii) the relevant Eligible Person and his associates shall abstain from voting. The number and terms (including the exercise price) of share options to be granted to such Eligible Person(s) shall be fixed before Shareholders' approval.

**7. Grant of share options to certain core connected persons**

- (A) Any grant of a share option to a Director, chief executive of our Company or Substantial Shareholder (or any of their respective associates) must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the share option).
- (B) Where any grant of share options to a Substantial Shareholder or an independent non-executive Director (or any of their respective associates) will result in the total number of Shares issued and to be issued upon the exercise of the share options already granted and to be granted to such person under the Share Option Scheme and any other share option schemes of our Company (including share options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant:
- (i) representing in aggregate over 0.1% of the Shares in issue; and
  - (ii) having an aggregate value, based on the closing price of the Shares at each date of grant, in excess of HK\$5 million,

such further grant of share options is required to be approved by Shareholders at a general meeting of our Company in accordance with the Listing Rules. Any change in the terms of a share option granted to a Substantial Shareholder or an independent non-executive Director or any of their respective associates is also required to be approved by Shareholders. In such case, our Company must send a circular to the Shareholders containing all the information and the independent non-executive Director's recommendation as required by the Listing Rules. The grantee, his associates and all core connected persons of our Company must abstain from voting in favour at such general meeting. Pursuant to Rule 13.39(4) of the Listing Rules, any vote taken at the general meeting to approve the grant of such share options must be taken by way of a poll.

The circular to be issued by our Company to the Shareholders pursuant to paragraph 7(B) above shall disclose the identity of the relevant Eligible Person, the number and terms of the share options to be granted (and options previously granted to such Eligible Person under the Share Option Scheme), the recommendation from the independent non-executive Directors of our Company (excluding the independent non-executive Director who is a grantee) to the independent Shareholders as to voting, the information required under Rules 17.02(2)(c) and (d) and the disclaimer required under Rule 17.02(4) of the Listing Rules. The number and terms (including the exercise price) of the share options shall be fixed before the Shareholders' meeting and the date of the Board meeting for proposing such further grant is to be taken as the date of grant for the purpose of calculating the exercise price.



## 8. Time of grant and exercise of share options

Our Company may not grant any share options after inside information (as defined in the SFO) has come to its knowledge until it has announced the information. In particular, no share options may be granted during the period commencing one (1) month immediately preceding the earlier of (a) the date of the Board meeting (as such date is announced in accordance with Rule 13.43 of the Listing Rules) for the approval of our Company's results for any year, half-year or quarter-year period or any other interim period (whether or not required under the Listing Rules); and (b) the deadline for our Company to publish its results announcement for any year, half-year or quarter-year period or any other interim period (whether or not required under the Listing Rules), and ending on the actual date of publication of the results announcement.

No share options may be granted to an Eligible Person who is subject to the required standard of dealings (as referred to under Appendix 10 of the Listing Rules) during the periods or times in which such Eligible Person is prohibited from dealing in Shares pursuant to the required standard of dealings. The required standard of dealings applies to an Eligible Person who is a Director, which will be regarded as equally applicable to any dealings by the Director's spouse or by or on behalf of any minor child is summarised as below:

A Director must not deal in any of the securities of:

- (i) our Company at any time when he possesses inside information in relation to those securities;
- (ii) an issuer listed on GEM or the Main Board when by virtue of his position as a director of another issuer, he possesses inside information in relation to those securities;
- (iii) our Company on any day on which its financial results are published and:
  - (a) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
  - (b) during the period of 30 days immediately preceding the publication date of the quarterly results and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results,

unless the circumstances are exceptional.

An appropriate notification should be made by a dealing Director permitted to deal to the chairman or a Director (otherwise than himself) designated for such notification for a dated written acknowledgement and a written record should be maintained by the issuer in such regard. In the chairman's own case, such notification should be made to the Board at a Board meeting or to another Director designated for such notification.

A share option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period commencing on such date on or after the date on which the share option is granted as the Board may determine in granting the share options and expiring at the close of business on such

date as the Board may determine in granting the share options but in any event shall not exceed ten (10) years from the date of grant (which is the date of offer of grant if the offer for the grant of the share options is accepted).

#### **9. Performance targets**

Save as determined by the Board and provided in the offer of the grant of the relevant share options, there is no performance target which must be achieved before any of the share options can be exercised.

#### **10. Ranking of Shares**

If under the terms of a resolution passed or an announcement made by our Company prior to the date of exercise of a share option, a dividend is to be or is proposed to be paid, or Shares are to be issued or proposed to be issued by way of the capitalisation of profits or reserves or by way of rights under an offer made pro rata, to Shareholders on the register of members of our Company on a date prior to such date of exercise, the Shares to be issued upon such exercise will not rank for such dividend or such Shares. Subject to as aforesaid, the Shares allotted upon the exercise of an outstanding share option will be subject to all the provisions of the Articles for the time being in force and will rank pari passu in all respects with the fully paid Shares in issue on the date of such exercise. Shares allotted upon the exercise of a share option for the time being outstanding shall not carry voting rights until completion of the registration of the holder of share option (or any other person) as the holder thereof.

#### **11. Rights are personal to grantee**

A share option is personal to the grantee and shall not be transferable or assignable and the grantee may not in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any share option or attempt to do so.

#### **12. Rights on cessation of employment by death**

In the event of the death of the grantee (provided that none of the events which would be a ground for termination of employment referred to in paragraph 14 below arises within a period of three years prior to the death, in the case the grantee is an employee at the date of grant), the legal personal representative(s) of the grantee may exercise the option up to the grantee's entitlement (to the extent which has become exercisable and not already exercised) within a period of 12 months following his death provided that where any of the events referred to in paragraphs 16, 17 and 18 occurs prior to his death or within such period of 12 months following his death, then his legal personal representative(s) may so exercise the option within such of the various periods respectively set out therein.

#### **13. Rights on cessation of employment by dismissal**

In the event that the grantee is an employee of our Group at the date of grant and he subsequently ceases to be an employee of our Group on any one or more of the grounds that he has been guilty of serious misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any

applicable laws or under the grantee's service contract with our Group, his share option shall lapse automatically (to the extent not already exercised) on the date of cessation of his employment with our Group.

#### **14. Rights on cessation of employment for other reasons**

In the event that the grantee is an employee, a consultant or an adviser (as the case may be) of a member of our Group at the date of grant and he subsequently ceases to be an employee, a consultant or an adviser (as the case may be) of our Group for any reason other than his death or the termination of his employment of an employee or engagement of a consultant or an adviser (as the case may be) on one or more of the grounds specified in paragraph 13 above, the share option (to the extent not already lapsed or exercised) shall lapse on the expiry of three months after the date of cessation of such employment of an employee or engagement of a consultant or an adviser (as the case may be) (which date will be in the case of an employee the last actual working day, on which the grantee was physically at work with our Company or the relevant member of our Group whether salary is paid in lieu of notice or not, and in the case of a consultant or an adviser (as the case may be), the last actual day of providing consultancy or advisory services to the relevant member of our Group).

#### **15. Failure to meet continuing eligibility criteria**

If the Board in the offer granting the relevant share option has specified that the grantee has to meet certain continuing eligibility criteria and that the failure of the grantee to meet any such continuing eligibility criterion would entitle our Company to cancel the share option then outstanding (or part thereof), then upon the failure of the grantee to meet any such continuing eligibility criterion, his outstanding share option shall lapse and determine on the date the Board exercises our Company's right to cancel the share option on the ground of such failure.

#### **16. Rights on a general offer**

If a general offer by way of takeover is made to all the Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror (including an offer made in the first instance on a condition such that, if it is satisfied, the offeror will have control of our Company) or otherwise, any person shall have obtained control of our Company, then the Board shall as soon as practicable thereafter notify every grantee accordingly, the grantee of a share option shall, subject to paragraph 8 above, be entitled to exercise at any time within a period of fourteen (14) days after such control has been obtained by the offeror any share option in whole or in part to the extent not already exercised (and notwithstanding any restrictions which would otherwise have prevented such share option from being exercisable at that time). For the avoidance of doubt, a share option not so exercised shall remain valid in accordance with its terms and subject to such restrictions as applied to it before the general offer.

#### **17. Rights on winding-up**

If notice is given by our Company to Shareholders of a general meeting at which a resolution will be proposed for the voluntary winding-up of our Company, our Company shall forthwith give notice to all grantees of share options and each grantee shall be entitled, at any time no later than two (2) business days prior to the proposed general meeting of our Company to exercise any of his outstanding share options in whole or in part to the extent not already exercised (and notwithstanding any restrictions

which would otherwise have prevented such share options from being exercisable at that time). If such resolution is duly passed, all share options shall, to the extent that they have not been exercised, thereupon lapse and determine on the commencement of the winding-up.

#### **18. Rights on compromise or arrangement**

If a compromise or arrangement between our Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of our Company or its amalgamation with any other companies pursuant to the laws of jurisdictions in which our Company was incorporated, our Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members or creditors summoning the meeting to consider such a scheme or arrangement and any grantee may by notice in writing to our Company accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given (such notice to be received by our Company not later than two business days prior to the proposed meeting), exercise the share option to its full extent or to the extent specified in the notice and 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 meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise of the option credited as fully paid and register the grantee as holder thereof.

With effect from the date of such meeting, the rights of all grantees to exercise their respective share options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all share options shall, to the extent that they have not been exercised, lapse and determine. If for any reason such compromise or arrangement does not become effective and is terminated or lapses, the rights of grantees to exercise their respective share options shall with effect from such termination be restored in full but only upon the extent not already exercised and shall become exercisable.

#### **19. Lapse of share options**

A share option shall lapse automatically on the earliest of:

- (i) the expiry of the period referred to in paragraph 8 above;
- (ii) the date on which the grantee commits a breach of paragraph 11 above, if the Board shall exercise our Company's right to cancel the share option;
- (iii) the expiry of the relevant period or the occurrence of the relevant event referred to in paragraphs 12, 13, 14 or 15 above;
- (iv) the expiry of any of the relevant periods referred to in paragraphs 17 or 18 above; and
- (v) the commencement of a winding-up of our Company.

#### **20. Cancellation of share options granted but not yet exercised**

Following the cancellation of any share options granted under the Share Option Scheme but not exercised, new share options may only be granted to the same grantee under the Share Option Scheme with available unissued share options (excluding the cancelled share options) within the limit of the Scheme Mandate then available to the Board.

**21. Effects of alterations to capital**

In the event of any alteration in the capital structure of our Company by way of capitalisation issue, rights issue, sub-division or consolidation of the Shares or reduction of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction while any share option remains exercisable), such corresponding alterations (if any) will be made in (i) the number of Shares subject to any outstanding share options and/or (ii) the exercise price per Share as the independent financial adviser of our Company for the time being or the auditor shall at the request of our Company or any grantee certify in writing to be in their opinion fair and reasonable, provided that any such alterations shall be made on the basis that the grantee shall have the same proportion of the issued share capital of our Company to which he was entitled before such alteration and the aggregate exercise price payable by the grantee on the full exercise of any share options shall remain as nearly as possible the same as (but not greater than) it was before such event, but so that no such alterations shall be made the effect of which would be to enable the Share to be issued at less than its nominal value. Save in the case of a capitalisation issue, an independent financial adviser of our Company for the time being or the auditor must confirm to the Directors in writing that such adjustment(s) satisfy the aforesaid requirements and/or such other requirement prescribed under the Listing Rules from time to time.

**22. Period of the Share Option Scheme**

The Share Option Scheme will remain in force for a period of ten (10) years commencing on the date on which the Share Option Scheme becomes effective and shall expire at the close of business on the day immediately preceding the tenth anniversary thereof unless terminated earlier by Shareholders in general meeting (the "Scheme Period").

**23. Alteration to the Share Option Scheme**

The terms and conditions of the Share Option Scheme and the regulations for the administration and operation of the Share Option Scheme (provided that the same are not inconsistent with the Share Option Scheme and the Listing Rules) may be altered in any respect by resolution of the Board except that:

- (i) any alteration to the advantage of the grantees or the Eligible Persons (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules;
- (ii) any change to the authority of the Board or scheme administrators in relation to any alteration to the terms of the Share Option Scheme; or
- (iii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of share options granted (except any alterations which take effect automatically under the terms of the Share Option Scheme),

must first be approved by the Shareholders in general meeting at which any person(s) to whom or for whose benefit the Shares may be issued under the Share Option Scheme and their respective associates shall abstain from voting. In addition, no alteration shall operate to affect adversely any rights which have accrued to any option holder at the date of the alternation.

The amended terms of the Share Option Scheme shall still comply with Chapter 17 of the Listing Rules.

#### **24. Termination to the Share Option Scheme**

Our Company may by resolution in general meeting, or the Board may at any time terminate the Share Option Scheme and in such event no further share option shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any share option granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

Share options granted prior to such termination at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

#### **25. Conditions of the Share Option Scheme**

The Share Option Scheme is conditional on (i) the commencement of dealings in the Shares on the Stock Exchange; (ii) the passing of the necessary resolutions to adopt the Share Option Scheme by Shareholders; (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms thereof or otherwise; and (iv) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in any Shares to be allotted and issued pursuant to the exercise of any share option which may be granted under the Share Option Scheme.

### **E. OTHER INFORMATION**

#### **1. Estate Duty**

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of its subsidiaries.

#### **2. Stamp Duty**

Dealings in the Shares will be subject to Hong Kong stamp duty. The current ad valorem rate of Hong Kong stamp duty is 0.1% on the higher of the consideration for or the market value of the Shares and it is charged on the purchaser on every purchase and on the seller on every sale of the Shares. In other words, a total stamp duty of 0.2% is currently payable on a typical sale and purchase transaction involving the Shares.

### 3. Tax and other indemnities

Each of our Controlling Shareholders (collectively, the “Indemnifiers”) has entered into the Deed of Indemnity (being the material contract referred to in “B. Further information about our business — 1. Summary of material contracts — (a) Deed of Indemnity” in this Appendix) with and in favour of our Company (for itself and as trustee for its subsidiaries) to provide indemnities on a joint and several basis in respect of, among other matters:

- (a) any tax (which includes estate duty) liabilities in whatever part of the world which might be payable by any member of our Group in respect of any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received, or of any transactions entered into, or the occurrence of any matters or things on or up to the date on which the Global Offering becomes unconditional (the “Effective Date”), save for any taxation the extent that:
  - (i) full provision has been made for such taxation in the audited accounts of our Group for the three years ended 31 March 2020 (the “Accounts”) as set out in Appendix I to this prospectus and to the extent that such taxation is incurred or accrued since 31 March 2020 which arises in the ordinary course of business of our Group as described in the section headed “Business” of this prospectus;
  - (ii) falling on any member of our Group on or after 31 March 2020, unless the liability for such taxation would not have arisen but for any act or omission of, or delay by, or transactions voluntarily effected by any member of our Group (whether alone or in conjunction with some other act, omission, delay or transaction, whenever occurring) other than the tax liability incurred in the ordinary course of its business or in the ordinary course of acquiring or disposing of capital assets or pursuant to a legally binding commitment created before 31 March 2020;
  - (iii) such taxation claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Inland Revenue Department of Hong Kong or any other relevant authority (whether in Hong Kong, the Cayman Islands, the PRC or any other part of the world) coming into force after the Effective Date or to the extent such taxation claim arises or is increased by an increase in rates of taxation after the Effective Date with retrospective effect;
  - (iv) any provisions or reserve made for taxation in the Accounts which is finally established to be an over-provision or an excessive reserve in which case the Indemnifiers’ liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied pursuant to the deed of indemnity to reduce the Indemnifiers’ liability in respect of taxation shall not be available in respect of any such liability arising thereafter; and
  - (v) for which our Company or any of our subsidiaries is or may become primarily liable as result of any event occurring or deemed occurring or income, profits or gains earned, accrued or received or transactions in the ordinary course of their business after the date of the Deed of Indemnity.

- (b) any fines, penalties, administrative or other charges, levies, payments, orders, eviction or restraint from use of any property owned or leased by any member of our Group which may be imposed on any member of our Group in relation to events occurred on or before the Listing Date, or any damages, losses, liabilities, claims, expenses and costs (including all costs for relocation of any member of our Group and its assets from any property owned, leased occupied or used by any member of our Group in case of it being subject to any eviction or restraint from use of such property), or damages, liabilities, claims, losses (including loss of profits or benefits) incurred or suffered by any member of our Group directly or indirectly arising from or in connection with any possible or alleged violation or non-compliance with the applicable laws, rules or regulations of Hong Kong on all matters on or before the Listing Date and in connection with any property owned, leased, occupied or used by any member of our Group before the Listing Date; and
- (c) any depletion in or reduction in value of its assets or any loss (including all legal costs and suspension of operation), cost, expenses, damages or other liabilities which any member of our Group may incur or suffer arising from or in connection with the implementation of the Reorganisation.

#### **4. The Sole Sponsor**

The Sole Sponsor has confirmed that it satisfies the independence criteria applicable to sponsors set forth in Rule 3A.07 of the Listing Rules. The Sole Sponsor's fee in relation to the Listing is approximately HK\$5.4 million.

#### **5. Litigation**

As at the Latest Practicable Date, no member of our Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened against any member of our Group.

#### **6. Agency fees or commissions received**

The Underwriters will receive a commission of 17.0% of the aggregate Offer Price in respect of all the Offer Shares, out of which they will pay any sub-underwriting commissions and other fees. In addition, our Company shall pay to the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) an incentive fee of up to 3.0% of the aggregate Offer Price of all the Offer Shares. Such commissions, advisory and documentation fees and expenses, together with the Stock Exchange listing fees, legal and other professional fees, and printing and other expenses relating to the Global Offering, which are estimated to amount in aggregate to approximately HK\$64.6 million based on the mid-point Offer Price of HK\$0.50 per Offer Share will be payable by our Company.

#### **7. Application for listing of Shares**

The Sole Sponsor has made an application on behalf of our Company to the Listing Division of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares which may be issued upon the exercise of any option which



may be granted under the Share Option Scheme, being up to 10% of the Shares is issued on the Listing Date, on the Stock Exchange. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

#### 8. Compliance adviser

In accordance with the requirements of the Listing Rules, our Company has appointed Innovax Capital as compliance adviser to provide advisory services to our Company to ensure compliance with the Listing Rules for a period commencing on the Listing Date and ending on the date on which we distribute our annual report of our financial results of the first financial year commencing after the Listing Date or until the agreement is terminated, whichever is the earlier.

#### 9. Preliminary Expenses

Our preliminary expenses relating to the incorporation of our Company are estimated to be approximately US\$8,572.7 (equivalent to approximately HK\$66,438.4) and are payable by our Company.

#### 10. Promoter

Our Company has no promoter for the purpose of the Listing Rules. Save as disclosed in this prospectus, within the three 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 Global Offering and the related transactions described in this prospectus.

#### 11. Qualifications of Experts

The qualifications of the experts (as defined under the Listing Rules and the Companies (WUMP) Ordinance) who have given their opinions or advice in this prospectus are as follows:

Name	Qualifications
Innovax Capital Limited	A licensed corporation under the SFO to engage in Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities (as defined under the SFO)
PricewaterhouseCoopers	Certified public accountants under Professional Accountants Ordinance (Cap. 50) and Registered Public Interest Entity Auditor under Financial Reporting Council Ordinance (Cap. 588)
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Jingtian & Gongcheng	Legal advisers to our Company as to the PRC laws
Squire Patton Boggs (US) LLP	Legal advisers to our Company as to U.S. laws
Frost & Sullivan International Limited	Independent market research consultant

AVISTA Valuation Advisory Limited	Independent property valuer
SHINEWING Risk Services Limited	Internal control consultant
Shenzhen Qianhai PricewaterhouseCoopers Business Consulting Services Co., Limited	Independent transfer pricing tax adviser to our Group with respect to transfer pricing arrangement of our Group

## 12. Consents

Each of the experts referred to in the paragraph headed “E. Other information — 11. Qualifications of experts” in this Appendix has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its reports and/or letters and/or opinions (as the case may be), and/or the references to its name included herein in the form and context in which they are respectively included.

None of the experts named above has any shareholding interests in any member of our Group or the right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

## 13. Binding Effect

This prospectus shall have the effect, if an application is made in pursuant hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (WUMP) Ordinance so far as applicable.

## 14. Miscellaneous

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
- (i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;
  - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
  - (iii) no founders or management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;
  - (iv) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and

- (v) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of our subsidiaries.
- (b) Our Directors confirm that:
  - (i) there has been no material adverse change in the financial or trading position or prospects of our Group since 31 March 2020 (being the date to which the latest audited consolidated financial statements of our Group were prepared);
  - (ii) there is no arrangement under which future dividends are waived or agreed to be waived;
  - (iii) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus; and
  - (iv) none of the Directors is interested in any business apart from our Company's business, which competes or is likely to complete, either directly or indirectly, with our Company's business.
- (c) The principal register of members of our Company will be maintained in the Cayman Islands by Conyers Trust Company (Cayman) Limited and a Hong Kong register of members of our Company will be maintained in Hong Kong by Tricor Investor Services Limited. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Hong Kong Branch Share Registrar and may not be lodged in the Cayman Islands.
- (d) All necessary arrangements have been made to enable our Shares to be admitted into CCASS for clearing and settlement.
- (e) No company within our Group is presently listed on any stock exchange or traded on any trading system.
- (f) Our Directors have been advised that, under the Cayman Companies Law, the use of a Chinese name by our Company in conjunction with our English name does not contravene the Cayman Companies Law.

## 15. Bilingual Document

The English and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption from Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). Should there be any discrepancy between the English language of this prospectus and the Chinese translation, the English language version of this prospectus 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) a copy of each of the **WHITE, YELLOW** and **GREEN** Application Forms; (b) the written consents referred to in the paragraph headed “E. Other information — 12. Consents” of Appendix V to this prospectus; and (c) and copies of the material contracts referred to in the paragraph headed “B. Further information about our business — 1. Summary of material contracts” of Appendix V to this prospectus.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Jeffrey Mak Law Firm at 6/F, O.T.B. Building, 259–265 Des Voeux Road Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association of our Company;
- (b) the Articles of Association of our Company;
- (c) the accountant’s report from PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus;
- (d) the report on unaudited pro forma financial information from PricewaterhouseCoopers, the text of which is set out in Appendix II to this prospectus;
- (e) the audited consolidated financial statements of our Group for each of the Track Record Period;
- (f) the property valuation report prepared by AVISTA Valuation Advisory Limited, the text of which is set out in Appendix III to this prospectus;
- (g) the letter of advice prepared by Conyers Dill & Pearman, our Company’s legal advisers on Cayman Islands law, summarising certain aspects of the company law of the Cayman Islands as referred to in Appendix IV to this prospectus;
- (h) the Companies Law;
- (i) the letter of advice prepared by Squire Patton Boggs (US) LLP, our Company’s legal advisers as to U.S. law in respect of certain aspects of the trade law of the U.S.;
- (j) the legal opinions prepared by Jingtian & Gongcheng in respect of certain aspects of our Group in the PRC and summary of the PRC laws and regulations relating to our business operations and property interests respectively;
- (k) the service contracts referred to in the paragraphs headed “C. Further information about our Directors and substantial shareholders — 2. Arrangement with our Directors — (b) Service contracts of our Directors” in Appendix V to this prospectus;

- (l) the material contracts referred to in the paragraph headed “B. Further information about our business — 1. Summary of material contracts” in Appendix V to this prospectus;
- (m) the written consents referred to in the paragraph headed “E. Other information — 12. Consents” in Appendix V to this prospectus;
- (n) the rules of the Share Option Scheme referred to in the paragraphs headed “D. Share Option Scheme” in Appendix V to this prospectus;
- (o) the Industry Report;
- (p) the transfer pricing review in respect of the transfer pricing arrangement of our Group, prepared by Shenzhen Qianhai PricewaterhouseCoopers Business Consulting Services Co., Limited; and
- (q) the internal control report prepared by SHINEWING Risk Services Limited.



**FOURACE INDUSTRIES GROUP HOLDINGS LIMITED**  
**科利實業控股集團有限公司**