

GREEN FUTURE FOOD HYDROCOLLOID MARINE SCIENCE COMPANY LIMITED

綠新親水膠體海洋科技有限公司

Incorporated in the Cayman Islands with limited liability

Stock Code: 01084



Share Offer

Sole Sponsor



Essence Corporate Finance (Hong Kong) Limited

Sole Bookrunner and Sole Lead Manager



Essence International Securities (Hong Kong) Limited

IMPORTANT

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



GREEN FUTURE FOOD HYDROCOLLOID MARINE SCIENCE COMPANY LIMITED

綠新親水膠體海洋科技有限公司

(Incorporated in the Cayman Islands with limited liability)

SHARE OFFER

Number of Offer Shares	: 200,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	: 20,000,000 Shares (subject to re-allocation)
Number of International Offer Shares	: 180,000,000 Share (subject to re-allocation and the Over-allotment Option)
Offer Price	: Not more than HK\$1.74 and expected to be not less than HK\$1.16, plus brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	: HK\$0.01 per Share
Stock code	: 01084

Sole Sponsor



Essence Corporate Finance (Hong Kong) Limited

Sole Bookrunner and Sole Lead Manager



Essence International Securities (Hong Kong) Limited

Co-lead Managers



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

A copy of this prospectus, together with the documents specified under the paragraphs under "A. Documents Delivered to the Registrar of Companies" in Appendix VI to this prospectus, has been registered with the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission 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.

Prior to making an investment decision, prospective investors should consider carefully all the information set forth in this prospectus, including but not limited to the risk factors set forth in the section headed "Risk Factors" in this prospectus.

The Offer Price is expected to be fixed by agreement between the Sole Bookrunner and Sole Lead Manager (for itself and on behalf of the Underwriters) and us on the Price Determination Date, which is expected to be on or around Thursday, 10 October 2019 or such later date as may be agreed between the parties, but in any event no later than Wednesday, 16 October 2019. The Offer Price will not be more than HK\$1.74 and is expected to be not less than HK\$1.16, unless otherwise announced. If, for any reason, the Offer Price is not agreed on or before Wednesday, 16 October 2019 between the Sole Bookrunner and Sole Lead Manager (for itself and on behalf of the Underwriters) and us, the Share Offer will not proceed and will lapse. Investors applying for our Offer Shares must pay the maximum Offer Price of HK\$1.74, together with brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price shall be lower than HK\$1.74 as finally determined.

The Sole Bookrunner and Sole Lead Manager (for itself and on behalf of the Underwriters) may with our consent reduce the indicative range of the Offer Price at any time prior to the morning of the last day for lodging applications under the Share Offer. In such case, a notice of reduction of the indicative range of the Offer Price will be published on the website of our Company at www.greenfreshfood.com and the website of the Stock Exchange at www.hkexnews.hk as soon as practicable following the decision to make such reduction and in any event, not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. If applications for our Hong Kong Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, such applications can be withdrawn if the indicative range of the Offer Price is so reduced. If, for whatever reason, the Sole Bookrunner and Sole Lead Manager (for itself and on behalf of the Underwriters) and us are unable to agree on the Offer Price by Wednesday, 16 October 2019, the Share Offer will not proceed and will lapse.

Prospective investors of our Hong Kong Offer Shares should note that the Hong Kong Underwriter is entitled to terminate their obligations under the Hong Kong Underwriting Agreement by notice in writing to us given by the Sole Bookrunner and Sole Lead Manager (for itself and on behalf of the Underwriters) upon occurrence of any of the events set forth in the section headed "Underwriting — Underwriting arrangements and expenses—Hong Kong Public Offering—Grounds for termination" in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date.

30 September 2019

EXPECTED TIMETABLE

Our Company will issue an announcement in Hong Kong to be published on the website of our Company at www.greenfreshfood.com and the website of the Stock Exchange at www.hkexnews.hk if there is any change in the following expected timetable of the Hong Kong Public Offering. All times and dates stated below refer to Hong Kong local times and dates. Further information on the Share Offer is set forth in the section headed “Structure and Conditions of the Share Offer” in this prospectus.

The period during which an application for our Hong Kong Offer Shares can be lodged pursuant to the terms of this prospectus and the Application Forms will expire on Wednesday, 9 October 2019. Such period is longer than the time period usually adopted in other initial public offering transactions in Hong Kong. See the section headed “How to apply for our Hong Kong Offer Shares” in this prospectus for the channels that you may use for subscribing for our Hong Kong Offer Shares.

Hong Kong Public Offering commences and WHITE and YELLOW Application Forms available from	9:00 a.m. on Monday, 30 September 2019
Latest time to complete electronic applications under WHITE Form eIPO service through the designated website at www.eipo.com.hk ⁽²⁾	11:30 a.m. on Wednesday, 9 October 2019
Application Lists open ⁽³⁾	11:45 a.m. on Wednesday, 9 October 2019
Latest time to lodge WHITE and YELLOW Application Forms and to give electronic application Instructions to HKSCC ⁽⁴⁾	12:00 noon on Wednesday, 9 October 2019
Latest time to complete payment of WHITE Form eIPO applications by effecting Internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Wednesday, 9 October 2019
Application Lists close	12:00 noon on Wednesday, 9 October 2019
Price Determination Date ⁽⁵⁾	Thursday, 10 October 2019

(1) Announcement of the final Offer Price, the level of the applications in the Hong Kong Public Offering, and the basis of allotment of our Offer Shares to be published on the website of our Company at www.greenfreshfood.com on or before Wednesday, 16 October 2019

(2) Results of allocations (with successful applicants' identification document numbers or Hong Kong business registration numbers) of the Hong Kong Public Offering will be available through a variety of channels as set forth in the section headed “How to Apply for our Hong Kong Offer Shares” in this prospectus Wednesday, 16 October 2019

EXPECTED TIMETABLE

- (3) A full announcement of the Hong Kong Public Offering containing (1) and (2) above to be published on the website of our Company at www.greenfreshfood.com and the website of the Stock Exchange at www.hkexnews.hk from Wednesday, 16 October 2019

Results of allocations in the Hong Kong Public Offering will be available at www.iporesults.com.hk (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a “search by ID function” Wednesday, 16 October 2019

Dispatch of White Form e-Refund payment instructions/refund cheques in respect of wholly successful (if applicable) and wholly and partially unsuccessful applications under the Hong Kong Public Offering on or before⁽⁶⁾⁽⁷⁾ Wednesday, 16 October 2019

Dispatch of Share certificates of our Offer Shares or deposit of Share certificates of our Offer Shares into CCASS in respect of wholly or partially successful applications under the Hong Kong Public Offering on or before⁽⁵⁾⁽⁷⁾ Wednesday, 16 October 2019

Dealings in Shares on the Stock Exchange expected to commence at 9:00 a.m. on Thursday, 17 October 2019

Notes:-

- (1) All times refer to Hong Kong local time, except as otherwise stated.
- (2) You will not be permitted to submit your application to the **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the Application Lists close.
- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force at any time between 9:00 a.m. and 12:00 noon on Wednesday, 9 October 2019, the Application Lists will not open and close on that day. See the section headed “How to Apply for our Hong Kong Offer Shares — Effect of bad weather on the opening and closing of the Application Lists” in this prospectus. If the Application Lists do not open and close on Wednesday, 9 October 2019, the dates mentioned in this section may be affected. An announcement will be made by us in such event.
- (4) Applicants who apply for Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for our Hong Kong Offer Shares — Applying by giving electronic application instructions to HKSCC via CCASS” in this prospectus.
- (5) We expect to determine the Offer Price by agreement with the Sole Bookrunner and Sole Lead Manager (for itself and on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or around Thursday, 10 October 2019 and, in any event, not later than Wednesday, 16 October 2019. If, for any reason, the Offer Price is not agreed between the Sole Bookrunner and Sole Lead Manager (for itself and on behalf of the Underwriters) and us by or before Wednesday, 16 October 2019, the Share Offer will not proceed and will lapse. Notwithstanding that the Offer Price may be fixed at below the maximum Offer Price of HK\$1.74 per Offer Share payable by applicants for Hong Kong Offer Shares under the Hong Kong Public Offering, applicants for the Hong Kong

EXPECTED TIMETABLE

Offer Shares are required to pay, on application, the maximum Offer Price of HK\$1.74 for each Share, together with the brokerage fee of 1.0%, a Stock Exchange trading fee of 0.005% and a SFC transaction levy of 0.0027% but will be refunded the surplus application monies as provided for in “How to Apply for our Hong Kong Offer Shares” in this prospectus.

- (6) **Share certificates for our Offer Shares will only become valid certificates of title at 8:00 a.m. on Thursday, 17 October 2019 provided that (i) the Share Offer has become unconditional in all respects and (ii) the Underwriting Agreements have not been terminated in accordance with their respective terms.**
- (7) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the maximum Offer Price payable on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may lead to delays in encashment of, or may invalidate, the refund cheque.
- (8) Applicants who have applied on **WHITE** Application Forms for 1,000,000 or more Hong Kong Offer Shares and have provided all required information may collect any refund cheque and Share certificate in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, between 9:00 a.m. to 1:00 p.m. on Wednesday, 16 October 2019. Applicants being individuals who is eligible for personal collection may not authorise any other person to make collection on their behalf. Applicants being corporations who is eligible for collection in person must attend by their authorised representatives bearing letters of authorisation from their corporation stamped with the corporation’s chop. Both individuals and authorised representatives of corporations must produce, at the time of collection, identification and (where applicable) authorisation documents acceptable to our Hong Kong Share Registrar.

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Hong Kong Offer Shares and have provided all required information may collect their refund cheques, if any, in person but may not collect their Share certificate as such Share certificate will be deposited into CCASS for the credit of their designated CCASS Participants’ stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheque for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Applicants who have applied through the **WHITE Form eIPO** service for 1,000,000 or more Hong Kong Offer Shares can collect their Share certificate (if any) in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, between 9:00 a.m. to 1:00 p.m. on Wednesday, 16 October 2019. For applicants who apply through the **WHITE Form eIPO** service and paid the application monies from a single bank account, e-Refund payment instructions (if any) will be dispatched to their application payment bank account on or before Wednesday, 16 October 2019. For applicants who apply through the **WHITE Form eIPO** service and used multi-bank accounts to pay the application monies, refund cheque will be dispatched to the address specified in their electronic application instruction to the **WHITE Form eIPO** Service Provider on or before Wednesday, 16 October 2019.

Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for our Hong Kong Offer Shares” in this prospectus. Uncollected Share certificates and/or refund cheques will be dispatched by ordinary post, at the applicants’ own risk to the addresses specified in the relevant applications. See the section headed “How to Apply for our Hong Kong Offer Shares—Applying through White Form eIPO Service” in this prospectus.

EXPECTED TIMETABLE

See the section headed “Structure and Conditions of the Shares Offer” in this prospectus for further information on the structure of the Hong Kong Public Offering, including the conditions thereto.

Prospective investors of our Hong Kong Offer Shares should note that the Hong Kong Underwriter is entitled to terminate their obligations under the Hong Kong Underwriting Agreement by notice in writing to us given by the Sole Bookrunner and Sole Lead Manager (for itself and on behalf of the Underwriters) upon the occurrence of any of the events set forth in the section headed “Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering — Grounds for termination” in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date.

TABLE OF CONTENTS

IMPORTANT NOTICE TO INVESTORS

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

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not contained nor made in this prospectus and the Application Forms must not be relied on by you as having been authorised by us, the Sole Sponsor, the Sole Bookrunner and Sole Lead Manager, the Underwriters, any of our or their respective directors, officers, employees, agents or representatives or any other parties involved in the Share Offer.

	<i>Page</i>
EXPECTED TIMETABLE	i
TABLE OF CONTENTS	v
SUMMARY AND HIGHLIGHTS	S-1
DEFINITIONS	1
GLOSSARY OF TECHNICAL TERMS	14
INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER	17
FORWARD-LOOKING STATEMENTS	21
RISK FACTORS	22
DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER	50
CORPORATE INFORMATION	55
INDUSTRY OVERVIEW	57
APPLICABLE LAWS AND REGULATIONS	70

TABLE OF CONTENTS

	<i>Page</i>
HISTORY, DEVELOPMENT, AND REORGANISATION	99
PRE-IPO INVESTOR	117
BUSINESS	123
CONNECTED TRANSACTION	271
DIRECTORS, SENIOR MANAGEMENT, AND EMPLOYEES	272
SHARE CAPITAL	284
FINANCIAL INFORMATION	288
REASONS FOR THE LISTING, FUTURE PLANS, AND PROPOSED USE OF NET PROCEEDS FROM THE SHARE OFFER	411
CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS	415
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS	419
UNDERWRITING	423
STRUCTURE AND CONDITIONS OF THE SHARE OFFER	435
HOW TO APPLY FOR OUR HONG KONG OFFER SHARES	445
APPENDIX I — ACCOUNTANT’S REPORT	I-1
APPENDIX II — UNAUDITED PRO FORMA FINANCIAL INFORMATION	II-1
APPENDIX III — PROPERTY VALUATION	III-1
APPENDIX IV — SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN COMPANIES LAW	IV-1
APPENDIX V — STATUTORY AND GENERAL INFORMATION	V-1
APPENDIX VI — DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR PUBLIC INSPECTION IN HONG KONG	VI-1

SUMMARY AND HIGHLIGHTS

This section 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 the entire prospectus before you decide to invest in our Hong Kong Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in our Hong Kong Offer Shares are set forth in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in our Hong Kong Offer Shares.

OVERVIEW

We are a leading seaweed-based and plant-based hydrocolloid producer in the PRC. Our hydrocolloid products include agar-agar products, carrageenan products, konjac products, and their respective blended products, which are derived from natural sources and have a seaweed or plant origin. Seaweed-based and plant-based hydrocolloid products are commonly used in food producing and processing industry. In food production process, hydrocolloid products can enhance the appearance and texture of food, achieve the desired viscosity and mouthfeel, and have the functional properties of gelling and thickening. Hydrocolloid products are used in dairy products, beverages, confectioneries, meat products, jellies, and desserts.





Our leading position in the seaweed-based hydrocolloid industry is reflected in our rankings and market share both in the PRC and the international markets. Pursuant to the Frost & Sullivan Report, we ranked first amongst the agar-agar producers, both in the PRC and the global market, in terms of both the sales volume and sales value in 2018. Pursuant to the same report, our market share in the PRC agar-agar market in 2018 was 31.6% in terms of sales volume and 33.7% in terms of sales value. Our market share in the global agar-agar market in 2018 was 13.4% in terms of sales volume and 10.3% in terms of sales value. Pursuant to the Frost & Sullivan Report, we ranked second amongst the carrageenan producers in the PRC in 2018, with the market share of 22.7% in terms of sales volume and 27.7% in terms of sales value. Our market share in the global carrageenan market in 2018 was 9.4% in terms of sales volume and 10.4% in terms of sales value⁽¹⁾. Our products are sold under our brands⁽²⁾ or in bulk volume not bearing our brands. During the Track Record Period and up to the Latest Practicable Date, we sold our products in the PRC and 48 countries and territories in North America, South America, Europe, Asia, and Africa.

Leveraging our leading position in the production of agar-agar products and carrageenan products, we also provide a wide range of blended products for different food applications. We have launched hydrocolloid products for non-food applications, such as air-fresheners since September 2013, agarose since August 2016, vegan medicine capsule since November 2018, and beauty products since January 2019.

As of the date of this prospectus, we have four production plants in the PRC, namely Greenfresh (Fujian) Production Plant, Lvqi (Fujian) Production Plant, Lvbao (Quanzhou) Production Plant, and Shiyanhaiyi Production Plant in Fujian Province and Hubei Province, the PRC. Each of these production plants has its own production and warehousing facilities and is dedicated for the production of different types of seaweed-based and plant-based hydrocolloid products. We review and rationalise from time to time the usage and the combination of our production facilities for the production of our hydrocolloid products. Our production facilities can also be adjusted to accommodate the production volume of different types of seaweed-based and plant-based hydrocolloid products in response to the change in customers' demand for our products promptly.

As a result of our devoted efforts and commitments, we have achieved significant growth during the three years ended 31 December 2018. Our revenue increased from HK\$535.1 million in 2016 to HK\$661.6 million in 2017 and further to HK\$997.1 million in 2018. Our net profit increased from HK\$53.4 million in 2016 to HK\$92.8 million in 2017 and further to HK\$93.8 million in 2018. During the three months ended 31 March 2019, our revenue amounted to HK\$190.3 million, as compared to

Notes:

- (1) Pursuant to the Frost & Sullivan Report, the global ranking of carrageenan producers is not available because there is no public information on the market share of other producers of carrageenan products. Our market share of 9.4% in terms of sales volume and 10.4% in terms of sales value in the global carrageenan market in 2018 was based on our total sales and the estimated market size of the global carrageenan market in 2018.
- (2) These brands include 金閩南 , Greenfresh , Luzao , and .

SUMMARY AND HIGHLIGHTS

HK\$176.7 million during the three months ended 31 March 2018, representing an increase of 7.7%, and our net profit during the three months ended 31 March 2019 amounted HK\$17.3 million, as compared to HK\$5.2 million during the three months ended 31 March 2018, representing an increase of 232.7%.

OUR BUSINESS MODEL

We are a producer of seaweed-based and plant-based hydrocolloid products in the PRC. Our hydrocolloid products include agar-agar products, carrageenan products, konjac products, and their respective blended products, which are derived from natural sources and have a seaweed or plant origin. We source dried seaweed from Independent Third Parties. Our business activities also include seaweed cultivation, which provides an additional source of the principal raw material of seaweed for our production requirements. Our hydrocolloid products are sold to food producing and processing company customers and trading company customers in the PRC and international markets under our own brands or in bulk volume not bearing our brands.

OUR STRENGTHS

We believe that the following strengths have contributed, and will continue to contribute, to our success and distinguish us from our competitors:

- We are a leading seaweed-based hydrocolloid producer both in the PRC and the global market.
- We have strong product research and development capability.
- We offer a wide range of seaweed-based and plant-based hydrocolloid products including agar-agar products, carrageenan products, and konjac products, and their respective blended products backed by our strong product research and development capability.
- We have developed interchangeable production lines for different hydrocolloid products.
- We have dedicated quality management system from procurement to the entire production process.
- We have a solid customer base.
- We have an experienced and visionary management team with proven track record.

See page 125 to 131 of this prospectus for further information.

OUR STRATEGIES

We aim to achieve sustainable growth in our production and sales and enhance our market position in the hydrocolloid market by implementing the following strategies:

- We will expand our production capacity and improve the operational efficiency.
- We will further strengthen our product research and development capability and continue to develop products and product formulas pursuant to the industry trends.
- We will enhance our sales and marketing coverage.

See page 132 to 135 of this prospectus for further information.

OUR PRODUCTS

We produce and sell seaweed-based and plant-based hydrocolloid products including agar-agar products, carrageenan products, and konjac products, and their respective blended products. As of 31 March 2019, we offered to our customers 22 types of agar-agar products and 43 types of carrageenan products of different specifications for different food and non-food applications. As of 31 March 2019, we offered 19 types of konjac products and more than 302 types of blended products to our customers.

Our hydrocolloid products are derived from natural materials, amongst which agar-agar products and carrageenan products are derived from dried red seaweed and konjac products are derived from plant. Our hydrocolloid products have the functional properties of gelling and thickening in food producing and processing for improving the shelf-life and quality attributes of food, and are widely used in different food applications and industries including jellies and dessert, meat products, dairy products, and beverages.

See page 135 to 144 of this prospectus for further information.

SUMMARY AND HIGHLIGHTS

The table below sets forth an analysis of our revenue by business segments for the years/periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	HK\$'000	% of revenue	HK\$'000	% of revenue	HK\$'000	% of revenue	HK\$'000	% of revenue	HK\$'000	% of revenue
	(unaudited)									
Agar-agar products	260,723	48.7	302,044	45.7	346,493	34.8	57,606	32.6	64,260	33.8
Carrageenan products	201,888	37.7	279,734	42.3	534,851	53.6	106,365	60.2	104,663	55.0
Konjac products	20,218	3.8	15,477	2.3	32,506	3.3	2,776	1.6	10,925	5.7
Blended products	52,257	9.8	64,313	9.7	83,206	8.3	9,989	5.6	10,436	5.5
Total	535,086	100.0	661,568	100.0	997,056	100.0	176,736	100.0	190,284	100.0

OUR CUSTOMERS

We have a diverse customer base around the world. Our customers may be broadly divided into (a) food producing and processing companies and (b) trading companies in the PRC and overseas. The table below sets forth an analysis of our sales by the business nature of our customers for the years/periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	HK\$'000	% of revenue	HK\$'000	% of revenue	HK\$'000	% of revenue	HK\$'000	% of revenue	HK\$'000	% of revenue
	(unaudited)									
Food producing and processing companies	413,555	77.3	497,651	75.2	756,430	75.9	137,935	78.0	145,482	76.5
Trading companies	121,521	22.7	163,906	24.8	240,366	24.1	38,772	22.0	44,744	23.5
Others ⁽¹⁾	10	*	11	*	260	*	29	*	58	*
Total	535,086	100.0	661,568	100.0	997,056	100.0	176,736	100.0	190,284	100.0

* Value insignificant.

Note:

(1) This amount includes revenue generated from our sales to selected research institutions in the PRC.

During the Track Record Period and up to the Latest Practicable Date, we sold our products in the PRC and 48 countries and territories in North America, South America, Europe, Asia (excluding China), and Africa. The table below sets forth an analysis of our revenue by delivery destinations for the years/periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	HK\$'000	% of revenue	HK\$'000	% of revenue	HK\$'000	% of revenue	HK\$'000	% of revenue	HK\$'000	% of revenue
	(unaudited)									
China	332,977	62.2	336,197	50.8	475,838	47.7	75,111	42.5	79,664	41.9
Europe	110,917	20.7	195,803	29.6	345,986	34.7	70,353	39.8	69,354	36.5
Asia (excluding China)	47,122	8.8	57,410	8.7	107,947	10.8	17,114	9.7	26,370	13.9
South America	21,224	4.0	35,393	5.3	26,981	2.7	2,061	1.2	5,682	3.0
North America	13,134	2.5	24,965	3.8	33,500	3.4	9,618	5.4	7,868	4.0
Africa	9,712	1.8	11,800	1.8	6,804	0.7	2,479	1.4	1,346	0.7
Total	535,086	100.0	661,568	100.0	997,056	100.0	176,736	100.0	190,284	100.0

SUMMARY AND HIGHLIGHTS

See page 147 for the notes to the above table.

During the three years ended 31 December 2018, sales to our five largest customers accounted for 47.0%, 37.9%, and 38.7% of our total revenue, respectively, and sales to our largest customer, accounted for 20.7%, 13.0%, and 15.9% of our total revenue, respectively. During the three months ended 31 March 2019, sales to our five largest customers accounted for 33.6% of our total revenue, and sales to our largest customer accounted for 12.9% of our total revenue. During the three months ended 31 March 2018, sales to our five largest customers accounted for 44.8% of our total revenue, and sales to our largest customer accounted for 20.0% of our total revenue.

See page 153 to 157 for further information.

OUR SUPPLIERS AND RAW MATERIALS

The principal raw materials used in our production include dried seaweed (cottonii, spinosum, and gracilaria) and konjac crude powder/konjac flakes. We use gracilaria as raw material in the production of our agar-agar products. Cottonii, and spinosum are used as raw materials for the production of our carrageenan products. The raw materials used in the production of our konjac products include konjac crude powder/konjac flakes. We use carrageenan and konjac for mixing and blending for the production of our blended products.

We have not entered into long-term agreements with our suppliers during the Track Record Period, as our Directors believe that it is an industry practice for maintaining flexibility both in terms of the purchase quantity and price. Our purchase with our suppliers are generally made on individual purchase orders with reference to our production plans and demand for our products.

See page 177 to 186 of this prospectus for further information.

During the three years ended 31 December 2018, the cost of purchase from our five largest suppliers amounted to HK\$153.0 million, HK\$273.2 million, and HK\$419.8 million, respectively, representing 43.8%, 58.9%, and 65.0%, respectively, of our total purchase, and the cost of purchase from our largest supplier amounted to HK\$43.6 million, HK\$73.9 million, and HK\$171.0 million, respectively, representing 12.5%, 15.9%, and 26.5%, respectively, of our total purchase. During the three months ended 31 March 2019, the cost of purchase from our five largest suppliers amounted to HK\$112 million and accounted for 56.5% of our total purchase, and the cost of purchase from our largest suppliers amounted to HK\$36.2 million and accounted for 18.3% of our total purchase. During the three months ended 31 March 2018, the cost of purchase from our five largest suppliers amounted to HK\$76.6 million and accounted for 64.3% of our total purchase, and the cost of purchase from our largest suppliers amounted to HK\$37.1 million and accounted for 31.1% of our total purchase. The increased concentration of raw materials procurement from a single supplier was primarily due to the stable supply of dried seaweed and quality, as well as competitive pricing and credit policy offered.

COMPANIES WHICH ARE BOTH OUR CUSTOMERS AND SUPPLIERS

During the three years ended 31 December 2018, 14 of our customers were also our suppliers. During the three years ended 31 December 2018, our sales to these 14 companies accounted for 8.3%, 8.4%, and 10.1%, respectively, of our total revenue. During the three years ended 31 December 2018, our purchase from such 14 companies accounted for 5.7%, 3.7%, and 1.4%, respectively, of our total purchase.

During the three months ended 31 March 2019, 14 of our customers were also our suppliers. During the three months ended 31 March 2019, our sales to these 14 companies accounted for 5.2% of our total revenue. During the three months ended 31 March 2019, our purchase from such 14 companies accounted for 0.6% of our total purchase.

During the three months ended 31 March 2018, 14 of our customers were also our suppliers. During the three months ended 31 March 2018, our sales to these 14 companies accounted for 6.6% of our total revenue. During the three months ended 31 March 2018, our purchase from such 14 companies accounted for 1.9% of our total purchase.

SEAWEED CULTIVATION

We have our own cultivation facilities in the PRC for the cultivation of seaweed. During the Track Record Period, these facilities provided us an insignificant portion of the seaweed used by us for production purpose and serve as trial operation for the farmers. Nevertheless, our Directors believe that such facilities represent a milestone for our business development. During the three years ended 31 December 2018, the amount of seaweed cultivated by us represented 1.7%, 2.0%, and 0.3% of our total purchase of seaweed in terms of tonnes for our production purpose. During the three months ended 31 March 2019, the amount of seaweed cultivated by us represented 0.4% of our total purchase of seaweed in terms of tonnes for our production purpose. During the three months ended

SUMMARY AND HIGHLIGHTS

31 March 2018, the amount of seaweed cultivated by us represented 0.9% of our total purchase of seaweed in terms of tonnes for our production purpose.

See page 172 to 177 of this prospectus for further information.

FINANCIAL INFORMATION

Selected financial information from the consolidated statements of profit or loss and comprehensive income

The table below sets forth our selected financial information from the consolidated statements of profit or loss for the years/periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>	
Revenue	535,086	661,568	997,056	176,736	190,284
Cost of sales	(416,718)	(485,621)	(730,081)	(130,158)	(139,922)
Gross profit	118,368	175,947	266,975	46,578	50,362
Change in fair value of biological assets	1,198	(1,156)	(27)	(28)	—
Other income	4,677	7,963	7,649	977	1,475
Other (losses)/gains — net	(1,436)	1,907	(2,151)	(62)	(108)
Net impairment (losses)/gains on financial assets	(5,104)	1,382	(668)	695	1,113
Selling and distribution expenses.	(8,791)	(12,901)	(16,126)	(4,062)	(3,787)
Administrative expenses	(30,330)	(45,730)	(98,578)	(30,329)	(19,502)
Operating profit.	78,582	127,412	157,074	13,769	29,553
Finance costs — net	(6,764)	(6,964)	(27,301)	(4,384)	(6,446)
Profit before income tax	71,818	120,448	129,773	9,385	23,107
Income tax expense	(18,423)	(27,679)	(35,997)	(4,219)	(5,758)
Profit for the year/period	53,395	92,769	93,776	5,166	17,349
Profit is attributable to:					
Owners of our Company	53,395	92,769	93,597	5,180	17,312
Non-controlling interests	—	—	179	(14)	37
	<u>53,395</u>	<u>92,769</u>	<u>93,776</u>	<u>5,166</u>	<u>17,349</u>
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
- Currency translation differences	(13,002)	22,486	(25,626)	15,007	9,528
Total comprehensive income for the year/period	40,393	115,255	68,150	20,173	26,877
Total comprehensive income for the year/period is attributable to:					
Owners of our Company	40,393	115,255	67,971	20,187	26,840
Non-controlling interests	—	—	179	(14)	37
	<u>40,393</u>	<u>115,255</u>	<u>68,150</u>	<u>20,173</u>	<u>26,877</u>

SUMMARY AND HIGHLIGHTS

The amount of the currency translation differences represents the amount of differences in the exchange rates between the presentation currency and the functional currencies of our Company's subsidiaries in the PRC at the beginning and the end of the reporting year. These exchange differences are transferred to our consolidated statement of comprehensive income because they are related to the currency translation of our business operations in the PRC as of the respective reporting dates and arising in the preparation of our consolidated financial statements. Due to the significant depreciation of RMB against HK\$ during the year ended 31 December 2016, the translation of Renminbi assets into HK\$ resulted in a significant exchange loss on currency translation of our business operations in the PRC. In 2017, the exchange rate between RMB and HK\$ appreciated and as such, we recorded an exchange gain on currency translation of our business operations in the PRC. Due to the recent significant depreciation of RMB in 2018, there was an exchange loss on currency translation of our business operations in the PRC.

Our biological assets, i.e. seaweed cultivated by us, are for our own use as raw materials for our production purpose. Hence, the realised fair value gain due to biological transformation that has been transferred to costs of goods sold amounted to HK\$7.6 million, HK\$6.2 million, and HK\$0.7 million for the three years ended 31 December 2018, respectively. The unrealised fair value gains/losses on biological assets, being the change in fair value of biological assets during the three years ended 31 December 2018, amounted to gain of HK\$1.2 million, loss of HK\$1.2 million, and loss of HK\$27,000, respectively. Our net profit excluding the unrealised fair value gains/losses on biological assets would amount to HK\$52.2 million, HK\$93.9 million, and HK\$93.8 million for the three years ended 31 December 2018, respectively. During the three months ended 31 March 2019, the realised fair value gain due to biological transformation that has been transferred to costs of goods sold amounted to HK\$0.69 million. We did not record any unrealised fair value loss on biological assets. Our net profit excluding the unrealised fair value loss on biological assets would amount to HK\$17.3 million.

During the three months ended 31 March 2018, the realised fair value gain due to biological transformation that has been transferred to costs of goods sold amounted to HK\$1.2 million. The unreleased fair value loss on biological assets amounted to HK\$28,000. Our net profit excluding the unrealised fair value loss on biological assets would amount to HK\$5.2 million.

Selected financial information from the consolidated balance sheets

The table below sets forth our selected financial information from the consolidated balance sheets as of the dates indicated:

	As of 31 December			As of 31 March
	2016	2017	2018	2019
	<i>HK'000</i>	<i>HK'000</i>	<i>HK'000</i>	<i>HK'000</i>
Non-current assets	340,062	499,867	491,085	508,436
Current assets	305,275	308,116	442,165	502,330
Total assets	<u>645,337</u>	<u>807,983</u>	<u>933,250</u>	<u>1,010,766</u>
Total equity	152,564	306,824	407,038	435,245
Non-current liabilities	105,342	159,788	155,639	155,941
Current liabilities	387,431	341,371	370,573	419,580
Total liabilities	<u>492,773</u>	<u>501,159</u>	<u>526,212</u>	<u>575,521</u>
Net current (liabilities)/assets	<u>(82,156)</u>	<u>(33,255)</u>	<u>71,592</u>	<u>82,750</u>
Total equity and liabilities	<u>645,337</u>	<u>807,983</u>	<u>933,250</u>	<u>1,010,766</u>

SUMMARY AND HIGHLIGHTS

Net current liabilities as of 31 December 2016 and 2017

As of 31 December 2016 and 2017, our net current liabilities amounted to HK\$82.1 million and HK\$33.3 million, respectively. We used short-term bank borrowings denominated in RMB and obtained from banks in the PRC as working capital and also to finance the construction of our production plants including the purchase of production machinery. As a result, we recorded net current liabilities as of 31 December 2016 and 2017. The net current liabilities position as of a particular date could be interpreted that we were insolvent in the short-term. Our Directors consider that we had no insolvency issue as of the respective dates as the position of net current liabilities was primarily due to the fact that we used short-term bank borrowings, which are generally available in the PRC, to finance the acquisition of non-current assets, i.e. construction of factory buildings and purchase of plants and machinery. We had net current assets of HK\$71.6 million as of 31 December 2018 and HK\$82.8 million as of 31 March 2019.

Additional information on our operating results during the three years ended 31 December 2018

During the three years ended 31 December 2018, our revenue amounted to HK\$535.1 million, HK\$661.6 million, and HK\$997.1 million, respectively. The increases in our revenue throughout the three years ended 31 December 2018 were primarily supported by the continuous investments and increase in our production capacity and the number of customers which allowed us to increase our sales volume. With the improvement in production efficiency, our gross profit, and the gross profit margin continued to increase. All of these resulted in the significant improvement in our profitability during the three years ended 31 December 2018.

See page 308 of this prospectus for further information on our operating results for the three years ended 31 December 2018.

Revenue by business segments

The table below sets forth an analysis of our revenue by business segments for the years/periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	HK\$'000	% of revenue	HK\$'000	% of revenue	HK\$'000	% of revenue	HK\$'000	% of revenue	HK\$'000	% of revenue
	<i>(unaudited)</i>									
Agar-agar products	260,723	48.7	302,044	45.7	346,493	34.8	57,606	32.6	64,260	33.8
Carrageenan products	201,888	37.7	279,734	42.3	534,851	53.6	106,365	60.2	104,663	55.0
Konjac products	20,218	3.8	15,477	2.3	32,506	3.3	2,776	1.6	10,925	5.7
Blended products	52,257	9.8	64,313	9.7	83,206	8.3	9,989	5.6	10,436	5.5
Total	535,086	100.0	661,568	100.0	997,056	100.0	176,736	100.0	190,284	100.0

Sales volume and average unit selling prices

The table below sets forth the sales volume and the average unit selling prices (per tonne) by business segments for the years/periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	Sales volume (tonnes)	Average unit selling price (per tonne)	Sales volume (tonnes)	Average unit selling price (per tonne)	Sales volume (tonnes)	Average unit selling price (per tonne)	Sales volume (tonnes)	Average unit selling price (per tonne)	Sales volume (tonnes)	Average unit selling price (per tonne)
	<i>(tonnes) HK\$'000</i>									
Agar-agar products	2,531.85	102.98	2,724.34	110.87	3,318.41	104.42	490.42	117.46	624.17	102.95
Carrageenan products	4,895.88	41.24	5,219.16	53.60	7,049.42	75.87	1,323.1	80.39	1,253.80	83.48
Konjac products	275.72	73.33	176.30	87.79	272.41	119.33	22.37	124.09	83.8	130.37
Blended products	949.10	55.06	1,105.03	58.20	1,156.27	71.96	134.99	74.00	142.52	73.22
Total	8,652.55		9,224.83		11,796.51		1,970.88		2,104.29	

SUMMARY AND HIGHLIGHTS

Cost of sales by business segments

The table below sets forth an analysis of our cost of sales by business segments for the years/periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	HK\$'000	% to cost of sales	HK\$'000	% to cost of sales	HK\$'000	% to cost of sales	HK\$'000	% to cost of sales	HK\$'000	% to cost of sales
	(unaudited)									
Agar-agar products	189,127	45.4	204,550	42.1	213,590	29.3	35,581	27.3	37,900	27.1
Carrageenan products	177,279	42.5	225,853	46.5	435,508	59.7	86,100	66.2	86,169	61.6
Konjac products	16,532	4.0	13,472	2.8	27,590	3.8	2,333	1.8	9,052	6.5
Blended products	33,780	8.1	41,746	8.6	53,393	7.2	6,144	4.7	6,801	4.8
Total	416,718	100.0	485,621	100.0	730,081	100.0	130,158	100.0	139,922	100.0

Cost of sales components

The table below sets forth an analysis of our cost of sales as a percentage of our revenue for the years/periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	HK\$'000	% of revenue	HK\$'000	% of revenue	HK\$'000	% of revenue	HK\$'000	% of revenue	HK\$'000	% of revenue
	(unaudited)									
Finished products, work-in-progress, and raw materials consumption	349,448	65.3	408,890	61.8	612,343	61.4	102,795	58.2	112,589	59.2
Staff related costs	26,871	5.0	31,745	4.8	46,632	4.7	9,902	5.6	10,045	5.3
Electricity and water expenses	22,416	4.2	22,833	3.5	32,689	3.3	6,790	3.8	6,423	3.4
Depreciation and amortisation	13,245	2.5	16,554	2.5	30,564	3.1	7,913	4.5	7,895	4.1
Government levies and other production costs	4,738	0.9	5,599	0.8	7,853	0.7	2,758	1.5	2,970	1.5
Total	416,718	77.9	485,621	73.4	730,081	73.2	130,158	73.6	139,922	73.5

Gross profit and gross profit margin by business segments

The table below sets forth the amount of our gross profit and gross profit margin by business segments for the years/periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	HK\$'000	Gross profit margin	HK\$'000	Gross profit margin	HK\$'000	Gross profit margin	HK\$'000	Gross profit margin	HK\$'000	Gross profit margin
	(unaudited)									
Agar-agar products	71,596	27.5	97,494	32.3	132,903	38.4	22,025	38.2	26,360	41.0
Carrageenan products	24,609	12.2	53,881	19.3	99,343	18.6	20,265	19.1	18,494	17.7
Konjac products	3,686	18.2	2,005	13.0	4,916	15.1	443	16.0	1,873	17.1
Blended products	18,477	35.4	22,567	35.1	29,813	35.8	3,845	38.5	3,635	34.8
Total	118,368	22.1	175,947	26.6	266,975	26.8	46,578	26.4	50,362	26.5

SUMMARY AND HIGHLIGHTS

Cash flow statement

The table below sets forth consolidated statements of cash flows for the years/periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>	
Cash flows from operating activities	122,804	130,353	73,855	21,245	25,921
Income tax paid	(16,226)	(19,926)	(34,750)	(3,185)	(14,105)
Net cash generated from operating activities	106,578	110,427	39,105	18,060	11,816
Net cash used in investing activities	(81,763)	(149,395)	(58,247)	(21,633)	(17,760)
Net cash generated from/(used in) financing activities	49,020	(25,912)	42,759	4,501	9,823
Net increase/(decrease) in cash and cash equivalents	73,835	(64,880)	23,617	928	3,879
Cash and cash equivalents at beginning of year/period	22,587	92,690	33,123	33,123	55,855
Effect of foreign exchange rates changes	(3,732)	5,313	(885)	1,803	1,164
Cash and cash equivalents at end of the year/period	92,690	33,123	55,855	35,854	60,898

During the three years ended 31 December 2018, the operating cash flows generated from operating activities before changes in working capital amounted to HK\$97.1 million, HK\$149.7 million, and HK\$194.6 million, respectively. During the three months ended 31 March 2019, the operating cash flows generated from operating activities before changes in working capital amounted to HK\$48.0 million. See page 353 of this prospectus for further information.

During the three years ended 31 December 2018, net cash generated from our operating activities was an inflow of HK\$106.6 million, an inflow of HK\$110.4 million, and an inflow of HK\$39.1 million, respectively. The significant decrease in net cash generated from operating activities in 2018 was due to the increase in trade receivable as a result of increased sales during the year and the decrease in trade accounts payable during the year as payments were timely made according to our supplier management plan. During the three months ended 31 March 2019, net cash generated from our operating activities was an inflow of HK\$11.8 million, as compared to HK\$18.1 million for the three months ended 31 March 2018, and was due increase in stocking-up of raw materials and finished goods.

During the three years ended 31 December 2018, net cash used in our investing activities was HK\$81.8 million, HK\$149.4 million, and HK\$58.2 million, respectively. The investing cash flows were mainly related to the payments for purchase of property, plant and equipment and land use right due to expansion of production capacity. During the three months ended 31 March 2019, net cash used in our investing activities was HK\$17.8 million. The investing cash flows were mainly related to the payments for the purchase of property, plant and equipment, and the land use rights in accordance with our capacity expansion plan. The decrease in amount to HK\$17.8 million, as compared to HK\$21.6 million for the three months ended 31 March 2018, was due to decrease in capital expenditure amount due for payment during the period.

During the three years ended 31 December 2018, net cash generated from our financing activities was an inflow of HK\$49.0 million, an outflow of HK\$25.9 million, and an inflow of HK\$42.8 million, respectively. The net cash inflow from financing activities in 2016 was mainly due to the new bank loans obtained. During the three months ended 31 March 2019, net cash generated from our financing activities was an inflow of HK\$9.8 million. The net cash inflow from financing activities during the three months ended 31 March 2019 was mainly due to a new bank loan obtained.

SUMMARY AND HIGHLIGHTS

We were using bank borrowings, related parties' loan and the Convertible Bond as financing resources. The net cash outflows from financing activities in 2017 and 2018 were due to repayment of borrowings from banks and related parties.

See page 351 to 357 of this prospectus for further information.

KEY FINANCIAL RATIOS

	Year ended 31 December			Three months ended 31 March 2019
	2016	2017	2018	(annualised)
Gross profit margin	22.1%	26.6%	26.8%	26.5%
Net profit margin	10.0%	14.0%	9.4%	9.1%
Return on equity	35.0%	30.2%	23.0%	15.9%
Return on total assets	8.3%	11.5%	10.0%	6.9%
Gearing ratio ⁽¹⁾	323.0%	163.3%	129.3%	132.2%
Current ratio	0.79	0.90	1.19	1.2
Quick ratio	0.47	0.44	0.67	0.52
Net debt to equity ratio ⁽²⁾	0.91	0.7	0.64	0.64

Notes:

- (1) Gearing ratio is based on total liability divided by total equity as of the end of each reporting year and multiplied by 100%
- (2) Net debt to equity ratio is calculated by dividing our net debt, being our total bank borrowings net of cash and cash equivalents and restricted cash, by total equity as of the end of each reporting year and multiplied by 100%

See page 402 to 403 of this prospectus for the notes to the above table.

REASONS FOR THE LISTING, FUTURE PLANS, AND PROPOSED USE OF NET PROCEEDS FROM THE SHARE OFFER

Our business objective is to further strengthen our position as the leading producer of seaweed-based and plant-based hydrocolloid products in the PRC. Our Directors believe that the Listing will facilitate the implementation of our strategies set forth in this prospectus and will expand our market share in the industry. Our Directors further believe that the Listing is beneficial to our Company and our Shareholders as a whole because a listing status on the Stock Exchange can enhance our corporate profile and business reputation and allows us to retain and attract experienced and qualified employees. Following completion of the Listing, our Company will establish an efficient and sustainable fund-raising platform for our business development. The net proceeds from the Share Offer will also provide us additional financial resources for the implementation of our business strategies.

See page 411 of this prospectus for further information on our reasons for the Listing.

Based on the mid-point of the indicative range of the Offer Price of HK\$1.45, the net proceeds from the Share Offer (after deducting underwriting fees and estimated expenses in connection with the Share Offer and assuming that the Over-allotment Option is not exercised) will be HK\$240.0 million. We will use the net proceeds for the following proposes:

- HK\$26.4 million, or 11.0% of the total net proceeds from the Share Offer, will be used for partial financing of the construction cost for the new production plant adjacent to the location of Lvqi (Fujian) Production Plant, which will have a total site area of 37,680 sq.m. and a total gross floor area of 8,266.21 sq.m.;
- HK\$81.2 million, or 33.8% of the total net proceeds from the Share Offer, will be used for the construction of a new production plant in Longhai City, Zhangzhou City, Fujian Province, the PRC with an annual design production capacity of 50 tonnes of agarose, 10 tonnes of agar microspheres, and 200 tonnes of agarophyte;

SUMMARY AND HIGHLIGHTS

- HK\$27.6 million, or 11.5% of the total net proceeds from the Share Offer, will be used for the construction of a new production plant in Indonesia with an annual design production capacity of 3,000 tonnes of semi-refined carrageenan. The total sum of the investment is HK\$38.4 million;
- HK\$82.1 million, or 34.2% of the total net proceeds from the Share Offer, will be used for the construction of a new production plant of agar-agar products in Zhangzhou City, Fujian Province, the PRC with an annual design production capacity of 1,000 tonnes; and
- HK\$22.7 million, or 9.5% of the net proceeds from the Share Offer, will be used for our general working capital purpose.

If the Offer Price is finally determined to be HK\$1.74 (being the high-end of the indicative range of the Offer Price), the additional net proceeds from the Share Offer of HK\$56.3 million will be used for re-financing of our bank borrowings. If the Offer Price is finally determined to be of HK\$1.16, the above allocation of the net proceeds from the Share Offer will decrease on a pro rata basis.

See page 412 to 414 of this prospectus for further information.

OUR CONTROLLING SHAREHOLDERS

Our Controlling Shareholders are Mr. CHAN Kam Chung, Mr. CHAN Shui Yip, Mr. GUO Songsen, Mr. GUO Dongxu, Mr. GUO Yuansuo, Mr. GUO Donghuang, and their controlled corporations, namely COS Kreation, Epoch, Green Forest, Strong Achievement, Winning Path, and East Prosperity, and they are a group of Controlling Shareholders for the purpose of the Listing Rules.

Immediately upon completion of the Share Offer and the Capitalisation Issue (without taking into consideration any Shares which may be issued upon the exercise of the Over-allotment Option, the Pre-IPO Share Options, and any option that may be granted under the Post-IPO Share Option Scheme), our Controlling Shareholders will beneficially own an aggregate of 73.5% of our Shares in issue.

For the purpose of the Listing, Mr. CHAN Kam Chung, Mr. CHAN Shui Yip, Mr. GUO Songsen, Mr. GUO Dongxu, Mr. GUO Yuansuo, and Mr. GUO Donghuang and their respective holding companies, i.e. COS Kreation, Epoch, Green Forest, Strong Achievement, Winning Path, and East Prosperity, have entered into the Concert Party Agreement, pursuant to which they have confirmed the existence of their acting-in-concert arrangements since December 2012 and that they have agreed to constitute as a group of Shareholders acting in concert (as such term is defined under the Takeovers Codes). The Concert Parties confirm that they will be acting together in the control of our Company at meetings of our Board (to the extent that they are Directors) and at general meetings. All Concert Parties are our Controlling Shareholders.

See page 415 to 418 of this prospectus for further information.

PRE-IPO INVESTOR AND CONVERTIBLE BOND

We have one Pre-IPO investor, Mr. KIU Wai Ming, who is a private investor. Mr. KIU has over 30 years of experience in finance and banking industry. Mr. KIU subscribed for the Convertible Bond on 20 November 2017 for HK\$60.0 million.

Our Company entered into the Convertible Bond Subscription Agreement with the Pre-IPO Investor, pursuant to which our Company agreed to issue to and the Pre-IPO Investor agreed to subscribe for the Convertible Bond. The amount of the consideration from the Pre-IPO Investor was agreed upon following arm's length negotiations between our Company and the Pre-IPO Investor, based on the unaudited net asset value of our Group as of 30 June 2017. The proceeds from the Convertible Bond were used for our business expansion.

Prior to the Listing, on 28 February 2018, an amount of HK\$4,821,320 Convertible Bond was converted by the Pre-IPO Investor in exchange for the allotment and issue of 1,120 Ordinary Shares (the "Conversion") to the Pre-IPO Investor, representing 2.0% of the then total number of Shares of our Company in issue. Following the conversion by the Pre-IPO Investor on 28 February 2018 and as of the date of this prospectus, the Pre-IPO Investor has no right to convert any of the outstanding balance of the Convertible Bond into our Shares. The outstanding par value of the Convertible Bond as of the date of this prospectus is HK\$55,178,680. As of the date of this prospectus, Mr. KIU has no right to convert any of the outstanding balance of the Convertible Bond into our Shares. Hence, our Company is under the obligation to repay the outstanding principal amount and accrued interest on the maturity date, which is 15 July 2020.

See page 117 to 122 of this prospectus for further information.

SUMMARY AND HIGHLIGHTS

Immediately upon completion of the Share Offer and the Capitalisation Issue, assuming that the Over-allotment Option will not be exercised and no Shares would be allotted and issued upon the exercise of the Pre-IPO Share Options, and any options which may be granted under the Post-IPO Share Option Scheme, the Pre-IPO Investor will hold 1.50% of the total number of Shares in issue.

Mr. KIU undertakes that during the period from the date of the Convertible Bond Subscription Agreement to the day falling six months after the Listing Date, he shall not and shall procure his nominees not to dispose of any of the Conversion Shares and any other Shares that may be allotted and issued or transferred to him in connection with the Listing from time to time held by him (the “**Restricted Shares**”), securities exchangeable for or convertible into or exercisable for any of the Restricted Shares, any rights to purchase any of the Restricted Shares or any security or financial product whose value is determined by reference to the price of any of the Restricted Shares.

See pages 117 to 122 of this prospectus for further information.

OFFER STATISTICS

Offer size	Initially 200,000,000 Shares, representing 25.0% of the enlarged number of Shares in issue (subject to the Over-allotment Option)
Offer structure	Initially 90% International Offering and 10% Hong Kong Public Offering (subject to re-allocation and the Over-allotment Option)
Over-allotment Option	Up to 15% of the initial number of our Offer Shares
Offer Price	HK\$1.16 to HK\$1.74 for each Share

	Based on the low end of the indicative range of the Offer Price of HK\$1.16	Based on the high end of the indicative range of the Offer Price of HK\$1.74
Market capitalisation of our Shares	HK\$928.0 million	HK\$1,392.0 million
Unaudited pro forma adjusted net tangible assets per Share	HK\$0.73	HK\$0.87

LISTING EXPENSES

Assuming that the Over-allotment Option is not exercised, the Listing expenses (including underwriting commission) are estimated to be HK\$50.0 million (based on the mid-point of the indicative range of the Offer Price of HK\$1.45), of which an amount of HK\$5.7 million and HK\$16.7 million were charged to the consolidated statements of profit or loss for the two years ended 31 December 2018, respectively. During the three months ended 31 March 2019, an amount of HK\$1.1 million was charged to the consolidated statements of profit or loss. An additional amount of HK\$7.1 million will be charged to the consolidated statements of profit or loss for the nine months ending 31 December 2019, and an amount of HK\$19.4 million will be accounted for as a deduction from equity upon Listing.

DIVIDENDS AND DIVIDEND POLICY

During the Track Record Period, we did not declare and pay any dividend to our Shareholders.

Following the Listing, our Board may determine to pay dividends at its own discretion in the future after considering our profits, cash flows, business opportunities and capital requirements (including the capital injection to our subsidiaries for their future expansion), general financial condition, regulatory limitations on our PRC and other subsidiaries’ ability to distribute dividends to us and any other factors that our Board considers relevant.

We currently intend to adopt, after our Listing, a general annual dividend policy of declaring and paying dividends on an annual basis of no less than 20% of our distributable net profit attributable to our equity shareholders in the future but subject to, among others, our operation needs, earnings, financial condition, working capital requirements and future business expansion plans as our Board may deem relevant at such time.

SUMMARY AND HIGHLIGHTS

PRINCIPAL RISK FACTORS

Our operations and the Share Offer involve certain risks and uncertainties. See “Risk Factors” of this prospectus for further details. Some of the major risks we face include:

- We rely on a stable and adequate supply of quality raw materials which are subject to price volatility and may not be readily available.
- We do not have long-term purchase commitments from our customers and we may be subject to revenue volatility and uncertainty.
- We may not be able to effectively manage our inventory of raw materials and finished products.
- We may fail to maintain effective quality control and may be subject to product liability claims which could have a material adverse impact on our reputation, business and financial condition, and operating results.
- Our business is affected by changes in consumer tastes, preferences, and general perceptions for hydrocolloid products.
- If we are not able to implement our production capacity expansion plans or effectively manage our expansion, our business and financial condition and operating results could be adversely affected.
- We may incur substantial costs in complying with stringent environmental laws and regulations.

See page 22 to 46 of this prospectus for further information.

NON-COMPLIANCE MATTERS

Our non-compliance matters during the Track Record Period may be divided into (a) non-compliance with certain construction and environmental law and regulations in the PRC in relation to the construction of certain production plants and water discharge; (b) non-compliance with the permitted usage of certain owned properties in the PRC; (c) lease of land in contravention of the permitted usage; (d) failure in entering into and registering a lease agreement amongst members of our Group for the use of sea use rights; and (e) failure in making full contributions to the social insurance plans and housing provident fund for some of our employees in the PRC.

See page 248 to 265 of this prospectus for further information.

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

Our performance during the three months ended 30 June 2019

Our business continues to grow following the Track Record Period. Based on the unaudited financial information, our sales revenue during the three months ended 30 June 2019 was slightly less than our sales revenue during the three months ended 30 June 2018. In addition, our Directors confirm that our gross profit and our gross profit margin continued to improve during the three months ended 30 June 2019, as compared to the same during the three months ended 30 June 2018, primarily due to the increases in the average unit selling prices, economies of scale, and improvement in our product mix. Our financial position has been maintained fairly stable, despite there was a decrease in the cash and bank balances. On the other hand, our net current assets increased by 27.1% as of 30 June 2019, as compared to the same as of 31 March 2019.

Recent developments in trade policies, tariffs, and trade barriers between the United States and China remain in flux during the first half of 2019. The trade tension continues and it is uncertain if any further measures or restrictions will be implemented. In May 2019, the US government proposed additional tariffs of 25% on another batch of imported products from China, including carrageenan and agar-agar products. As of the Latest Practicable Date, however, no additional tariffs or ad valorem duties have been levied on our products sold to our customers in the United States. Our sales to customers in North America represent on average less than four per cent. of our total sales during the three years ended 31 December 2018 and the three months ended 31 March 2019. Whilst the trade tension has no direct and significant impact on our operating results, the public discourse and advocacy in international trade barriers could affect consumers' confidence and the supply chain strategies of our international customers in sourcing products from China. These could affect our business prospects.

SUMMARY AND HIGHLIGHTS

Listing expenses and share-based payment expenses

Our operating results during the year ended 31 December 2018 were affected by the Listing expenses and the share-based payment expenses charged to our consolidated statements of profit or loss. The Listing expenses in the total amount of HK\$16.7 million was charged to our consolidated statements of profit or loss for the year ended 31 December 2018. We expect that an additional amount of the Listing expenses of HK\$7.1 million will be charged to the consolidated statements of profit or loss for the nine months ending 31 December 2019.

The total amount of share-based payment expenses charged to our consolidated statements of profit or loss for the year ended 31 December 2018 represents the fair value of (a) the Ordinary Shares previously transferred to the Grantees on 26 February 2018 and returned to our Controlling Shareholders on 4 August 2018 and (b) the Pre-IPO Share Options granted to the Grantees on 9 August 2018 to be amortised into the relevant period. During the year ended 31 December 2018, the amount of the share-based payment expenses amounted to HK\$17.6 million. During the three months ended 31 March 2019, the total amount of share-based payment expenses charged to our consolidated statements of profit or loss amounted to HK\$1.3 million. See the paragraphs under “Principal components of our consolidated statements of profit or loss” below for further information on the Ordinary Shares previously transferred to the Grantees and the Pre-IPO Share Options.

No material adverse change

Our Directors confirm that, up to the date of this prospectus, save for the impact of the Listing expenses, the share-based payment expenses charged or to be charged to our consolidated statements of profit or loss, and the uncertainty in the international trade environment, there has been no material adverse change to our financial or trading position since 31 March 2019, being the date up to which our consolidated financial statements set forth in Appendix I to this prospectus are prepared, which could materially affect the information shown in the Accountant’s Report set forth in Appendix I to this prospectus.

DEFINITIONS

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

“Application Form(s)”	WHITE application form(s), YELLOW application form(s), and GREEN application form(s) or, where the context so requires, any of them
“Application Lists”	the application lists for the Hong Kong Public Offering
“Articles”	the articles of association of our Company conditionally adopted on 25 September 2019, which will become effective upon Listing, a summary of which is set forth in Appendix IV to this prospectus, as amended, supplemented or modified from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Audit Committee”	the audit committee of our Board established on 25 September 2019
“Board”	the board of Directors
“business day”	a day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are open for normal banking business
“Buy-back Mandate”	the general unconditional mandate granted to our Directors by our Shareholders pursuant to the resolutions passed by our Shareholders on 25 September 2019 in relation to buying back of our Shares, see the section headed “Share Capital — Buy-back Mandate” in this prospectus
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of the Capitalisation Shares to be made on the capitalisation of certain sums standing to the credit of the share premium account of our Company referred to under the heading “A. Further Information about our Group — Changes in our share capital” in Appendix V to this prospectus
“Capitalisation Shares”	the 599,440,000 new Shares
“Cayman Companies Law” or “Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Cayman Principal Registrar”	Conyers Trust Company (Cayman) Limited, our principal share registrar in the Cayman Islands

DEFINITIONS

“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Broker Participant”	a person admitted to participate in CCASS as a broker participant
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Broker Participant, CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CIT”	corporate income tax of the PRC
“CIT Law”	The Corporate Income Tax Law of the PRC (中華人民共和國企業所得稅法)
“CIT Regulations”	Implementing Regulations of the Corporate Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例)
“close associate(s)”	has the meaning ascribed to it under the Listing Rules
“Co-lead Managers”	Global Group Securities Limited and Solomon JFZ (Asia) Holdings Limited
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented or otherwise modified from time to time
“Company” or “our Company”	Green Future Food Hydrocolloid Marine Science Company Limited (綠新親水膠體海洋科技有限公司), a company incorporated in the Cayman Islands on 3 July 2015 as an exempted company with limited liability

DEFINITIONS

“Concert Parties”	COS Kreation, Mr. CHAN Kam Chung, Epoch, Mr. CHAN Shui Yip, Green Forest, Mr. GUO Songsen, Strong Achievement, Mr. GUO Dongxu, Winning Path, Mr. GUO Yuansuo, East Prosperity, and Mr. GUO Donghuang, being our Controlling Shareholders, see the section headed “Controlling Shareholders and Substantial Shareholders — Summary of terms of the Concert Party Agreement” in this prospectus; and each a “ Concert Party ”
“Concert Party Agreement”	the concert party agreement dated 25 September 2019 entered into amongst the Concert Parties, see the section headed “Controlling Shareholders and Substantial Shareholders — Summary of terms of the Concert Party Agreement” in this prospectus
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and in the context of our Company for the purposes of this prospectus and the Listing, the Concert Parties
“Conversion Shares”	the new Shares allotted and issued by our Company on 28 February 2018 to the Pre-IPO Investor upon the exercise of the conversion right of the Convertible Bond, pursuant to the Convertible Bond Subscription Agreement
“Convertible Bond”	the convertible bond in an aggregate principal amount of HK\$60.0 million issued by our Company to the Pre-IPO Investor, pursuant to the Convertible Bond Subscription Agreement and its amendment
“Convertible Bond Subscription Agreement”	the convertible bond subscription agreement dated 20 November 2017 entered into between our Company and the Pre-IPO Investor, see the section headed “Pre-IPO Investor” in this prospectus for further information
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Corporate Governance Code”	the corporate governance code as set forth in Appendix 14 to the Listing Rules
“COS Kreation”	COS Kreation Investment Development Company Limited (創宇投資發展有限公司), a company incorporated in the BVI with limited liability on 15 July 2015, which is wholly-owned by Mr. CHAN Kam Chung, one of our Controlling Shareholders

DEFINITIONS

“Deed of Amendment”	the deed of amendment dated 28 December 2018 entered into between our Company and the Pre-IPO Investor, see the section headed “Pre-IPO Investor” in this prospectus for further information
“Deed of Indemnity”	the deed of indemnity dated 25 September 2019 given by our Controlling Shareholders in favour of our Company, see the paragraphs under “E. Other Information — 1. Tax and other indemnities” in Appendix V to this prospectus for further information
“Deed of Non-Competition”	the deed of non-competition dated 25 September 2019 given by our Controlling Shareholders and our executive Directors in favour of our Company, see the section headed “Relationship with our Controlling Shareholders — Deed of Non-Competition” in this prospectus for further information
“Director(s)”	the director(s) of our Company
“Donghaiwan”	龍海市東海灣海藻養殖綜合開發有限公司 (Longhai City Donghaiwan Seaweed Breeding Comprehensive Development Company Limited) (formerly known as 龍海市海浦金屬製品有限公司 (Longhai City Haipu Metal Products Company Limited)), a company established under the laws of the PRC with limited liability on 16 July 2012 and a wholly-owned subsidiary of our Company
“East Prosperity”	East Prosperity (BVI) Investment Company Limited (東興(BVI)投資有限公司), a company incorporated in the BVI with limited liability on 11 December 2015, which is wholly-owned by Mr. GUO Donghuang, one of our Controlling Shareholders
“electronic application instruction(s)”	instruction given by a CCASS Participant electronically via CCASS to HKSCC, being one of the methods to apply for our Offer Shares
“Epoch”	Epoch Investment Development Co., Limited (英柏投資發展有限公司), a company incorporated in the BVI with limited liability on 11 December 2015, which is wholly-owned by Mr. CHAN Shui Yip, one of our Controlling Shareholders
“EU”	European Union
“First Six-Month Period”	the first six-month period immediately after the Listing Date

DEFINITIONS

“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent market, research and consulting company
“Frost & Sullivan Report”	the report commissioned by us and independently prepared by Frost & Sullivan, a summary of which is set forth in the section headed “Industry Overview” in this prospectus
“General Mandate”	the general unconditional mandate granted to our Directors by our Shareholders in relation to the allotment and issue of new Shares, see the section headed “Share Capital — General Mandate” in this prospectus
“Grantees”	the grantees of the Pre-IPO Share Options, including three members of our senior management team, a former minority shareholder of Shiyanghaiyi, and a consultant to our Controlling Shareholders
“GREEN application form(s)”	the application form(s) to be completed by the WHITE Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Green Forest”	Green Forest (BVI) Investment Company Limited (森青(BVI)投資有限公司), a company incorporated in the BVI with limited liability on 11 December 2015, which is wholly-owned by Mr. GUO Songsen (郭松森), one of our Controlling Shareholders
“Greenfresh (Fujian)”	綠新(福建)食品有限公司 (Green Fresh (Fujian) Foodstuff Co., Ltd.), a company established under the laws of the PRC with limited liability on 8 November 2007 and a wholly-owned subsidiary of our Company
“Greenfresh (Fujian) Production Plant”	the production plant owned and operated by Greenfresh (Fujian) for the production and sales of carrageenan products, agar-agar products, and blended products
“Green Fresh (HK)”	Green Fresh (H.K.) International Co., Limited (綠新(香港)國際有限公司), a company incorporated in Hong Kong with limited liability on 19 June 2013 and a wholly-owned subsidiary of our Company
“Green Source”	Green Source Limited (綠源有限公司), a company incorporated in the BVI with limited liability on 20 July 2015 and a wholly-owned subsidiary of our Company

DEFINITIONS

“Greenwich (China)”	Greenwich (China) Technology Development Limited (格林(中國)科技發展有限公司), a company incorporated in Hong Kong with limited liability on 3 September 2007 and a wholly-owned subsidiary of our Company
“Greenfresh (Indonesia)”	PT Greenfresh Biotechnology Indonesia, a company incorporated in Indonesia on 12 August 2016 and a wholly-owned subsidiary of our Company
“Group” or “our Group”	our Company and our subsidiaries or where the context so requires, in respect of the period prior to our Company becoming the holding company of the present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at that time
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards (including Hong Kong Accounting Standards and their interpretations) issued by the Hong Kong Institute of Certified Public Accountants
“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 People’s Republic of China
“Hong Kong Offer Shares”	the 20,000,000 Offer Shares initially being offered by us for subscription at the Offer Price under the Hong Kong Public Offering, subject to adjustment as set forth in the section headed “Structure and Conditions of the Share Offer” in this prospectus
“Hong Kong Public Offering”	the conditional offering of our Hong Kong Offer Shares by our Company for subscription by members of the public in Hong Kong (subject to adjustments set forth in the section headed “Structure and Conditions of the Share Offer” in this prospectus) and upon the terms and conditions stated herein and in the Application Forms
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Underwriter”	the sole underwriter of the Hong Kong Public Offering listed in the section headed “Underwriting — Hong Kong Underwriter” in this prospectus

DEFINITIONS

“Hong Kong Underwriting Agreement”	the Hong Kong Underwriting Agreement dated 27 September 2019 relating to the Hong Kong Public Offering entered into between our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Sole Bookrunner and Sole Lead Manager, and the Hong Kong Underwriter, see the section headed “Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering” in this prospectus for further information
“IDR”	Indonesian rupiah, the lawful currency of Indonesia
“Independent Third Party(ies)”	a person or entity who is not considered a connected person of our Company under the Listing Rules
“Indonesia”	The Republic of Indonesia
“International Offer Shares”	the 180,000,000 Shares being initially offered by us for subscription under the International Offering together with any additional Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option, subject to reallocation as set forth in the section headed “Structure and Conditions of the Share Offer” in this prospectus
“International Offering”	the conditional offering of our International Offer Shares for and on behalf of our Company outside the United States, including to professional, institutional, and other investors in Hong Kong, as set forth in the section headed “Structure and Conditions of the Share Offer” in this prospectus
“International Underwriters”	the underwriters of the International Offering which are expected to enter into the International Underwriting Agreement
“International Underwriting Agreement”	the international underwriting agreement relating to the International Offering which is expected to be entered into by, among others, our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Sole Bookrunner and the Sole Lead Manager, and the International Underwriters on the Price Determination Date
“Keen Field”	Keen Field Limited (啟泰有限公司), a company incorporated in the BVI with limited liability on 22 July 2015 and a wholly-owned subsidiary of our Company
“Latest Practicable Date”	23 September 2019, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information in this prospectus

DEFINITIONS

“Lease Agreements”	the two lease agreements dated 15 December 2017 entered into between Lvqi (Xiamen) and Mr. GUO Dongxu, an executive Director, in relation to the lease of two office premises by us, see the section headed “Continuing Connected Transactions” in this prospectus for further information
“Listing”	the listing of our Shares on the Main Board
“Listing Committee”	the listing sub-committee of the board of director of the Stock Exchange
“Listing Date”	17 October 2019, being the date on which dealings in our Shares are expected to first commence on the Stock Exchange
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
“Lubao (HK)”	Lubao Technology Development Limited (綠寶科技發展有限公司), a company incorporated in Hong Kong with limited liability on 11 August 2015 and a wholly-owned subsidiary of our Company
“Lvbao (Quanzhou)”	綠寶(泉州)生化有限公司 (Lvbao (Quanzhou) Biochemistry Co., Ltd.), a company established under the laws of the PRC with limited liability on 14 May 1999 and a wholly-owned subsidiary of our Company
“Lvbao (Quanzhou) Production Plant”	the production plant owned and operated by Lvbao (Quanzhou) for the production and sales of carrageenan products and blended products
“Lvqi (Fujian)”	福建省綠麒食品膠體有限公司 (Fujian Province Lvqi Food Colloid Company Limited), a company established under the laws of the PRC with limited liability on 18 March 2009 and a wholly-owned subsidiary of our Company
“Lvqi (Fujian) Production Plant”	the production plant owned and operated by Lvqi (Fujian) for the production and sales of agar-agar products, carrageenan products, and blended products
“Lvqi (Shanghai)”	綠麒商貿(上海)有限公司 (Lvqi Trading (Shanghai) Company Limited), a company established under the laws of the PRC with limited liability on 9 February 2018 and a non-wholly owned subsidiary of our Company holding 61.0% equity interest in Lvqi (Shanghai)

DEFINITIONS

“Lvqi (Xiamen)”	綠麒(廈門)海洋生物科技有限公司 (Lvqi (Xiamen) Marine Biological Technology Company Limited), a company established under the laws of the PRC with limited liability on 4 June 2013 and a wholly-owned subsidiary of our Company
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Memorandum”	the memorandum of association of our Company conditionally adopted to take effect on the Listing Date, as amended from time to time
“MOFCOM”	中華人民共和國商務部 (Ministry of Commerce of the PRC)
“NDRC”	中華人民共和國國家發展和改革委員會 (National Development and Reform Commission of the PRC)
“Nomination Committee”	the nomination committee of our Board established on 25 September 2019
“OFAC”	US Department of Treasury’s Office of Foreign Assets Control
“Offer Price”	the final price denominated in Hong Kong dollar per Offer Share (exclusive of brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%), at which our Offer Shares are to be subscribed and our International Offer Shares are to be offered, to be determined in the manner set forth in the section headed “Structure and Conditions of the Share Offer — Pricing and allocation” in this prospectus
“Offer Shares”	the 200,000,000 Offer Shares initially being offered by us for subscription at the Offer Price under the Share Offer, subject to the Over-allotment Option as set forth in the section headed “Structure and Conditions of the Share Offer” in this prospectus
“Ordinary Shares”	ordinary shares with nominal value of HK\$0.10 each in the share capital of our Company, which have been sub-divided into 10 Shares since 5 August 2018

DEFINITIONS

“Over-allotment Option”	the option expected to be granted by our Company to the Sole Bookrunner and Sole Lead Manager pursuant to which our Company may be required to issue up to an aggregate of 30,000,000 additional Shares at the Offer Price, to cover over-allocations in the International Offering, if any, see the section headed “Structure and Conditions of the Share Offer” in this prospectus
“Post-IPO Share Option Scheme”	the post-IPO share option scheme conditionally adopted by our Shareholders pursuant to the resolutions passed by our Shareholders on 25 September 2019, a summary of its principal terms is set forth in the paragraphs under “D. Share Option Schemes — 2. Post-IPO Share Option Scheme” in Appendix V to this prospectus
“PRC” or “China”	The People’s Republic of China and, except where the context requires and only for the purpose of this prospectus, references in this prospectus to the PRC or China do not include Taiwan, Hong Kong, and The Macau Special Administrative Region of the PRC
“PRC Government”	the government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or any of them
“Pre-IPO Investor”	Mr. KIU Wai Ming, an Independent Third Party and a Shareholder holding 2.0% of our Shares in issue immediately prior to completion of the Capitalisation Issue and the Share Offer
“Pre-IPO Share Option Scheme”	the share option scheme approved and adopted by our Shareholders on 5 August 2018, a summary of its principal terms is set forth in the paragraphs under “D. Share Option Schemes — 1. Pre-IPO Share Option Scheme” in Appendix V to this prospectus
“Pre-IPO Share Options”	the share options granted to the Grantees pursuant to the terms and conditions of the Pre-IPO Share Option Scheme, see the section headed “History, Development, and Reorganisation — Adoption of the Pre-IPO Share Option Scheme” in this prospectus and the paragraphs under “D. Share Option Schemes — 1. Pre-IPO Share Option Scheme” in Appendix V to this prospectus

DEFINITIONS

“Price Determination Date”	the date on which the Offer Price is to be fixed by the Sole Bookrunner and the Sole Lead Manager (for itself and on behalf of the Underwriters) and us, which is expected to be on or around Thursday, 10 October 2019 and in any event not later than Wednesday, 16 October 2019
“Remuneration Committee”	the remuneration committee of our Board established on 25 September 2019
“Reorganisation”	the corporate reorganisation steps undergone by our Group in preparation for the Listing described in the section headed “History, Development, and Reorganisation—Reorganisation” in this prospectus
“RMB” or “Renminbi”	Renminbi yuan, the lawful currency of the PRC
“Sanctioned Countries”	countries or territories which are the targets of comprehensive sanction programmes under the law of Australia, the EU or the US that apply to substantially all economic activities, such as Cuba, Crimea, Sudan, Iran, Syria, and North Korea
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) with nominal value of HK\$0.01 each in the share capital of our Company
“Share Option Schemes”	Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme
“Shareholder(s)”	holder(s) of Share(s)
“Shiyanhaiyi”	十堰海乙魔芋製品有限公司 (Shiyanhaiyi Konjac Products Company Limited), a company established under the laws of the PRC with limited liability on 7 September 2012 and a wholly-owned subsidiary of our Company
“Shiyanhaiyi Production Plant”	the production plant owned and operated by Shiyanhaiyi for the production and sales of konjac products
“Sole Bookrunner and Sole Lead Manager”	Essence International Securities (Hong Kong) Limited, a licensed corporation to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO, being the sole bookrunner and the sole lead manager of the Share Offer

DEFINITIONS

“Sole Sponsor”	Essence Corporate Finance (Hong Kong) 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 in the SFO), being the sole sponsor to the Listing
“Stabilizing Manager”	Essence International Securities (Hong Kong) Limited
“Stock Borrowing Agreement”	the stock borrowing agreement to be entered into between the Sole Bookrunner and the Sole Lead Manager, as the stabilizing manager and borrower, and COS Kreation, as lender, on or around the Price Determination Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Strong Achievement”	Strong Achievement (BVI) Investment Company Limited (力成(BVI)投資有限公司), a company incorporated in the BVI with limited liability on 11 December 2015, which is wholly-owned by Mr. GUO Dongxu, one of our Controlling Shareholders
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Targeted Sanctions Programmes”	economic sanctions or restrictive measures implemented by governments in respect of or on specific parties or persons or economic sectors under the laws of Australia, the EU or the US
“Takeovers Codes”	The Codes on Takeovers and Mergers and Share Buy-backs, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the three years ended 31 December 2018 and the three months ended 31 March 2019
“Underwriters”	the Hong Kong Underwriter and the International Underwriters
“Underwriting Agreements”	Hong Kong Underwriting Agreement and International Underwriting Agreement
“UN”	United Nations
“United States” or “US”	The United States of America, its territories and possessions, and all areas subject to its jurisdiction
“US dollars” or “US\$” or “USD”	United States dollars, the lawful currency of the United States
“VAT”	PRC value-added tax

DEFINITIONS

“we”, “us” or “our”	our Company or our Group, as the context may require
“Wealth Creation”	Wealth Creation Limited (恒宇有限公司), a company incorporated in the BVI with limited liability on 22 July 2015 and a wholly-owned subsidiary of our Company
“ WHITE Application Form(s)”	the application form(s) for use by members of the public in Hong Kong who require such Hong Kong Offer Shares to be issued in the applicants’ own names
“ WHITE Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO at www.eipo.com.hk
“ WHITE Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Winning Path”	Winning Path Trading Company Limited (榮百德貿易有限公司), a company incorporated in the BVI with limited liability on 11 December 2015, which is wholly-owned by Mr. GUO Yuansuo, one of our Controlling Shareholders
“Xindecheng”	漳州信德成投資諮詢有限公司 (Zhangzhou Xindecheng Investment Consulting Company Limited), a company established under the laws of the PRC with limited liability on 16 November 2012 and deregistered on 28 July 2017, which has never been a member of our Group
“ YELLOW Application Form(s)”	the application form(s) for use by members of the public in Hong Kong who require such Hong Kong Offer Shares to be deposited directly in CCASS
“%”	per cent.

GLOSSARY OF TECHNICAL TERMS

This glossary contains certain definitions and technical terms used in this prospectus in connection with our business. As such, some terms and definitions may not correspond to standard industry definitions or usage of such terms.

“agar-agar”	a colloid extracted from edible seaweed, such as gracilaria, and is used in food and non-food applications, including general agar-agar products, quick dissolve agar-agar products, and agarose
“AQSIQ”	中華人民共和國國家質量監督檢驗檢疫總局 (The General Administration of Quality Supervision, Inspection and Quarantine of the People’s Republic of China)
“BRC”	a certification of food safety standards issued by the British Retail Consortium
“carrageenan”	a colloid extracted from edible seaweed, such as eucheuma, and is used in food and non-food applications, including refined carrageenan and semi-refined carrageenan
“CIF”	an international trade protocol, pursuant to which the seller is required to pay for the costs and freight necessary to transport goods to the named port of destination and insure the goods while in transit
“cottonii”	a specie of natural coral algae which contains high nutritional value, a kind of eucheuma
“emulsifier” or “emulsifying agent”	a substance which acts as a stabiliser for emulsions preventing liquids that ordinarily do not mix from separating
“eucheuma”	a specie of red edible seaweed
“FDA”	Food and Drug Administration of the United States
“food hydrocolloid”	hydrocolloid products used in food applications to give the viscosity, texture, and structure of a wide range of food
“FOB”	an international trade protocol, pursuant to which the seller arranges to deliver the goods to a named port of destination, but the risk is transferred from the seller to the buyer once the goods are aboard the ship
“FSSC 22000”	Food Safety System Certification 22000, a certification for food safety management system administered by Foundation FSSC 22000

GLOSSARY OF TECHNICAL TERMS

“GB/T”	Guobiao Standards (中華人民共和國國家標準), the Chinese National Standards issued by the Standardisation Administration of China
“gelatine”	a mixture of peptides and proteins produced by partial hydrolysis of collagen extracted from the skin, bones, and connective tissues of animals such as domesticated cattle, chicken, pigs, and fish
“gelling agent”	a substance which is added to a food product to provide the texture of a gel
“g/cm ² ”	gram per centimetre, an unit of measurement of density of our products
“glucomannan”	a dietary fibre derived from the root of the konjac plant
“gracilaria”	a specie of red edible seaweed
“HACCP”	Hazard Analysis and Critical Control Points, a food safety and quality management system
“HALAL”	Halal food certification, a requirement to certify intrinsically-halal food, which is categorised as permissible food under the traditional Islamic law
“hydrocolloid”	a substance which is dissolved in water and may create different functional properties, such as thickening or gelling, in food stuffs or other materials
“ISO”	International Organisation for Standardisation
“ISO 22000”	food safety management system certification
“ISO 9001”	quality management system certification
“iota-carrageenan”	a kind of carrageenan produced mainly from <i>Spinosa</i> which forms soft gels in the presence of calcium ions
“QS”	the Industrial Product Manufacturing Licence (生產許可), a Chinese quality and safety mark for food, beverages, and other products
“kappa-carrageenan”	a kind of carrageenan sourced mainly from <i>cottonii</i> which forms strong, rigid gels in the presence of potassium ions and reacts well with dairy proteins

GLOSSARY OF TECHNICAL TERMS

“KOSHER”	KOSHER food certification is a certification of conformity of food to the regulations of kashrut which is a set of Jewish religious dietary laws and include a comprehensive legislation concerning permitted and forbidden foods
“konjac gum”	extracted from the root of the konjac plant and is a food additive used in food industry
“refined”	refined carrageenan is produced through alcohol precipitation process or potassium chloride gel press process and refined carrageenan is a food additive used in food industry
“semi-refined”	semi-refined carrageenan is produced in a less complex process than refined carrageenan and contains a high level of cellulosic content and is a food additive used in food industry
“spinosum”	a specie of red edible seaweed and a kind of eucheuma
“stabiliser” or “stabilising agent”	a substance which is added to food product to preserve food structure
“thickener” or “thickening agent”	a substance which increases the viscosity of a solution or liquid/solid mixture without substantially modifying its other properties

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to us.

Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the commission of which would make any statement herein or this prospectus misleading.

INFORMATION AND REPRESENTATION

This prospectus is published solely in connection with the Share Offer. For applicants in the Share Offer, this prospectus and the Application Forms set forth the terms and conditions of the Share Offer. Our Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set forth herein and therein.

We have not authorised anyone to provide any information or to make any representation not contained in this prospectus and the Application Forms. You should not rely on any information or representation not contained in this prospectus and the Application Forms as having been authorised by us, the Sole Sponsor, the Sole Bookrunner and Sole Lead Manager, the Underwriters, any of our or their respective directors, officers, agents, employees, advisers, representatives or any other party involved in this Share Offer. No representation is made that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisers if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of or dealing in the Shares (or exercising rights attached to them). No responsibility is accepted by us or by any of the Sole Sponsor, the Sole Bookrunner and Sole Lead Manager, the Underwriters, any of our or their respective directors, officers, agents, employees, advisers, representatives or any other parties involved in the Share Offer for any tax effects or liabilities resulting from the subscription for, purchase, holding or disposing of, or dealing in, our Shares or your exercise of any rights attaching to our Shares.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

Share Offer	200,000,000 Shares (excluding any Shares to be allotted and issued pursuant to the Over-allotment Option) comprising 20,000,000 Hong Kong Offer Shares and 180,000,000 International Offer Shares, in each case subject to re-allocation. All Offer Shares are new Shares to be allotted and issued by our Company. See the section headed “Structure and Conditions of the Share Offer” in this prospectus for further information on the structure of the Share Offer, including its conditions.
Indicative range of the Offer Price	HK\$1.16 to HK\$1.74
Procedures for application for our Hong Kong Offer Shares	The application procedures for our Offer Shares are set forth in the section headed “How to Apply for our Hong Kong Offer Shares” in this prospectus and on the relevant Application Forms.
Stock borrowing arrangements in connection with settlement	The stabilizing manager or any person acting for it may borrow from COS Kreation up to 30,000,000 Shares.
Number of Shares to be issued under the Over-allotment Option	Up to 30,000,000 additional new Shares to be allotted and issued by our Company.
Number of Shares outstanding after completion of the Share Offer and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised)	800,000,000 Shares
Number of Shares outstanding after the completion of the Share Offer and the Capitalisation Issue (assuming the Over-allotment Option is exercised in full)	830,000,000 Shares
Commencement of dealings in our Shares	Dealings in our Shares on the Stock Exchange are expected to commence on Thursday, 17 October 2019. Our Shares will be traded on the Main Board in board lots of 2,000 Shares each. The stock code of our Shares will be 01084.
Lock-up undertaking by our Company and our Controlling Shareholders	See the section headed “Underwriting — Undertakings to the Stock Exchange pursuant to the Listing Rules” and “Underwriting — Undertakings pursuant to the Hong Kong Underwriting Agreement” in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

Dividend policy	See the section headed “Financial Information — Dividends and dividend policy” in this prospectus.
Voting rights	Holder of each Share is entitled to one vote at our general meetings.
Registers and Hong Kong stamp duty	<p>Our Company’s principal register of members will be maintained by our Cayman Principal Registrar and our Company’s branch register of members will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited. Unless otherwise approved by our Directors, all documents evidencing transfer of title to any Shares must be lodged for registration by our Hong Kong Share Registrar and cannot be lodged with the Cayman Principal Registrar.</p> <p>Dealings in our Shares registered in our Company’s branch register of members in Hong Kong will be subject to Hong Kong stamp duty.</p>
Restrictions on offers and offers for sale	<p>No action has been taken to permit a public offering or the general distribution of this prospectus and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation 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. The distribution of this prospectus and the offering of our Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.</p> <p>Each person subscribing for our Offer Shares will be required to, or be deemed by its/his/her subscription for our Offer Shares to, confirm that it/he/she is aware of the restrictions on offers of our Offer Shares described in this prospectus and on the relevant Application Forms.</p>
Application for Listing	Application has been made to the Listing Committee for the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Share Offer (including any Shares which may be issued pursuant to the Capitalisation Issue and the exercise of the Over-allotment Option, the Pre-IPO Share Options, and any option that may be granted under the Post-IPO Share Option Scheme).

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

No part of our Share or loan capital is listed on or dealt in on any other stock exchange and nor is there at present any proposal to do so. The Listing is sponsored by the Sole Sponsor.

Underwriting

The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriter. The International Offering is expected to be fully underwritten by the International Underwriters. The Share Offer is managed by the Sole Bookrunner and the Sole Lead Manager.

If, for any reason, the Offer Price is not agreed, the Share Offer will not proceed and will lapse. See the section headed “Underwriting” in this prospectus for further information on the Underwriters and the underwriting arrangements.

Share 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, our Shares will be accepted as eligible securities by HKSCC for deposits, clearance and settlement in CCASS with effect from the Listing Date 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.

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.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:-

- our business and operating strategies and our ability to implement such strategies;
- our operations and business prospects;
- the future competitive environment of the industry in and the PRC in which we operate and our target markets;
- technological breakthrough in relation to the production and processing of food additives;
- government policy on the use of food addictive products; and
- the general economic trend in the PRC and our target markets.

The words “anticipate”, “believe”, “could”, “expect”, “going forward”, “intend”, “may”, “plan”, “seek”, “will”, “would”, and similar expressions, as they relate to us, in particular, in the sections headed “Business” and “Financial Information” in this prospectus, are intended to identify a number of these forward-looking statements. These statements are based on numerous assumptions regarding our present and future business strategy and the environment in which we will operate in the future. They reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Hence, should one or more of these risks or uncertainties materialise, or should underlying assumptions prove to be incorrect, our business and financial condition and operating results could be adversely affected and could vary materially from those described herein as anticipated, believed, or expected. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set forth in this section.

RISK FACTORS

An investment in our Shares involves risks. You should carefully consider the following information, together with the other information contained in this prospectus, including our consolidated financial statements and related notes, before you decide to subscribe for our Shares. If any of the circumstances or events described below actually arises or occurs, our business, and financial condition, operating results and prospects may suffer. In any such case, the market price of our Shares may decline, and you may lose all or part of your investment. This prospectus also contains forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risks described below and elsewhere in this prospectus.

RISKS RELATING TO OUR BUSINESS

We rely on a stable and adequate supply of quality raw materials which are subject to price volatility and may not be readily available.

Our business operations and production activities rely on our ability to source quality raw materials, i.e. dried seaweed and konjac crude powder/konjac flakes, at competitive prices and on a timely basis. As part of the industry practice and to allow additional flexibility in our procurement of raw materials, we have not entered into any long-term supply agreements with our suppliers for the purchase of raw materials but we typically place purchase orders with our suppliers specifying the purchase quantity, timing of delivery, and the pricing of raw materials. During the three years ended 31 December 2018, our cost of raw materials accounted for 65.3%, 61.8%, and 61.4% of our revenue, respectively. During the three months ended 31 March 2019, our cost of raw materials accounted for 59.2% of our revenue, as compared to 58.2% during the three months ended 31 March 2018. The principal raw materials used in our production include dried seaweed (cottonii, spinosum, and gracilaria) and konjac crude powder/konjac flakes, and their prices are subject to demand and supply dynamics and may be fluctuating from time to time as a result of weather condition, currency fluctuations, transportation costs, and other factors which are outside our control and anticipation.

During the three years ended 31 December 2018, the purchase prices of dried cottonii, dried spinosum, and dried gracilaria fluctuated significantly from US\$660 to US\$2,150 for each tonne of dried cottonii, from US\$320 to US\$880 for each tonne of dried spinosum, and from US\$480 to US\$880 for each tonne of dried gracilaria. During the three months ended 31 March 2019, the purchase prices of dried spinosum, dried cottonii, and dried gracilaria were in the ranges between US\$650 and US\$1,000, US\$1,750 and US\$2,180, and US\$510 and US\$535, respectively. Because of these price fluctuations, which are outside our control, we faced significant fluctuations in the cost of raw materials and would have to adjust the selling prices of our hydrocolloid products accordingly during the corresponding periods.

We have to monitor the price fluctuations constantly for the purpose of reducing our exposure in such respect. We have not entered into any hedging arrangement for the supply of raw material because no counterparties are willing to enter into such arrangement reliably with no counterparty risk. In light of these market movements and activities, which are to a large extent outside our control, we cannot assure you that our cost of raw materials will not be subject to any unexpected price fluctuations in the future or that such fluctuations would not have any material impact on the cost of raw materials and the selling prices of our products. See the sensitivity analysis on any change of the

RISK FACTORS

cost of raw materials and the selling prices set forth in the section “Financial Information — Sensitivity and breakeven analyses” in this prospectus. See the measures taken by us in sourcing raw materials in the section headed “Business — Procurement of raw materials and suppliers” in this prospectus.

We generally do not maintain long-term supply agreements with major suppliers or maintain large quantities of inventories of raw materials nor have we entered into any raw material hedging arrangements. Instead, we purchase most of the raw materials at spot prices in selected markets. If the prices of our principal raw materials increase significantly or suddenly in the future and we are unable to secure supply of raw materials at satisfactory prices or unable to pass the increased costs in a timely manner to our customers, our profitability could be adversely affected. We cannot assure you that we will be able to timely or fully pass the costs associated with increases in raw material prices to customers in all circumstances. We cannot assure you that we have adequate resources to monitor the changes in the prices and the supply of our raw materials at all times.

In addition, our suppliers may not be able to supply the dried seaweed as agreed and we would encounter the counterparty risk in sourcing the dried seaweed from these suppliers. Hence, we cannot assure you that suppliers would be readily available and that we are able to switch to other suppliers in a timely manner in the event of loss of any of our suppliers. If we are not able to deal with these risks, our business and financial condition and operating results could be adversely affected.

We do not have long-term purchase commitments from our customers and we may be subject to revenue volatility and uncertainty.

We do not have long-term purchase commitments from our customers. In most cases, our customers place purchase orders with us one to two months in advance of delivery. Our raw material procurement and production plans are prepared based on our customers’ purchase orders or indications of the likely purchase amounts. Although some of our customers provide us with purchase forecasts, such forecasts are not legally binding on our customers and may not be accurate. Hence, our customers may defer or even cancel their purchase orders on short notice without any legal obligations.

In light of the foregoing, we cannot assure you that our sales estimation in any period of time is accurate and that our production volume would be at appropriate levels taking into consideration the latest purchase orders from time to time confirmed by our customers. Postponements or cancellation of purchase orders by our customers or decrease in the quantity of sales could adversely affect the amount of revenue and increase our cost of sales because of inventory obsolescence. On the other hand, our customers may place purchase orders with us on short notice, which may strain our resources and we may not have sufficient production capacity to meet our customers’ demand at any given time.

We are subject to the risk in collecting our trade receivables due from our customers.

We are subject to the risk in collecting our trade receivables due from our customers. As of 31 December 2016, 2017, and 2018, the balance of our trade receivables amounted to HK\$59.8 million, HK\$97.2 million, and HK\$173.9 million, respectively. The balance of our trade receivables as of 31

RISK FACTORS

March 2019 amounted to HK\$127.1 million. The trade receivable turnover days increased continuously during the Track Record Period. We cannot assure you that all such amounts due to us will be settled promptly or within the anticipated timelines as agreed with our customers. Our operating results, liquidity, and profitability could be adversely affected.

We may not be able to effectively manage our inventory of raw materials and finished products.

We may not be able to effectively manage our inventory. Our inventory amounted to HK\$123.1 million, HK\$158.6 million, and HK\$193.2 million, respectively, and accounted for 40.3%, 51.5%, and 43.7% of our current assets as of 31 December 2016, 2017, and 2018. As of 31 March 2019, our inventory amounted to HK\$285.8 million and accounted for 56.9% of our current assets as of the same date. We expect that the balance of our inventory will continue to represent a significant portion of our current assets.

We rely on our sales forecasts to prepare our procurement plan and to manage our inventory of raw materials and finished products. Our customers may cancel or postpone the sales orders placed with us. Demand for our products, however, may change and our customers may not confirm the purchase order of products in such quantity pursuant to the sales forecast or initial indication provided by our customers.

If we are not able to manage our inventory efficiently, we could be subject to the risk of inventory obsolescence, decline in the realisable value, and significant write-down of the value of our inventory of finished products. Any of these events could adversely affect our business and financial condition and operating results.

We may not be able to maintain effective quality control and may be subject to product liability claims which could have a material adverse impact on our reputation, business and financial condition, and operating results.

The performance and the quality of our products are critical to the success of our business, and depend significantly on our quality management system, which in turn, relies on a number of factors, including the design of such quality management system, our quality training programmes, and our ability to ensure that our staff is in full compliance with our quality management policies and guidelines. Any significant failure or deterioration of our quality management system could have a material adverse effect on our business reputation and business and financial condition, and operating results.

We have been accredited with BRC, HALAL, KOSHER, FSSC 22000, HACCP, ISO 9001, and ISO 22000 in relation to our production process or the hydrocolloid products produced by us. See the section headed “Business — Quality management” in this prospectus. We cannot, however, assure you that our quality management system will continue to be effective and in full compliance with the relevant laws and regulations and the standards. Any significant failure or deterioration in our quality management system may result in our losing of the business reputation, and the requisite certifications or accreditations, which could in turn have an adverse impact on our business and financial condition and operating results.

RISK FACTORS

If we were found to be liable for material quality defects of our products, we may incur substantial legal and financial liabilities. Any of such claims could damage our reputation and result in reduction in our sales. Regardless of the merits of the claim, if we are required to defend any claims or face any claims relating to product liability, we may need to incur substantial financial resources as well as time and attention of our management. The successful assertion of product liability claims against us could require us to pay significant monetary damages and in most cases, suspension of the related production facilities pending further inspection or accreditation.

Our business is affected by changes in consumer tastes, preferences, and perceptions on hydrocolloid products.

Customer tastes, preferences, and perceptions for hydrocolloid products are constantly changing in response to changes in culinary, demographics, social trends, and economic conditions. In light of diversified and changing customer preferences, our future growth depends on our ability to adapt to market trends and introduce new or improved hydrocolloid products in a timely manner that satisfy the tastes and preferences of consumers. We cannot assure you that our hydrocolloid products will continue to be accepted by our customers or that we will be able to anticipate or respond to changes in consumer tastes and preferences in a timely manner. Our failure to anticipate, identify or respond to these changes could adversely affect our sales performance and operating results.

New product development and product expansion can be expensive, and we cannot assure you that our new or improved products will be well-received and recognised by the market in respect of tastes or preferences of consumers or that it will generate acceptable profits. We may spend substantial amount of resources to develop and market new and improved products that may not meet our anticipated sales levels. If we are unable to effectively respond or adjust to the market trends and successfully identify and develop new or improved products in response to the changing demand, our business and financial condition and operating results and our competitive position could be affected.

If we are not able to implement our production capacity expansion plans or effectively manage our expansion, our business and financial condition and operating results could be adversely affected.

As we intend to expand our overall production capacity for each of our business segments, we expect that we will continue to invest in new production facilities. Our expansion plans may involve various risks, and we cannot assure you that our expansion plans will be implemented without failure or delay, nor can we provide any assurance to you that the demand for our products will increase in line with the increase in our production capacity in the future. If we cannot recoup the increased costs for the expansion in our production capacity, our business and financial condition and operating results could be adversely affected. The implementation of our production capacity expansion plans requires us to commit significant resources including:

- significant capital expenditures for the construction of plants, and purchase and installation of equipment;
- managerial resources, and technical and operational expertise; and
- hiring and training of new production personnel.

RISK FACTORS

We may not be able to meet all or any of the above requirements for production capacity expansion. We cannot assure you that we will always be able to obtain the financing required to fund such capital expenditures for the implementation of our production capacity expansion plans within the prescribed timeframe, or at all. In addition, if our business growth is slower than we have expected, it may lead to over-expansion of our production capacity and may result in lower production utilisation rate, which could have a significant adverse impact on our gross profit margin.

We may not be able to maintain our historical business growth rates.

We have achieved significant business growth during the three years ended 31 December 2018. Our revenue increased from HK\$535.1 million in 2016 to HK\$661.6 million in 2017 and further to HK\$997.1 million in 2018. Our net profit increased from HK\$53.4 million in 2016 to HK\$92.8 million in 2017 and further to HK\$93.8 million in 2018. During the three months ended 31 March 2019, our revenue amounted to HK\$190.3 million, as compared to HK\$176.7 million during the three months ended 31 March 2018, representing an increase of 7.7%.

We may not be able to continue our business growth at a rate comparable to our historical performance. Pursuant to the Frost & Sullivan Report, the average annual unit selling prices of carrageenan, agar-agar and konjac gum are expected to witness a downward trend during the five-year period ending 31 December 2023. The decrease is primarily attributable to increasing market competition and increasing supply of carrageenan, agar-agar, and konjac gum products at lower prices. The decline in the average annual unit selling prices of our products would lead to a decline in our gross profit margin which could adversely affect our business and financial condition and operating results.

We plan to expand our production capacity and capability by construction of new production plants and installation of new machinery under our future expansion plans, and such expansion may result in increase in our depreciation expenses.

We plan to expand our production capacity and capability by construction of new production plants and installation of additional machinery and equipment to such production plants under our future expansion plans. For details on the machinery and equipment to be installed, see the section headed “Business — Expansion of our production facilities” in this prospectus. Based on the planned investment amount in new production plants and machinery, our Directors expect that the additional depreciation expense would amount to HK\$3.2 million, HK\$9.8 million, and HK\$10.9 million for the three years ending 31 December 2021, respectively. Such depreciation expense could materially and adversely affect our business and financial condition and operating results.

RISK FACTORS

Increase in labour costs as a result of our expansion may have an adverse effect on our business operations.

As of 31 December 2018, we had 1,027 full-time employees. During the three years ended 31 December 2018, we incurred total staff costs (including salaries, wages, allowance, and benefits) of HK\$40.3 million, HK\$54.0 million, and HK\$93.3 million, respectively. As of 31 March 2019, we had 1,106 full-time staff. During the three months ended 31 March 2019, we incurred total staff costs of HK\$22.5 million, as compared to HK\$19.5 million for the three months ended 31 March 2018. The significant increase in staff cost during the year is mainly due to general salary increment to increase our Group's competitiveness in recruiting and retaining talents. Our expansion will depend on our ability to recruit and maintain our workforce, and to continue to increase our workforce at a rate commensurate with the growth of our business. Labour costs have increased significantly in the PRC in recent years, and our Directors expect that our labour costs will continue to increase in the future. If labour costs in the PRC continue to increase and we are unable to pass such increase in costs to our customers in a timely manner or adopt appropriate and effective means to manage our labour costs, our business and financial condition and operating results could be adversely affected.

We may incur substantial costs in complying with stringent environmental laws and regulations.

Our production generates waste water and air pollutants. As a result, our operations are subject to various national and local environmental laws and regulations as well as governmental oversight. The environmental laws and regulations in the PRC impose stringent standards on our handling and disposal of solid waste, emission of water and emulsified waste, and airborne emissions. Moreover, our operations may be subject to further oversight and supervision by local governments. Therefore, we may face increased costs and efforts to comply with the applicable environmental requirements and standards. In addition, future changes in the scope, application, and interpretation of the environmental laws and regulations as well as governmental oversight may limit or restrict our production capacity and/or substantially increase our costs in connection with the installation of additional pollution control or safety improvement equipment or other related expenses, and thus adversely affect our business and financial condition and results of operation.

We cannot assure you that we will be in compliance with these laws and regulations at all times. Failure to meet the applicable environmental requirements and standards could lead to serious penalties, sanctions, and liabilities as well as substantial costs in connection with remedial measures which may materially and adversely affect our financial condition and results of operations.

During the three years ended 31 December 2018, we committed a number of violations of the environmental protection laws and regulations on discharge of waste water and constructed production facilities without the prior approval of the relevant government authorities in the PRC. See the section headed "Business — Environmental protection" in this prospectus. There was no non-compliance incident in relation to environmental protection laws and regulations during the three months ended 31 March 2019. Our cost of compliance with the applicable environmental protection laws and regulations during the three years ended 31 December 2018 was HK\$8.1 million, HK\$11.4 million, and HK\$25.8 million, respectively. During the three months ended 31 March 2019, our cost of compliance amounted to HK\$4.9 million, as compared to HK\$4.7 million during the three months

RISK FACTORS

ended 31 March 2018. The significant increase in the compliance cost was partly due to the cost of the discharge rights acquired by Greenfresh (Fujian) for RMB14.6 million (equivalent to HK\$18.4 million) for a period of five years commenced from January 2018 to December 2022. See the section headed “Business — Environmental protection” in this prospectus.

Our Directors expect that the environmental compliance cost would continue to increase due to the stringent standards of environmental protection laws and regulations currently in place in the PRC and that the cost of discharge rights would also continue to increase upon the expiry of the current term of the discharge rights. In addition, as of the date of this prospectus, other members of our Group in the PRC engaged in production activities, namely Lvqi (Fujian), Lvbao (Quanzhou), and Shiyanhaiyi, are not required to acquire the discharge rights.

The increasing compliance costs would affect our operating result. If we fail to observe the applicable environmental laws and regulations in any material aspect or in the case of Greenfresh (Fujian), if it fails to renew the discharge rights, we could be required to pay penalty or our production activities would be interrupted or suspended in the extreme situation.

We are required to obtain and maintain approvals, permits, licences and certifications, including industry-specific quality management certifications, for our operations, procedures of which could be time consuming. Any loss of such permits, licences and certifications, could adversely affect our business and financial condition and operating results.

We are required to maintain various certificates, licences, and permits in order to operate our production facilities. See the section headed “Business — Licences and permits” in this prospectus. We are also required to comply with the product quality standards in relation to our products and production process. See the section headed “Business — Quality management” in this prospectus for detailed information on the quality standards and accreditations obtained by us for our production purpose. Our production facilities are subject to regular inspections by the regulatory authorities for full compliance with the relevant laws and regulations and by our customers for full compliance with the prescribed product quality standards. Failure to obtain or renew our certificates, licences, and permits, or comply with the relevant requirements following any inspections, could lead to temporary or permanent suspension of some or all of our production activities at our production facilities, which could adversely affect our business and financial condition and operating results.

Our success in the future depends on our product research and development capability.

Our success depends on our ability to develop new products and product formulas. We make significant investments in the product research and development for the purpose of improving the quality of our products, developing new product formulas, expanding our product offerings, and improving our production and processing technology, which we believe are crucial to our future business growth. During the three years ended 31 December 2018, we incurred product research and development costs of HK\$10.1 million, HK\$11.5 million, and HK\$14.1 million, respectively, and all these amounts were charged to our consolidated statements of profit or loss. During the three months ended 31 March 2019, we incurred product research and development costs of HK\$3.0 million, as compared to HK\$4.0 million during the three months ended 31 March 2018. These amounts were also charged to our consolidated statements of profit or loss.

RISK FACTORS

We cannot assure you that we will be able to commercialise the results of our product research and development projects or such projects will be completed within the anticipated time frame or budget, or that our newly developed products or product formulas will be generally accepted by our customers. Even if such products can be successfully commercialised or launched to the market, we cannot assure you that they will achieve the sales level as we anticipate or in a profitable manner.

In addition, we cannot assure you that our existing or potential competitors will not develop products or product formulas that have wider market acceptance or are more competitively priced than we do. There may also be a risk that potential products or product formulas under development by us will no longer be commercially viable despite the fact that significant resources have been invested in the product research and development efforts.

Failure to derive desired outcome from our product research and development efforts and failure to launch new products or product formulas that receive market acceptance may have material adverse impact on our business and financial condition and operating results.

A material disruption to the operation of our production facilities could materially and adversely affect our business and financial condition and operating results.

We cannot assure you that there will be no disruptions to the operations of our production facilities in the future. If operations at any of our production facilities are materially disrupted as a result of fires, equipment failure, natural disasters, work stoppages, power outages, explosions, adverse weather conditions, political turmoil, trade disputes, transport logistics, labour disputes, workforce restructuring or other factors, our business and financial condition and operating results could be adversely affected. The occurrence of any of these events could also require us to make significant unanticipated capital expenditures.

Our production process depends on the stable supply of electricity and water. If we encounter any shortage of supply of electricity, and water, our production activities could be interrupted which could adversely affect our business and financial condition and operating results. Any fluctuation in the prices of electricity or water in the future could also negatively affect our production cost and our profitability, which could have a significant impact on our business, financial condition and results of operations.

Interruptions in production could increase our costs and delay our delivery of products, which may further subject us to penalties or other liabilities under the relevant sales arrangements with our customers. Production suspensions caused by such disruptions could cause a reduction in sales or delay in sales recognition. Lost sales or increased costs arising from such disruption of operations may not be recoverable under our existing insurance policies and prolonged business disruption could result in a loss of customers. If any one or more of the above risks were to materialise, our business and financial condition and operating results could be adversely affected.

RISK FACTORS

Personal injuries or fatal accidents may occur at our production facilities, which may subject us to administrative penalties and compensation claims, and could adversely affect our reputation, business and financial condition, and operating results.

In the course of our business operations, we rely on our employees to adhere to and follow all safety measures and procedures we have stipulated. Nevertheless, there remain risks of personal injuries or even fatal accidents in our production plants, especially if our employees fail to comply with our safety measures or our management fails to provide adequate trainings or design and implement proper safety policies and measures.

We cannot guarantee that material workplace accidents or fatal accidents will not occur in the future. In that case, we may be subject to government investigations and administrative penalties. Even if such accidents were not caused by our fault or negligence, such accidents may still cause us to incur substantial costs and damage to our reputation, such as negative publicity, which could adversely affect our business and financial condition and operating results.

Our insurance coverage may not be adequate to cover all the risks related to our business.

We do not maintain insurance against product liability and interruptions to business operations. If we are exposed to the liabilities on any of these uninsured risks and if we do not have adequate financial resources to cover such risk, our business and financial condition and operating results could be adversely and materially affected.

Defects related to property leased by us may materially and adversely affect our ability to use such property.

Lvbao (Quanzhou) has constructed a waste water treatment plant and seaweed drying area on the leased land at No. 97, 3rd Parcel, Maoting, Yonghe Town, Jinjiang City, Fujian Province, the PRC, which is a collectively-owned land of 6,000 sq.m.. Our PRC Legal Advisers have advised us that there is uncertainty as to the validity of the lease agreement due to the actual usage of the land is different from the permitted usage for agricultural purpose. As a result, the lease agreement may be revoked. Besides, any collectively-owned land shall not be sold, transferred or leased for non-agricultural purpose under the applicable laws in the PRC. Our PRC Legal Advisers have advised us that we have constructed the waste water treatment plant and seaweed drying area on the land prior to the approval of the change of the land ownership from collective-owned to State-owned and change the permitted usage of the land. Such non-compliance may be ordered to be rectified, including demolishing the constructions or we may be required to vacate the land and reinstate the land to its original state and pay a fine for such non-compliance. In any of these events, our business operations conducted on the land could be affected. We cannot assure you that we will not be subject to any penalty by the relevant PRC Government for our non-compliance. If we were to vacate the land, we may incur additional costs for the relocation. For further details, see “Business — Non-compliance matters — Leased properties in the PRC” in this prospectus.

RISK FACTORS

We may be affected by the changes in or cessation of preferential tax treatment which may have an adverse effect on our business and financial condition and operating results.

Under the CIT Law and the Regulations on the Implementation of the Enterprise Income Tax Law of the People's Republic of China (中華人民共和國企業所得稅法實施條例), enterprises in the PRC are generally subject to a uniform rate of 25% on their worldwide income. During the three years ended 31 December 2018, the effective income tax rate of our Group was 26%, 23%, and 28%, respectively. The amount of tax charge during the three years ended 31 December 2018 amounted to HK\$18.4 million, HK\$27.7 million, and HK\$36.0 million, respectively. During the three months ended 31 March 2019, the effective income tax rate of our Group was 25%, as compare to 45% during the three months ended 31 March 2018. The amount of tax charged during the three months ended 31 March 2019 amounted to HK\$5.8 million, as compared to HK\$4.2 million during the three months ended 31 March 2018.

Lvqi (Fujian) was subject to CIT at the rate of 15% during the Track Record Period because of its accreditation as a “High and New Technology Enterprise” in the PRC and that Lvqi (Fujian) has completed the registration with the local tax bureau. The current tax status of Lvqi (Fujian) will expire on 31 December 2020. Donghaiwan is subject to the CIT rate at 12.5% during the Track Record Period, as it is an agricultural products enterprise in the PRC.

During the three years ended 31 December 2018, the impact of preferential CIT amounted to HK\$3.4 million, HK\$3.5 million, and HK\$2.6 million, respectively. During the three months ended 31 March 2019, the impact of preferential CIT amounted to HK\$0.8 million, as compare to HK\$0.4 million during the three months ended 31 March 2018.

We cannot assure you that the current policies in the PRC on preferential tax treatment currently enjoyed by Lvqi (Fujian) will continue and will not be unfavourably changed or discontinued, or that the approval for renewal of such preferential tax treatment will be granted to us in a timely manner. In the event of the termination or expiration of our preferential tax treatment, or the imposition of additional taxes to us, our business and financial condition and operating results could be adversely affected.

We may be subject to additional contributions of social insurance and housing provident funds and late payments and fines imposed by relevant governmental authorities.

According 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 the Housing Provident Fund of the PRC” (住房公積金管理條例), we are required to make contributions to social insurance and housing provident funds for our employees. In the past, our PRC subsidiaries failed to make full contribution to the social insurance and housing provident funds in the timely manner or upon the request of the relevant employees. The aggregate unpaid amounts of social insurance and housing provident fund by the relevant member of our Group were RMB0.8 million (equivalent to HK\$1.0 million), RMB0.8 million (equivalent to HK\$0.9 million), and a reversal of RMB1.3 million (equivalent to HK\$1.5 million), respectively, during the three years ended 31 December 2018. The reversal during the year ended 31 December 2018 was due to the previous over-accruals as a result of staff departure and in relation to the accrued sum accumulated over the normal staff turnover period which is considered less likely be payable by us. We made provision of the unpaid amounts of RMB6.0 million (equivalent to HK\$6.7 million),

RISK FACTORS

RMB6.8 million (equivalent to HK\$8.2 million), and RMB5.5 million (equivalent to HK\$6.3 million) in respect of the social insurance and housing provident fund contributions as of 31 December 2016, 2017 and 2018. During the three months ended 31 March 2019, the aggregate unpaid amount of social insurance and housing provident fund by the relevant member of our Group amounted to a reversal of RMB0.6 million (equivalent to HK\$0.7 million) due to the previous over-accruals. We made such provision of RMB4.9 million (equivalent to HK\$5.7 million) as of 31 March 2019.

We are not aware of any complaints or demands for payment of these contributions from employees or the relevant PRC government authorities. As advised by our PRC Legal Advisers, the PRC Government may request us to pay the outstanding social insurance contributions within a stipulated deadline and an overdue charge equal to 0.05% of the outstanding amount for each day of delay. If we fail to repay the outstanding social insurance contributions within the prescribed period, we may be liable to a fine of one to three times of the outstanding contribution amount. The maximum amount of late charges which may be imposed on us as a result of our non-compliance with the requirements of social insurance contributions is estimated to be RMB7.7 million (equivalent to HK\$9.0 million), RMB8.5 million (equivalent to HK\$9.8 million), and RMB4.2 million (equivalent to HK\$5.0 million) for the three years ended 31 December 2018. The maximum amount of late charges which may potentially be imposed on us is estimated to be RMB0.4 million (equivalent to HK\$0.5 million) for the unpaid amount during the three months ended 31 March 2019. If we fail to make payments of outstanding housing provident fund contributions prior to the deadline, we may be subject to an order from the relevant people's courts to make such payment. See the section headed "Business — Non-compliance matters — Contributions to PRC social insurance and housing provident fund" in this prospectus for further details.

We could be adversely affected as a result of our sales to customers in certain countries which are subject to evolving economic sanctions of the US, EU, Australia, and UN and other relevant sanctions authorities.

The US and, to a lesser extent, other jurisdictions, including the EU and Australia, maintain broad economic sanctions targeting certain countries or territories, the Sanctioned Countries, which include Cuba, Crimea, Iran, Syria, and North Korea. In addition, the US and other jurisdictions have implemented country-based or activity-based Targeted Sanctions Programmes that target sanctioned parties or economic sectors. See the section headed "Applicable Laws and Regulations — International Sanctions laws" in this prospectus for further details on the relevant sanctions laws.

During the three years ended 31 December 2018, we sold our products to Iran through a trading company customer. Iran is a Sanctioned Country. We also sold our products to Ukraine and Egypt through trading companies and Russia through our direct sales and trading companies, which are subject to the Targeted Sanctions Programmes. All of these customers are Independent Third Parties. During the three years ended 31 December 2018, sales to these customers amounted to HK\$19.0 million, HK\$44.6 million, and HK\$54.1 million, respectively. During the three months ended 31 March 2019, sales to these customers amounted to HK\$9.6 million, as compared to HK\$13.2 million during the three months ended 31 March 2018. See the section headed "Business—Sales to the Sanctioned Countries" in this prospectus. These customers contacted us at trade shows and exhibitions, and we have not undertaken any marketing and promotional activities directed to customers in any of the Sanctioned Countries. We have no present intention to expand future sales to

RISK FACTORS

persons in any of the Sanctioned Countries or countries subject to the Targeted Sanctions Programmes or take actions that would otherwise cause us or other parties involved in the Share Offer, including their respective directors, officers, and employees, to violate or become a target of the sanctions laws of the US, the EU or Australia.

During the Track Record Period and currently, the US, Australia, and EU have maintained sanctions programmes targeting Iran, which apply both to actions by persons of any nationality taken within US, Australia or EU jurisdiction and, in the case of so-called “secondary” sanctions, certain actions taken outside of US jurisdiction. Both primary and secondary sanctions against Iran were narrowed in 2015 following the Iranian nuclear agreement, although substantially all transactions involving Iran remain prohibited if the transactions have any US nexus. Although we believe our current business operations do not involve industries or sectors that are targeted by secondary sanctions against Iran and that they are conducted without any prohibited nexus between the US, Australia or EU and transactions involving Iran, there is a possibility that the government in the US, Australia, EU or other jurisdictions may introduce more severe sanctions in relation to Iran (or other countries), which may cover industries or sectors in which we are involved, or that our controls may prove ineffective and we may involve a US jurisdictional element (such as a US dollar payment clearing through the US or goods or services sourced in the United States for use in Iran). In either case, our business and Shareholders’ interests could be affected.

During the Track Record Period, we sold our products to our customers in countries in which significant economic actors are subject to sanctions, including Russia. To our knowledge, our customers are not subject to the Targeted Sanctions Programmes. However, we cannot assure you that if the scope of the sanctions were expanded or if our safeguards to prevent sales to any sanctioned person were to fail, our business, financial condition and results of operations would not be materially and adversely affected.

We cannot assure you that our future business will be free of sanctions risk. Our business and reputation could be adversely affected if the government of the United States, EU, Australia, or any other country material to our business were to determine that any of our activities constitute a violation of the sanctions they impose or provide a basis for designating us as a sanctioned entity. In addition, because sanctions programmes are revised from time to time, new requirements or restrictions could come into effect and that could increase the level of scrutiny on our business. For details of our internal control procedures, see the section headed “Business — Sales to the Sanctioned Countries — Internal control measures” in this prospectus.

RISK FACTORS

We are exposed to currency exchange risks.

Our consolidated financial information contained in this prospectus is expressed in Hong Kong dollars. In our daily operations, a majority of our revenue is denominated in US dollars, Euro, and Renminbi. Our current indebtedness is primarily denominated in Renminbi and Hong Kong dollars.

We mainly operate in the PRC and Hong Kong and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollars. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. We did not hedge against any fluctuation in foreign currency during the Track Record Period and up to the Latest Practicable Date.

The exchange rates between Renminbi, Hong Kong dollar, and US dollar are subject to fluctuations. The value of Renminbi against Hong Kong dollar and the US dollar is affected by, among other things, changes in China's economic and currency policies. For example, in August 2015, PBOC changed the way it calculates the mid-point price of Renminbi against the US dollar, requiring the market-makers who submit for reference rates to consider the previous day's closing spot rate, foreign-exchange demand and supply as well as changes in major currency rates. In 2015 and 2016, the value of Renminbi depreciated 5.8% and 6.3% against the US dollar, respectively, while in 2017, the value of Renminbi appreciated 7.0% against the US dollar. It is difficult to predict how market forces or the PRC or US government policies, including any interest rate increases by the Federal Reserve of the United States, may impact the exchange rate between Renminbi and the US dollar in the future. We recorded a net foreign exchange gain of HK\$0.6 million, loss of HK\$0.2 million, and loss of HK\$1.2 million from financing activities during the three years ended 31 December 2018. During the three months ended 31 March 2019, we recorded a net foreign exchange gain from financing activities of HK\$0.6 million, as compared to the net foreign exchange gain from financing activities of HK\$1.4 million for the three months ended 31 March 2018. In addition, the exchange rates between US dollar against Hong Kong dollar, our functional currency, may also fluctuate significantly. As of 31 December 2016, 2017, and 2018, and 31 March 2019, if US dollar had weakened/strengthened by 10% against the RMB with all other variables being held constant, post-tax profit for the year would have been HK\$5.3 million lower/higher, HK\$2.1 million lower/higher, HK\$4.1 million lower/higher, and HK\$1.9 million lower/higher mainly as a result of foreign exchange losses/gains on translation of US dollar-denominated trade and other payable, borrowings, trade receivables, and cash and cash equivalents. In addition, we recognised exchange difference on translation of financial statements of entities with functional currencies other than Hong Kong dollars of loss of HK\$13.0 million, gain of HK\$22.5 million, and loss of HK\$25.6 million, respectively, in other comprehensive income and accumulated separately in equity in the other reserve during the three years ended 31 December 2018. During the three months ended 31 March 2019, we recognised such translation exchange difference of HK\$9.5 million, as compared to such translation exchange difference of HK\$15.0 million for the three months ended 31 March 2018.

The devaluation of any currency in which our revenue is denominated against another currency in which our expenses are paid or our indebtedness is denominated could result in cost volatility for us or weaken our ability to repay such indebtedness, which may, in turn, materially and adversely affect our financial condition and results of operations.

RISK FACTORS

We had net current liabilities as of 31 December 2016 and 2017, and we cannot assure you that we will not continue to record net current liabilities.

As of 31 December 2016 and 2017, we had net current liabilities of HK\$82.2 million and HK\$33.3 million, respectively, primarily because of the use of short-term bank borrowings generally available in the PRC to finance our business expansion, i.e. acquisition of land parcels and plant and machinery and construction of new production facilities. Although we recorded net current assets of HK\$71.6 million as of 31 December 2018, and HK\$82.8 million as of 31 March 2019 we may have net current liabilities in the future because of our continuous business expansion and the use of short-term bank borrowings to support such business expansion. See the section headed “Financial Information — Principal components of our current assets and current liabilities — Net current liabilities as of 31 December 2016 and 2017 and net current assets as of 31 December 2018 and 31 March 2019” in this prospectus for further information. Having net current liabilities could constrain our operational flexibility and could adversely affect our ability to expand our business. If we do not generate sufficient cash inflow from our operations to meet our present and future financial needs, we may need to continue to use and rely on external financial resources. If adequate external financial resources are not available on commercially acceptable terms or at all, we may encounter liquidity issue. Our business and financial condition and operating results could be adversely affected.

Significant impairment charges to our balance of intangible assets could adversely affect our business and financial condition and operating results.

Our intangible assets consist of trademarks and licences, patents, relationships with our customers, sea use rights, discharge rights, and goodwill. Our intangible assets, net of accumulated amortisation, amounted to HK\$44.9 million, HK\$51.1 million, and HK\$60.0 million as of 31 December 2016, 2017, and 2018, respectively. As of 31 March 2019, the net book value of our intangible assets was HK\$59.8 million. See the section headed “Financial Information — Principal components of our non-current assets and non-current liabilities” in this prospectus for further information. The failure to generate financial results commensurate with our intangible assets could adversely affect the valuation of such intangible assets and in turn result in impairment loss. Any significant impairment loss charged against our intangible assets could have an adverse effect on our business and financial condition and operating results.

Our operating results are subject to fair value adjustments of our biological assets, which can be highly volatile and are subject to a number of assumptions.

Our biological assets are seaweed cultivated by us. Our operating results during the Track Record Period were not affected by our biological assets as there was insignificant amount of seaweed cultivated by us during the same period. Nevertheless, changes in fair value could affect our operating results in the future.

RISK FACTORS

The fair value of our biological assets at the end of each reporting period was determined by an independent professional valuer. The independent professional valuer conducted market research, checked published materials and considered our internal control over inventory for the accuracy and reliability of these historical data. In determining the fair value, the independent professional valuer has relied on a number of assumptions, which include the following:

- weight of seaweed provided by our Company as of the valuation dates based on the historical harvest records with adjustments made by deducting the weight of nylon ropes;
- current market prices in the markets where our Company operates;
- costs to sell, which were calculated based on the historical data, which include raw materials expenses and labour expenses with reasonable allowance for profit;
- historical trend and data will be maintained and there will be no material change to the existing political, legal, technological, fiscal or economic condition which may adversely affect our business; and
- all proposed facilities and systems will be operated efficiently and have sufficient capacity for future expansion.

The fair value of the biological assets could be affected by, among others, the accuracy of those assumptions. The valuation conducted by the independent professional valuer is subject to the caveat that the independent professional valuer relied substantially on the accuracy, completeness, and reasonableness of the various assumptions and other data provided by us in preparation of the valuation report. We cannot assure you that there will be no significant deviation in the future. We cannot assure you that the fair value gains or losses on our biological assets will not fluctuate in the future. Any decrease in the fair value of our biological assets could have a material and adverse effect on our business and financial condition and operating results. In addition, we cannot assure you that the upward adjustments and gains recognised on our biological assets will generate cash inflow for our business operations in the future. As a result, when evaluating our operating results and profitability, you should consider our profits and profit margins without taking into account the effects of these biological asset fair value adjustments.

We may not be able to protect our intellectual property rights, and the infringement of our intellectual property rights by third parties could affect our ability to compete.

As of the Latest Practicable Date, we obtained ten patents for invention, two patents for design, and 31 patents for new utility models in the PRC. Our patents are principally related to the improvements in our production process and our product formulas. As of the Latest Practicable Date, we also had 27 registered trademarks in the PRC and eight registered trademarks in Hong Kong. In addition, as of the Latest Practicable Date, we had 27 pending patent applications in the PRC, one pending trademark application in each of Hong Kong, Indonesia, India, Thailand.

RISK FACTORS

We cannot assure you that our intellectual property rights will not be challenged, misappropriated or circumvented by third parties. Further, legal regime governing intellectual properties is still evolving in the PRC and the level of protection of intellectual property rights in the PRC may differ from other jurisdictions, which leads to higher uncertainty to the interpretation and enforcement and as such may limit our legal protections. Litigation to protect intellectual property rights may also be expensive, difficult and ineffective.

In addition, a number of proprietary know-how that is not patentable and processes for which patents are difficult to enforce are also important for us. We seek to rely on trade secret protection and confidentiality agreements to safeguard our interests in this respect. We have entered into confidential agreements with all of our senior management team as well as research and development team members, which require these personnel to strictly comply with our confidentiality requirements. These agreements also require our employees to assign to us all of the inventions, designs and technologies they develop in connection with their employment with us.

Any breach by our employees or any other entities having access to our product formulas and other trade secrets could result in third parties, including our competitors, gaining access to such product formulas and trade secrets and develop products comparable to ours at competitive prices, in which case could affect our business and financial condition and operating results.

We may be exposed to intellectual property infringement and claims by third parties, which, if successful, could subject us to significant liability to third parties and cause us to pay significant damage awards and incur other costs.

We cannot assure you that we will not be subject to claims of infringement of intellectual property rights of third parties. The related legal and administrative proceedings could be both costly and time consuming and may significantly divert the efforts and resources of our technical and management personnel. Any adverse determination in any such litigation or proceedings to which we are a party may also subject us to significant liability to third parties, or subject us to injunctions prohibiting the production and sales of our products or the use of product formulas in the production process of our products.

Our business is dependent on our reputation, and any negative publicity on us could have a material adverse effect on our business and financial condition and operating results.

Our business is dependent on our reputation and we expect to continue to rely on it. Negative publicity arising from, but not limited to, product defects and non-compliance with relevant laws and regulations or product quality standards are potential threats to our reputation. If we fail to promote and protect our reputation, we may not be able to maintain our sales, attract new customers, and successfully expand into new markets. As a result, our business and financial condition and operating results could be adversely affected. Further, any negative claims against us could divert our management's attention and resources from other business concerns, even if such negative claims are unfounded, which could adversely affect our business and financial condition and operating results.

RISK FACTORS

We are subject to risks affecting the hydrocolloid industry in general and the seaweed-based hydrocolloid industry in particular. Negative publicity or media report on the industry could materially undermine the confidence of our customers or prospective customers in our products. Such negative publicity could also have a negative impact on our hydrocolloid products and as such may affect the demand for our products, which could adversely affect our business and financial condition and operating results.

We may not compete effectively and may lose our leading market position.

We operate in a competitive market and face competition in each of our business segments. Some of our competitors may have greater production capacity and manpower and other resources, stronger financial strengths, more established customer base, more diversified product offerings, more established brands and market recognition. Therefore, such competitors can promptly respond to evolving industry standards and changes in market conditions than we do. They may also have stronger bargaining power to influence market pricing, and have the advantage over us in securing the necessary key raw materials at times of shortages. Intense competition will subject us to pricing pressure which may squeeze profit margins with respect to some of our products and reduce our revenue. If we fail to compete effectively or maintain our competitiveness in the market, our business and financial condition and operating results could be adversely affected.

Moreover, we face increasing competition from new comers. There are typical barriers-to-entry, including advanced technologies and know-how, requisite licences and certificates, capital investments, and well established customer relationships. Nevertheless, new market entrants or existing competitors may seek to develop or acquire the requisite technical capabilities and customer base through substantial investments to compete with us. In addition, increased exposure to international markets further creates new areas which we may not be familiar with and could place us in competition with new market players. We cannot assure you that we will be successful in adapting into the new competitive environment and we may lose our current leading market position.

We may require additional funding to finance our operations, which may not be available on terms acceptable to us or at all.

We may require additional funding and financial resources to finance our continuous business growth or other future developments of our business. In case our funding requirements are more than the financial resources available to us, we may require additional financing. We cannot assure you that we can obtain additional financing on terms acceptable to us or at all. In addition, our ability to raise additional financing in the future is subject to various uncertainties, including our future operating results, financial condition and cash flows, general market conditions for fundraising and debt financing activities, and economic, political, and other conditions in the PRC and elsewhere.

Furthermore, if we raise additional funds through equity, your equity interest in our Company may be diluted. Alternatively, if we raise funds by incurring debt obligations, we may be subject to various covenants under the debt instruments which may restrict our ability to distribute dividends or obtain additional financing. Servicing such debt obligations could also be burdensome to us. If we fail to service such debt obligations or are unable to comply with any of such covenants, we could be in default under such debt obligations and our liquidity could be adversely affected.

RISK FACTORS

Our success depends on our key personnel. Any failure to attract or retain key personnel or talents may materially and adversely affect our business and financial condition, operating results, and business prospects.

Our success depends on the experience, expertise, capability, and continued services of our key executives and senior management team. We rely on the experience and expertise of our key executives in developing business strategies, maintaining relationships with customers, product development, and business operation. If we lose the services of any of our key executives, we may not be able to locate a suitable replacement with comparable background, experience and knowledge and our business and financial condition and operating results could be adversely affected.

We may not be able to attract or retain all the key personnel we may need for our business operation. We may need to offer better remuneration and benefits in order to attract or retain key personnel. We cannot assure you that we will have the necessary resources to cater to our staffing needs or that our costs and expenses will not increase significantly as a result. Our failure to attract and retain competent personnel, and the increase in staffing costs to attract and retain such personnel may have a negative impact on our ability to maintain our competitive position and to grow our business, which could adversely affect our business and financial condition and operating results.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Changes in economic, political, and social conditions in the PRC, as well as government policies, laws and regulations, could have a material and adverse effect on our business and financial condition, operating results, and business prospects.

A majority part of our business and assets are located in the PRC and 62.2%, 50.8%, and 47.7% of our revenue was derived from sales to our customers in the PRC during the three years ended 31 December 2018. During the three months ended 31 March 2019, sales to our customers in the PRC accounted for 41.9% of our revenue, as compared to 42.5% for the three months ended 31 March 2018. As a result, our business and financial conditions and operating results are, to a significant extent, subject to the economic, political, and legal developments in the PRC. The PRC economy differs from the economies of most of the developed countries in various respects, including the extent of the government involvement, level of development, growth rate, and control over foreign exchange. The PRC economy has been transitioning from a planned economy to a more market-oriented economy. However, a significant portion of the productive assets in the PRC are still owned by the PRC Government. Moreover, the PRC Government continues to play a significant role in regulating industrial development. It also exercises significant control over the PRC's economic growth through the allocation of resources, controlling payment of foreign currency denominated obligations, setting monetary policies and providing preferential treatments to particular industries or companies. All of these factors could affect the economic conditions in the PRC which could, in turn, affect our business and financial condition and operating results.

RISK FACTORS

We may rely on dividends and other distributions on equity paid by our operating subsidiaries to fund cash and financing requirements. Limitations on the ability of our operating subsidiaries in the PRC to pay dividends to us could have a material adverse effect on our ability to conduct our business.

We are a holding company, and we rely partly on dividends and other distributions on equity paid by our operating subsidiaries for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders, service any debt we may incur and pay our operating expenses.

Under PRC laws and regulations, our PRC subsidiaries are subject to different dividend policies. PRC subsidiaries are required to set aside 10% of their after-tax profits each year to fund a statutory surplus reserve which is not distributable as dividends until the accumulated amount of such reserve has exceeded 50% of the registered capital of the PRC subsidiary. Moreover, wholly foreign-owned enterprises are required to set aside certain amount from their after-tax profits of the preceding year as bonus and welfare funds for their employees, a percentage of which shall be determined by the board. As a result of these PRC laws and regulations, our PRC subsidiaries are restricted in their ability to transfer a portion of their net assets to us in the form of dividends. Limitations on the ability of our PRC subsidiaries to pay dividends to us could adversely limit our ability to grow, make investments or acquisitions, pay dividends, or otherwise fund and conduct our business.

We may be considered a “PRC resident enterprise” under the CIT Law, which could result in our global income being subject to a 25% PRC enterprise income tax.

Our Company is incorporated in the Cayman Islands. We conduct our business primarily through our operating subsidiaries in the PRC. Under the CIT Law, enterprises established under the laws of foreign countries or regions and whose “de facto management bodies” are located within the PRC are considered “PRC resident enterprises” and thus will generally be subject to an CIT at the rate of 25% on their global income. On 6 December 2007, the State Council adopted the CIT Rules, effective on 1 January 2008, which defines the term “de facto management bodies” as “bodies that substantially carry out comprehensive management and control on the business operation, employees, accounts and assets of enterprises.” Currently, substantially all of our management is based in the PRC, and may continue to be based in the PRC in the future.

On 22 April 2009, a circular issued by the State Administration of Taxation in respect of the standards used to classify certain Chinese-invested enterprises controlled by Chinese enterprises or Chinese group enterprises and established outside of China as “resident enterprises” clarified that dividends and other income paid by such “resident enterprises” will be considered to be Chinese source income, subject to withholding tax in the PRC, currently at the rate of 10%, when recognised by non-Chinese enterprise shareholders. The circular also subjects such “resident enterprises” to various reporting requirements with PRC tax authorities. Under the implementation regulations to the enterprise income tax, a “de facto management body” is defined as a body that has material and overall management and control over the production and business operations, personnel and human resources, finances and properties of an enterprise. In addition, the circular sets forth the criteria for determining whether “de facto management bodies” are located in the PRC for overseas incorporated,

RISK FACTORS

domestically controlled enterprises. However, as the circular only applies to enterprises established outside of the PRC which are controlled by Chinese enterprises or groups of Chinese enterprises, it remains unclear how the tax authorities will interpret the location of “de facto management bodies” of overseas incorporated enterprises. As such, despite the fact that substantially all of our management is currently located in China, it remains unclear whether the PRC tax authorities would require our overseas registered entities to be treated as PRC resident enterprises.

If we were considered a PRC resident enterprise, we would be subject to the CIT at the rate of 25% on our global income, and any dividends or gains on the sale of our Shares received by our non-resident enterprise shareholders may be subject to a withholding tax at a rate of up to 10%. In addition, although the CIT Law provides that dividend payments between qualified PRC resident enterprises are exempted from CIT, it remains unclear as to the qualification requirements for this exemption and whether dividend payments made by our PRC operating subsidiaries to us would meet such qualification requirements if we were considered a PRC resident enterprise for the purpose. If our global income were to be taxed under the CIT Law, our financial position and operating results would be materially and adversely affected.

Uncertainties with respect to the PRC legal system could have a material and adverse effect on us.

Our business and operations are primarily conducted in the PRC and are governed by PRC laws and regulations. The PRC legal system is based on written statutes and their interpretation by the Supreme People’s Court. Prior court decisions may be cited for reference, but have limited weight as precedents. Since the late 1970s, the PRC Government began to promulgate a comprehensive system of laws and regulations governing various economic matters, including foreign investment, commerce, taxation, trade, corporate organisation and governance. However, since the PRC legal system continues to evolve rapidly, the interpretations of many laws, rules and regulations may not always be the same and enforcement of such laws, rules and regulations involves uncertainties, which may limit the legal protections available to us. Moreover, we cannot predict the effect of future developments in the PRC legal system, including the changes to existing laws, the enforcement or interpretation of laws, promulgation of new laws, or the pre-emption of local rules and regulations by the national laws. These uncertainties could limit the legal protections available to us and the foreign investors. Further, any litigation in the PRC may be protracted and may result in substantial costs and diversion of our resources and management attention.

Our dividend income from our foreign-invested PRC subsidiaries may be subject to a higher rate of withholding tax than that which we currently anticipate.

Under the CIT Law and the CIT Rules, dividend payments made by PRC subsidiaries to their foreign shareholders, in case the foreign shareholder is not deemed as a PRC tax resident enterprise under the CIT Law, are subject to a withholding tax at the rate of 10%, unless the jurisdiction of such foreign shareholders has a tax treaty or similar arrangement with the PRC and the foreign shareholder has obtained the approval from the competent local tax authorities in respect of such tax treaty or similar arrangement. If certain conditions and requirements under the Arrangement between the Mainland China and the Hong Kong Special Administration Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income entered into between

RISK FACTORS

Hong Kong and the PRC (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) (the “**Hong Kong Tax Treaty**”), are met, the withholding rate could be reduced to five per cent. However, the SAT promulgated Circular of the State Administration of Taxation on Understanding and determining the “Beneficial Owners” under Tax Treaties (the “**Circular 601**”) on 27 October 2009, which provides that tax treaty benefits will be denied to “conduit” or shell companies without business substance, and a beneficial ownership analysis will be adopted based on a “substance over form” analysis to determine whether or not to grant tax treaty benefits to a “conduit” company. It is unclear whether Circular 601 applies to dividends paid by our PRC operating subsidiaries to us. It is possible, however, that under Circular 601, such dividends would, as a result, be subject to withholding tax at the rate of 10% rather than the favourable rate of five per cent. applicable under the Hong Kong Tax Treaty. In that case, our business and financial condition and operating results could be materially and adversely affected.

Failure by our Shareholders or beneficial owners who are PRC residents to make any required applications and filings pursuant to regulations relating to offshore investment activities by PRC residents may prevent us from distributing profits and could expose us and our PRC resident Shareholders to liabilities under PRC law.

Circular 37, which was promulgated by SAFE and became effective on 4 July 2014, requires a PRC individual resident (the “**PRC Resident**”) to file a “Registration Form of Overseas Investments Contributed by Domestic Individual Residents” and register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (the “**Overseas SPV**”), that is directly established or controlled by the PRC Resident for the purpose of conducting investment or financing. Following the initial registration, the PRC Resident is also required to register with the local SAFE branch for any major change in respect of the Overseas SPV, including, among other things, any major change of the PRC Resident shareholder, name of the Overseas SPV, term of operation, or any increase or reduction of the overseas SPV’s registered capital, share transfer or swap, and merger or division.

The failure to comply with registration procedures set forth in SAFE Circular 37 may result in restriction being imposed on the foreign exchange activities of our PRC subsidiaries, including the payment of dividends and other distributions to us and the capital inflow from us and may also subject the relevant PRC Residents and our PRC subsidiaries to penalties under PRC foreign exchange administration regulations. Further, failure to comply with various SAFE registration requirements described above would result in liability for foreign exchange evasion under PRC laws. As SAFE Circular 37 was recently promulgated, it remains unclear how this regulation, and any further regulation concerning offshore or cross-border transaction, will be interpreted, amended and implemented by the relevant government authorities, we cannot predict how these regulations will affect our business operation or future strategies.

RISK FACTORS

Government control over foreign currency conversion and fluctuations in exchange rates may affect the value of your investment and limit our ability to utilise our cash.

The conversion and remittance of foreign currencies are subject to the foreign exchange regulations in the PRC. The Renminbi is currently not a freely convertible currency. We receive part of our payments from our customers in Renminbi and may need to convert and remit Renminbi into foreign currencies for the payment of dividends, if any, to our Shareholders. Under the current foreign exchange regulations in the PRC, following the completion of the Share Offer, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require prior approval from the SAFE, although we are still required to present the relevant documentary evidence and conduct the transactions at designated foreign exchange banks in the PRC that have the licenses to carry out foreign exchange business. We will be able to pay dividends in foreign currencies without prior approval from SAFE or its local branches by complying with such procedural requirements. However, the PRC Government may implement measures in the future to restrict access to foreign currencies for current account transactions in case foreign currencies become scarce in the PRC. We may not be able to pay dividends in foreign currencies to our Shareholders if the PRC Government restricts access to foreign currencies for current account transactions. Foreign exchange transactions under our capital account will continue to be subject to significant foreign exchange controls and require the approval of the SAFE or its local branches. These limitations could affect our ability to obtain foreign exchange through equity financing, or to obtain foreign exchange for capital expenditures.

Our revenue is denominated in Renminbi, the US dollar, and Euro, and our costs are denominated in Renminbi and the US dollar. Any significant fluctuations in the exchange rates between these currencies could adversely affect our business and financial condition and operating results. These exchange rates may also be affected by, among other things, the policies of the PRC Government and changes in the political and economic conditions both internationally and in the PRC. Since 1994, the conversion of Renminbi into foreign currencies, including US dollar, has been based on rates set by the People's Bank of China, which are based on interbank foreign exchange market rates on the previous day and current exchange rates on the world financial markets. From 1994 to July 2005, the official exchange rate for the conversion of Renminbi to US dollars was generally stable. On 21 July 2005, the PRC Government introduced a managed floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. The exchange rate between Renminbi and the US dollar may indirectly affect the exchange rates between Renminbi and Euro. The value of Renminbi against Hong Kong dollar has been changing on a daily basis. The PRC Government has since then made, and may make, further adjustments to the exchange rate system in the future.

There remains significant international pressure on the PRC Government to adopt a more flexible currency policy which, together with domestic policy considerations, could result in appreciation or depreciation of Renminbi against US dollar, Euro, Hong Kong dollar or other foreign currencies. If Renminbi appreciates or depreciates against other currencies significantly, and as we need to convert and remit the proceeds from the Share Offer and future financing into Renminbi for our operations, appreciation or depreciation of the Renminbi against the relevant foreign currencies

RISK FACTORS

would decrease or increase Renminbi amount we would receive from the conversion. On the other hand, because the dividends on our Shares, if any, will be paid in Hong Kong dollars, any devaluation of Renminbi against Hong Kong dollar could reduce the amount of any cash dividends on our Shares in Hong Kong dollars.

PRC regulation of loans to and direct investment by offshore holding companies to Chinese entities may delay or prevent us from using the net proceeds of the Share Offer to make loans or additional capital contributions to our PRC subsidiaries.

In utilising the proceeds of the Share Offer in the manner described in the section headed “Future Plans and Proposed Use of Net Proceeds from the Share Offer” in this prospectus or any other debt or equity offering, as an offshore holding company of our PRC operating subsidiaries, we may make loans or additional capital contributions to our PRC subsidiaries. Any loans to our PRC subsidiaries are subject to the PRC regulations and approvals. For example, loans made by our Company to our PRC subsidiaries to finance their activities cannot exceed the statutory limits and must be registered with SAFE or its local counterpart.

In addition, any capital contributions made to our PRC subsidiaries must be approved by the MOFCOM or its local counterpart. We cannot assure you that we will be able to obtain such government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions made by us to our PRC subsidiaries. If we fail to receive such registrations or approvals, our ability to use the net proceeds of the Share Offer could be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

It may be difficult to effect service of legal process, enforce foreign judgments or bring original actions against us or our Directors and officers.

Most of our Directors and officers reside in the PRC, and most of our assets are located in the PRC. It may not be possible for investors to effect service of process upon us or those persons inside the PRC or to enforce against us or them in the PRC any judgments obtained from non-Chinese courts. The PRC has not entered into treaties providing for the reciprocal recognition and enforcement of judgments made by courts of most other jurisdictions. However, the judgments rendered by Hong Kong courts may be recognised and enforced in the PRC if the requirements set forth under the Arrangement on Mutual Recognition and Enforcement of Judgments in Civil and Commercial Matters by Courts of Mainland and of the Hong Kong Special Administrative Region Pursuant to Agreed Jurisdiction by Parties Concerned (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) are met. As a result, it may be difficult for investors to seek recognition and enforcement of foreign judgments in jurisdictions other than Hong Kong in the PRC.

RISK FACTORS

RISKS RELATING TO CONDUCTING BUSINESS IN INDONESIA

We will expand our business operations to Indonesia which is new to us and may involve a number of risks and uncertainties.

As per our expansion plan, we plan to operate in Indonesia. This future plan is new to us as we have never constructed any production plant outside the PRC and in Indonesia. Hence, the business operations of the new production plant, could be materially and adversely affected by political, economic, social and legal developments that are beyond our control in Indonesia. Such political and economic uncertainties may include risks of war, terrorism, nationalism, expropriation or nullification of contracts, changes in interest rates, economic growth, national fiscal and monetary policies, inflation, deflation, methods of taxation and tax policy. Negative developments in the socio-political climate of Indonesia could also materially and adversely affect the business operation of the new production plant. As such, we are unable to assure you that we will be able to adapt to the local conditions, regulations, and business practices and customs in Indonesia in the future. Any changes implemented by the local government resulting, inter alia, in currency and interest rate fluctuations, capital restrictions, and changes in duties and taxes detrimental to our business could materially and adversely affect the business operation of the new production plant.

We may be affected by uncertainty between local governments and the central government in the Indonesia, including licenses needed for our business in Indonesia.

Indonesia has passed Law Number 22 year of 1999 on regional autonomy which has been revoked and replaced several times, lastly by Law Number 9 year of 2015 concerning Second Amendment of Law Number 23 of 2014 concerning Regional Autonomy (the “**Regional Autonomy Law**”). Under the Regional Autonomy Law, central government has delegated some of the authority previously vested with the central government to the local governments, including the authority for renewing licenses and approvals and monitoring compliance with relevant laws in Indonesia. In practice, there are still some overlapping procedures between the central government and the local governments.

To resolve this issue, the Indonesia government has issued Indonesia Government Regulation Number 24 of 2018 concerning Electronic Integrated Business Licensing Services (the “**GR 24/2018**”). Under GR 24/2018, the Indonesian government has launched a nationwide business licence process through an online single submission system (the “**OSS system**”) that will be coordinated under The Coordinating Ministry for Economic Affairs through electronic integrated business licensing services. Under the OSS system, all licences shall be registered and issued electronically by central licensing system and all business entities eventually will need to be registered in the OSS system. Rather than the government monitoring the companies’ compliance over its licenses, the OSS system assumes that companies will self-assess and will ensure its compliance over its needed business licences with the ultimate sanction being that a non-compliant company’s registration will be frozen, and dealings with the government and third parties will be delayed or would become more difficult until it is in full compliance with the relevant requirements. As advised by our legal advisers

RISK FACTORS

as to the law of the Indonesia, the OSS system creates new difficulties among business entities because the OSS system is not fully integrating with local licences, including licences that can be obtained under OSS system and licences that need to be obtained manually, and difficulties from new business entities to seek clear understanding what licences that they need to operate the business.

We have a wholly-owned subsidiary incorporated in Indonesia. If the subsidiary, for some reason is not in full compliance with the OSS system, its business licences may be revoked, which could affect our business and financial condition and operating results.

Labour activism could adversely affect our operations in Indonesia.

In 2000, the Government issued Law No. 21 year 2000 on Labour Union (the “**Labour Union Law**”). The Labour Union Law permits employees to form unions without employer intervention. In March 2003, the Government enacted Law No. 13 year 2003 on Labour (the “**Labour Law**”), and has further issued implementing regulations which, among other things, increased the amount of severance, service and compensation payments payable to employees upon termination of employment.

The Labour Law requires bipartite forums with participation from employers and employees and the participation of more than half of the employees of a company in order for a collective labour agreement to be negotiated and creates procedures that are more permissive to the staging of strikes.

The liberalisation of regulations permitting the formation of labour unions which regulated under Labour Union Law, increase of mandatory minimum wages, employee benefits as regulated under Labour Law and combined with weak economic conditions has resulted, and will likely continue to result in, labour unrest and activism in Indonesia.

Judgments of a foreign court will not be enforceable against us in Indonesia.

Judgments obtained from foreign court are not enforceable in the Indonesian courts, even though it may, under discretion of case judges in Indonesia, considered as new evidence under new proceeding filed in the relevant Indonesian court. Therefore, any claim against us from any persons may require to pursue claims against us with new proceedings under the Indonesian laws.

The Indonesian legal system is subject to considerable discretion and uncertainty.

The legal system of Indonesia is based on written laws as well as judicial and administrative decisions made by judges that do not constitute binding precedents. The application of the Indonesian law depends upon certain subjective criteria, such as the good faith of the parties to the transaction and principles of public policy, the practical effect of which is difficult to predict. The judgements in a matter is determined by a panel of judges, they have very wide power and discretion in relation to the case management, therefore any judgment made by the judges may differ from one case to the other. As a result, the administration and the enforcement of laws and regulations by the Indonesian courts and the Indonesian governmental agencies may be subject to considerable discretion and uncertainty.

RISK FACTORS

Terrorist attacks, have led to substantial adverse effect over economic and social volatility in Indonesia.

In recent years, with last major terrorist attack occurred in May 2018, there have been various terrorist attacks directed towards the government buildings, foreign governments, and public and commercial buildings all over the country, which have killed and injured a number of people, either civilian, police or military. We cannot assure you that further terrorist acts will not occur in the future. Such terrorist acts could destabilise Indonesia, increase political and social instability, thereby could adversely affecting our business in Indonesia.

RISKS RELATING TO THE SHARE OFFER

There has been no prior public market for our Shares, and an active trading market may not develop.

There was no public market for our Shares prior to the Share Offer. The indicative range of the Offer Price is a result of negotiations between the Sole Bookrunner and Sole Lead Manager (on behalf of the Underwriters) and us.

In addition, while we have applied to have our Shares listed on the Stock Exchange, there can be no assurance that (a) an active trading market for our Shares will develop or, (b) if it does, that it will be sustained following the completion of the Share Offer or (c) that the market price of our Shares will not fall below the Offer Price. You may not be able to resell your Shares at a price that is attractive to you or at all.

Purchasers of our Shares in the Share Offer will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

The initial Offer Price is higher than the net tangible asset value per Share of the outstanding Shares issued to our existing Shareholders immediately prior to the Share Offer. Therefore, purchasers of our Shares in the Share Offer will experience an immediate dilution in terms of the pro forma net tangible asset value. In addition, we may consider offering and issuing additional Shares or equity-related securities in the future to raise additional funds, finance acquisitions or for other purposes. Purchasers of our Shares may experience further dilution in terms of the net tangible asset value per Share if we issue additional Shares in the future at a price that is lower than the net tangible asset value per Share.

The price and the trading volume of our Shares may be volatile which could result in substantial losses for investors purchasing our Shares under the Share Offer.

The price and trading volume of our Shares may be volatile. The market price of our Shares may fluctuate significantly and rapidly as a result of the following factors, among others, some of which are beyond our control:

- actual or anticipated variations of our operating results;
- loss of key raw material suppliers;

RISK FACTORS

- changes in securities analysts' estimates or market perception of our financial performance;
- announcement by us of significant acquisitions, depositions, strategic alliances or joint ventures;
- addition or departure of key senior management or other key personnel;
- fluctuations in stock market price and volume;
- regulatory or legal developments, including involvement in litigation; and
- general economic, political and stock market conditions in Hong Kong, the PRC and elsewhere in the world.

In addition, stock markets and the shares of other companies listed on the Stock Exchange with significant operations and assets in the PRC have experienced increasing price and volume fluctuations in recent years, some of which have been unrelated or disproportionate to the operating performance of such companies. Such market fluctuations may materially and adversely affect the market price of our Shares.

Since there will be a gap of several days between pricing and trading of our Shares, holders of our Shares are subject to the risk that the price of our Shares could fall when the trading of our Shares commences.

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

Future sale or major divestment of Shares by our Controlling Shareholders or our investors could materially and adversely affect the prevailing market price of our Shares.

The future sale of a significant number of our Shares in the public market after the Share Offer, or the possibility of such sales, by our Controlling Shareholders or investors could materially and adversely affect the market price of our Shares and could materially impair our future ability to raise capital through offerings of our Shares. Although our Controlling Shareholders and investors have agreed to a lock-up on their Shares, any major disposal of our Shares by any of such Controlling Shareholder and investors upon expiry of the relevant lock-up periods (or the perception that these disposals may occur) may cause the prevailing market price of our Shares to fall which could negatively impact our ability to raise equity capital in the future.

RISK FACTORS

Our interests may conflict with those of our Controlling Shareholders, who may take actions that are not in, or may conflict with, our or our public shareholders' best interests.

The interests of our Controlling Shareholders may differ from the interests of our other Shareholders. If the interests of our Controlling Shareholders conflict with the interests of our other Shareholders, or if our Controlling Shareholders cause our business to pursue strategic objectives that conflict with the interests of our other Shareholders, the non-controlling shareholders could be disadvantaged by the actions that our Controlling Shareholders choose to cause us to pursue.

Our Controlling Shareholders could have significant influence in determining the outcome of any corporate transaction or other matter submitted to the Shareholders for approval, including but not limited to mergers, privatisations, consolidations and the sale of all, or substantially all, of our assets, election of directors, and other significant corporate actions. Our Controlling Shareholders have no obligation to consider the interests of our Company or the interests of our other shareholders other than pursuant to the Deed of Non-Competition, see the section headed "Relationship with our Controlling Shareholders — Deed of Non-Competition" in this prospectus for more details. Consequently, our Controlling Shareholders' interests may not necessarily be in line with the best interests of our Company or the interests of our other Shareholders, which may have a material and adverse effect on our Company's business operations and the price at which our Shares are traded on the Stock Exchange.

You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the Share Offer.

We strongly caution you not to rely on any information contained in the press articles or other media regarding us and the Share Offer. Prior to the publication of this prospectus, there has been press and media coverage regarding us and the Share Offer, including certain financial information, industry comparisons, and/or other information about the Share Offer and us. There may continue to be additional press and media coverage on us and this Share Offer. We do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this prospectus is inconsistent with, or conflicts with, the information contained in this prospectus, we disclaim it, and accordingly you should not rely on any such information. In making your decision as to whether to purchase our Shares, you should rely only on the information included in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

<u>Names</u>	<u>Residential address</u>	<u>Nationality</u>
<i>Executive Directors</i>		
Mr. CHAN Kam Chung (陳金淙先生) (Chairman and Chief Executive Officer)	Flat 1908, Block 32 Heng Fa Chuen Hong Kong	China
Mr. GUO Dongxu (郭東旭先生) (Vice Chairman and Vice President)	B1201 Building 7, Haojianglijing Haojiang Road Shishi City Fujian Province China	Vanuatu
Mr. CHAN Shui Yip (陳垂燁先生) (Vice Chairman and Vice President)	Flat 6, 18th Floor Choi Pak House Choi Ming Court 11D Choi Ming Street Tseung Kwan O New Territories Hong Kong	China
Mr. SHE Xiaoying (佘小迎先生)	Flat B, 8th Floor Block 5B, The Wings II 12 Tong Chun Street Tseung Kwan O New Territories Hong Kong	China
<i>Non-executive Director</i>		
Mr. GUO Songsen (郭松森先生)	D403, Donggang Garden Shishi City Fujian Province China	Vanuatu

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

<u>Names</u>	<u>Residential address</u>	<u>Nationality</u>
<i>Independent non-executive Directors</i>		
Mr. HO Kwai Ching, Mark (何貴清先生)	Flat D, 6/F., Block 20 Baguio Villa 555 Victoria Road Hong Kong	United Kingdom
Mr. NG Man Kung (吳文拱先生)	Flat D, 5th Floor, Ewan Court 54-56 Kennedy Road Wanchai Hong Kong	China
Mr. HU Guohua (胡國華先生)	Room 501 No. 4, Lane 300 Hongcao South Road Shanghai China	China

See the section headed “Directors, Senior Management, and Employees” in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

PARTIES INVOLVED IN THE SHARE OFFER

Sole Sponsor	Essence Corporate Finance (Hong Kong) Limited 39th Floor One Exchange Square Central Hong Kong <i>Licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities (as defined in the SFO)</i>
Sole Bookrunner and Sole Lead Manager	Essence International Securities (Hong Kong) Limited 39th Floor One Exchange Square Central Hong Kong <i>Licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities (as defined in the SFO)</i>
Co-lead Managers	Global Group Securities Limited 17th Floor 33 Des Voeux Road Central Central Hong Kong <i>Licensed corporation under the SFO to carry on Type 1 (dealing in securities) and type 4 (advising on securities) regulated activities</i> Solomon JFZ (Asia) Holdings Limited 19A, 19/F, Eton Building 288 Des Voeux Road Central Central Hong Kong <i>Licensed corporation under the SFO to carry on Type 1 (dealing in securities) regulated activity</i>
Hong Kong Underwriter	Essence International Securities (Hong Kong) Limited 39th Floor One Exchange Square Central Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Legal advisers to our Company

as to Hong Kong law:

Squire Patton Boggs
29th Floor
Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

as to PRC law:

Tian Yuan Law Firm
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28 Fengsheng Hutong
Xicheng District
Beijing 100032
China

as to Cayman Islands law:

Conyers Dill & Pearman
Cricket Square, Hutchins Drive
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as to Indonesia law:

Imran Muntaz & Co.
Office 8 Building, 35th Floor Zone G
Sudirman Central Business District (SCBD) Lot. 28
J1, Jend, Sudirman Kav. 52-53
Jakarta 12190
Republic of Indonesia

as to international sanctions law:

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

CORPORATE INFORMATION

Registered Office	Cricket Square, Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head office and principal place of business in Hong Kong	Flat A, 16th Floor 169 Electric Road North Point Hong Kong
Principal place of business in the PRC	Anshan Industrial Park Zini Town Longhai, Zhangzhou City Fujian Province PRC
Authorised representatives (for the purpose of the Listing Rules)	Mr. CHAN Kam Chung (陳金淙先生) Flat 1908, Block 32 Hang Fa Chuen Hong Kong Mr. SO Chi Man (蘇智文先生), CPA (Non-practising) Flat A, 58th Floor, Block 7 Banyan Garden 863 Lai Chi Kok Road Kowloon Hong Kong
Company secretary	Mr. SO Chi Man (蘇智文先生), CPA (Non-practising) Flat A, 58th Floor, Block 7 Banyan Garden 863 Lai Chi Kok Road Kowloon Hong Kong
Company's website	www.greenfreshfood.com (<i>information contained on this website does not form part of this prospectus</i>)
Audit Committee	Mr. HO Kwai Ching, Mark (何貴清先生) (Chairman) Mr. NG Man Kung (吳文拱先生) Mr. HU Guohua (胡國華先生)
Remuneration Committee	Mr. NG Man Kung (吳文拱先生) (Chairman) Mr. HO Kwai Ching, Mark (何貴清先生) Mr. CHAN Kam Chung (陳金淙先生)

CORPORATE INFORMATION

Nomination Committee	Mr. CHAN Kam Chung (陳金滌先生) (<i>Chairman</i>) Mr. HO Kwai Ching, Mark (何貴清先生) Mr. NG Man Kung (吳文拱先生)
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Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Principal bankers	<i>In Hong Kong</i> Bank of China (Hong Kong) Limited 29-31 Lee Chung Street Chai Wan Hong Kong <i>In the PRC</i> Industrial Bank Co., Ltd. Block 3 Jiixin Garden Zi Guang Road Shima Town Longhai City Zhangzhou, Fujian Province China

INDUSTRY OVERVIEW

The information contained in this section and elsewhere in this prospectus have been derived from various official government and other publications generally believed to be reliable and the market research report prepared by Frost & Sullivan which we commissioned. We believe that the sources of such information and statistics are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. None of our Company, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters or their respective directors, advisers (which, for the purpose of this paragraph, excludes Frost & Sullivan) and affiliates has independently verified such information and statistics and none of them gives any representation as to the accuracy of such information and statistics. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy (as the case may be) in other jurisdictions. As a result, you should not unduly rely upon such facts and statistics contained in this prospectus.

SOURCE OF INFORMATION

We commissioned Frost & Sullivan, an independent market research and consulting company, to conduct an analysis of, and to prepare a report on the global and the PRC hydrocolloids market. The report prepared by Frost & Sullivan for us is referred to in this prospectus as the Frost & Sullivan Report. We agreed to pay Frost & Sullivan a fee of RMB608,000 which we believe reflects market rates for reports of this type.

Founded in 1961, Frost & Sullivan has 40 offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists globally. Frost & Sullivan's services include technology research, independent market research, economic research, corporate best practices advising, training, client research, competitive intelligence and corporate strategy.

We have included certain information from the Frost & Sullivan Report in this prospectus because we believe this information facilitates an understanding of the global and the PRC hydrocolloids market for the prospective investors. The Frost & Sullivan Report includes information on the global and the PRC hydrocolloids market as well as other economic data, which have been quoted in the prospectus. Frost & Sullivan's independent research consists of both primary and secondary research obtained from various sources in respect of the global and the PRC hydrocolloids market. Primary research involved in-depth interviews with leading industry participants and industry experts. Secondary research involved reviewing company reports, independent research reports and data based on Frost & Sullivan's own research database. Projected data were obtained from historical data analysis plotted against macroeconomic data with reference to specific industry-related factors. Except as otherwise noted, all of the data and forecasts contained in this section are derived from the Frost & Sullivan Report, various official government publications and other publications.

In compiling and preparing the research, Frost & Sullivan assumed that the social, economic and political environments in the relevant markets are likely to remain stable in the forecast period, which ensures the stable and healthy development of the global and the PRC hydrocolloids market.

Our Directors, after due and reasonable consideration, are of the view that there has been no adverse change in the market information since the date of the Frost & Sullivan Report which may qualify, contradict or have an impact on the information therein.

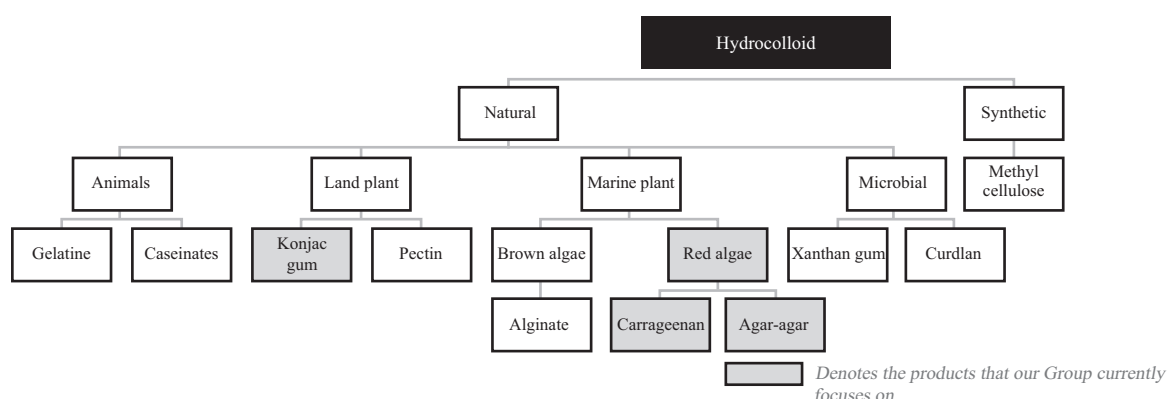
OVERVIEW OF GLOBAL AND THE PRC HYDROCOLLOIDS MARKET

Introduction of hydrocolloids

According to World Health Organisation (WHO), food additives are substances that are added to food to maintain or improve the safety, freshness, taste, texture, or appearance of food, in which they can be derived from plants, animals, minerals and can be synthetic. Food additives are added to food for certain technological purposes, such as preserving the nutritional quality or enhancing the stability of food.

Some hydrocolloids are classified as natural functional food additives and they are hydrophilic polymers of vegetable, animals, microbial or synthetic origin, which are naturally present or added to control the aqueous state of foodstuff. With the properties of solubility and viscosity, emulsions can be stabilised and ice recrystallisation can be prevented when hydrocolloids are added in food. Our Group's major products, including carrageenan products and agar-agar products are kinds of natural hydrocolloids and natural functional food additives which are considered safe for consumption.

INDUSTRY OVERVIEW



Source: World Health Organisation, Frost & Sullivan

The table below sets forth the comparison of plant-based hydrocolloids, including carrageenan, agar-agar and konjac gum, and animal-based gelatine.

Source	Examples of hydrocolloids	Applications	Purposes	Potential health effects
Plant	Carrageenan products	Carrageenan products are widely adopted in different segments, such as dairy products, bakery products, marmalades, candies, beverages and meat products. Carrageenan is also used in personal products such as face masks for beauty products purposes and drug capsule for pharmaceutical uses.	Adding carrageenan can increase mouth-feel in food and retain water while increasing the stability of food. Texture can be enhanced with the gelling and water-holding capacity of carrageenan in meat products.	As carrageenan consists of soluble dietary fibre, it regulates cholesterol and blood sugar level.
	Agar-agar products	Agar-agar products are extensively applied in beverages, jam and bakery products, meat products and confectioneries. It is also applied in biochemistry industry as agar plate which provides a standard medium for the growth of microorganisms and agarose is used for electrophoresis.	Agar-agar can be used as a soluble fibre supplement with a strong gelling strength ranges from 400g/cm ² to 1,200g/cm ² and thicken the texture in foodstuff.	Agar-agar is rich in soluble dietary fibre which promotes intestinal regularity, prevents constipation and regulates cholesterol and blood sugar level.
	Konjac gum	Konjac gum are generally used in dairy products, beverages, noodles, desserts and meat products.	The addition of konjac gum can control viscosity of food, prevent watering out, enhance spreadability and extend shelf life.	Konjac gum is rich in dietary fibre which helps improving the symptoms of constipation and alleviates fasting blood glucose level.
Animal	Gelatine	Gelatine is derived from the extraction of collagen in animal skins, bones and tendons and applied in confectionery, jelly puddings, bakery products and capsules, etc.	Gelatine can stabilise the liquid phase of various bakery products, such as icing and cream fillings, and congeal the juices in meat products.	Gelatine may help improve digestion, ameliorate the healing of wounds as it is a source of proteins and peptides. However, it may cause potential allergic reaction upon consumption for some consumers.

Note: Over 90% of our Group's Agar-agar sales are mid to high-end products with gel strength from 900g/cm² up to 1,200g/cm² sold to customers in the PRC and global market.

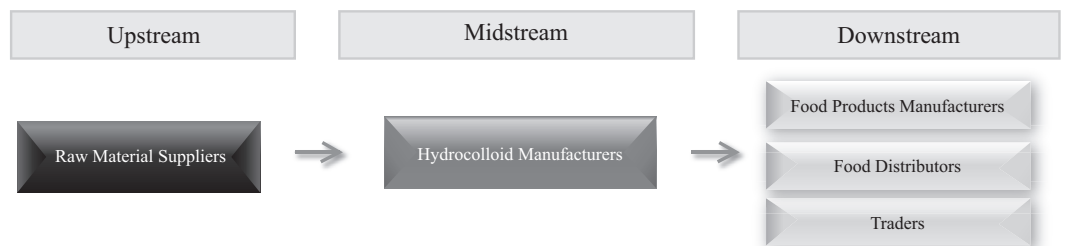
Source: Frost & Sullivan

Value chain analysis

The value chain of hydrocolloids market consists of various stakeholders including upstream raw material suppliers, midstream hydrocolloids manufacturers and downstream customers. It is not uncommon that manufacturers engage both overseas and local trading companies in order to expand their sales network, capture potential business opportunities both locally and globally, and broaden their customer base. Our Group mainly manufactures and supplies natural and algal hydrocolloids to food products manufacturers such as confectionery manufacturers, dairy products manufacturers and bakery products manufacturers, as well as trading companies in the PRC and global market.

INDUSTRY OVERVIEW

Red seaweed is the raw material of agar and carrageenan, which are grown in warm water regions, such as tropical waters in Philippines and Indonesia.



* Current Business Routes of our Group

Source: Frost & Sullivan

Food products manufacturers and traders are key types of customers of the Group and is common customers in the food hydrocolloid industry worldwide. Food products manufacturers are end user of food hydrocolloid products while traders are independent middlemen usually purchasing food additives (including food hydrocolloid products and herein thereafter) from food hydrocolloid manufacturers and resell the same in smaller quantities or in packages containing various type of food additives to their customers which could be food manufacturers or traders of the second level.

Transactions between food hydrocolloid manufacturers and traders are typically negotiated and conducted on a non-consignment basis without unconditional right to return the products except for pre-agreed quality matters. Further, food hydrocolloid manufacturers cannot impose any requirement of control on the business operations of the traders and do not have any access rights to the identity of the ultimate customers of the traders which is viewed as highly valuable assets and confidential information.

The existence of a significant number of traders in the food additives industry is primarily due to several factors. First, food additives used in processed food are usually in relatively very small quantity and therefore food manufacturers, especially small scales manufactures do not purchase and stock-up too much in volume due to usage considerations. Second, as food additives manufacturers usually have a longer lead time in processing sales orders, traders who purchase in bulk from food additives manufacturers at lower purchase and transportation costs can fulfil the requirement of urgent orders from small scale food manufacturers and cope with customer demand. Last but not the least, traders used to invest to acquire a deep understanding and technical knowledge in food additives and thus becoming an important source of technical knowledge as well as the latest development in food additives to food products manufacturers and played a crucial role in the value chain linking up the food additives and processed food manufacturers.

Sales volume of hydrocolloids in the PRC market

The sales volume of hydrocolloids in the PRC has experienced a positive growth from 93.0 thousand tonne in 2013 to 119.5 thousand tonne in 2018, representing a CAGR of 5.1%. The stable growth over the period was mainly driven by changing of consumers diet habit and demand for food with extended shelf life. Along with increasing health consciousness and surging demand for food natural functional additives in food and beverages industry, the sales volume of hydrocolloids in the PRC is expected to increase moderately from 128.1 thousand tonne in 2019 to 168.0 thousand tonne in 2023 at a CAGR of 7.0%.

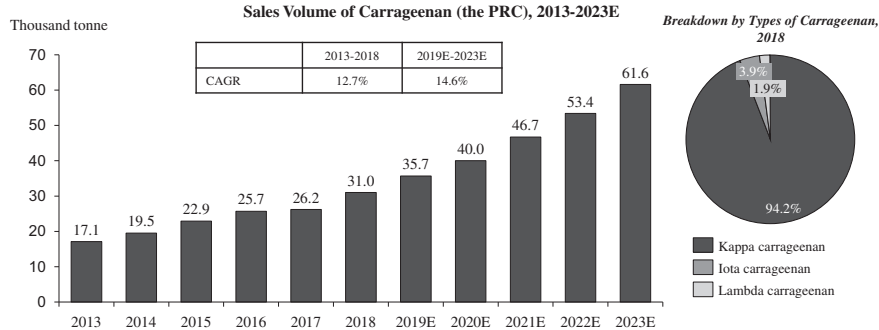
The sales volume of carrageenan in the PRC has accounted for approximately 22.0% of the total sales volume of hydrocolloids in 2018. It is expected that the share of sales volume of carrageenan will increase steadily, reaching 28.7% in 2023. On the other hand, the sales volume of agar-agar contributed to approximately 8.3% in 2018 and is estimated to further increase to about 9.2% of the hydrocolloids sales volume by the end of 2023. The sales volume of gelatine in the PRC contributed to 30.8% of the total sales volume of hydrocolloids in 2018, with an estimation of 29.1% in 2023.

Sales volume and sales value of carrageenan in the PRC market

The sales volume of carrageenan in the PRC registered a significant growth from approximately 17,100 tonne in 2013 to approximately 31,000 tonne in 2018, representing a CAGR of 12.7%. The growth was primarily driven by expansion of downstream domestic food production and processing industry as well as increasing export of carrageenan to global market. With the continuous growth of domestic and global food industry, promulgation of supportive policies and initiatives from the PRC government on manufacturing industry and growing awareness towards natural food additives, the sales volume of carrageenan in the PRC is set to increase further at a CAGR of 14.6% during 2019 to 2023, reaching 61,600 tonne in 2023.

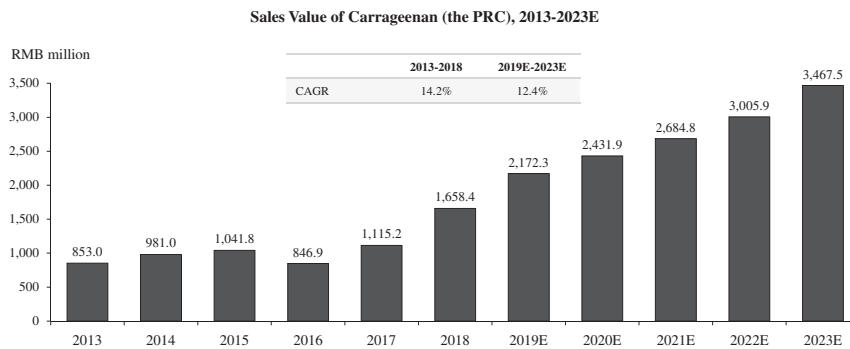
INDUSTRY OVERVIEW

Kappa carrageenan creates a harder, brittle gel and is widely applied as syrup thickener, while iota carrageenan creates a soft malleable gel and applies as a gelling agent for stabilising purpose. Compared to kappa and iota carrageenan, lambda carrageenan acts as a thickener to create a better mouth-feel in beverages. Kappa carrageenan accounted for over 90% of sales volume of carrageenan due to its wide application and functions in different food products.



Source: Frost & Sullivan

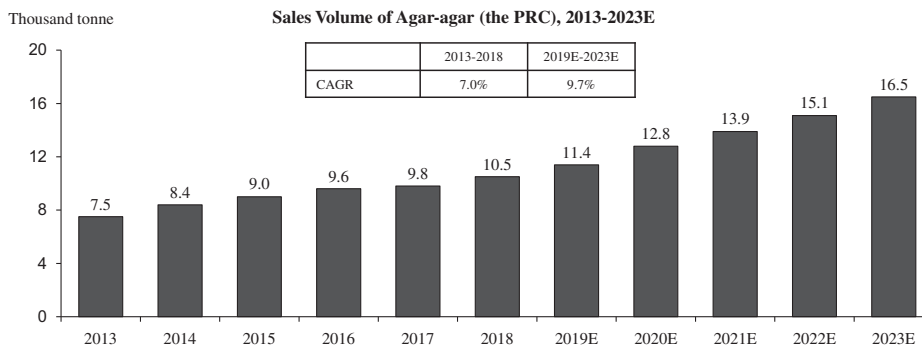
Pursuant to the Frost & Sullivan Report, the sales value of carrageenan in the PRC experienced a positive growth from RMB853.0 million in 2013 to RMB1,658.4 million in 2018, representing a CAGR of 14.2%. Driven by strong domestic demand of food additives in the PRC, it is expected that the sales value of carrageenan will reach RMB3,467.5 million in 2023 at a CAGR of 12.4%.



Source: Frost & Sullivan

Sales volume and sales value of agar-agar in the PRC market

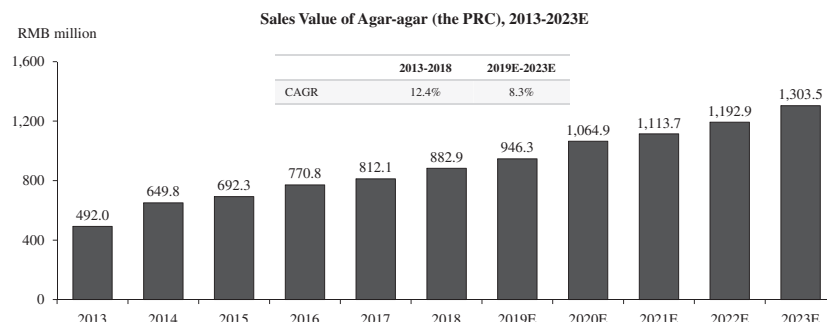
Under the growing application of gelling agent in food production and processing industry and rise of functional and health food in the PRC and global market, the sales volume of agar-agar recorded a substantial growth from approximately 7,500 tonne in 2013 to approximately 10,500 tonne in 2018, representing a CAGR of 7.0%. With the expected growing penetration of agar-agar in other areas (e.g. beauty products and medicinal purposes), sales volume of agar-agar is set to increase during 2019 to 2023 at a CAGR of 9.7%, reaching approximately 16,500 tonne in 2023.



Source: Frost & Sullivan

INDUSTRY OVERVIEW

The overall sales value of agar-agar in the PRC grew from approximately RMB492.0 million in 2013 to RMB882.9 million in 2018, representing a CAGR of 12.4%. Driven by strong demand of the associated food products, such as processed meat and dairy products, the sales value of agar-agar is forecasted to grow at a CAGR of 8.3%, reaching RMB1,303.5 million by the end of 2023.



Source: Frost & Sullivan

Average annual unit selling price of agar-agar, carrageenan and konjac gum

The chart below illustrates the price trend of agar-agar, carrageenan and konjac gum in the PRC during 2013 to 2023. The average annual unit selling price of carrageenan, agar-agar and konjac gum are expected to record a decline during 2019 to 2023. The decline was primarily attributable to the growing market competition and higher availability of products at a lower price. Specifically, with more agricultural land available for konjac cultivation in various provinces, such as Shaanxi Province, the price of konjac gum is expected to decrease at a CAGR of -3.4% during 2019 to 2023. However, given the strong demand for carrageenan, agar-agar and konjac gum in the PRC market, the impact of expected decrease in average annual unit selling price of aforesaid hydrocolloids is likely to be outweighed by the rapid growth of sales volume and therefore the impact on our Group's sales value is considered low.

Product	Unit	2013	2014	2015	2016	2017	2018	CAGR (2013-2018)
Carrageenan	HK\$ per tonne	62,853.3	63,389.8	55,954.6	38,227.7	49,376.8	71,858.7	2.7%
Agar-agar	HK\$ per tonne	82,657.6	97,470.0	94,620.0	93,135.6	96,131.0	96,650.2	3.2%
Konjac Gum	HK\$ per tonne	78,266.9	78,964.0	80,415.4	82,798.9	99,697.2	122,587.8	9.4%

Product	Unit	2019E	2020E	2021E	2022E	2023E	CAGR (2019E-2023E)
Carrageenan	HK\$ per tonne	71,044.2	68,363.8	67,537.9	63,862.7	62,531.4	-3.1%
Agar-agar	HK\$ per tonne	96,263.5	93,953.2	93,107.3	89,662.4	88,407.0	-2.1%
Konjac Gum	HK\$ per tonne	112,864.3	107,108.2	102,150.9	99,275.8	98,445.7	-3.4%

Note:

- (i) The average annual unit selling price covers all gel strength of agar-agar that ranges from 400g/cm² to 1200g/cm². The gel strength of agar-agar, which is normally in the range between 400g/cm² and 1200g/cm², is one of the most important price factors for agar-agar products and the price is generally higher for agar-agar with higher gel strength.
- (ii) The average annual unit selling price covers all gel strength for carrageenan. Refined carrageenan generally recorded a higher selling price than semi-refined ones. In addition, selling price for carrageenan processed with more fine mesh is higher for both refined and semi-refined carrageenan.
- (iii) Value-added tax (VAT) is excluded for the price indicated in the table.

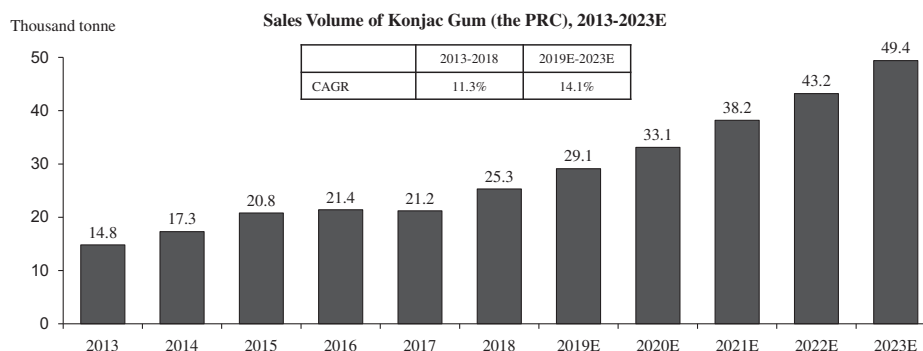
Source: Frost & Sullivan

Sales volume and sales value of konjac gum in the PRC market

In light of the growing demand for konjac gum from consumers, sales volume of konjac gum in the PRC increased steadily from 14.8 thousand tonne in 2013 to 25.3 thousand tonne in 2018, representing a CAGR of 11.3%. As konjac gum can be applied in a variety of food products, such as candies to maintain a smooth surface and stable shape, noodles to raise its elasticity and reduce

INDUSTRY OVERVIEW

breaking of noodles, etc. Along with the expansion of downstream processed food manufacturing sector, sales volume of konjac gum in the PRC is expected to increase further at a CAGR of 14.1% during 2019 to 2023, reaching 49.4 thousand tonne by 2023.



Source: Frost & Sullivan

The sales value of konjac gum in the PRC was RMB919.3 million in 2013 and it has expanded to RMB2,194.4 million in 2018, representing a CAGR of 19.0%. With konjac gum has gained more popular use in food products, the sales value of konjac gum is expected to grow significantly and reach RMB4,642.1 million in 2023, representing a CAGR of 8.0%.

Outlook of key downstream industries for hydrocolloids

(i) Processed food industry

The overall business income of processed food manufacturing enterprises in the PRC grew from RMB1,816.5 billion in 2013 to RMB2,542.1 billion in 2017, representing a CAGR of 8.8%. Driven by strong customers' preferences towards natural food additives due to increasing awareness of nutrition and health in the PRC, it is expected the main business income of this sector will reach RMB3,920.2 billion in 2022, at a CAGR of 8.9% over the period. Pursuant to the Frost & Sullivan Report, urbanisation rate in the PRC has increased from 53.0% in 2013 to 58.0% in 2017. It is believed that the acceleration of urbanisation would stimulate the demand for processed food complemented with that of food additives, in particular food hydrocolloids like carrageenan and agar-agar, with the association of increasing downstream food processing and production activities.

(ii) Dairy product manufacturing industry

With the aid of growing application technology in dairy products manufacturing industry and more stringent quality control in dairy products, the main business income of dairy products manufacturing enterprises in the PRC has experienced a positive growth at a CAGR of 4.6%, from RMB2,924.3 billion in 2013 to RMB3,505.2 billion in 2017. It is believed that the improvements in quality control of dairy products would gain public confidence in the related food safety issues, which further drives the demand of dairy products. A strong preference towards natural food additives with increasing awareness towards nutrition and health will contribute to the growth of main business income of dairy products manufacturing enterprises during 2018 to 2022.

(iii) Beauty products Industry

Driven by increasing disposable income of Chinese residents, more people are willing to spend extra money on beauty products in order to enhance the appearance. The total retail sales of beauty products in the PRC has experienced a moderate growth from approximately RMB162.5 billion in 2013 to approximately RMB251.4 billion in 2017, representing a CAGR of 11.5% of the period. The consumption pattern of beauty products in the PRC is likely to continue in the future years, reaching approximately RMB394.3 billion by the end of 2022, representing a CAGR of 9.0%. Hydrocolloids, particularly carrageenan, possess good solubility and water-binding properties that serve as a good emulsifier for skincare products. It also raises the permeability and consistency of moisturising products, such as lotions and creams, to provide a smoother texture.

(iv) Household products industry

Benefitted by the upgrading consumption of Chinese residents, an increasing population of people are willing to spend more money on household products, such as air fresheners and deodorants, to enhance their living environment by keeping their home clean. According to the National Bureau of Statistics, the per capita expenditure of urban households and miscellaneous goods increased from approximately RMB490 in 2013 to approximately RMB652 in 2017, representing a CAGR of 7.4% of the period. Carrageenan is typically added to household products, especially gel-type air fresheners, as it provides a stable texture under room temperature.

INDUSTRY OVERVIEW

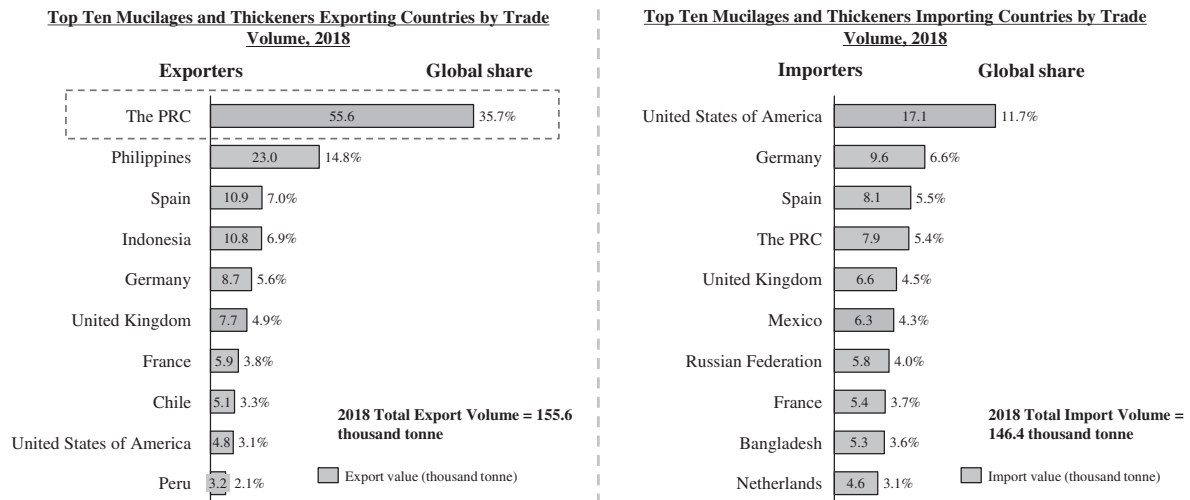
(v) Bio-engineering and medical application

With the excellent bio-compatibility, agar-agar serves as a source material for agarose. Agarose gel is considered an ideal medium for electrophoresis in DNA sequencing studies to separate DNA fragments into different size. Deep processed agar-agar products also demonstrated growing application in medical field. For example, agar-agar has been applied in blood purification agent in haemodialysis for patients with kidney disease.

Global trade analysis of carrageenan

The PRC was the largest exporter of mucilages and thickeners derived from vegetables, accounting for approximately 35.7% of global share in terms of export volume in 2018. Philippines was the second largest exporter with an approximate global share of 14.8% in the same year.

The United States and European countries are major importers of mucilages and thickeners derived from vegetables. In 2018, the United States was the leading importing country with a share of 11.7% for the total import volume of mucilages and thickeners derived from vegetables in the world, followed by Germany (6.6%) and Spain (5.5%)

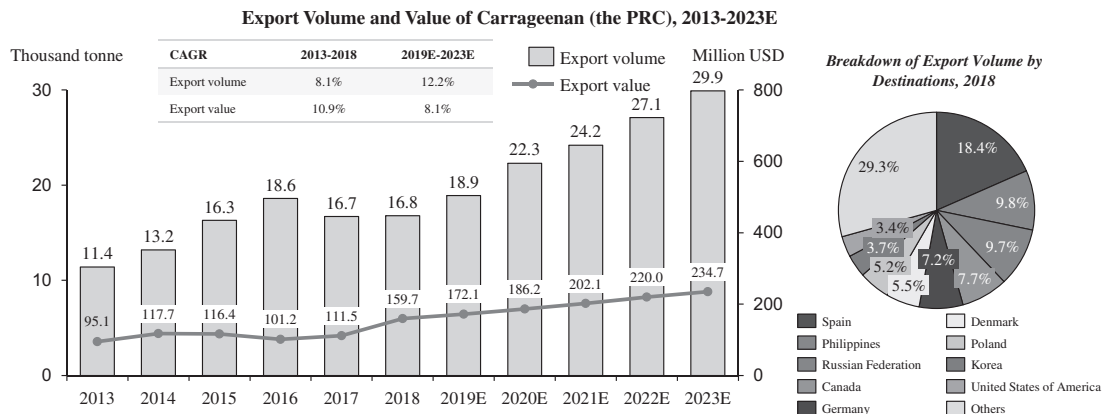


Note: Data is extracted from Trade Map under HS Code 130239 Mucilages and thickeners derived from vegetable products, whether or not modified (excluding from locust beans, locust bean seeds, guar seeds and agar-agar), carrageenan is categorised as part of mucilages and thickeners derived from vegetables and accounted for over 40% of export volume in this category in 2016.

Source: Trade Map, Frost & Sullivan

Export volume and value of carrageenan in the PRC

As one of the leading source countries of carrageenan in the world, the export volume of carrageenan from the PRC registered a robust growth from approximately 11,400 tonne in 2013 to approximately 16,800 tonne in 2018, representing a CAGR of 8.1%. The growth was primarily driven by increasing adoption of hydrocolloids, including carrageenan as gelling agent in processed food products manufacturing and carrageenan is one of the most widely used gelling agents in food industry in North America and Europe. With the growing demand for and penetration of carrageenan in food industry, the export volume of carrageenan in the PRC is expected to grow at a CAGR of 12.2% during 2019 to 2023, reaching 29,900 tonne in 2023. Spain was the major destination for export of carrageenan from the PRC, accounting for approximately 29.3% of export volume in 2018, followed by Philippines (9.8%) and Russian Federation (9.7%).



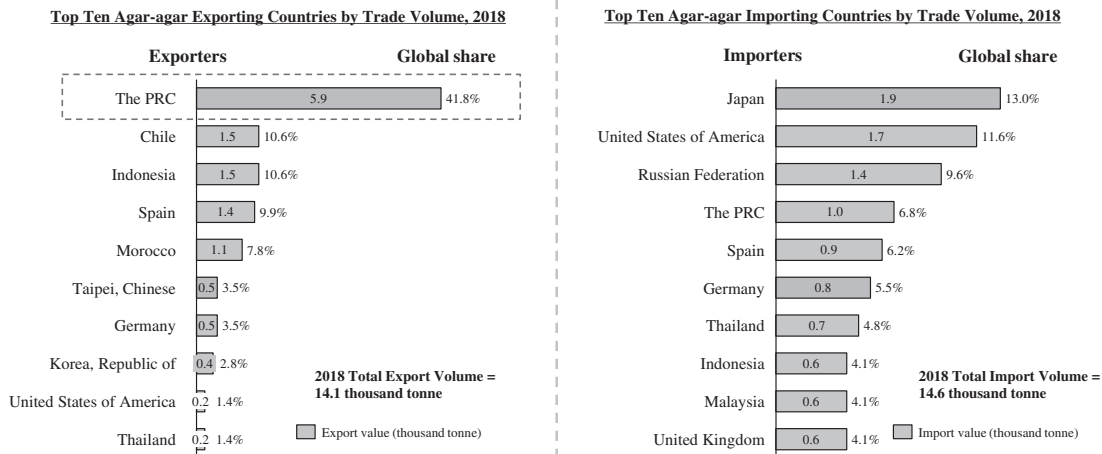
INDUSTRY OVERVIEW

Note: Data is extracted from Trade Map under HS Code 13023911 Carrageenan
Source: Trade Map, Frost & Sullivan

Global trade analysis of agar-agar

The PRC was the largest exporter of agar-agar, accounting for approximately 41.8% of global share in terms of export volume in 2018. Chile was the second largest exporter with an approximate global share of 10.6% in the same year.

Japan was the leading country for import of agar-agar with a global share of 13.0% in terms of import volume for agar-agar, followed by the United States of America (11.6%), Russian Federation (9.6%) and the PRC (6.8%).

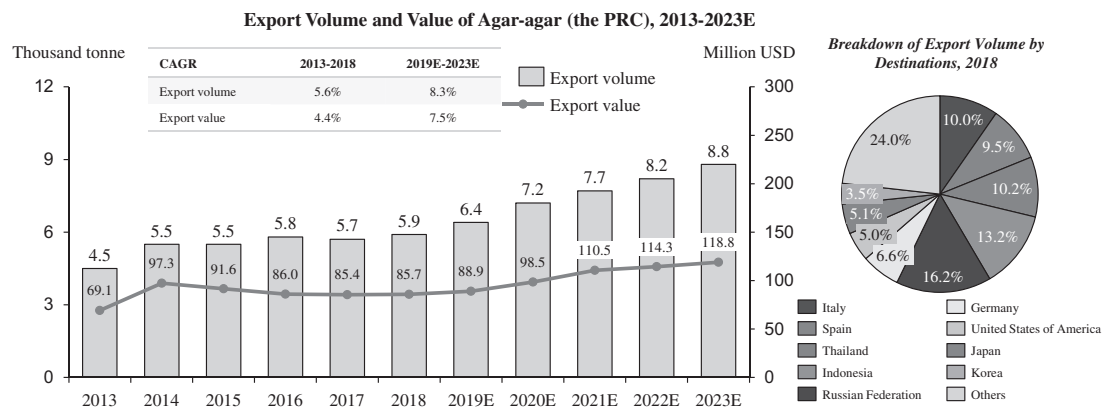


Note: Data is extracted from Trade Map under HS Code 130231 Agar-agar
Source: Trade Map, Frost & Sullivan

Export volume and value of agar-agar in the PRC

As supported by the growing demand for hydrocolloids from global food industry, the export volume of agar-agar in the PRC had demonstrated a growth from approximately 4,500 tonne in 2013 to approximately 5,900 tonne in 2018, representing a CAGR of 5.6%. As a natural additives with key properties of improving textural properties of food products and surging demand for natural food products from consumers in global market, the export volume of agar-agar is set to increase at a CAGR of 8.3% during 2019 to 2023, reaching 8,800 tonne by 2023.

The Russian Federation was the largest destination for export of agar-agar from the PRC, accounting for approximately 16.2% of total export volume in 2018, followed by Indonesia (13.2%) and Thailand (10.2%).



Note: Data is extracted from Trade Map under HS Code 13023100 Agar-agar
Source: Trade Map, Frost & Sullivan

Market driver

Expansion of downstream industry and breakthrough in the applications of hydrocolloids among the industry — Major players in the hydrocolloids market has invested massive resources for research and development of the applications of hydrocolloids to enhance properties by customising the composition of different hydrocolloids for different food products and provide blended solution. Driven by increasing disposable income and urbanisation, food and beverage industry in the PRC has

INDUSTRY OVERVIEW

been experiencing a strong growth. Supported by the strong growth in the economy in the PRC, manufacturers place extra resources to explore the possibilities of applying hydrocolloids in other commodities. For instance, some manufacturers possess the technology and infrastructure in place to meet the needs of customers who consume dietary supplements, such as vitamins and minerals. The application of hydrocolloids provides a stable, thermal material for supplement capsules and prevents the customers concerns with the capsules melting or softening. Therefore, wider applications of hydrocolloids in other commodities will further stimulate the demand of hydrocolloids in the PRC.

Promotion of sustainable food sources — Food ingredients that are applied to augment taste, texture and flavour in food are prone to oxidation, leading to food deterioration and contamination by mould. The application of hydrocolloids in foodstuffs may efficiently and safely stabilises food without any loss of quality. Not only the need for refrigeration can be reduced, shelf life can be extended with the aid of hydrocolloids and thus, food wastes are reduced and sustainable food can be achieved. As food additives becoming a necessary part of food and beverage industry and natural food additives such as hydrocolloids are on a rising penetration, the hydrocolloids industry is expected to supply more high quality products and receive an impetus from the booming demand.

Changing eating habits and increasing health consciousness of consumers — Increasing health consciousness and requirements of consumers is one of the driving forces for the development of hydrocolloids industry in the PRC. More consumers have switched to a vegetarian or semi-vegetarian diet to pursue, among others, a healthier life style. The demand for both vegetarian hydrocolloids and better quality of vegetarian food has significantly increased. As a result, food producing and processing companies tend to apply more vegan-friendly and plant-based hydrocolloids, such as agar-agar and carrageenan in the food manufacturing, processing and packaging industries in order to satisfy augmenting customers' requirements and expectations. Consumers are also aware of the sources of the food they consumed and tend to purchase food with ingredients extracted naturally, instead of synthetic substances, in their diet. With the efficient use of protein when added to food, some functional hydrocolloids extracted from the nature can enhance the taste, texture, appearance and fragrance of food, the hydrocolloids manufacturing industry in the PRC is therefore expected to grow.

Market trend

More stringent regulations and standards of food additives — Food safety has become a rising public concern in the PRC, regulations of the use of additives content in food manufacturing have been issued by the government to sustain the industry development and standards for the use of food additives has been stipulated for the industry practice. As stated in “Measures for the Administration of New Varieties of Food Additives” (《食品添加劑新品種管理辦法》) by the Ministry of Health, food additives manufacturers, including hydrocolloids manufacturers, that involve in producing, dealing, using or importing any new variety of food additives are required to apply for license. On the other hand, higher food safety standards of food production and processing industry and stronger food safety governance are highlighted in the “National 13th Five-Year Plan for Food Safety” (《「十三五」國家食品安全規劃》). More stringent regulations of food additives is expected to raise the industry standards and entry barriers.

Adoption of more environmentally-friendly manufacturing equipment and facilities — The National People's Congress of the People's Republic of China has adopted the Environmental Protection Tax Law (《中華人民共和國環境保護稅法》) in December 2016 and come into force starting from January 2018. It is expected that factories in the PRC are further required to protect and improve the environment by reducing pollutants discharge. Manufacturers that are found to extensively discharge taxable pollutants or dispose solid waste will be required to pay a higher amount of environmental protection tax. As a result, cleaner production facilities are forecasted to be the operational standards in the manufacturing and processing industries.

Opportunities and challenges of the hydrocolloid market

Technological advancement in hydrocolloids — The research and development, production processes of hydrocolloids involve advanced and efficient technology. In particular, food formula optimisation, research and production facilities become increasingly important as the proportion of different hydrocolloids is customised according to different types of food products. Hydrocolloids manufacturers in the PRC are expected to demonstrate an enrichment in technical proficiency as well as service level to cope with the new specification and formulation of hydrocolloids and its products.

Negative consumer perception — More consumers have shown increasing concerns over their diet and some may associate negative health impacts with food additives. It has led to challenges for hydrocolloids manufacturers to overcome the perception of a certain group of consumers. Additional resources are required as more researches on the topic of health effects of hydrocolloids have to be discussed and further promoted to consumers. However, the restraint has imposed a low impact over the industry of the forecast period.

INDUSTRY OVERVIEW

Impact of trade war between US and the PRC on export of carrageenan and agar-agar products in the PRC — Carrageenan and agar-agar are not subject to the additional 10% and 25% import tariffs announced by the US Government in September 2018 and May 2019 respectively. In May 2019, the US Government proposed the modification of imposing additional 25% import tariffs for another batch of Chinese products with an annual trade value of approximately USD300 billion, covering carrageenan and agar-agar. The proposed increase in import tariffs may result in impact on business performance of exporter of the aforesaid products in the PRC in a long term. However, considering that (i) the US Government is still seeking public comment and the detailed timeline regarding the proposed modification is not yet confirmed, (ii) the PRC is a leading manufacturer and exporter of carrageenan and agar-agar globally, (iii) export value of carrageenan and agar-agar to the US accounted for only approximately 3% and 5% respectively of export value from the PRC in 2018 and (iv) overseas customers may not be able to source the products from alternative countries in short period of time, the impact of such proposed increase in import tariffs on carrageenan and agar-agar manufacturers and exporters in the PRC is considered minimum.

COST STRUCTURE ANALYSIS

Labour cost

Attributable to the high demand for workers and raised minimum wage level, the average wage of employed persons in urban areas in manufacturing industry in the PRC has increased from RMB46,431 in 2013 to RMB69,608 in 2018, representing a CAGR of 8.4%. Besides, driven by strong economic performance in the PRC, the average wage of employed persons in urban areas in manufacturing industry in the PRC is estimated to grow at a CAGR of 7.6% and reach RMB99,742 in 2023.

Average annual unit import price of raw materials

Set forth below are the average annual unit import price of dried *Eucheuma Spinosum*, dried *Eucheuma Cottonii* and dried *Gracilaria* in the PRC.

Material	Unit	2012	2013	2014	2015	2016	2017	2018	CAGR (2012-2018)
Dried <i>Eucheuma Spinosum</i> .	HK\$ per tonne	7,920	8,690	10,090	5,270	4,110	4,990	6,030	-4.4%
Dried <i>Eucheuma Cottonii</i> .	HK\$ per tonne	9,080	9,700	11,480	7,360	6,440	11,220	15,060	8.8%
Dried <i>Gracilaria</i>	HK\$ per tonne	5,590	6,210	7,220	6,430	5,900	6,080	4,870	-2.3%

Note: The table indicates the average annual unit import price of selected seaweed in the respective years. Pursuant to the Frost & Sullivan Report, the unit import price of dried *Eucheuma Cottonii* recorded a significant growth from approximately HK\$6,990 per tonne in January 2017 to approximately HK\$7,810 per tonne in June 2017, and reached approximately HK\$15,240 per tonne by the end of 2017.

Source: Frost & Sullivan

The average annual unit import price covered seaweeds imported from different country of origin including Indonesia, Philippines, Malaysia, Tanzania and others, or transacted under different terms of trade including C&F and CIF. As the Group imported most of its seaweed from Indonesia which usually offer the lowest price among all countries in a given period, and billed under C&F terms which shall be lower than those invoiced under CIF terms, and therefore contributed to the downside price gap of the Group as compared to the industry average figures.

Quarterly unit import price of raw materials

Set forth below are the quarterly unit import price of dried *Eucheuma Spinosum*, dried *Eucheuma Cottonii* and dried *Gracilaria* in the PRC during 2017 to 2018.

Material	Unit	2017Q1	2017Q2	2017Q3	2017Q4	2018Q1	2018Q2	2018Q3	2018Q4
Dried <i>Eucheuma Spinosum</i> . .	HK\$ per tonne	5,070	4,992	4,914	4,056	4,212	5,684	6,105	6,240
Dried <i>Eucheuma Cottonii</i> . .	HK\$ per tonne	7,020	7,410	10,452	14,010	14,586	12,351	13,097	12,848
Dried <i>Gracilaria</i>	HK\$ per tonne	7,238	6,889	5,476	5,448	5,388	4,736	4,652	4,260

Source: Frost & Sullivan

According to Frost & Sullivan, *Gracilaria* is also commonly used as a feed for abalone apart from using as raw materials for refining agar-agar. With the introduction of anti-corruption measures in the PRC in 2012 which escalated further in 2017, the market demand for luxury products, including expensive seafood like abalone has decreased, leading to decrease in selling price of abalone in the PRC. Accordingly, in view of the limited profitability, abalone farmers had switched to cultivate other seafood and the cultivation business of abalone, along with the demand for *Gracilaria*, had experienced a downturn subsequently. Thus, suppliers had to switched to sell *Gracilaria* to agar-agar manufacturers in bulk at a relatively low price to minimise profit loss.

INDUSTRY OVERVIEW

The fluctuations in raw materials price do affect the pricing strategy of carrageenan and agar-agar manufacturers. However, due to the general state of excess demand of carrageenan and agar-agar products, manufacturers with good product quality and service level are at most of the time able to shift price pressure of raw materials to their customers, and on the contrary customers are able to enjoy benefits from the drop of raw materials price should the down-turning trend is established.

COMPETITIVE LANDSCAPE OF THE HYDROCOLLOIDS MARKET IN THE PRC

Overview of market competition

The global agar-agar market has experienced a steady growth in recent years due to rising consciousness of healthy diet by the public. The market is considered as relatively concentrated with an estimation of approximately less than 50 market participants in 2018. The sales volume of agar-agar in the PRC was approximately 10,500 tonnes in 2018, with a contribution of about 42.5% of the global agar-agar sales volume.

The top five market participants in the PRC agar-agar market accounted for approximately 62.9% and 65.5% of the aggregate market share in terms of sales volume and sales value in 2018. Our Group was the largest agar-agar manufacturer in the PRC market with an approximate market share of 31.6% and 33.7% respectively in terms of sales volume and sales value in 2018.

Leading agar-agar manufacturers in the PRC, 2018

Rank	Market participant	Sales volume (tonne)	Market share by sales volume (%)	Sales value (RMB million)	Market share by sales value (%)
1	Our Group	3,318.4	31.6%	297.9	33.7%
2	Company 5	985.1	9.4%	85.1	9.6%
3	Company 6	928.0	8.8%	79.4	9.0%
4	Company 7	740.5	7.1%	63.5	7.2%
5	Company 8	627.6	6.0%	52.0	5.9%
	Subtotal	6,599.6	62.9%	577.9	65.5%
	Others	3,900.4	37.1%	305.0	35.5%
	Total	10,500.0	100.0%	882.9	100.0%

Note: Exchange rate of RMB:HKD = 1:1.163 is applied for conversion of our Group's revenue
Source: Frost & Sullivan

The overall carrageenan market in the PRC is considered as relatively concentrated in terms of the number of market participants. As estimated, there were less than 100 market participants engaged in the production of carrageenan in 2018. The top five market participants in the PRC carrageenan accounted for an aggregate market share of 65.6% and 76.9% respectively in terms of sales volume and sales value in 2018. Our Group ranked second in the PRC carrageenan market with an approximate market share of 22.7% and 27.7% in terms of sales volume and sales value respectively in 2018. In addition, our Group's export volume of carrageenan has reached approximately 4,520.7 tonne, in 2018, which contributed to 26.9% of the export volume of the PRC in the same year.

Leading carrageenan manufacturers in the PRC, 2018

Rank	Market participant	Sales volume (tonne)	Market share by sales volume (%)	Sales value (RMB million)	Market share by sales value (%)
1	Company 1	9,428.2	30.4%	584.3	35.2%
2	Our Group	7,049.4	22.7%	459.9	27.7%
3	Company 2	2,652.7	8.6%	158.4	9.6%
4	Company 3	670.3	2.2%	40.7	2.5%
5	Company 4	530.2	1.7%	32.3	1.9%
	Subtotal	20,330.8	65.6%	1,275.6	76.9%
	Others	10,669.2	34.4%	382.8	23.1%
	Total	31,000.0	100.0%	1,658.4	100.0%

Note: Exchange rate of RMB:HKD = 1:1.163 is applied for conversion of our Group's revenue
Source: Frost & Sullivan

INDUSTRY OVERVIEW

In 2018, our Group had an approximate market share of 13.4% and 10.3% in terms of sales volume and sales value respectively in the global agar-agar market, and had an approximate market share of 9.4% and 10.4% in terms of sales volume and sales value respectively in the global carrageenan market. The below sets forth the description of market position of our Group in the global agar-agar and carrageenan market.

Market	Market share of our Group in 2018 by sales volume (%)	Market share of our Group in 2018 by sales value (%)	Commentary on market position of our Group
Global agar-agar market	13.4%	10.3%	Our Group is the largest agar-agar manufacturer in the global market, given that (i) the sales volume of agar-agar in the PRC accounted for over 42% of global agar-agar market in 2018 and our Group is a leading market player in the PRC agar-agar market with a market share of 31.6% in terms of sales volume and (ii) there are no other market players having a larger market share than our Group based on Frost & Sullivan research.
Global carrageenan market.	9.4%	10.4%	Our Group is considered as one of the key players of global carrageenan market. However, according to results of trade interview and analysis of Frost & Sullivan, our Group ranked second in carrageenan market in the PRC in terms of both sales volume and sales value, while several overseas market participants are also considered as competitive as our Group in terms of sales performance of carrageenan in the market. As a result, having considered the limited availability of information for estimating the sales volume of the aforementioned carrageenan manufacturers in the overseas market, the exact market position of our Group in global carrageenan market is therefore not available.

Source: Frost & Sullivan

The following tables set out further comparison of the Group and other major competitors.

Agar-agar

Name of market participants	Gel strength of agar-agar	Product range	Source of raw materials	Production capacity in 2018
Our Group	700g/cm ² - 1,500g/cm ²	Food grade and medicinal grade agar-agar	Indonesia and the PRC	4,565 tonne per year
Company 5	Information is not available	Food grade and medicinal grade agar-agar	Information is not available	~1,000 tonne per year
Company 6	700g/cm ² - 1,100g/cm ²	Food grade agar-agar	Information is not available	~1,000 tonne per year
Company 7	800g/cm ² - 1,100g/cm ²	Food grade agar-agar	Information is not available	~800 tonne per year
Company 8	500g/cm ² - 1,500g/cm ²	Food grade and medicinal grade agar-agar	Indonesia and the PRC	~650 tonne per year

Source: Frost & Sullivan

Carrageenan

Name of market participants	Gel strength of carrageenan	Product range	Source of raw materials	Production capacity in 2018
Our Group	Semi-Refined 400 g/cm ² -650 g/cm ² - Refined 1,300g/cm ² -1,900g/cm ²	Kappa refined, kappa semi-refined, Iota refined, Iota semi-refined carrageenan, blended product	Philippines and Indonesia	10,175 tonne per year
Company 1	Semi-Refined 450 g/cm ² Refined 1,400g/cm ²	Kappa refined, kappa semi-refined, kappa II series, Iota refined, Iota semi-refined carrageenan, blended product	Philippines and Indonesia	~15,000 tonne per year

INDUSTRY OVERVIEW

Name of market participants	Gel strength of carrageenan	Product range	Source of raw materials	Production capacity in 2018
Company 2	Information is not available	Refined carrageenan, semi-refined carrageenan	Information is not available	~6,000 tonne per year
Company 3	Semi-Refined ~400 g/cm ² Refined 1,000g/cm ² -1,500g/cm ²	Kappa refined, kappa semi-refined, Iota semi-refined carrageenan and blended product	Information is not available	~800 tonne per year
Company 4	Information is not available	Kappa refined, kappa semi-refined, Iota semi-refined carrageenan and blended product	Indonesia, Philippines and Southeast Asia	~1,000 tonne per year

Source: Frost & Sullivan

The gross profit margin of carrageenan manufacturer and agar-agar manufacturer generally range from (i) 5% to 30% and (ii) 10% to 25% respectively in 2018. The difference of gross profit margin is mainly due to difference in product offerings and quality of product (e.g. gel strength), target markets, source and purchasing volume of raw materials. The gross profit margin of the Group is comparatively higher than the major competitors due to (i) large scale of operation which involves bulk purchase of raw materials with higher bargaining power to source the material at a lower unit price from its suppliers, (ii) a substantial proportion of sales is comprising of relatively high quality (e.g. competitive performance in respect of viscosity, transparency and particle size of carrageenan) with higher gel strength of hydrocolloids which could command higher selling price, and (iii) wider range of product portfolio covering different types of carrageenan (including kappa refined, kappa semi-refined, iota refined, iota semi-refined carrageenan and blended product), agar-agar (both food and medicinal grade), konjac gum and other blended products. In contrast, other competitors generally focus on sales of limited product types (e.g. only limited to offering carrageenan or agar-agar) and relatively low economies of scales, such as lower purchasing amount of raw materials, which result in lower gross profit margin.

Key success factors

Quality assurance and product safety — Food safety is of utmost importance among consumers in the market and therefore, the quality control and product safety should be on top priorities among market participants in the hydrocolloids industry. The foundation of product testing team and stringent product recall policy will ascertain the product batch is safe to consume and immediate response can be provided upon receiving negative feedback on products.

Steady and stable supply of raw materials — The production of hydrocolloids relies on a steady and stable supply of raw materials. To ensure a steady supply and remain competitive, manufacturers of the hydrocolloid market should maintain a firm relationship with its global suppliers and source their respective raw materials worldwide to minimise the risk of underproduction of certain regions.

Wide application of hydrocolloids — A successful participant of the PRC hydrocolloid markets should demonstrate a proficient knowledge in the application of their products. Business can be fostered by actively expanding the application of their products to other consumer goods, such as foodstuffs, pharmaceutical products and beauty products, with appropriate research and development.

Entry barriers

Capital requirements — Huge initial capital investment serves as a key barrier to new market entrants, substantial amount of which is required logistics distribution infrastructure, including warehouses and inventory facilities. Existing market players in the hydrocolloids market may have already enjoyed the cost advantage as they have already built up a stable customer source and steady supply of raw materials from suppliers.

Product expertise and application of products — The hydrocolloids manufacturers would need to demonstrate a solid knowledge on the characteristics of their products and understand the industry trend in order to provide value-added services to the market. Manufacturers have to do research on different formula of their hydrocolloids to fulfil varying textures and purposes of foodstuffs which has become a barrier for new entrants to develop their experience and know-how in the industry.

Established relationship and network between stakeholders — Existing market players had already established extensive sales and distribution network, including upstream raw material suppliers and downstream customers, among the hydrocolloids market in the PRC. With the established relationship of existing market players, time and cost can be saved from product manufacturing, sales and distribution. In contrast, new entrants without comprehensive distribution network and relationship between different stakeholders along the value chain may find themselves difficult to stand out in the hydrocolloid market in the PRC.

APPLICABLE LAWS AND REGULATIONS

The following is a brief summary of the laws and regulations in the PRC and Indonesia that currently materially affect our business. The principal objective of this summary is to provide potential investors with an overview of the key laws and regulations applicable to us. This summary does not purport to be a comprehensive description of all the laws and regulations applicable to our business and operations which may be important to potential investors. Investors should note that the following summary is based on laws and regulations in force as of the date of this prospectus, which may be subject to change.

APPLICABLE LAWS AND REGULATIONS IN THE PRC

Our business operations are under the general supervision and regulation by the PRC government. This section sets out the summary of major laws, regulations and policies which must be complied by us.

Laws and regulations relating to investments by foreign investors

Business enterprises incorporated, operated and managed in the PRC are subject to the governance of the Company Law of the People's Republic of China (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 “**NPC Standing Committee**”) (全國人大常委會) on 29 December 1993, became effective on 1 July 1994, and was amended on 25 December 1999, 28 August 2004, 27 October 2005, 28 December 2013 and 26 October 2018, respectively. Pursuant to the Company Law, companies are divided into two categories: limited liability company and joint stock limited company. The Company Law is applicable to both domestic and foreign-invested companies, if the laws on foreign investments have different provisions, such provisions shall prevail.

Wholly foreign-owned enterprise

The affairs of wholly foreign-owned enterprises (WFOEs), such as the procedure of incorporation, approval procedure, requirement of registered capital, foreign exchange control, accounting treatment, taxation and labour issues, are governed by the Law on Wholly Foreign-Owned Enterprises of the People's Republic of China (中華人民共和國外資企業法) which was promulgated by the NPC Standing Committee on 12 April 1986, respectively, became effective on the same date and was amended on 31 October 2000 and 3 September 2016, and the Detailed Rules for the Implementation of the Law on Wholly Foreign-Owned Enterprises of the People's Republic of China (中華人民共和國外資企業法實施細則) which were promulgated by the State Council on 28 October 1990, became effective on the same date and were amended on 12 April 2001 and 19 February 2014, respectively.

The Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) (the “**Foreign Investment Law**”) was adopted by the National People's Congress of the PRC on 15 March 2019, which shall come into force as of 1 January 2020. Under the Foreign Investment Law, the State shall implement the management systems of pre-establishment national treatment and negative list for foreign investment, according to which the treatment given to foreign investors and their investments during the investment access stage shall be not lower than that given to their domestic counterparts, and the State shall give national treatment to foreign investment beyond the negative list where

APPLICABLE LAWS AND REGULATIONS

special administrative measures for the access of foreign investment in specific fields is specified. Besides, the State shall protect foreign investors' investment, earnings and other legitimate rights and interests within the territory of China in accordance with the law. The State will take measures to prompt foreign investment such as ensuring fair completion for foreign-invested enterprises to participate in government procurement activities, and protection of intellectual property rights of foreign investors and foreign-invested enterprises. In respect of administration of foreign investment, foreign investment shall go through relevant verification and record-filing formalities if required by relevant state laws and regulations. While the organisation form, institutional framework and standard of conduct of a foreign-funded enterprise shall be subject to the provisions of the Company Law, if applicable.

Domestic investments of foreign-invested enterprises

According to the provisions of the Interim Provisions for Domestic Investments of Foreign-Invested Enterprises (關於外商投資企業境內投資的暫行規定) jointly promulgated by the Ministry of Commerce of the PRC (“MOFCOM”) and the State Administration for Industry and Commerce of the People’s Republic of China (“SAIC”) on 25 July 2000 and were amended on 26 May 2006 and 28 October 2015, the relevant requirements of the Interim Provisions on Guiding the Orientation of Foreign Investment (指導外商投資方向暫行規定), the Catalogue of Industries for Encouraging Foreign Investment (鼓勵外商投資產業目錄) (the “**Encouraging Foreign Investment Catalogue**”) and Foreign Investment Entry Special Administrative Measures (Negative List) (外商投資准入特別管理措施(負面清單)) (the “**Negative List**”) will be applicable to investments made by foreign-invested enterprises within the PRC. Foreign-invested enterprises are not allowed to invest in any area where foreign investment is prohibited. If a foreign-invested enterprise invests in an area under the restricted category, an application must be made to the administration of commerce at provincial level of the place where the invested company is located. The relevant company registration authority will decide whether approval for registration will be granted in accordance with the relevant requirements under the Company Law and the Regulation on the Administration of Company Registration of the People’s Republic of China (中華人民共和國公司登記管理條例). If approval for registration is granted, a corporate legal person business licence specified with “Foreign-Invested Enterprise” will be issued. The foreign-invested enterprise shall make a filing to the original approval authority within 30 days from the date of incorporation of the invested company.

Catalogue of Industries for Guiding Foreign Investment (外商投資產業指導目錄)

The foreign investment guidance on various industries in the PRC is set out in the Encouraging Foreign Investment Catalogue and Negative List jointly promulgated by MOFCOM and NDRC, the Encouraging Foreign Investment Catalogue and Negative List were amended and re-promulgated from time to time by these two government authorities.

The current effective version of the Encouraging Foreign Investment Catalogue and Negative List were both promulgated by MOFCOM and NDRC on 30 June 2019 and became effective on 30 July 2019. Our businesses, among other things, on the production and sales of food additives in the PRC are not prohibited or restricted categories under the Negative List.

APPLICABLE LAWS AND REGULATIONS

New filing system of MOFCOM

Pursuant to the Decision on Amending Four Laws including the Law on Wholly Foreign-Owned Enterprises of the People's Republic of China (關於修改<中華人民共和國外資企業法>等四部法律的決定) (the “**Decision**”) promulgated by the NPC Standing Committee on 3 September 2016 and became effective on 1 October 2016, the NPC Standing Committee will make amendments to certain provisions of, inter alia, the Law on Chinese-Foreign Equity Joint Ventures of the People's Republic of China (中華人民共和國中外合資經營企業法), the Law on Chinese-Foreign Contractual Joint Ventures of the People's Republic of China (中華人民共和國中外合作經營企業法), the Law on Wholly Foreign-Owned Enterprises of the People's Republic of China (中華人民共和國外商獨資企業法) and the Law of the People's Republic of China on the Protection of Investments of Taiwan Compatriots (中華人民共和國台灣同胞投資保護法). After the Decision, MOFCOM promulgated the Interim Measures for the Administration of Filing on the Incorporation and Modification of Foreign-Invested Enterprises (外商投資企業設立及變更備案管理暫行辦法) on 8 October 2016, which became effective on the same date and was amended on 30 July 2017 and 30 June 2018.

Under these provisions, except for foreign-invested enterprises subject to the “Foreign Investment Entry Special Administrative Measures” (外商投資准入特別管理措施) under the Catalogue (i.e. industries which cannot benefit from the new filing regulatory system, including the “prohibited category”, the “restricted category” and the merger and acquisition of related parties), the prior approval system for the incorporation and operation of most foreign-invested enterprises in the PRC has been replaced by the new filing system (i.e. most foreign-invested enterprises in the PRC will not be subject to prior approval by MOFCOM on their incorporation and significant changes in the process of operation such as capital increase and changes in the scope of business, instead after completion of registration with the administration for industry and commerce, only filing is required for the relevant incorporation and changes).

Approval for foreign-invested projects

According to the Measures for the Administration of Approval and Filing of Foreign-Invested Projects (外商投資項目核准和備案管理辦法), promulgated by the NDRC on 17 May 2014 and became effective on 17 June 2014 and were amended on 27 December 2014, foreign-invested projects shall obtain approval from the competent government authorities or make filing to the relevant authorities.

Laws and regulatory requirements relating to food products

Food safety law

According to the requirements of the Food Safety Law of the People's Republic of China (中華人民共和國食品安全法), promulgated by the NPC Standing Committee on 28 February 2009 and became effective on 1 June 2009 and was amended on 24 April 2015 and 29 December 2018, and the Regulation on the Implementation of the Food Safety Law of the People's Republic of China (中華人民共和國食品安全法實施條例), promulgated by the State Council and became effective on 20 July 2009 and was amended on 6 February 2016, any person who engages in the production and operation of food products and food additives shall obtain the corresponding licences for the production and

APPLICABLE LAWS AND REGULATIONS

operation of food products and food additives in compliance with the law. The Food Safety Commission of the State Council will exercise supervision and administration on food production and operation activities. A food product recall system has been established at national level, if producers or operators of food products discover that the food products produced or operated by them do not comply with the food safety standards or evidences are available to prove that the food products may be harmful to human health, they should cease production and operation immediately and recall the food products which have been launched for sale in the market.

In response to illegal conduct violating food safety, the competent authority may forfeit the illegal profit and the food products and food additives produced or operated illegally, issue a warning, order for rectification or impose a fine; in serious cases, the relevant licence may be revoked and criminal liability may be incurred. If any person engages in the production and operation activities of food products without obtaining a food production and operation licence, or who engages in the production activities of food additives without obtaining a food additive production licence, the food safety supervision and administrative authority of the people's government at county level or above may forfeit the illegal profit, the illegally produced and operated food products and food additives, and the tools, equipment, raw materials and other things used in the illegal production and operation; if the value of illegally produced and operated food products and food additives is below RMB10,000, a fine above RMB50,000 and below RMB100,000 shall be imposed concurrently; if the value is above RMB10,000, a fine equivalent to an amount above 10 times and below 20 times of the value of the products shall be imposed concurrently.

Food additive production licence

According to the provisions of the Measures for the Administration of Food Production Licence (食品生產許可管理辦法), promulgated by the China Food and Drug Administration (“CFDA”) on 7 April 2010 and became effective on 1 June 2010 and were amended on 31 August 2015 and 17 November 2017, enterprises are prohibited from engaging in food additive production activities without obtaining a food production licence.

According to the Institutional Reform Plan of the State Council (國務院機構改革方案) approved by the NPC on 17 March 2018, the responsibilities of CFDA will be integrated to form the State Administration of Market Supervision (“SAMS”) (國家市場監督管理總局).

SAMS is responsible for the supervision and guidance on the administration of food production licence at the national level, while the local food safety supervision and administrative authority above county level is responsible for the food production licensing work within its own administrative region. To apply for a food additive production licence, the applicant must have the corresponding premises, production equipment or facilities, food safety management personnel, professional technical staff and management system consistent with the category of food additives to be produced. If the application for food additive production licence has satisfied the required conditions, a food production licence, specified with food additives, will be issued by the local food safety supervision and administrative authority above county level of the place where the applicant is located. Each food production licence shall have a valid period of five years.

APPLICABLE LAWS AND REGULATIONS

Food operation licence

According to the provisions of the Measures for the Administration of Food Operation Licence (食品經營許可管理辦法), promulgated by the CFDA on 31 August 2015 and became effective on 1 October 2015 and were amended on 17 November 2017, any person who engages in the activities of food sales and catering services within the territory of the People's Republic of China shall obtain a food operation licence pursuant to the law. The SAMS is responsible for the supervision and guidance on the administration of food operation licence at national level. The local food safety supervision and administrative authority above county level is responsible for the administration of food operation licence within its own administrative region. Food operation licensing upholds the principle of one place one licence, that is, a food operator who engages in food operation activities in one operation premise shall obtain one food operation licence. Each food operation licence shall have a valid period of five years.

According to the Notice on Commencing the Use of the New Version of Food Production Licence from the China Food and Drug Administration (國家食品藥品監督管理總局關於啟用新版<食品生產許可證>的公告), announced by the CFDA on 30 September 2015 and became effective on the same date, the original food circulation licence with unexpired valid period would remain effective; food operators who have applied for a change of food operation licence within the valid period of the original food circulation licence shall be issued with a replacement in accordance with the relevant provisions; the original food circulation licence will be cancelled by the original licence issuance authority upon expiry of its valid period.

Recall of food products and food additives

The Measures for the Administration of Food Recalls (食品召回管理辦法), promulgated by the CFDA on 11 March 2015 and became effective on 1 September 2015, and the Implementation Opinions on the Consistent Implementation of Measures for the Administration of Food Recalls (關於貫徹落實<食品召回管理辦法>的實施意見), issued by the CFDA on 30 September 2015 and became effective on 30 September 2015, have made detailed provisions on the implementation of the food recall system.

According to such regulations, if any of the local food safety supervision and administrative authorities of various level has discovered any unsafe food products (including special food products and food additives) which fail to comply with the national standards of food safety or evidences are available to prove that such products may be harmful to human health during their process of, inter alia, supervision by examination of random samples, enforcement examinations and daily monitoring work, the food production operators shall perform recalls in accordance with the law. If the food production operators fail to recall the unsafe food products in accordance with the law, they may be subject to warning and punished by fines.

APPLICABLE LAWS AND REGULATIONS

Quality safety of food production and processing enterprises

According to the Detailed Rules for the Supervision and Administration of Quality Safety of Food Production and Processing Enterprises (Trial) (食品生產加工企業質量安全監督管理實施細則(試行)), promulgated by the AQSIQ on 1 September 2005 and became effective on the same date, enterprises engaging in food production and processing must possess the necessary production conditions to ensure the quality safety of food products, obtain production licences for industrial products pursuant to the required procedures, and the food products produced and processed must pass the qualifying inspection and imprinted (affixed) with the food quality safety mark for market entry before they are delivered from factories for sale. Food products which have not passed the inspection, or have not been imprinted (affixed) with the food quality safety mark for market entry, are not allowed to be delivered from the factories for sale.

Food production and processing enterprises must implement the system of inspection upon receipt of goods such as raw materials, food additives, packaging materials and containers for food production and processing, those do not comply with the quality safety standards are forbidden to be used for food production and processing.

The food quality safety mark for market entry refers to the food production licence mark, indicated by the wordings “Quality Safety (質量安全)” and the abbreviation “QS” in English, its format is unified and designed by the CFDA (hereinafter referred to as “QS Mark”). The use of QS Mark by an enterprise represents the undertaking made by the enterprise that its product has passed inspection and satisfied the basic requirements of food quality safety. If quality safety issues arise in a food product imprinted (affixed) with the QS Mark during the quality warranty period due to improper use or storage by non-consumers, the producer and vendor shall be liable for legal responsibilities according to their respective obligations.

According to the Notice of the CFDA on the Consistent Implementation of Measures for the Administration of Food Production Licence (國家食品藥品監督管理總局關於貫徹實施<食品生產許可管理辦法>的通知) issued by the CFDA on 30 September 2015 and became effective on the same date and the Circular of the China Food and Drug Administration on Relevant Issues concerning the Implementation of the Administrative Measures for Food Production Licensing (國家食品藥品監督管理總局關於貫徹實施《食品生產許可管理辦法》有關問題的通知) issued by the CFDA on 7 June 2017 and became effective on the same date, food producers who have obtained or renewed licences shall indicate their food production licence number on the food product packaging materials or labels but no longer indicate the “QS” Mark. Inventories kept by food producers carrying the “QS” Mark on the packaging materials or labels may continue to be utilised until exhaustion. From 1 October 2018 onwards, food products produced by food producers shall cease to use the original packaging, labels and “QS” Mark. According to the Measures for the Administration of Food Production Licence, the food production licence number will be changed to a combination of SC (the abbreviation of “Sheng Chan”, the romanisation of phonetic transcription in Chinese) and 14 Arabic numerals.

APPLICABLE LAWS AND REGULATIONS

Supervision and administration for food production and operation

According to the provisions of the Measures for the Administration of Routine Supervision and Inspection of Food Production and Operation (食品生產經營日常監督檢查管理辦法) promulgated by CFDA on 4 March 2016 and became effective on 1 May 2016, the food safety supervision and administrative authorities at municipal and county levels conducted routine supervision and inspection on food production and operation. The supervision and inspection items on the food production segment include, among other things, the food producer's production environmental conditions, inspection results of goods upon receipt, control of production process, results of product examinations, control on storage and delivery, administration of products that fail in testing and recall of food products, management of staff in practice and treatment of food safety incidents. The supervision and inspection items on the food sales segment include, among other things, qualification of the food vendors, health management of staff in practice, enforcement of general provisions, enforcement of prohibitive provisions, inspection results of goods upon receipt, storage of food products, recall of unsafe food products, labels and explanatory notes, sales of special food products, sales of imported food products, treatment of food safety incidents and sales of edible agricultural products.

Laws and regulatory requirements relating to import and export of commodities

According to the Foreign Trade Law of the People's Republic of China (中華人民共和國對外貿易法), promulgated by the National People's Congress ("NPC") on 12 May 1994 and became effective on 1 July 1994 and was amended on 6 April 2004 and 7 November 2016, respectively, and the Measures for Filing and Registration of Foreign Trade Operators (對外貿易經營者備案登記辦法), promulgated by MOFCOM on 25 June 2004 and became effective on 1 July 2004 and were amended on 18 August 2016, unless otherwise required by laws, administrative regulations and requirements of MOFCOM, foreign trade operators engaging in imports and exports of goods or technologies shall submit a filing for registration with MOFCOM or institutions entrusted by MOFCOM. Foreign trade operators who fail to complete the filing for registration in accordance with the Measures, the General Administration of Customs of the People's Republic of China will decline to handle the customs clearance, inspection and approval procedures for their imports and exports.

According to the Provisions of the General Administration of Customs of the People's Republic of China on the Administration of Registration of Declaration Entities (中華人民共和國海關報關單位註冊登記管理規定) promulgated by the General Administration of Customs on 13 March 2014 and became effective on the same date and were amended on 20 December 2017 and 29 May 2018, respectively, the consignors and consignees of import and export of goods shall complete the registration procedures for customs declaration entities in accordance with the customs requirements of the place where the entities are situated. After customs registrations have been completed by the consignors and consignees, declaration of businesses of the respective entity may be carried out at the checkpoints or the places where customs regulatory affairs are centralised within the People's Republic of China.

APPLICABLE LAWS AND REGULATIONS

Filing of export food production enterprises

According to the Provisions on the Administration of Filing for Export Food Production Enterprises (出口食品生產企業備案管理規定) promulgated by the General Administration of Customs on 23 November 2018 and became effective on the same date, the system of administration for filing of export food production enterprises was implemented within the People's Republic of China, the filing certification shall be valid for five years. Export food production enterprises that fail to perform the statutory obligations of filing or fail to qualify after being reviewed for filing, their products are prohibited from exporting.

Safety inspection for food imports and exports

According to the Law of Import and Export Commodity Inspection of the People's Republic of China (中華人民共和國進出口商品檢驗法), promulgated by the NPC on 21 February 1989 and became effective on 1 August 1989 and was amended on 28 April 2002 and 29 June 2013 and 27 April 2018 and 29 December 2018, respectively, and the Regulations for the Implementation of the Law of Import and Export Commodity Inspection of the People's Republic of China (中華人民共和國進出口商品檢驗法實施條例), promulgated by the State Council on 10 August 2005, became effective on 1 December 2005 and were amended on 18 July 2013, 6 February 2016, 1 March 2017, and 2 March 2019, respectively, the import and export inspection and quarantine authorities shall carry out inspections on the commodities listed in the Catalogue of Import and Export Commodities Required to be Inspected by Import and Export Inspection and Quarantine Authorities (出入境檢驗檢疫機構實施檢驗檢疫的進出境商品目錄) and other import and export commodities required to be inspected (hereinafter referred to as "statutory inspection") by the import and export inspection and quarantine authorities pursuant to the requirements of laws and administrative regulations. For import and export commodities not subject to the statutory inspections carried out by the import and export inspection and quarantine authorities, inspection by random sampling will be carried out in accordance with national provisions.

According to the Measures for the Administration of Safety of Food Imports and Exports (進出口食品安全管理辦法), promulgated by the General Administration of Customs on 23 November 2018, and became effective on the same day, the Customs implemented administration for the registration of offshore production enterprises for food imports, implemented administration for the filing of domestic food exporters or agents in the PRC, conducted inspection on food imports, implemented administration of filing for production enterprises of food exports, implemented administration of filing for plantation of raw materials and farms for food exports, conducted supervision and random inspections on food exports, implemented management by categories for food imports and implemented integrity management on the producers and operators of food imports and exports.

Import and export duties

According to the Customs Law of the People's Republic of China (中華人民共和國海關法), promulgated by the NPC on 22 January 1987, became effective on 1 July 1987 and was amended on 8 July 2000, 29 June 2013, 28 December 2013 and 7 November 2016 and 4 November 2017, respectively, unless provided otherwise, the consignors and consignees of the imported and exported goods may complete the procedures of customs declaration and payment of duties for the import and export of goods respectively by themselves, or the consignors and consignees of imports and exports may also appoint registered customs declaration enterprises approved by the Customs to complete the procedures of customs declaration and payment of duties on their behalf.

APPLICABLE LAWS AND REGULATIONS

According to the provisions of the Regulations on Import and Export Duties of the People's Republic of China (中華人民共和國進出口關稅條例), promulgated by the State Council on 23 November 2003, became effective on 1 January 2004 and were amended on 8 January 2011, 7 December 2013, 6 February 2016 and 1 March 2017, the consignees of imports, consignors of exports and all parties importing goods must pay customs duties. The taxpayer shall make an honest declaration to the Customs and provide complete information about the determination of taxable price, classification of commodities, confirmation of the place of origin as well as all information required for adopting anti-dumping, countervailing or protective measures according to the customs provisions, and shall pay the amount of duties at designated banks within 15 days from the date of issuance of tax demand note by the Customs.

Algae culture and production

According to the provisions of the Fisheries Law of the People's Republic of China (中華人民共和國漁業法), promulgated by the NPC Standing Committee on 20 January 1986, became effective on 1 July 1986, and was amended on 31 October 2000, 28 August 2004, 27 August 2009 and 28 December 2013, engaging in productive activities of fisheries, such as farming of aquatic plants, in the inland waters, tidal-flat areas, territorial waters and exclusive economic zone of the People's Republic of China and other sea areas under the jurisdiction of the People's Republic of China must comply with this Law. Any entity or individual who make use of any water areas and tidal-flat areas owned by the public and designated for farming under the State plans is required to obtain a farming licence approved by the local people's government. Farming in public waters without a farming licence will be ordered for rectification, mandated to apply for a farming licence or ordered to remove the farming facilities within a prescribed period. Any person who engages in productive activities of farming in public waters without obtaining a farming licence in accordance with the law or beyond the scope permitted by the farming licence, such that shipping and flood control activities are hindered, will be ordered to remove the farming facilities and subject to a fine not exceeding RMB10,000 concurrently.

Production and processing of agricultural by-products

The Agricultural Product Quality Safety Law of the People's Republic of China (中華人民共和國農產品質量安全法) (the “**Agricultural Product Quality Safety Law**”) promulgated by the NPC Standing Committee on 29 April 2006, became effective on 1 November 2006 and was amended on 26 October 2018 regulates the quality safety of primary agricultural products. According to this law, agricultural products must comply with the relevant requirements in the following aspects to ensure that the quality of agricultural products will comply with the protective requirements for human health and safety: (i) quality safety standards for agricultural products; (ii) place of origin of the agricultural products; (iii) production of agricultural products; and (iv) packaging and identification marks of agricultural products.

The Agricultural Product Quality Safety Law provides that the materials used in the package, preservation, storage and transport of agricultural products, such as preservatives, antiseptics and additives, shall meet the relevant compulsory technical norms of the State, otherwise such agricultural products are prohibited from sale. In case of sales in violation of the provisions, the competent

APPLICABLE LAWS AND REGULATIONS

agricultural administrative authority at county level or above shall have the right to order a halt on such sales, polluted agricultural products will undergo harmless treatment, if harmless treatment cannot be performed, such products will be destroyed under supervision. Illegal profit will be forfeited and a fine between RMB2,000 and RMB20,000 will be imposed.

Laws and regulations relating to product quality and protection of consumers

Product Quality Law

According to the provisions of the Product Quality Law of the People's Republic of China (中華人民共和國產品質量法), promulgated by the NPC Standing Committee on 22 February 1993, became effective on 1 September 1993 and was amended on 8 July 2000, 27 August 2009 and 29 December 2018, the producers and vendors shall undertake responsibilities of the quality of products produced by them. If anyone produces or sells products in violation of the national standards or industry standards that protect human health, safety of physical body and property, the market supervision authority may order to stop the production or sales of such products, confiscate the products produced or sold illegally, and impose a fine in an amount equivalent to three times the value of products produced or sold illegally (including sold and unsold products); any illegal profit gained will be forfeited concurrently; in serious cases, the business licence will be revoked; if an offence is committed, such person will be liable for criminal liability.

Law on the protection of consumer rights and interests

The Law on the Protection of Consumer Rights and Interests of the People's Republic of China (中華人民共和國消費者權益保護法) promulgated by the NPC Standing Committee on 31 October 1993, became effective on 1 January 1994 and was amended on 27 August 2009 and 25 October 2013, provides that the provision of commodities or services produced or sold by operators to consumers shall abide by this Law. According to this Law, the operators shall perform mainly the following obligations: (i) comply with laws and regulations, shall not set unfair or unreasonable trading conditions and shall not conduct trading by compulsion; (ii) listen to opinions of consumers, accept supervision by consumers; (iii) guarantee that the commodities or services provided have complied with the requirements of protecting the safety of physical body or properties; (iv) provide true and complete information to consumers and shall not provide false or misleading publicity; (v) produce evidential proof for purchase of goods or service voucher in accordance with the law; (vi) provide guarantee on the quality of commodities or services; (vii) undertake the obligations of replacement, repair and return for goods or services not meeting the quality requirements; (viii) conduct fair trading and the application of standard terms must comply with the provisions of laws and regulations; (ix) respect the personality of consumers and protect the personal data of consumers.

Laws and regulations relating to production safety

According to the Production Safety Law of the People's Republic of China (中華人民共和國安全生產法) promulgated by the NPC Standing Committee on 29 June 2002, became effective on 1 November 2002 and was amended on 27 August 2009 and 31 August 2014 and other relevant laws and regulations, the production operating unit must: (i) comply with the relevant laws and regulations on production safety; (ii) enhance the management of production safety; (iii) improve the safety precautionary measures in production premises; and (iv) establish and improve the

APPLICABLE LAWS AND REGULATIONS

production safety responsibility system to ensure the safety in production. If the conditions of production safety are not fulfilled, operating activities of production shall not be carried out. In the event of a failure to comply with the relevant production safety laws and regulations by the production operating unit, it will be subject to administrative punishments, such as being imposed a fine or ordered to rectify within a prescribed period or to suspend its business; if a criminal offence is committed, it will be liable for criminal liability in accordance with the law.

Laws and regulations relating to environmental protection

Environmental Protection Law

According to the provisions of the Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法) promulgated by the NPC Standing Committee on 26 December 1989, became effective on the same date and was amended on 24 April 2014, the competent environmental protection authority of the State Council implemented unified supervision and administration on environmental protection work across the nation; the competent environmental protection authority of the local people's government at county level or above shall implement unified supervision and administration on environmental protection work in its own administrative region. The State has implemented a pollutant discharge licensing administration system in accordance with laws and regulations. Business enterprises and entities and other production operators discharging pollutants shall obtain the relevant pollutant discharge licence and pay for the discharge fees according to the relevant provisions of the State. Enterprises in violation of the environmental protection law may be subject to warning, payment of damages, fines, restriction or suspension of production or an order to halt production, depending on the degree of seriousness of each case. If a criminal offence is committed, the operator will be liable for criminal liability in accordance with the law.

Other Environmental Protection Laws and Regulations

The Law on the Prevention and Control of Water Pollution of the People's Republic of China (中華人民共和國水污染防治法) promulgated by the NPC Standing Committee on 11 May 1984, became effective on 1 November 1984 and was amended on 15 May 1996, 28 February 2008 and 27 June 2017, the Law on the Prevention and Control of Atmospheric Pollution of the People's Republic of China (中華人民共和國大氣污染防治法) promulgated by the NPC Standing Committee on 5 September 1987, became effective on 1 June 1988 and was amended on 29 August 1995, 29 April 2000, 29 August 2015 and 26 October 2018, the Law on the Prevention and Control of Environmental Noise Pollution of the People's Republic of China (中華人民共和國環境噪聲污染防治法) promulgated by the NPC Standing Committee on 29 October 1996, became effective on 1 March 1997, and was amended on 29 December 2018 and the Law on the Prevention and Control of Environmental Pollution Caused by Solid Wastes of the People's Republic of China (中華人民共和國固體廢物污染環境防治法) promulgated by the NPC Standing Committee on 30 October 1995, became effective on 1 April 1996 and was amended on 29 December 2004, 29 June 2013, 24 April 2015 and 7 November 2016, have made detailed provisions on the prevention and control of water pollution, atmospheric pollution, noise pollution and solid waste pollution.

APPLICABLE LAWS AND REGULATIONS

The Law on Environmental Impact Assessment of the People's Republic of China (中華人民共和國環境影響評價法) promulgated by the NPC Standing Committee on 28 October 2002, became effective on 1 September 2003 and was amended on 2 July 2016 and on 29 December 2018, the Regulations on the Administration of Environmental Protection by Construction Projects (建設項目環境保護管理條例) promulgated by the State Council on 29 November 1998, became effective on the same date and were amended on 16 July 2017, and the Interim Measures for the Administration of Environmental Protection Acceptance Inspection Upon Completion of Construction Projects (建設項目竣工環境保護驗收暫行辦法) promulgated on 20 November 2017, became effective on the same day, have stipulated that a construction unit shall prepare the environmental impact report, environmental impact reporting form or complete the environmental impact registration form according to the level of impact of the construction project on the environment. If the environment impact assessment document of a construction project has not been reviewed by the approval authority in accordance with the law or is not granted approval after review, the construction unit shall not commence construction. The construction entity shall check, monitor, and record the construction and debugging of environmental protection facilities of the construction project, and prepare the monitoring report after completion of the construction project. Upon completion of inspection and acceptance of the environmental protection facility, the construction entity may commence production and official use.

Laws and Regulations relating to labour, social insurance, and provident fund

According to the Labour Law of the People's Republic of China (中華人民共和國勞動法) promulgated by the NPC Standing Committee on 5 July 1994, became effective on 1 January 1995 and was amended on 27 August 2009 and on 29 December 2018, an employer shall establish and improve the system of rules and regulations in accordance with the law to protect the rights entitled by the labour force and to perform its labour obligations.

According to the Labour Contract Law of the People's Republic of China (中華人民共和國勞動合同法) promulgated by the NPC Standing Committee on 29 June 2007, became effective on 1 January 2008 and was amended on 28 December 2012, and the Regulation on the Implementation of the Labour Contract Law of the People's Republic of China (中華人民共和國勞動合同法實施條例) promulgated by the State Council on 18 September 2008 and became effective on the same date, labour contracts must be prepared in writing. After sufficient negotiations and after consensus has been reached, the employer and employee may enter into labour contracts with a fixed term, with a variable term or with a term of service ended on the completion of certain tasks. After sufficient negotiations and consensus has been reached or in circumstances where the statutory conditions are fulfilled, the employer may terminate the labour contracts in accordance with the law and lay off the employees. Labour contracts signed before the promulgation of the Labour Law or labour contracts that exist during the effective period of the Law shall continue to be recognised.

According to the Interim Regulations on the Collection and Payment of Social Premiums (社會保險費徵繳暫行條例) promulgated by the State Council on 22 January 1999 and became effective on the same date, the Regulations on Work-related Injury Insurance (工傷保險條例) promulgated by the State Council on 27 April 2003, became effective on 1 January 2004 and were amended on 20 December 2010, the Regulations on Unemployment Insurance (失業保險條例) promulgated by the

APPLICABLE LAWS AND REGULATIONS

State Council on 22 January 1999 and became effective on the same date, and the Interim Measures on Maternity Insurance for Corporate Employees (企業職工生育保險試行辦法) promulgated by the Ministry of Labour on 14 December 1994 and became effective on 1 January 1995, enterprises in China shall provide their employees with welfare plans including basic retirement insurance, unemployment insurance, maternity insurance, work-related injury insurance and basic medical insurance. The employer must make social insurance registration with the local social insurance agency to provide social insurance and make payments or withhold amounts for the payment of the relevant social insurance premiums for or on behalf of the employees. According to the Social Insurance Law of the People's Republic of China (中華人民共和國社會保險法) promulgated by the NPC Standing Committee on 28 October 2010, became effective on 1 July 2011, and was amended on 29 December 2018 any employer who has not social insurance registration will be ordered for rectification within a prescribed period by the administrative authority of social insurance; if no rectification has been made within the prescribed period, a fine equivalent to the outstanding amount or up to triple the outstanding amount of social insurance premiums payable will be imposed on the employer, and the directly responsible person-in-charge and other directly responsible officers will be imposed a fine between RMB500 and RMB3,000. If the employer has not contributed social insurance premiums in full amount on timely basis, the social insurance premium collection agency will demand payment or the unpaid amount within a prescribed period, and a late payment penalty equivalent to 0.05% on daily basis will be imposed with effect from the due date; if no payment is made after expiry of the prescribed period, the relevant administrative authority will impose a fine equivalent to the outstanding amount or up to triple the outstanding amount payable.

According to the Regulations on the Administration of Housing Provident Fund (住房公積金管理條例) promulgated by the State Council on 3 April 1999, became effective on the same date and were amended on 24 March 2002 and 24 March 2019, the contributions made by an individual employee and his employer to the Housing Provident Fund belong to the individual employee. Employers shall make contributions timely in full amount and maintain the Housing Provident Fund, overdue amounts or insufficient payments are not allowed. Employers shall make Housing Provident Fund contribution payments to and complete registration for payment at the Housing Provident Fund Administration Centre. Any company in violation of the above provisions and fail to register for Housing Provident Fund contribution payments or fail to open Housing Provident Fund accounts for employees, the Housing Provident Fund Administration Centre will order the relevant company to complete the relevant procedures within a prescribed period. If it fails to complete the registration procedures within the prescribed period, a fine of an amount between RMB10,000 and RMB50,000 will be imposed. If a company has violated these provisions and fails to make full payment for contributions to the Housing Provident Fund before expiry of the deadline, the Housing Provident Fund Administration Centre will order such company to make payment for the amount within a prescribed period, and upon expiry of the aforesaid period, the Centre will make further application to the People's Court for enforcement action against the company that fails to abide by the regulations.

APPLICABLE LAWS AND REGULATIONS

Laws and regulations relating to intellectual property

Patent Law

According to the Patent Law of the People's Republic of China (中華人民共和國專利法) promulgated by the NPC Standing Committee on 12 March 1984, became effective on 1 April 1985 and was amended on 4 September 1992, 25 August 2000 and 27 December 2008, the State Intellectual Property Office of the People's Republic of China ("SIPO") is responsible for the administration of patents in China. The patent administrative authorities under the people's governments of provinces, autonomous regions and municipalities are responsible for the administration of patents within their own administrative regions. The patent system in China adopts the principle of "first application", which means if two or more applicants have applied for a patent of the same invention or creation, the patent will be granted to the first and earliest applicant. An application for a patent, invention or utility model must fulfil three criteria: novelty, inventiveness and practical applicability. A patent of invention has a valid period of 20 years, and the patent for utility model or design has a valid period of 10 years. Others must obtain licensing or proper authorisation from the patent holders before using the patents, otherwise an infringement on the patent right will be constituted.

Trademark Law

Trademarks are protected by the Trademark Law of the People's Republic of China (中華人民共和國商標法) ("**Trademark Law**") promulgated by the NPC Standing Committee on 23 August 1982, became effective on 1 March 1983 and was amended on 22 February 1993, 27 October 2001 and 30 August 2013, and the Regulations on the Implementation of the Trademark Law of the People's Republic of China (中華人民共和國商標法實施條例) promulgated by the State Council on 3 August 2002, became effective on 15 September 2002 and were amended on 29 April 2014. The Trademark Office under the SAIC is responsible for the registration of trademarks and a valid term of 10 years will be granted to each registered trademark. The registered holder of a trademark may apply for an extension of registration, an extended registration will have a subsequent valid term of 10 years. The registered holder of a trademark may enter into a trademark licensing agreement to allow the use of his trademark by another party. Trademark licensing agreements must be submitted to the Trademark Office for filing and record. For the purpose of trademarks, the Trademark Law of the PRC adopts the principle of "first application" for the registration of trademarks. When an application for registration is submitted in respect of a trademark, if it is the same as or similar to a trademark which has been registered or approved under initial review on the same commodity or service or similar commodity or service of others, the application for trademark registration may be refused. Any person who makes an application for trademark registration must not harm the existing priority rights of others, and shall not register in advance the trademark which has been used by others and has "certain influence".

On 23 April 2019, NPC standing Committee issued new Amendment to the Trademark Law, which will effect on 1 November 2019. According to the new Amendment, where an application for the registration of a trademark is made with malicious intent and not for the purpose of usage, the application shall be rejected and the Trademark Office can punish the applicant by giving warning or impose a fine. Furthermore, if a registered trademark is considered to be a malicious registration and not for the purpose of usage, the Trademark Office may declare that the registered trademark is invalid, and a third party may request the Trademark Review and Adjudication Board to declare that the registered trademark is invalid.

APPLICABLE LAWS AND REGULATIONS

Domain names

According to the Measures for the Administration of Internet Domain Names (互聯網域名管理辦法) promulgated by the Ministry of Industry and Information Technology of the People's Republic of China (the "MIIT") on 24 August 2017 and became effective on 1 November 2017, the MIIT implements supervision and administration on domain name services in China. The registration service for domain names implements the principle of "first application first registration", if the corresponding detailed rules for the implementation of registration of domain names have provided otherwise, such detailed rules shall prevail. An applicant for registration of domain name shall provide information for the registration of domain name such as the true, accurate and complete information on the identity of the domain name holder to the domain name registration service authority. After completion of the registration procedures, the applicant will become the holder of the relevant domain name.

TAXATION LAWS AND REGULATIONS OF THE PRC

CIT

According to the CIT Law, became effective on 1 January 2008 and was amended on 24 February 2017 and 29 December 2018, and the Regulations on the Implementation of the Enterprise Income Tax Law of the People's Republic of China (中華人民共和國企業所得稅法實施條例) (the "**CIT Law Implementation Regulations**") promulgated by the State Council on 6 December 2007, became effective on 1 January 2008 and amended on 23 April 2019, the Enterprise Income Tax rate of 25% is applicable to all domestic enterprises and foreign-invested enterprises in China and all foreign enterprises with production and operation facilities set up in China. These enterprises are classified as resident enterprises and non-resident enterprises. Enterprises which are incorporated according to the laws of foreign countries or regions with their de facto management organisation (refers to the organisation that exercises substantive and full management and control over, among other things, the production and operation, personnel, accounts and properties of the enterprise) situated in China are deemed to be resident enterprises, therefore their income sourced from within and outside China will generally be subject to enterprise income tax at the tax rate of 25%.

According to the CIT Law and its implementation regulations, the dividends distributed to investors who are non-resident enterprises (which have not established any organisation or premises in China, or although they have established organisation or premises in China, however the income obtained has no de facto connection with such organisation or premises), to the extent of being sourced from China, are subject to withholding tax of 10% in China, except for the availability of tax credit on the relevant tax under an applicable tax treaty signed between the PRC and the jurisdiction of such non-resident enterprises. Similarly, if any gains obtained by such investors from the transfer of shares are deemed to be the gains in income sourced within China, they are taxable for PRC income tax at the tax rate of 10% (or at a lower rate under tax treaty, if applicable).

APPLICABLE LAWS AND REGULATIONS

According to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) promulgated by the State Administration of Taxation of the People's Republic of China ("SAT") on 21 August 2006 and became effective on 8 December 2006, if any company which was incorporated in Hong Kong is holding an equity interest of 25% or above in a PRC company, the dividends received by it from the company incorporate in the PRC are subject to withholding tax at a lower tax rate of 5%. According to the Notice on How to Understand and Determine the "Beneficial Owners" in Tax Agreements (關於如何理解和認定稅收協定中"受益所有人"的通知) issued by the SAT on 27 October 2009 and became effective on the same date, conduit companies or shell companies without substantive business are not entitled to benefit from tax treaties, and an analysis on beneficial owner will be carried out according to the principle of "substance rather than form" to determine whether the benefit under a tax treaty will be granted.

According to the Announcement on Several Issues concerning the Enterprise Income Tax on Income from the 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) issued by the SAT on 3 February 2015, became effective on the same date and was amended on 17 October 2017 and 9 December 2017, if any non-resident enterprise transfers assets, such as the equity interest in a resident enterprise of the PRC, by carrying out an arrangement without a reasonable business purpose to avoid the obligation of paying enterprise income tax, the nature of such indirect transfer transaction should be re-determined according to the provisions of the Enterprise Income Tax Law and to be recognised as a direct transfer of assets, such as the equity interest in a resident enterprise of the PRC. The income from an indirect transfer of real property or the income from an indirect transfer of shares is taxable for enterprise income tax according to the Notice, the entity or individual that is directly responsible for payment obligations of the relevant amounts to the transferor of the equity interest under the relevant provisions of the law or contract terms shall be the party responsible for withholding and payment of tax. According to the Announcement on Issues concerning the Withholding of Enterprise Income Tax at Source on Non-Resident Enterprises (關於非居民企業所得稅源泉扣繳有關問題的公告) issued by the SAT on 17 October 2017 and became effective on 1 December 2017, the party responsible for withholding and payment of tax shall report to the competent taxation authority at the place where it is located and release the withheld amount for tax payment within 7 days from the date when the obligation of withholding and payment of tax has arisen. If the party responsible for withholding and payment of tax fails to make payment on the due date, the case should be handled according to the provisions of Section 1 in the Announcement of the State Administration of Taxation on Several Issues Concerning the Administration of Income Tax on Non-Resident Enterprises (國家稅務總局關於非居民企業所得稅管理若干問題的公告).

APPLICABLE LAWS AND REGULATIONS

VAT

According to the Interim Regulation on Value-Added Tax of the People's Republic of China (中華人民共和國增值稅暫行條例) promulgated by the State Council on 13 December 1993, became effective on 1 January 1994 and was amended on 10 November 2008, 6 February 2016 and 19 November 2017, and the Detailed Rules for the Implementation of the Interim Regulation on Value Added Tax of the People's Republic of China (中華人民共和國增值稅暫行條例實施細則) promulgated by the Ministry of Finance of the People's Republic of China on 25 December 1993, became effective on the same date and were amended on 15 December 2008 and 28 October 2011, a tax payer who sells goods, provides processing, repairs or replacement services, or imports goods shall be subject to payment of value-added tax. Unless provided otherwise, tax payers who sell or import various categories of goods are generally subject to a tax rate of 17%; tax payers who provide processing, repairs or replacement services are subject to a tax rate of 17%; while tax payers who export goods will be subject to an applicable tax rate of zero.

According to the Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates (財政部、國家稅務總局關於調整增值稅稅率的通知) promulgated on 4 April 2018 and become effective on 1 May 2018, A taxpayer who is previously subject to 17% and 11% respectively on VAT-taxable sales activities or imported goods shall have the applicable tax rates adjusted to 16% and 10% respectively. A taxpayer who is previously eligible for a deduction rate of 11% on the purchase of agricultural products shall have the applicable deduction rate adjusted to 10%. A taxpayer who purchases agricultural products to be used for production and sales or entrusted processing of goods subject to VAT at 16% shall calculate the amount of input tax according to the deduction rate of 12%. As regards exports that are previously subject to VAT of 17% and are eligible for export tax rebate of 17%, their export tax rebate shall be adjusted to 16%. As regards exports and cross-border taxable activities that are previously subject to VAT of 11% and are eligible for export tax rebate of 11%, their export tax rebate shall be adjusted to 10%.

According to the Announcement on Policies Concerning Deepening the Reform of Value-added Tax (《關於深化增值稅改革有關政策的公告》) which became effect on 1 April 2019, A taxpayer who is previously subject to 16% and 10% respectively on VAT-taxable sales activities or imported goods shall have the applicable tax rates adjusted to 13% and 9% respectively.

Furthermore, according to the Notice of the Ministry of Finance and the State Administration of Taxation on Implementing the Pilot Program of Replacing Business Tax with Value-Added Tax in an All-round Manner (關於全面推開營業稅改徵增值稅試點的通知) issued by the Ministry of Finance and the State Administration of Taxation of the People's Republic of China on 23 March 2016, became effective on 1 May 2016 and was amended on 11 July 2017 and 25 December 2017, the State will commence implementation of the pilot program of replacing business tax with value-added tax in a comprehensive manner nationwide with effect from 1 May 2016, all tax payers of business tax, including the construction industry, real estate industry, financial industry and lifestyle service industry, are included in the scope of the pilot program, they will be subject to pay for value-added tax instead of business tax.

APPLICABLE LAWS AND REGULATIONS

FOREIGN EXCHANGE LAWS AND REGULATIONS OF THE PRC

Regulation on Foreign Exchange Administration

According to the Regulation on Foreign Exchange Administration of the People's Republic of China (中華人民共和國外匯管理條例) promulgated by the State Council on 29 January 1996, became effective on 1 April 1996 and amended on 14 January 1997 and 5 August 2008, the foreign exchange income of a domestic entity or individual may be repatriated to China or deposited overseas; the conditions and deadline, among other things, for repatriation to China or deposit overseas are subject to the requirements of the foreign exchange administration authority of the State Council depending on the status of international balance of payments and the need for foreign exchange management. The foreign exchange income from current account items may be retained or sold to financial institutions operating foreign exchange settlement and sales business in accordance with the relevant national requirements. Any domestic entity or individual that engages in foreign direct investment or engages in the offshore issuance or trading of marketable securities or derivative products shall complete registration in accordance with the provisions of the foreign exchange administration authority of the State Council. If the aforesaid entity or individual is required to obtain prior approval or submit filing to the relevant competent authorities according to national requirements, then such entity or individual must submit the relevant documents for examination and approval or filing before completing the foreign exchange registration. The exchange rate of Renminbi is determined by a managed floating exchange rate system implemented according to market demand and supply.

“Circular 37”

According to the Circular of the SAFE on the Relevant Issues of Foreign Exchange Administration of Overseas Investments and Financing and Round-Trip Investments by Domestic Residents via Special Purpose Vehicles (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (“Circular 37”) issued by the State Administration of Foreign Exchange on 4 July 2014 and became effective on the same date, before a domestic resident contributes capital to a special purpose vehicle by using assets or equity interests legally owned domestically and overseas, he should complete the procedure of foreign exchange registration for overseas investment by making an application to the SAFE. If he fails to comply with the registration procedure set out in Circular 37, this may lead to a restriction on the subsequent foreign exchange activities (including the repatriation of dividends and profit) conducted by the relevant domestic resident.

According to the Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) promulgated by the SAFE on 13 February 2015 and became effective on 1 June 2015, the registration required in the above Circular 37 will be handled directly by the bank which has obtained the financial institution identification code from the SAFE and is connected to the information system for capital account items with the local office of the SAFE at the place where the bank is located, the SAFE shall exercise indirect supervision on foreign exchange registration for direct investments through the bank.

APPLICABLE LAWS AND REGULATIONS

Other laws and regulations on foreign exchange

According to the Provisions on the Administration of Foreign Exchange Settlement, Sale and Payment (結匯、售匯及付匯管理規定) promulgated by the People's Bank of China on 20 June 1996 and became effective on 1 July 1996, the foreign exchange income from current account items of foreign-invested enterprises may be retained as foreign exchange up to the maximum amount approved by the SAFE, the excess amount must be sold to a designated foreign exchange bank or sold through the foreign exchange swap centres.

According to the Notice of the State Administration of Foreign Exchange on Reforming and Regulating the Policies for the Administration of Settlement of Foreign Exchange under Capital Accounts (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) issued by the SAFE on 9 June 2016 and became effective on the same date, the foreign exchange income under capital accounts to be settled voluntarily as confirmed by the relevant policies explicitly (including foreign exchange capital amount, foreign debt amount and capital amount repatriated from overseas listing) may carry out foreign exchange settlement at banks according to the practical operating needs of the domestic entity. The amounts in Renminbi received from voluntary settlement shall be managed in an account of foreign exchange settlement pending for payment. The ratio of voluntary foreign exchange settlement for foreign exchange income under capital account items of domestic entities for the time being is 100%. The SAFE may adjust the above ratio timely according to the conditions of international balance of payments.

APPLICABLE LAWS AND REGULATIONS IN THE INDONESIA

Overview on Foreign Investment Company

Company law in Indonesia regulated based on Law number 40 of 2007 concerning limited liability company (“**Company Law**”). In general, Republic of Indonesia recognised 2 (two) main type of private limited liability company (“**Company**”) models which are:

1. General Company or *Perseroan Terbatas Biasa*, which the shareholders consist of Indonesian citizen and/or Indonesian legal entity.
2. Foreign Capital Investments Company or *Perseroan Terbatas Penanaman Modal Asing* (“**PMA Company**”), which shareholders consist of entirely foreign entity or by mutual collaboration between Indonesian entity and foreign entity.

Based on the Company Law any Company in Indonesia must have a minimum of 2 (two) shareholders, 1 (one) director and 1 (one commissioner). Director have the obligation to act as the legal representative of our Company and as the daily administrator of our Company, meanwhile commissioner shall act as the supervisory body of our Company and provide advises to the board of directors.

APPLICABLE LAWS AND REGULATIONS

Foreign direct investment

Foreign direct investment in Indonesia are regulated in Law number 25 of 2007 concerning Investment (“**Investment Law**”). There are 2 (two) ways foreign entity can enter and establish Company in Indonesia:

1. Established new PMA Company on which the shareholders must register the article of association to Indonesia Ministry of Law and Human Rights (“**MOLHR**”) for the issuance of approval from MOLHR and obtain Business Identification Number (Nomor Induk Berusaha — “**NIB**”) and Business Licensing, which consist of Business License and Commercial/Operational License from Indonesia Investment Coordinating Board (“**BKPM**”) before such PMA Company recognise and duly established in Indonesia; and
2. Enter into existing Company, on which our Company need to amend its shareholders composition in its article of association and request an approval from MOLHR and change the shareholders composition in BKPM of which BKPM shall issue amended licenses.

both ways are subject to limitation of share ownership or restriction to enter into a certain industry as stipulated in the Presidential Regulation number 44 of 2016 concerning Negative Investment List of Investment or *Daftar Negatif Investasi* (“**DNI Regulation**”).

DNI Regulation stipulate limitation and requirements in certain business sector to be involve in foreign capital, such limitation are: i) Shareholding of foreign investor; ii) Geographic limitation; iii) Minimum capital investment or project value requirements; and iv) Obligations to cooperate or partnering with local co-operatives and communities.

With regards to the establishment of PMA Company which has the line of business in seaweed processing industry, such Company is fall under Indonesian Business Field Classifications or *Klasisifikasi Baku Lapangan Usaha Indonesia* (“**KBLI**”). number 10298, this category includes seaweed processing business into processed seaweed (*alkali treated carrageenan chips*), gelatine, jelly, *karagenan* and others. As KBLI number 10298 is not restricted by DNI Regulation therefore seaweed processing industry is open to be fully owned by foreign entities.

Licensing

Hereunder are several licenses that our Company needed to conduct its business in Indonesia aside from business license that will be issued by BKPM:

a. Seaweed Certificate of Legal Origin/Sertifikat Asal Rumput Laut (“COLO”)

COLO is a certificate which indicate that the seaweed product origin and processed within the territory of Indonesia. COLO is regulated under the Minister of Sea and Fishery Regulation number 7/Permen-KP/2013 on Seaweed Certificate of Legal Origin (KKP Regulation No. 7/2013). The COLO certification is needed for export of seaweed and the purchaser county require our Company to submit COLO.

APPLICABLE LAWS AND REGULATIONS

b. Certificate of Integrated Quality Management Program Implementation/Sertifikat Penerapan Program Manajemen Mutu Terpadu (“SPPMMT”)

This license is required to obtain the SKPPI which has been mentioned above. As the given by the name, this certificate granted to a fishery processing industry business that has fulfilled and implemented the requirements of quality assurance system and fishery product safety. The same as SKPPI, SPPMMT is regulated under Government Regulation No. 57/2015. SPPMMT is valid for a one year period and could be renewed for the same span period. Fishery processing industry business must submit a request to the Minister of Sea and Fishery (or any other appointed officer) to complete the administrative requirements.

c. Building Permit/Izin Mendirikan Bangunan (“IMB”)

All kind of buildings, including factory shall obtain an IMB prior to the construction process of such factory begin, regardless what kind of purpose of such factory is. Legal basis regarding the IMB (including for factory establishment) are: Law number 28 of 2002 on Building (Law No. 28/2002) and Government Regulation number 36 of 2005 on Implementation Regulation of Law No. 28/2002 (GR No. 35/2005). Administrative requirements are as follow:

- i. Status of right over the land and/or license to utilise from the land owner (in form of written agreement);
- ii. Building ownership evidence letter issued by the local government;
- iii. IMB.

In order to obtain such IMB, a party must also submit the following documents to compliment the request submission:

- i. Proof of land ownership status over the land or proof of agreement to utilise such land (if building owner is not the owner of the land);
- ii. Data regarding the building owner;
- iii. Building technical plan.

Building technical plan as mentioned above must be made based on regency or city plan statement letter for location where the building (in this case factory) will be made that was given by the local government. License request submission to establish a building (including factory) that has fulfilled the administrative requirements and technical requirements will be approved and authorised by the regent/mayor the area.

APPLICABLE LAWS AND REGULATIONS

d. Location Permit/Izin Lokasi (“Location Permit”)

Location Permit under Indonesian law is regulated on Minister of Agrarian and Head of Land Agency number 14 of 2018 on Location Permit. Location Permit is a permit granted to a company to obtain a land which needed for the purpose of its business which also prevail as a transfer of rights permit and to utilise such land for the use of its business activity. Location Permit shall be granted to a business activity which the land purpose is in accordance with the spatial planning or *Rencana Tata Ruang Wilayah*. Location Permit is given based on consideration regarding land ownership aspect and land governance technical aspect that include right and ownership of the relevant land, area physique assessment, and land ability.

Distributions of Profits and Foreign Exchange

Distribution of Profits (Dividend)

The distribution of dividends in a Company is regulated under Company Law. Based on Article 70 of Company Law rules that a Company is required to reserve a certain amount from its net profit each year as a reserve fund if it has generated profits for at least 20% (twenty percent) of the issued and paid up share capital, and after such deduction the remaining of net profit may be distribute to shareholders as dividend subject to the decision of shareholders in GMS.

For the allocation of interim dividends which are paid before our Company’s annual earnings are determined by GMS, may be performed to the extent that (i) it is permitted under Articles of Association; (ii) our Company’s total net assets will not become less than the total subscribed and paid up capital plus the mandatory reserve, and (iii) the distribution of the interim dividends will neither cause our Company to unable to pay its obligations to its creditors, nor disrupt our Company’s operations.

The distribution of interim dividends shall be determined by a resolution of the Board of Directors after obtaining the consent of the Board of Commissioners. On the other hand, if after the financial year ends it transpires that our Company has suffered losses, then the interim dividends which are already allocated must be returned to our Company by the shareholders.

Foreign Exchange

Law number 7 of 2011 concerning Currency, Bank Indonesia Regulation number 17/3/PBI/2015 regarding the Mandatory Use of Rupiah within the Republic of Indonesia (“**PBI No.17/2015**”) and Bank Indonesia Circular Letter No. 17/11/DKSP dated 1 June 2015 regarding the Mandatory Use of Rupiah within the Territory of the Republic of Indonesia (“**BICL 17**”) have provided provisions on the Mandatory Use of Rupiah within the Territory of the Republic of Indonesia. The enactment of the regulations aims to stabilise the value of the Indonesian Rupiah and help reduce the current account deficit. PBI No.17/2015 and BICL 17 stipulated a prohibition on the use of foreign currency for all transactions in Indonesia that are for the purpose of payment, all transactions in Indonesia that are for the settlement of other obligations that must be fulfilled with money, and all other financial transactions in Indonesia.

APPLICABLE LAWS AND REGULATIONS

However, in respect of distributions of dividends in foreign exchange, it is include as the one of exemptions for mandatory use of Rupiah. Under Article 5 PBI No.17/2015 and Investment Law Article 8 paragraph 3 have provided that the distributions of dividend PMA Company to its shareholders can be made in foreign exchange.

Labour Law

Based Law number 13 year 2003 concerning Labour (“**Labour Law**”) there are 2 (two) basic types of employment relationship, which are: (i) permanent employee (indefinite period employment) which is a worker that hired for an indefinite period employment; and (ii) fixed-term employee which is a worker that hired for a certain period of time. An employer may impose a probationary period of maximum of 3 (three) months. An employee under a definite period employment cannot be employed on a trial or probationary basis.

Foreign national employee can work in Indonesia, provided that the work to be performed cannot be performed by local Indonesians, the law does not prohibit foreign nationals from performing that type of work; and the employer has obtained written permission from the relevant minister to employ the foreign national. However, Labour Law as specified under Article 46 forbids foreign employees from holding positions of authority in a human resources department. The Minister of Manpower and Transmigration issued Decree number 40 of 2012 on Restricted Positions for Foreign Employees, which lists 19 (nineteen) positions that cannot be held by foreign employees includes the position of chief executive officer.

Every employer (company) which employs no less than 10 (ten) workers is under an obligation to create a set of company regulations of which need to be ratified by the officer from ministry of manpower on behalf of the minister of manpower. However, for any employer (company) that already having collective work agreement with its labour union is exempted from this obligation.

In regards of manpower social security, employers are required to register their company and employees as participants in the manpower social security programs if (i) they employ 10 (ten) or more employees; or (ii) if the salary to any employee at least Rp.1,000,000 (one million Rupiah) or more. The social security program provides cover for occupational accident security, old age security, pension security and death security for employees in different sectors. The programs also apply to foreign employees and their family members who have worked in Indonesia for at least 6 (six) months.

APPLICABLE LAWS AND REGULATIONS

Land Ownership

Forms of Land Titles in Indonesia

Title over land in Indonesia is regulated under law number 5 of 1960 concerning Basic Agrarian (“**Agrarian Law**”). Under Agrarian Law, the government holds ultimate title to all land in Indonesia, from it the Agrarian Law further classify the title of land in 5 (five) primary land titles which derived directly from the state, which are i) Right of Ownership or *Hak Milik* (“**HM**”); ii) Right to Cultivate or *Hak Guna Usaha* (“**HGU**”); iii) Right to Build or *Hak Guna Bangunan* (“**HGB**”); iv) Right to Use or *Hak Pakai* (“**HP**”); and v) Right to Manage or *Hak Pengelolaan* (“**HPL**”). The aforementioned land title are perfected and binding when they are duly registered in the land office’s records and issued in the form of land title certificate. Each title of ownership over the land must be registration and coordinated by the National Land Agency or *Badan Pertanahan Nasional* (“**BPN**”) of which BPN shall issue the certificate of ownership over the land according to its purposes. In accordance to the Agrarian Law, a company who wish to own its own title over land and shall use the land not for plantation shall applied for HGB.

PMA Company Ownership of Land Title in Indonesia

Under the Law number 25 of 2007 concerning Investment (“**Investment Law**”) and Presidential Regulation number 44 of 2016 concerning Negative List of Investments (“**DNI Regulation**”), any foreign investor and their businesses who wish to invest in Indonesia must comply with the prevailing investment law and regulations including should there any limitation of the foreign investor to own numbers of shares in the foreign capital investment company. Any foreign investors who intends to conduct business in Indonesia shall form PMA Company.

A PMA Company shall only entitled to hold HGB and HP titles. In this matter the land title that are relevant in this case are HGB which permitting the PMA Company to purchase land and building for nearly any type of commercial or residential use. Should the PMA Company wish to own land that currently under HM title (of which can only own by Indonesian individual), PMA Company with the original owner (PMA Company with power to sell from the original owner) need to convert such HM title into an HGB so that the PMA Company can own such land.

HGB is issued for an initial period of up to 30 (thirty) years extended for a further 20 (twenty) years and re-extended for another 30 (thirty) years with the total of 80 (eighty) years. Based on Investment Law, by request from the PMA Company BPN may issue HGB for a period of 80 (eighty) years), which consists of: i) first 50 (fifty) years based on the calculation of initial term and extension term that automatically extended in advance, plus; ii) additional 30 (thirty) years renewal term. Such extension of the term need to be requested by the holder of HGB at the latest 2 (two) years before the initial term of HGB is expired.

APPLICABLE LAWS AND REGULATIONS

Environmental Law

The relevant law in relation to environmental regulation is specified in Law No.32 of 2009 on Environmental Protection and Management and its supplementary regulations (“**Environmental Law**”). In Indonesia, any Company who own factory or by view from the government will have impact on environment require to have an environmental impact analysis (Analisis Mengenai Dampak Lingkungan — “**AMDAL**”) or environmental management efforts and environment monitoring efforts (Upaya Pengelolaan Lingkungan Hidup dan Upaya Pemantauan Lingkungan Hidup — “**UKL-UPL**”).

In respect of PMA Company, the obligation to obtain the environmental license is also stated under Article 37 paragraph (2) Government Regulation No. 24 of 2018 concerning Online Single Submission Services. In order to fulfil the requirements in submitting Business License (*Izin Usaha*) for PMA Company, PMA Company is required to obtain environmental documents.

In principle, AMDAL is a study of the potential significant impact of the proposed business activity on the environment. Article 23 of the Environment Law has provides list a series of criteria for determining which activities/operations have a significant impact on the environment, which include: (a) where a change in topography occurs, (b) where the exploitation of natural resources is involved (whether renewable or non-renewable); (c) where there is a potential for pollution or environmental damage, as well the degradation of natural resources; (d) where there is a potential impact on the natural environment; man-made environment or socio-cultural environment; (e) where resource and/or nature conservation areas are affected; and (f) where the introduction of a new species of flora, fauna or microorganism is involved.

Furthermore, type of businesses and activities subject to mandatory AMDAL are stipulated in the schedule of Minister of the Environment Regulation No. 5 of 2012 concerning Types of Activities/Projects Requiring Environmental Impact Assessment. In general, businesses and activities which are subject to mandatory AMDAL including, multi-sector activities, forestry businesses, industrial businesses, energy and mineral resources business, public works activities and housing and settlement area activities.

On the other hand, UKL-UPL covers monitoring and management efforts undertaken for business activities which are not likely to have significant impact on the environment. The activities/operations are not expected to create a significant environmental impact, the enterprise must prepare UKL-UPL documents. In reality, this is not a particularly onerous requirement as standard forms are provided for this by the Environment Ministry.

The required AMDAL or UKL-UPL assessments must be completed before an environmental license can be issued. In other words, any business activities which require an AMDAL or UKL-UPL also require an environmental license.

APPLICABLE LAWS AND REGULATIONS

INTERNATIONAL SANCTIONS LAWS

US

US statutes, executive orders, and regulations impose economic sanctions against certain countries and territories, including Cuba, Crimea, Iran, Syria, and North Korea, as well as entities and individuals specifically designated for sanctions by the US and certain of their affiliates. These statutes, executive orders, and regulations, primarily administered by OFAC, generally apply to US persons (US citizens and permanent residents, entities established in the US and their non-US branch offices, any individual located in the territory of the US, and, in the case of Cuba and Iran sanctions, any entity owned or controlled by the foregoing), activities conducted in whole or in part in the US, and activities otherwise subject to US jurisdiction because of a direct or indirect connection to US persons, goods or services. Persons acting within US jurisdiction are prohibited from engaging in most direct or indirect commercial activities or transactions with the Sanctioned Countries and sanctioned persons (including individuals or entities) or evading, avoiding or conspiring to evade or avoid those prohibitions, and US persons are also prohibited from facilitating such activities or transactions. In some cases, particularly with regard to certain sector-based sanctions against designated entities in the Russian financial, energy, and military industries, restrictions that are more limited than a complete ban on all dealings may be imposed. US sanctions and related export control laws and regulations also restrict the export and re-export of most US-origin items from the US or third countries to Cuba, Crimea, Sudan, Iran, Syria, and North Korea.

US statutes, executive orders, and regulations may also target the activities of non-US companies engaged in dealings outside US jurisdiction with US-sanctioned persons in certain sectors or with respect to certain activities. These so-called “secondary” sanctions primarily target Iran and were substantially narrowed following the 2015 Joint Comprehensive Plan of Action (“JCPOA”) providing sanctions relief in return for restrictions on Iran’s nuclear program. In May, 2018, President Trump announced the United States’ withdrawal from the JCPOA. The US has now reauthorised a secondary sanctions regime targeting Iran that is similar to the secondary sanctions regime it had in place before the JCPOA was implemented. Secondary sanctions programmes also target certain activities related to Cuba, North Korea, Ukraine/Russia and Syria. Moreover, substantially all US sanctions programmes provide authority to impose sanctions on persons providing material support to persons sanctioned under the program.

A number of the US states have laws or policies targeting companies with specified operations in certain Sanctioned Countries, generally Iran and/or Sudan. These laws generally require that government-controlled funds (such as pension or university endowments) divest from or do not invest in companies that are identified as doing business with one or more Sanctioned Countries.

EU

The EU also imposes economic sanctions against listed persons and entities, and certain countries which include, but are not limited to, Iran, and Russia. EU sanctions typically are not territory-wide, with limited exceptions (such as Crimea), and focus instead on restrictions on dealings in certain industrial sectors, trade in certain goods and services, arms and related technology embargoes, asset freezes, and prohibitions on making funds or economic resources available, directly or indirectly, to or for the benefit of designated individuals and entities. EU sanctions may further

APPLICABLE LAWS AND REGULATIONS

prohibit provision of technical assistance, brokering services and/or financing or financial assistance in support of certain prohibited activities. EU sanctions apply: (i) within the territory of the EU, including its airspace; (ii) on board any aircraft or any vessel under the jurisdiction of an EU member state; (iii) to any person inside or outside the territory of the EU who is a national of a member state; (iv) to any legal person, entity or body, inside or outside the territory of the EU, which is incorporated or constituted under the law of a member state; and (v) to any legal person, entity or body in respect of any business done in whole or in part within the EU. Persons and entities to whom EU sanctions apply are referred to hereafter as “EU Persons.” EU sanctions are implemented through EU regulations, which are directly applicable in the 28 member states of the EU, and do not require further implementing legislation. Under the EU sanctions regime, certain activities are either prohibited or require approval from the competent authority of an EU member state. EU sanctions also contain wide anti-circumvention provisions, which prohibit EU Persons from taking steps knowingly and intentionally to circumvent prohibitions.

Although EU regulations are directly applicable, each member state sets the penalties for breaches of EU sanctions, generally by way of national legislation. In some member states of the EU, national legislation creates criminal offences and may further elaborate on activities which will be regarded as being contrary to the EU regulations. In the UK, for example, it is generally considered a criminal offence not only to circumvent prohibitions in the EU regulations, but also to “enable” or “facilitate” a contravention. Accordingly, if EU sanctions apply to a party subject to UK jurisdiction, then the approach to risk will be informed by these provisions.

In order to fully assess EU sanctions risk, it is necessary to consider the effect of EU regulations, the domestic legislation in each EU member state governing penalties for breaches of EU sanctions, and any applicable member state national legislation which may be engaged by the particular circumstances of a proposed investment.

As part of the JCPOA, the majority of EU nuclear-related sanctions targeting Iran have been suspended, though they may be re-imposed should the JCPOA be breached, unless all five permanent members of the UN Security Council agree to the contrary. Should a snap-back occur, the scope of the reimposed EU sanctions would be determined at the time. Despite the easing of EU’s nuclear-related sanctions targeting Iran, a number of human rights-related sanctions will remain in force. These sanctions include asset freezes directed at specified persons engaged in human rights abuses and restrictions on the supply of items that might be used in internal repression.

Australia

In Australia, sanctions laws are implemented through two related regimes: the United Nations Security Council (“UNSC”) sanctions regimes (“**UN sanctions**”) and Australian autonomous sanctions regimes (“**autonomous sanctions**”). The relevant Australian legislation which underpins the sanctions are as follows: (a) UN sanctions are implemented primarily under the Charter of the United Nations Act 1945 (Cth) and its set of regulations; and (b) autonomous sanctions are implemented primarily under the Autonomous Sanctions Act 2011 (Cth) and the Autonomous Sanctions Regulations 2011 (Cth) (“**Australian Sanctions Laws**”).

APPLICABLE LAWS AND REGULATIONS

The autonomous sanctions regimes can either operate separate to or in addition to the UNSC sanctions regimes. For example both the UN sanctions and Australian autonomous sanctions apply to Iran, whereas only the UN sanctions apply to Iraq and Lebanon. Only autonomous sanctions apply to Russia, Ukraine and the former Federal Republic of Yugoslavia (which includes the present day nation of Bosnia and Herzegovina). There are also autonomous sanctions in place in relation to Crimea and Sevastopol.

Australian sanctions have extraterritorial reach and apply to: (a) Australian citizens; (b) persons incorporated in Australia and persons controlled by a person incorporated in Australia; (c) persons located in Australia; (d) activities conducted in or through Australia; and (e) conduct that occurs wholly outside Australia by a non-Australian person or entity where a result of the conduct occurs wholly or partially within Australia and the country in which the conduct took place has a law that creates an offence that corresponds to the Australian offence.

Breaches of Australian Sanctions Laws are strict liability criminal offenses. It is possible to obtain a “sanctions permit” authorising otherwise restricted or prohibited activities, although an application must be made to the Minister for Foreign Affairs.

There are differences between the sanctions regimes implemented for each Sanctioned Country, however generally, Australian Sanctions Laws prohibit the following:

- (a) the export or supply of goods, such as direct or indirect supply of “export sanctioned goods.” What constitutes export sanctioned goods depends on the relevant Sanctioned Country, for example in relation to Iran this includes arms or related material, graphite, raw and semi-finished metals, nuclear related goods and software for integrating industrial processes;
- (b) the export or provision of services that assist with the supply, sale, production, maintenance, use or transfer of “export sanctioned goods”;
- (c) procuring the import of certain goods from a Sanctioned Country or from a person or entity in a Sanctioned Country;
- (d) certain commercial activities, for example in relation to Iran selling or otherwise making available an interest involving uranium mining or production, nuclear materials or technology or arms and related materials (including ballistic missiles);
- (e) the use or dealing with an asset (“asset” is defined broadly to include intangible, tangible, movable or immovable property) owned or controlled by, or acting on behalf of or at the direction of a person listed on the Consolidated List maintained by the Department of Foreign Affairs and Trade; and
- (f) certain “declared person(s)” from travelling to, entering or remaining in Australia (unless prohibition waived).

APPLICABLE LAWS AND REGULATIONS

UN

UN sanctions are binding on UN member states, the domestic laws of which will determine whether further action, such as domestic legislation, is needed to impose their requirements on private parties. Accordingly, the means of implementation, the interpretation and enforcement of UN sanctions may differ among UN member states. There is no UN enforcement authority, and UN sanctions are not directly binding on private actors (though they are likely to be implemented through the laws of one or more nations with jurisdiction). In other words, UN sanctions are a source of national sanctions programmes, but they do not impose any additional direct obligations to those that obtain under national law.

HISTORY, DEVELOPMENT, AND REORGANISATION

OVERVIEW

Our business can be traced back to the establishment of Lvbao (Quanzhou) by Mr. CHAN Shui Yip and Mr. CHAN Kam Chung in May 2001 for the production of carrageenan products. The business continued to grow, and Greenfresh (Fujian) was subsequently established in November 2007 with additional production facilities for carrageenan products. In April 2012, Mr. GUO Wentong, Mr. GUO Dongxu, Mr. GUO Yuansuo, and Mr. GUO Donghuang established Lvqi (Fujian) for the commencement of commercial production of agar-agar products and carrageenan products.

In December 2012, the two principal businesses, i.e. the production and sales of carrageenan products and agar-agar products conducted by Greenfresh (Fujian) (including Lvbao (Quanzhou)) and Lvqi (Fujian), were combined. This business combination was an important corporate event for us, pursuant to which the corporate structure of our Group was gradually established and that resources were allocated to establish different business functions of our Group for the purpose of our business growth and development. Further information on the development of our business is set forth in the section headed “Financial Information — Summary of our business development prior to the Track Record Period” in this prospectus.

As of the date of this prospectus, we have four production plants in the PRC, namely Greenfresh (Fujian) Production Plant, Lvqi (Fujian) Production Plant, Lvbao (Quanzhou) Production Plant, and Shiyanhaiyi Production Plant in Fujian Province and Hubei Province, the PRC. As of the date of this prospectus, each of these production facilities has its own production and warehousing facilities and is dedicated for the production of different types of seaweed-based and plant-based hydrocolloid products.

HISTORY, DEVELOPMENT, AND REORGANISATION

BUSINESS MILESTONES

The following sets forth the key business milestones since the inception of our business:

<u>Month/Year</u>	<u>Business milestones</u>
May 2001	Lvbao (Quanzhou) commenced commercial production of carrageenan products.
July 2001	Lvbao (Quanzhou) commenced commercial production of blended products based on the carrageenan products.
November 2003	Our production facilities owned and operated by Lvbao (Quanzhou) were first accredited with ISO 9001.
November 2007	Greenfresh (Fujian) was established by Greenwich (China) for the commercial production of carrageenan products.
November 2010	Our production facilities owned and operated by Greenfresh (Fujian) were first accredited with ISO 22000.
April 2012	Mr. GUO Wentong, Mr. GUO Dongxu, Mr. GUO Yuansuo, and Mr. GUO Donghuang established Lvqi (Fujian) for the commencement of commercial production of agar-agar products and carrageenan products.
December 2012	<p>Mr. CHAN Kam Chung and Mr. CHAN Shui Yip agreed with Mr. GUO Wentong, Mr. GUO Dongxu, Mr. GUO Yuansuo, and Mr. GUO Donghuang on the combination of their respective businesses, i.e. Greenfresh (Fujian) and Lvqi (Fujian), by way of creating a holding company for the companies focusing on the production and sales of both agar-agar products and carrageenan products. Greenfresh (Fujian) was focused on the production of carrageenan products, whereas Lvqi (Fujian) was specialised in the production of agar-agar products. The combination of the respective production expertise and experience enhanced our product offerings of hydrocolloid products and provide synergy for the development and expansion of business.</p> <p>As a result of the business combination, the companies engaging in the business of production and sales of agar-agar products and carrageenan products previously owned by Mr. CHAN Kam Chung and Mr. CHAN Shui Yip, and Mr. GUO Wentong, Mr. GUO Dongxu, Mr. GUO Yuansuo, and Mr. GUO Donghuang, namely Greenfresh (Fujian) and Lvqi (Fujian), respectively, have become members of our Group.</p>
January 2013	Greenwich (China) and Xindecheng held 55.0% and 45% of the equity interest in Greenfresh (Fujian), respectively. Greenfresh (Fujian) has become the holding company of Lvqi (Fujian). Xindecheng was owned by Mr. GUO Wentong, Mr. GUO Dongxu, Mr. GUO Shitan, and Mr. GUO Donghuang.

HISTORY, DEVELOPMENT, AND REORGANISATION

<u>Month/Year</u>	<u>Business milestones</u>
October 2013	Shiyanghaiyi commenced commercial production of konjac products.
November 2013	Our production facilities owned and operated by Greenfresh (Fujian) were first accredited with HALAL.
March 2014	Our production facilities owned and operated by Greenfresh (Fujian) were first accredited with KOSHER.
January 2015	Our seaweed cultivation base situated at Donghaiwan, Longhai City, Fujian Province, commenced commercial operations.
November 2015	Our production facilities owned and operated by Greenfresh (Fujian) were first accredited with BRC.
January 2016	Lvqi (Fujian) commenced commercial production of quick-dissolve agar-agar products.
August 2016	Greenfresh (Fujian) commenced commercial production of agarose.
November 2016	Our production facilities owned and operated by Lvqi (Fujian) were first accredited with FSSC 22000.
February 2017	Greenfresh (Fujian) was awarded the “Award for Contribution to Longhai Economic Development for 2016” (龍海市2016年度經濟建設貢獻獎) by the Longhai Municipal Committee of Communist Party and Longhai Municipal Government of the PRC (中共龍海市委龍海市人民政府).
March 2017	Greenfresh (Fujian) and Lvqi (Fujian) were each awarded the “Leading Enterprise of Carrageenan Production in Fujian Province” (2016-2019) (福建省卡拉膠生產標杆企業 (2016-2019)) and the “Leading Enterprise of Agar-Agar Production in Fujian Province” (2016-2019) (福建省瓊膠生產標杆企業(2016-2019)) by Fujian Food Industry Association (福建省食品工業協會).
February 2018	Lvqi (Shanghai) was established for the purpose of conducting the trading business of our quick-dissolve agar-agar products.
March 2018	We launched a series of our blended products, including soft candy powder (eliminating the drying procedures), soft candy powder for starch moulds, high acid-assistant soft candy powder for fruit pulp, high acid-assistant jelly powder, and blended products for vegetarian food at the trade exhibition (Food Ingredients China).

HISTORY, DEVELOPMENT, AND REORGANISATION

<u>Month/Year</u>	<u>Business milestones</u>
September 2018	The research project on the processing technology of red edible seaweed jointly initiated by Greenfresh (Fujian), Lvqi (Fujian), and Jimei University (集美大學) has been accepted by the Ministry of Agricultural and Rural Affairs of the PRC to be added to the list of national-standard agricultural product processing technology research and development centres (國家農產品加工技術研發中心) in the PRC.
March 2019	Greenfresh (Fujian) was appointed as the president of the first session of China Algae Industry Association Carrageenan Branch (中國藻業協會紅藻膠分會), an industry organisation for leveraging the strengths and promoting the sustainable development of the carrageenan industry in the PRC.
June 2019	Our production line of 1,500 tonnes of quick-dissolve agar-agar products at Workshop No. 5 of Lvqi (Fujian) Production Plant commenced commercial production.

Further information on our performance during the four years ended 31 December 2015 is set forth in the section headed “Financial Information — Summary of our business development prior to the Track Record Period” of this prospectus.

OUR CORPORATE HISTORY

As of the Latest Practicable Date, our Group comprised our Company and 14 subsidiaries established in the BVI, Hong Kong, Indonesia, and the PRC. Unless otherwise indicated, members of our Group commenced business from the respective dates of their incorporation.

Our Company

Our Company was incorporated in the Cayman Islands under the Companies Law with limited liability on 3 July 2015. See the paragraphs under “A. Further Information about our Group — 2. Changes in our share capital” in Appendix V to this prospectus. Our Company has not carried on any business activities. For the purpose of the Listing, our Company has become the holding company of our Group upon completion of the Reorganisation.

Our subsidiaries

The following sets forth the corporate history of members of our Group.

Non-PRC subsidiaries

(a) Wealth Creation

On 22 July 2015, Wealth Creation was incorporated in the BVI with one fully-paid share, representing the entire issued share capital of Wealth Creation, being allotted and issued to our Company on 28 July 2015. Wealth Creation is authorised to issue a maximum of 50,000 shares of a single class with a par value of US\$1.0 each.

HISTORY, DEVELOPMENT, AND REORGANISATION

Since 28 July 2015, Wealth Creation is a wholly-owned subsidiary of our Company and an intermediate holding company of our Group.

(b) Keen Field

On 22 July 2015, Keen Field was incorporated in the BVI with one fully-paid share, representing the entire issued share capital of Keen Field, was allotted and issued to our Company on 28 July 2015. Keen Field is authorised to issue a maximum of 50,000 shares of a single class with a par value of US\$1.0 each.

Since 28 July 2015, Keen Field is a wholly-owned subsidiary of our Company and is an intermediate holding company of our Group.

(c) Green Source

On 20 July 2015, Green Source was incorporated in the BVI with one fully-paid share of US\$1, representing the entire issued share capital of Green Source, was allotted and issued to our Company on 28 July 2015. Green Source is authorised to issue a maximum of 50,000 shares of a single class with a par value of US\$1.0 each.

On 30 December 2016, Green Source allotted and issued two shares of US\$1 each to our Company in consideration of the transfers of all the issued share capital of Greenwich (China) by Mr. CHAN Kam Chung and Mr. CHAN Shui Yip, respectively, to Green Source.

Since 28 July 2015, Green Source is a wholly-owned subsidiary of our Company and is an intermediate holding company of our Group.

(d) Green Fresh (HK)

On 19 June 2013, Greenfresh (Fujian) incorporated Green Fresh (HK) in Hong Kong with 10,000 shares of HK\$1.0 each, representing the entire issued share capital of Green Fresh (HK) allotted and issued to Greenfresh (Fujian).

On 16 May 2016, Greenfresh (Fujian) transferred all the issued shares in Green Fresh (HK) to Wealth Creation for a nominal consideration of HK\$1.0 as part of the Reorganisation. Since then, Green Fresh (HK) has been wholly-owned by Wealth Creation.

(e) Greenwich (China)

On 3 September 2007, Ms. LI Shun Ching Louisa, the spouse of Mr. CHAN Kam Chung, established Greenwich (China) in Hong Kong with 10,000 shares of HK\$1.0 each, representing the entire issued share capital of Greenwich (China), allotted and issued to Ms. LI Shun Ching Louisa. Ms. LI Shun Ching Louisa was acting upon the instructions of Mr. CHAN Kam Chung as he was travelling for business from time to time.

HISTORY, DEVELOPMENT, AND REORGANISATION

On 1 April 2010, Ms. LI Shun Ching Louisa transferred 5,000 shares, representing 50% of the entire issued share capital of Greenwich (China) to each of Mr. CHAN Kam Chung and Mr. CHAN Shui Yip for a consideration of HK\$5,000, which was determined with reference to the par value of the shares transferred.

On 30 December 2016, each of Mr. CHAN Kam Chung and Mr. CHAN Shui Yip transferred 5,000 shares, each representing 50.0% of the entire issued share capital of Greenwich (China), to Green Source. In consideration of these transfers, Green Source allotted and issued an aggregate of two shares of US\$1.0 each to our Company. Since then, Greenwich (China) has been wholly-owned by Green Source.

(f) Lubao (HK)

On 11 August 2015, Lubao (HK) was incorporated by Keen Field in Hong Kong and one share of HK\$1.0 was allotted and issued to Keen Field. Since its incorporation, Lubao (HK) has been wholly-owned by Keen Field. Lubao (HK) is an indirect wholly-owned subsidiary of our Company.

(g) Greenfresh (Indonesia)

On 12 August 2016, Greenfresh (Indonesia) was incorporated with an issued share capital of US\$1,200,000, of which 120 shares and 11,880 shares were allotted and issued to Wealth Creation and Green Fresh (HK), respectively.

PRC subsidiaries

(a) Greenfresh (Fujian)

On 8 November 2007, Greenfresh (Fujian) was established in the PRC as a company with limited liability and had an initial registered capital of US\$5,180,000, all of which was contributed by Greenwich (China).

On 21 December 2012, Greenwich (China) entered into an equity transfer agreement with Xindecheng pursuant to which Greenwich (China) agreed to transfer 45.0% equity interest in Greenfresh (Fujian) to Xindecheng for the consideration of RMB16,220,885.7. The amount of consideration was based on the amount of equity interest contributed by Greenwich (China) to Greenfresh (Fujian). All approvals by the relevant PRC authorities in respect of the said transfer have been obtained on 16 January 2013.

On 20 July 2015, Xindecheng entered into an equity transfer agreement with Greenwich (China) pursuant to which Xindecheng agreed to transfer 45.0% equity interest in Greenfresh (Fujian) to Greenwich (China) for the consideration of US\$2,331,000. The amount of consideration was based on the historical cost incurred by Xindecheng for the equity interest in Greenfresh (Fujian). All approvals by the relevant PRC authorities regarding the said transfer have been obtained on 25 August 2015. Since then, Greenfresh (Fujian) has been wholly-owned by Greenwich (China).

HISTORY, DEVELOPMENT, AND REORGANISATION

On 5 January 2016, the registered capital of Greenfresh (Fujian) was increased from US\$5,180,000 to US\$9,180,000, with all the increased capital contributed by Greenwich (China).

On 24 January 2017, the registered capital of Greenfresh (Fujian) was increased from US\$9,180,000 to US\$13,380,000, with all the increased capital contributed by Greenwich (China).

The principal business activities of Greenfresh (Fujian) are production and sale of carrageenan and agar-agar products and their blended products.

(b) Lvbao (Quanzhou)

On 14 May 1999, Lvbao (Quanzhou) was established in the PRC as a company with limited liability and had an initial registered capital of HK\$16,880,000, all of which was contributed by Long Green Development Company (“**Long Green**”), which is a proprietorship firm registered in Hong Kong and the sole proprietor is Mr. CHAN Kam Chung. Mr. CHAN Kam Chung confirmed and acknowledged that Long Green, as the investor of Lvbao (Quanzhou), was beneficially owned by Mr. CHAN Kam Chung and Mr. CHAN Shui Yip in equal shares as the amount contributed by Long Green to Lvbao (Quanzhou) was provided by Mr. CHAN Kam Chung and Mr. CHAN Shui Yip in equal shares. Mr. CHAN Kam Chung and Mr. CHAN Shui Yip are siblings.

On 13 May 2003, the registered capital of Lvbao (Quanzhou) was increased from HK\$16,880,000 to HK\$26,880,000, the entire amount of which was contributed by Long Green.

On 20 October 2016, Mr. CHAN Kam Chung as the sole proprietor of Long Green entered into a business sale and purchase agreement with Lubao (HK), pursuant to which Mr. CHAN Kam Chung agreed to transfer all business and undertakings of Long Green (including those of Lvbao (Quanzhou)) to Lubao (HK) for total cash consideration of HK\$10,000. The consideration was nominal consideration as the business and undertakings of Lvbao (Quanzhou) should have been part of our Group. All approvals by the relevant PRC authorities regarding the transfer have been granted on 9 December 2016. Since then, Lvbao (Quanzhou) has been wholly-owned by Lubao (HK).

The principal business activities of Lvbao (Quanzhou) are production and sales of carrageenan.

(c) Lvqi (Fujian)

On 18 March 2009, Lvqi (Fujian) was established in the PRC as a company with limited liability and had an initial registered capital of RMB10,000,000, which was owned as to 35.0% by Mr. GUO Wentong (father of Mr. GUO Songsen), 25.0% by Mr. GUO Dongxu, 25% by Mr. GUO Yuansuo, and 15% by Mr. GUO Donghuang.

On 26 November 2012, each of Mr. GUO Wentong, Mr. GUO Dongxu, Mr. GUO Yuansuo, and Mr. GUO Donghuang entered into an equity transfer agreement with Greenfresh (Fujian) pursuant to which each of Mr. GUO Wentong, Mr. GUO Dongxu, Mr. GUO Yuansuo, and Mr. GUO Donghuang agreed to transfer their respective equity interest in Lvqi (Fujian) to Greenfresh (Fujian) for cash consideration of RMB3,500,000, RMB2,500,000, RMB2,500,000, and RMB1,500,000, respectively. The amount of consideration was based on the historical cost incurred by Mr. GUO Wentong, Mr.

HISTORY, DEVELOPMENT, AND REORGANISATION

GUO Dongxu, Mr. GUO Yuansuo, and Mr. GUO Donghuang for the equity interest in Lvqi (Fujian). All approvals by the relevant PRC authorities regarding the equity transfer have been granted on 12 December 2012. Since then, Lvqi (Fujian) has been a wholly-owned subsidiary by Greenfresh (Fujian).

The principal business activities of Lvqi (Fujian) are production and sales of agar-agar products.

(d) Donghaiwan

On 16 July 2012, Donghaiwan was established in the PRC as a company with limited liability and had an initial registered capital of RMB1,000,000, which was owned as to 60.0% by Mr. CHEN Congsheng and 40.0% by Mr. LIU Shuiwen. Both Mr. CHEN Congsheng and Mr. LIU Shuiwen are Independent Third Parties.

On 11 September 2014, Mr. CHEN Congsheng and Mr. LIU Shuiwen entered into an equity transfer agreement with Greenfresh (Fujian) pursuant to which Mr. CHEN Congsheng and Mr. LIU Shuiwen agreed to transfer all the equity interest in Donghaiwan to Greenfresh (Fujian) for an aggregate cash consideration of RMB1.0 million. On the same date, all approvals by the relevant PRC authorities regarding the equity transfer have been obtained. Since then, Donghaiwan has been wholly-owned by Greenfresh (Fujian). The paid-in capital of Donghaiwan is RMB4,240,000.

The principal business activities of Donghaiwan are seaweed breeding and seaweed cultivation in Donghaiwan, Longhai City, Fujian Province.

(e) Shiyanhaiyi

On 7 September 2012, Shiyanhaiyi was established in the PRC as a company with limited liability and had an initial registered capital of RMB1,000,000, which was owned as to 95.0% by Mr. XU Yangxin and 5.0% by Ms. WANG Lan. Both Mr. XU Yangxin and Ms. WANG Lan are Independent Third Parties.

On 18 December 2012, Ms. WANG Lan entered into an equity transfer agreement with Mr. XU Yangxin pursuant to which Ms. WANG Lan agreed to transfer 5.0% equity interest in Shiyanhaiyi to Mr. XU Yangxin for cash consideration of RMB50,000. On the same date, the registered capital of Shiyanhaiyi was increased by RMB9,000,000, of which RMB6,000,000 was contributed by Greenfresh (Fujian), RMB2,300,000 was contributed by Mr. XU Yangxin and RMB700,000 was contributed by Mr. SU Shikun, an Independent Third Party. Approval by the relevant PRC authority on the equity transfer and increase in registered share capital was obtained on 27 December 2012.

On 13 June 2013, the registered capital of Shiyanhaiyi was increased from RMB10,000,000 to RMB20,000,000, which was contributed by the then shareholders in proportion to their then respective equity interest in Shiyanhaiyi.

HISTORY, DEVELOPMENT, AND REORGANISATION

On 15 July 2014, Mr. SU Shikun entered into an equity transfer agreement with Greenfresh (Fujian) pursuant to which Mr. SU Shikun agreed to transfer 7.0% equity interest in Shiyanhaiyi to Greenfresh (Fujian) for the consideration of RMB1,400,000. The amount of consideration was based on the historical cost incurred by Mr. SU Shikun for his equity interest in Shiyanhaiyi. Approval by the relevant PRC authority on the equity transfer was obtained on 31 July 2014. Immediately upon completion of the equity transfer, Shiyanhaiyi was owned as to 67.0% by Greenfresh (Fujian) and 33.0% by Mr. Xu Yangxin.

On 13 August 2014, Greenfresh (Fujian) and Mr. XU Yangxin entered into an equity transfer agreement with Mr. SHI Jijin, an Independent Third Party, pursuant to which each of Greenfresh (Fujian) and Mr. XU Yangxin transferred 7% and 3% equity interest in Shiyanhaiyi, respectively, to Mr. SHI Jijin for the consideration of RMB1,400,000 and RMB600,000, respectively, which were determined with reference to the respectively paid up registered capital. Approval by the relevant PRC authority on the equity transfer was obtained on 22 September 2014. Immediately upon completion of the said transfer, Shiyanhaiyi was owned as to 60.0% by Greenfresh (Fujian), 30.0% by Mr. XU Yangxin and 10.0% by Mr. SHI Jijin, one of the Grantees.

On 28 October 2014, Greenfresh (Fujian) entered into an equity transfer agreement with Mr. XU Yangxin pursuant to which Greenfresh (Fujian) agreed to acquire 30.0% equity interest in Shiyanhaiyi from Mr. XU Yangxin for cash consideration of RMB6,000,000. The amount of consideration was based on the historical cost incurred by Mr. XU Yangxin for his equity interest in Shiyanhaiyi. Approval by the relevant PRC authority on the equity transfer was obtained on 17 November 2014.

On 28 September 2015, Greenfresh (Fujian) entered into an equity transfer agreement with Mr. SHI Jijin pursuant to which Greenfresh (Fujian) agreed to acquire 10.0% equity interest in Shiyanhaiyi from Mr. SHI Jijin for cash consideration of RMB2,000,000. The amount of consideration was based on the historical cost incurred by Mr. SHI Jijin for his equity interest in Shiyanhaiyi. Approval by the relevant PRC authority on the equity transfer was obtained on 19 October 2015. Since then, Shiyanhaiyi has been wholly-owned by Greenfresh (Fujian).

The principal business activities of Shiyanhaiyi are production and sales of konjac powder.

(f) Lvqi (Xiamen)

On 4 June 2013, Lvqi (Xiamen) was established in the PRC as a company with limited liability and had an initial registered capital of RMB3,000,000, which was owned as to 95.0% by Ms. CAO Hongxia and 5.0% by Mr. CHEN Yuanwang. Both Ms. CAO Hongxia and Mr. CHEN Yuanwang are Independent Third Parties.

On 6 May 2014, Ms. CAO Hongxia transferred 40.0% and Mr. CHEN Yuanwang transferred 5.0% equity interest in Lvqi (Xiamen) to Mr. WU Hongtan, an Independent Third Party, for cash consideration of RMB1,200,000 and RMB150,000, respectively. On 14 May 2014, the registered capital of Lvqi (Xiamen) was increased by RMB47,000,000, of which RMB25,850,000 was required to be contributed by Ms. CAO Hongxia and RMB21,150,000 was required to be contributed by Mr. WU Hongtan.

HISTORY, DEVELOPMENT, AND REORGANISATION

On 11 April 2017, the registered capital of Lvqi (Xiamen) was reduced from RMB50,000,000 to RMB5,000,000 in proportion to their then respective equity interest in Lvqi (Xiamen). Hence, Lvqi (Xiamen) was owned by Mr. CAO Hongxia as to 55.0% and Mr. WU Hongtan as to 45.0%

On 17 May 2017, Greenfresh (Fujian) entered into an equity transfer agreement with each of Ms. CAO Hongxia and Mr. WU Hongtan pursuant to which Greenfresh (Fujian) agreed to acquire from Ms. CAO Hongxia and Mr. WU Hongtan, 55.0% and 45.0% equity interest in Lvqi (Xiamen), respectively, for cash consideration of RMB2,750,000 and RMB2,250,000, respectively. The amount of consideration was based on the historical cost incurred by Ms. CAO Hongxia and Mr. WU Hongtan for their equity interest in Lvqi (Xiamen). Approval by the relevant PRC authority on the equity transfer was obtained on 19 May 2017. Since then, Lvqi (Xiamen) has been wholly-owned by Greenfresh (Fujian).

The principal business activities of Lvqi (Xiamen) are research and development activities on agar-agar, carrageenan, konjac products, and their blended products.

(g) Lvqi (Shanghai)

On 9 February 2018, Lvqi (Shanghai) was established by Greenfresh (Fujian) as to 61.0%, Shanghai Quanyue Investment Management Limited as to 35.0% and Mr. FENG Shifei as to 4.0% with the registered capital of RMB10.0 million. Shanghai Quanyue Investment Management Limited and Mr. FENG Shifei were Independent Third Parties before the establishment of Lvqi (Shanghai), and Lvqi (Shanghai) is a non-wholly-owned subsidiary of our Company.

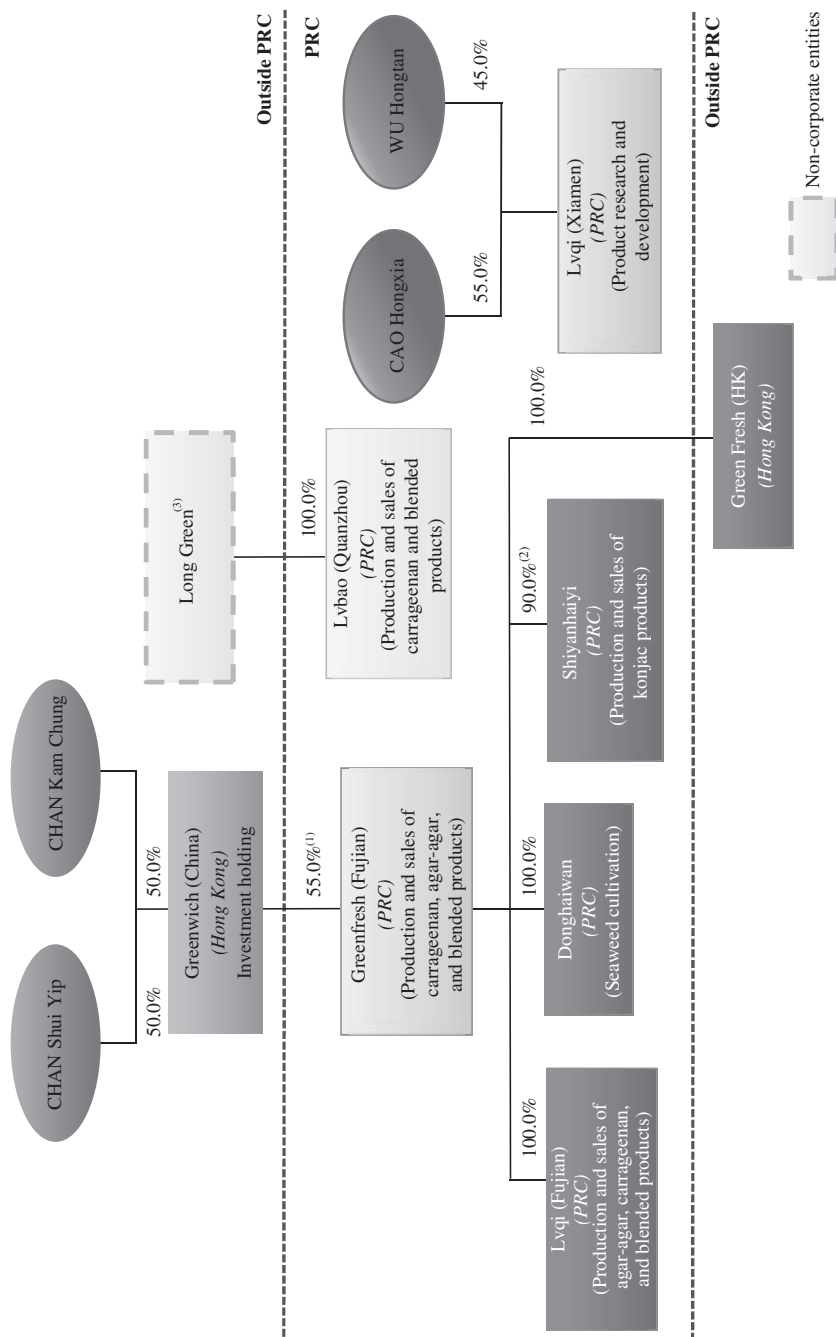
The principal business activities of Lvqi (Shanghai) are trading of food additives and feed additives.

Basis upon which our Controlling Shareholders collectively control our business

Our Controlling Shareholders include Mr. CHAN Kam Chung, Mr. CHAN Shui Yip, Mr. GUO Songsen, Mr. GUO Dongxu, Mr. GUO Yuansuo, Mr. GUO Donghuang, and their respective investment holding companies established as part of the Reorganisation. Mr. CHAN Kam Chung and Mr. CHAN Shui Yip, who are siblings, beneficially owned Lvbao (Quanzhou) in equal shares. Lvbao (Quanzhou) was engaged in the production and sales of carrageenan products. In November 2012, Mr. CHAN Kam Chung and Mr. CHAN Shui Yip entered into an equity transfer agreement with Mr. GUO Wentong (father of Mr. GUO Songsen), Mr. GUO Dongxu, Mr. GUO Yuansuo, and Mr. GUO Donghuang to combine the businesses then carried on by Lvbao (Quanzhou), Greenfresh (Fujian) and its subsidiaries, and Lvqi (Fujian). The business combination took effect in November 2012 and on this basis, Lvbao (Quanzhou) was regarded as part of the business carried out by our Group and has been operated and under the collective control of our Controlling Shareholders since November 2012.

REORGANISATION

The following diagram illustrates our shareholding and corporate structure before the Reorganisation:



Notes:

- (1) The remaining 45.0% was held by Xindecheng which was owned as to 35.0% by Mr. GUO Wentong (father of Mr. GUO Songsen), 25.0% by Mr. GUO Shitan (father of Mr. GUO Yuansuo), 25.0% by Mr. GUO Dongxu, and 15.0% by Mr. GUO Donghuang. Xindecheng was de-registered on 28 July 2017.
- (2) Mr. SHI Jijin held the remaining 10.0% of the equity interest in Shiyanhaiyi. Mr. SHI is one of the Grantees.
- (3) Long Green was a proprietorship firm registered in Hong Kong and the sole proprietor was Mr. CHAN Kam Chung, an executive Director. Mr. CHAN Kam Chung acknowledged that Long Green as the investor of Lybao (Quanzhou) was beneficially owned by Mr. CHAN Kam Chung and Mr. CHAN Shui Yip in equal shares.

HISTORY, DEVELOPMENT, AND REORGANISATION

For the purpose of the Listing, we undertake the following steps of Reorganisation. Our Directors confirm that the following Reorganisation steps have been conducted and completed in accordance with the applicable laws and regulations.

- (a) On 3 July 2015, our Company was incorporated in the Cayman Islands with the authorised share capital of HK\$390,000 divided into 3,900,000 Ordinary Shares. On the same date, one Ordinary Share was subscribed by the initial subscriber and such Ordinary Share was transferred to Mr. CHAN Kam Chung for HK\$0.1.
- (b) On 15 July 2015, COS Kreation was incorporated in the BVI with limited liability and allotted and issued one share to Mr. CHAN Kam Chung on 20 July 2015. COS Kreation is an investment holding company wholly-owned by Mr. CHAN Kam Chung.
- (c) On 20 July 2015, Green Source was incorporated in the BVI with limited liability and allotted and issued one share to our Company on 28 July 2015.
- (d) On 20 July 2015, Greenwich (China) entered into an equity transfer agreement with Xindecheng, pursuant to which Xindecheng agreed to transfer 45% equity interest in Greenfresh (Fujian) to Greenwich (China) for cash consideration of US\$2,331,000.
- (e) On 22 July 2015, Wealth Creation and Keen Field were incorporated in the BVI with limited liability and each of Wealth Creation and Keen Field allotted and issued one share to our Company on 28 July 2015.
- (f) On 11 August 2015, Lubao (HK) was incorporated in Hong Kong with limited liability and allotted and issued one share to Keen Field.
- (g) On 28 September 2015, Greenfresh (Fujian) entered into an equity transfer agreement with Mr. SHI Jijin pursuant to which Greenfresh (Fujian) agreed to acquire the remaining 10% equity interest in Shiyanghaiyi from Mr. SHI Jijin for the consideration of RMB2,000,000. Since then, Shiyanghaiyi has become a wholly-owned subsidiary of Greenfresh (Fujian).
- (h) On 11 December 2015, Epoch, Green Forest, East Prosperity, Strong Achievement and Winning Path were incorporated in the BVI with limited liability and allotted and issued one share to Mr. CHAN Shui Yip, Mr. GUO Songsen, Mr. GUO Donghuang, Mr. GUO Dongxu, and Mr. GUO Yuansuo, respectively. Epoch, Green Forest, East Prosperity, Strong Achievement, and Winning Path are investment holding companies for holding our Shares.

HISTORY, DEVELOPMENT, AND REORGANISATION

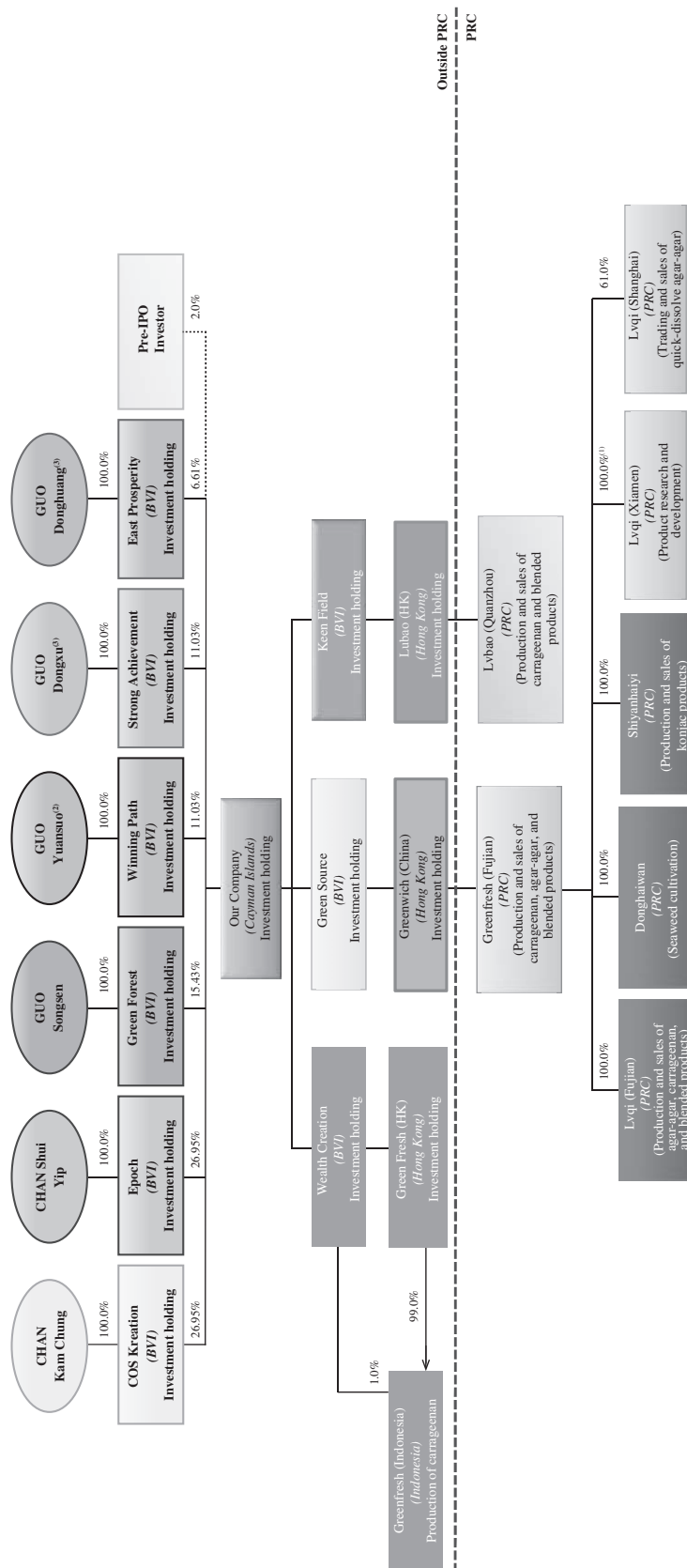
- (i) On 17 December 2015, Mr. CHAN Kam Chung transferred one Ordinary Share to COS Kreation for nil consideration. On the same date, our Company allotted and issued 399 nil paid Ordinary Shares in aggregate in the following manners:

Name of Shareholders	Ultimate beneficial owners	Number of Ordinary Shares allotted and issued	Consideration (HK\$)
COS Kreation	Mr. CHAN Kam Chung	109	10.9
Epoch	Mr. CHAN Shui Yip	110	11.0
Green Forest	Mr. GUO Songsen	63	6.3
Strong Achievement	Mr. GUO Dongxu	45	4.5
Winning Path	Mr. GUO Yuansuo	45	4.5
East Prosperity	Mr. GUO Donghuang	<u>27</u>	<u>2.7</u>
Total		<u><u>399</u></u>	<u><u>39.9</u></u>

- (j) On 16 May 2016, Greenfresh (Fujian) transferred 10,000 shares in Green Fresh (HK), representing the entire issued share capital of Green Fresh (HK), to Wealth Creation for cash consideration of HK\$1.0.
- (k) On 20 October 2016, Mr. CHAN Kam Chung as the sole proprietor of Long Green entered into a business sale and purchase agreement with Lubao (HK), pursuant to which Mr. CHAN Kam Chung as the sole proprietor of Long Green transferred all business and undertakings of Long Green (including those of Lvbao (Quanzhou)) to Lubao (HK) for cash consideration of HK\$10,000 as the business and the assets of Lvbao (Quanzhou) should have been part of our Group.
- (l) On 30 December 2016, each of Mr. CHAN Kam Chung and Mr. CHAN Shui Yip transferred 5,000 shares in Greenwich (China), each representing 50.0% of the entire issued share capital of Greenwich (China), to Green Source. In consideration of the equity transfers, Green Source allotted and issued an aggregate of two shares of US\$1.0 each to our Company.
- (m) On 26 February 2018, our Company allotted and issued an aggregate of 54,480 Ordinary Shares at par to its existing Shareholders, namely 14,982 Shares to COS Kreation, 14,982 Ordinary Shares to Epoch, 8,580 Ordinary Shares to Green Forest, 6,129 Ordinary Shares to Strong Achievement, 6,129 Ordinary Shares to Winning Path, and 3,678 Ordinary Shares to East Prosperity. The purpose of the allotment and issue of Shares was to facilitate the conversion of the Convertible Bond in order to ensure that there would be no fractional Ordinary Shares to be issued by our Company. See the section headed “Pre-IPO Investor” in this prospectus.

HISTORY, DEVELOPMENT, AND REORGANISATION

Following completion of the Reorganisation and the conversion of the Convertible Bond by the Pre-IPO Investor pursuant to the Convertible Bond Subscription Agreement and as of the Latest Practicable Date (assuming that no Shares have been issued pursuant to the Pre-IPO Share Options), our shareholding and corporate structure is set forth below:



Notes:

- (1) On 17 May 2017, Greenfresh (Fujian) entered into an equity transfer agreement with each of Ms. CAO Hongxia and Mr. WU Hongtan, pursuant to which Greenfresh (Fujian) acquired from Ms. CAO Hongxia and Mr. WU Hongtan 55.0% and 45.0% equity interest in Lvqi (Xiamen), respectively, for cash consideration of RMB2,750,000 and RMB2,250,000.
- (2) Mr. GUO Yuansuo is a cousin of Mr. GUO Dongxu and Mr. GUO Donghuang.
- (3) Mr. GUO Dongxu and Mr. GUO Donghuang are siblings.

HISTORY, DEVELOPMENT, AND REORGANISATION

INCENTIVES PROVIDED TO OUR SENIOR MANAGEMENT AND OTHER PERSONS

Background information

On 26 February 2018, our Controlling Shareholders transferred an aggregate of 3,136 Ordinary Shares to three members of our senior management (the “**Selected Senior Management**”), a former minority shareholder of Shiyanghaiyi, namely Mr. SHI Jijin, and a consultant of our Controlling Shareholders (collectively, the “**Transferees**”) as follows:-

	Transferees					Total
	Selected Senior Management			Former minority shareholder of Shiyanghaiyi	Consultant of our Controlling Shareholders	
Controlling Shareholders (Transferors)	Mr. DAI Longjin	Mr. CHO Chun Wo	Mr. SU Wenmiao	Mr. SHI Jijin	Growth Profit International Limited ⁽¹⁾	
COS Kreation	862					862
Epoch	258	560	44			862
Green Forest			320	174		494
Strong Achievement . .				190	163	353
Winning Path					353	353
East Prosperity					212	212
Total	<u>1,120</u>	<u>560</u>	<u>364</u>	<u>364</u>	<u>728</u>	<u>3,136</u>

Note:

(1) Growth Profit International Limited is wholly-owned by Mr. NI Zhongsen.

The original intention of transferring the Ordinary Shares to the Transferees was to reward the employees’ future contributions to our business development as well as the consultancy services rendered to our Controlling Shareholders by the former minority shareholder of Shiyanghaiyi and the consultant. The Transferees received the Ordinary Shares for nominal consideration.

After completion of the above transfers, our Company decided to adopt the Pre-IPO Share Option Scheme for the benefit of our employees and business associates, and the Transferees have been granted the Pre-IPO Share Options. The exercise of the Pre-IPO Share Options is conditional upon the successful listing on the Stock Exchange. The percentage of equity interest in our Company that would be enjoyed by the Transferees following the exercise of the Pre-IPO Share Options is identical to the outright transfer of the Ordinary Shares. On this basis, after consultation with the Transferees, the Transferees have agreed to return 3,136 Ordinary Shares to our Controlling Shareholders on 4 August 2018 for the purpose of accepting the Pre-IPO Share Options.

HISTORY, DEVELOPMENT, AND REORGANISATION

The Pre-IPO Share Options can only be exercised after a fixed period of time or over a number of years after the Listing. Our Directors confirm that the arrangements in respect of (i) the transfer of the Ordinary Shares to the Transferees (comprising three employees of our Group, a former minority shareholder of Shiyanghaiyi and a consultant to our Controlling Shareholders); (ii) the subsequent return of the Ordinary Shares to our Controlling Shareholders; and (iii) the granting of the Pre-IPO Share Options to the Transferees, were implemented following the discussions between our Company and the Transferees. We had not decided whether to adopt the Pre-IPO Share Option Scheme for the purpose of the Listing at the time the Ordinary Shares were transferred to the Transferees. The transfer of the Ordinary Shares to the Transferees was then intended to reward (a) selected employees for their continued contribution to the business growth of our Group; (b) the consultant to our Controlling Shareholders for the consultancy services rendered to our Controlling Shareholders; and (c) the former minority shareholder of Shiyanghaiyi. The Transferees have no disagreement to return the Ordinary Shares to our Controlling Shareholders and to take up the Pre-IPO Share Options instead because of the following reasons:

- (1) By accepting the Pre-IPO Share Options, none of the Transferees would experience any material worse-off in the entitlement of economic interest than they were as the registered holders of the Ordinary Shares.
- (2) Any disposal of the Ordinary Shares transferred to the Transferees following the Listing would have been subject to a right of first refusal provided to our Controlling Shareholders, which would require a longer period of time for realisation. By accepting the offer of the Pre-IPO Share Options, the Transferees will continue to benefit from the increases in the Share prices after the Listing when they exercise the Pre-IPO Share Options as and when permitted under the applicable vesting schedules without any contractual restriction on the right of first refusal.
- (3) The Transferees (being either employees of our Group or consultant to our Controlling Shareholders) conceded to accept the offer of the Pre-IPO Share Options, being an incentive arrangement which would be in place following the Listing. This incentive arrangement will not have any impact on their current compensation level, nor would the percentage of their economic interests in our Company be affected rendering such economic interests to be subject to any unnecessary restrictions.

The grant of the Pre-IPO Share Options allows us to align our interest with the interest of the holders of the Pre-IPO Share Options and that the cost of the share-based payment, i.e. the fair value of the Pre-IPO Share Options, will be charged to our profit or loss account over the vesting period of up to five years.

Adoption of the Pre-IPO Share Option Scheme

On 5 August 2018, the Shareholders passed written resolutions to approve the adoption of the Pre-IPO Share Option Scheme. Pursuant to the Pre-IPO Share Option Scheme, on 5 August 2018, we have granted the Pre-IPO Share Options to the Grantees who are the Transferees. The adoption of the Pre-IPO Share Option Scheme is subject to the Listing becoming unconditional. A summary of the terms and conditions of the Pre-IPO Share Option Scheme is set forth in the paragraphs under “D. Share Option Schemes — 1. Pre-IPO Share Option Scheme” in Appendix V to this prospectus.

HISTORY, DEVELOPMENT, AND REORGANISATION

THE SHARE OFFER AND THE CAPITALISATION ISSUE

On 5 August 2018, our Shareholders passed ordinary resolutions in respect of the subdivision of the Ordinary Shares by dividing each Ordinary Share into 10 Shares such that the authorised share capital of our Company would become HK\$390,000 divided into 39,000,000 shares of par value of HK\$0.01 each.

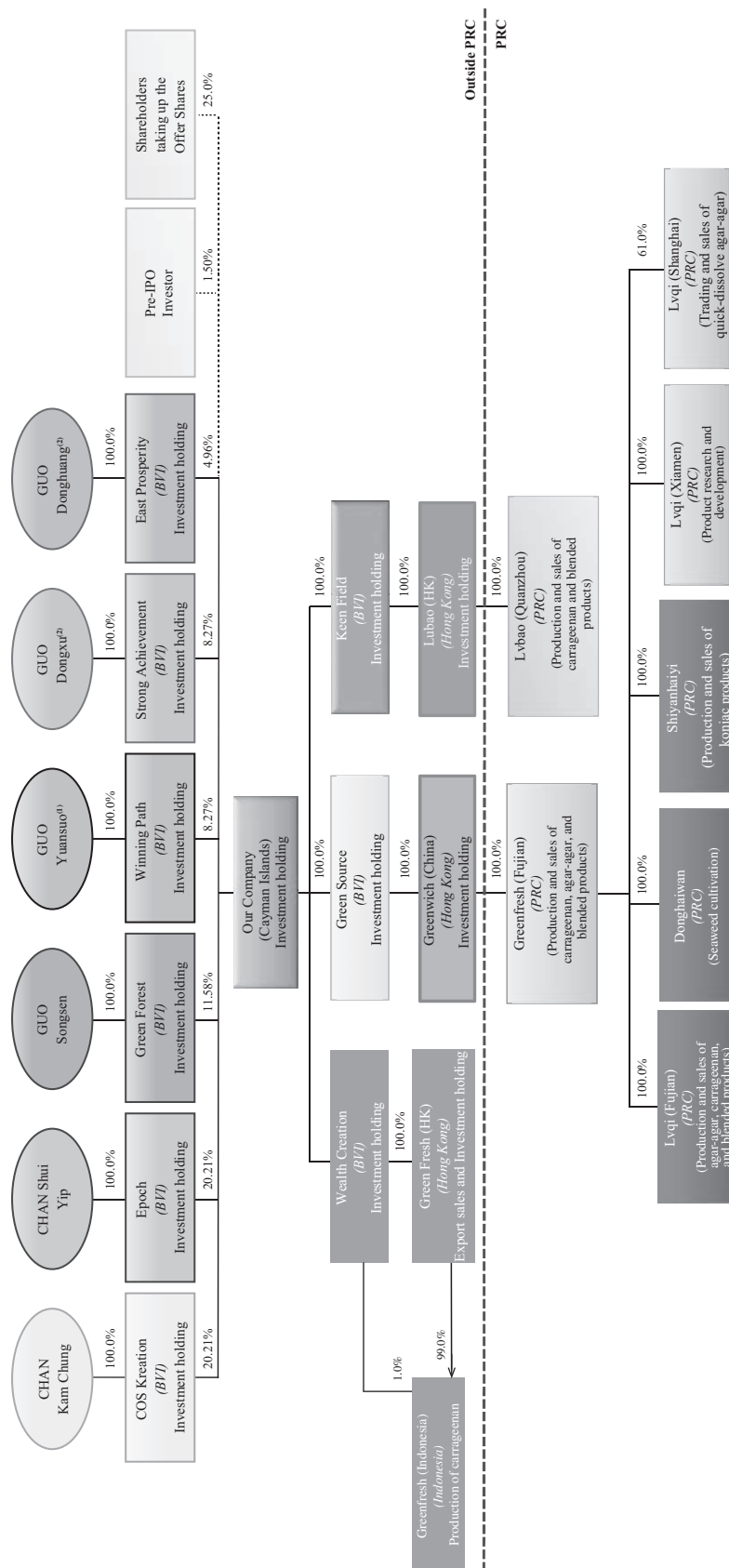
On 25 September 2019, pursuant to the written resolutions signed by our Shareholders, our authorised share capital was increased from HK\$390,000 divided into 39,000,000 Shares to HK\$500,000,000 divided into 50,000,000,000 Shares each by the creation of an additional 49,961,000,000 Shares.

Pursuant to the Share Offer, we will offer 200,000,000 Offer Shares, representing 25.0% of the enlarged number of Shares in issue, for subscription at the Offer Price by members of the public, immediately following completion of the Share Offer and the Capitalisation Issue.

Conditional on the share premium account of our Company being credited as a result of the Share Offer, the Capitalisation Shares will be allotted and issued to our Shareholders whose names appeared on our register of members at the close of business on 25 September 2019 on a pro rata basis. The Capitalisation Shares to be allotted and issued shall rank *pari passu* in all respects with the then existing issued Shares.

HISTORY, DEVELOPMENT, AND REORGANISATION

The shareholding structure and the corporate structure of our Group following completion of the Reorganisation, and immediately upon completion of the Share Offer and the Capitalisation Issue (without taking into consideration any Shares which may be issued upon the exercise of the Over-allotment Option, the Pre-IPO Share Options, and any option that may be granted under the Post-IPO Share Option Scheme) is set forth below:



Notes:

- (1) Mr. GUO Yuansuo is a cousin of Mr. GUO Dongxu and Mr. GUO Donghuang.
- (2) Mr. GUO Dongxu and Mr. GUO Donghuang are siblings.

PRE-IPO INVESTOR

The following sets forth further information on the Convertible Bond subscribed and equity investment in the Shares made by the Pre-IPO Investor.

PRINCIPAL TERMS OF THE CONVERTIBLE BOND

Our Company entered into the Convertible Bond Subscription Agreement with the Pre-IPO Investor, pursuant to which our Company agreed to issue to and the Pre-IPO Investor agreed to subscribe for the Convertible Bond. The amount of the consideration from the Pre-IPO Investor was agreed upon following arm's length negotiations between our Company and the Pre-IPO Investor, based on the net asset value of our Group as of 30 June 2017. The proceeds from the Convertible Bond were used for our business expansion.

Prior to the Listing, on 28 February 2018, an amount of HK\$4,821,320 Convertible Bond was converted by the Pre-IPO Investor in exchange for the allotment and issue of 1,120 Ordinary Shares (the "**Conversion**") to the Pre-IPO Investor, representing 2.0% of the then total number of Ordinary Shares in issue. Following the conversion by the Pre-IPO Investor on 28 February 2018 and as of the date of this prospectus, the Pre-IPO Investor has no right to convert any of the outstanding balance of the Convertible Bond into our Shares. Hence, our Company is under the obligation to repay the outstanding principal amount and accrued interest on the maturity date. The outstanding par value of the Convertible Bond as of the date of this prospectus is HK\$55,178,680.

Immediately upon completion of the Share Offer and the Capitalisation Issue, assuming that the Over-allotment Option will not be exercised and no Shares would be allotted and issued upon the exercise of the Pre-IPO Share Options, and any options which may be granted under the Post-IPO Share Option Scheme, the Pre-IPO Investor will hold 1.54% of the total number of Shares in issue.

The table below sets forth a summary of the principal terms of the Convertible Bond Subscription Agreement and the related equity investment of the Pre-IPO Investor due to the Conversion:

Date of the Convertible Bond Subscription Agreement	20 November 2017
Date of issue of the Convertible Bond	20 November 2017
Principal amount of the Convertible Bond	HK\$60.0 million
Payment date of the Convertible Bond	25 October 2017 ⁽¹⁾
Use of proceeds	The proceeds have been fully used for our business expansion.

Note:

(1) We acknowledged receipt of HK\$60 million from the Pre-IPO Investor on 25 October 2017, prior to the execution of the Convertible Bond Subscription Agreement.

PRE-IPO INVESTOR

Basis of determining the consideration	Negotiations between our Company and the Pre-IPO Investor on an arm's length basis with reference to the net asset value of our Group as of 30 June 2017
Maturity date	Pursuant to the original terms and conditions of the Convertible Bond, the maturity date (the " Maturity Date ") will be on a day which is the second anniversary of the date of issue of the Convertible Bond, i.e. 20 November 2019. Pursuant to an addendum to the terms and conditions of the Convertible Bond dated 28 December 2018, the Maturity Date has been extended to 15 July 2020.
Conversion price	$\text{Conversion price} = \frac{V}{S} \times 115\%$ <p>where:</p> <p>V is our unaudited consolidated net tangible asset as of 30 June 2017 converted into HK\$ from RMB at the Screen Rate⁽²⁾; and</p> <p>S is the number of total issued Ordinary Shares as of the date of the Convertible Bond Subscription Agreement or such later date as agreed by both parties.</p>
Restrictions on the conversion	<p>(1) The conversion right can only be exercised in one single tranche during the period commencing from the date of issue of the Convertible Bond and ending on date being the thirty-fifth (35th) day prior to the expected date of submission of application for the Listing (as notified by our Company) (both dates inclusive).</p> <p>(2) The number of Conversion Shares to be allotted and issued to the Pre-IPO Investor shall not exceed 2.0% of the total number of the Shares in issue immediately after the allotment and issue of the Conversion Shares.</p>

(2) Screen Rate means the rate of exchange between such currencies appearing on the Bloomberg page on which the closing spot rates is published for the relevant currencies on the date of the Convertible Bond Subscription Agreement.

PRE-IPO INVESTOR

Following the conversion by the Pre-IPO Investor on 28 February 2018 and as of the date of this prospectus, the Pre-IPO Investor has no right to convert any of the outstanding balance of the Convertible Bond into our Shares. Hence, our Company is under the obligation to repay the outstanding principal amount and accrued interest on the Maturity Date.

Interest rate	<p>(1) The interest on the outstanding principal amount will be accrued (a) at the rate of five per cent. per annum from 25 October 2017 up to and including 31 December 2018; (b) at the rate of 10% per annum from 1 January 2019 up to and including 20 November 2019; and (c) at the rate of 13% per annum from 21 November 2019 up to and including the Maturity Date. The interest is payable quarterly in arrears on 31 March, 30 June, 30 September and 31 December in each year.</p> <p>(2) If our Company does not pay any sum payable under the Convertible Bond when due, the outstanding amount will be subject to an interest at the rate of 12.0% per annum for the period beginning on its due date and ending on the date of actual payment. Such interest shall accrue from day to day on the basis of the actual number of days elapsed and a year of 365 days (including the first and the last days of the period during which it accrues) and shall be payable on demand.</p>
Transferability	<p>The Pre-IPO Investor may assign and transfer the Convertible Bond before the Maturity Date with our prior written approval provided that (i) the entire outstanding principal amount of the Convertible Bond is assigned and transferred; and (ii) the Convertible Bond may not be assigned or transferred to any of our connected persons.</p>
Voting rights	<p>The Pre-IPO Investor is not and will not be entitled to attend or vote at any of our meetings by reason only of it being a bondholder.</p>

PRE-IPO INVESTOR

Lock-up undertaking by the Pre-IPO

Investor	The Pre-IPO Investor undertakes that during the period from the date of the Convertible Bond Subscription Agreement to the day falling six months after the Listing Date, he shall not and shall procure his nominees not to dispose of any of the Conversion Shares and any other Shares that may be allotted and issued or transferred to him in connection with the Listing from time to time held by him (the “ Restricted Shares ”), securities exchangeable for or convertible into or exercisable for any of the Restricted Shares, any rights to purchase any of the Restricted Shares or any security or financial product whose value is determined by reference to the price of any of the Restricted Shares.
Guarantee given by our Controlling Shareholders	Our Controlling Shareholders executed personal guarantee in favour of the Pre-IPO Investor for the punctual performance of our obligations under the Convertible Bond Subscription Agreement and the Convertible Bond. Such guarantee will be released automatically upon the Listing.
Costs per Share ⁽³⁾	HK\$0.40
Discount to the Offer Price ⁽⁴⁾	72.4%
Shareholding of the Pre-IPO Investor due to the Conversion immediately before the Share Offer	2.0%

(3) This is defined based on the 12,000,000 shares to be held by the Pre-IPO investor upon completion of the Share Offer and the Capitalisation Issue Share Offer assuming the Over-allotment Option is not exercised and without taking into consideration our Shares that may be issued pursuant to the exercise of the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme.

(4) The discount percentages are based on an Offer Price of HK\$1.45, being the mid-point of the indicative range of the Offer Price between HK\$1.74 and HK\$1.16, and the number of Shares to be held by the Pre-IPO Investor after Share Offer and the Capitalisation Issue.

PRE-IPO INVESTOR

Shareholding of the Pre-IPO Investor due to the Conversion upon completion of the Share Offer and Capitalisation Issue (assuming that the Over-allotment Option is not exercised and without taking into account our Shares that may be issued pursuant to the exercise of the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme)⁽⁵⁾ 1.54%

BACKGROUND OF THE PRE-IPO INVESTOR

Mr. KIU Wai Ming is a private investor. Mr. KIU obtained a bachelor's degree of science major in economics and minor in marketing from Louisiana State University, the US in December 1972. Mr. KIU has over 30 years of experience in finance and banking industry. Mr. KIU was a director, deputy general manager and alternate chief executive of Industrial and Commercial Bank of China (Asia) from July 1999 to September 2002. From 1983 to 1998, Mr. KIU held various senior positions at Dah Sing Financial Group. Mr. KIU has been an independent non-executive director of Hung Fook Tong Group Holdings Limited since June 2014. Mr. KIU was the chief executive officer of Walker Group Holdings Limited during the period from February 2008 to April 2016. Mr. KIU served as the Chief Executive Officer of Rising Development Holdings Ltd. from October 2002 to September 2003.

As the Pre-IPO Investor will hold 1.54% of the total number of our Shares in issue following completion of the Share Offer and the Capitalisation Issue (without taking into consideration our Shares that may be issued pursuant to the exercise of the Over-allotment Option, the Pre-IPO Share Options, and any option that may be granted under the Post-IPO Share Option Scheme), the Shares held by the Pre-IPO Investor will be treated as part of the public float of our Company following Listing for the purpose of Rule 8.08 of the Listing Rules.

Other than the investment in our Company as disclosed in this prospectus, the Pre-IPO Investor is an Independent Third Party.

The Pre-IPO Investor has brought additional financial resources to us upon acceptable terms and conditions.

(5) The shareholding percentages are based on the number of Shares in issue immediately after completion of the Share Offer and the Capitalisation Issue assuming the Over-allotment Option is not exercised and without taking into consideration our Shares that may be issued pursuant to the exercise of the Pre-IPO Share Options and any option that may be granted under the Post-IPO Share Option Scheme.

PRE-IPO INVESTOR

CONFIRMATION FROM THE SOLE SPONSOR

Based on its review of the Convertible Bond Subscription Agreement, the Sole Sponsor is of the view that the terms of the Convertible Bond Subscription Agreement and the related pre-IPO investment by Mr. KIU as described above are in compliance with (a) the Interim Guidance on the Pre-IPO Investments issued by the Stock Exchange on 13 October 2010 and as updated in March 2017 in the Guidance Letter HKEx-GL29-12 and (b) the Guidance Letter HKEx-GL43-12 issued by the Stock Exchange in October 2012 and as updated in March 2017.

BUSINESS

OVERVIEW

We are a leading seaweed-based and plant-based hydrocolloid producer in the PRC. Our hydrocolloid products include agar-agar products, carrageenan products, konjac products, and their respective blended products, which are derived from natural sources and have a seaweed or plant origin. Seaweed-based and plant-based hydrocolloid products are commonly used in food producing and processing industry. In the food production process, hydrocolloid products can enhance the appearance and texture of food, achieve the desired viscosity and mouthfeel, and have the functional properties of gelling and thickening. Hydrocolloid products are used in dairy products, beverages, confectioneries, meat products, jellies, and desserts.

Our leading position in the seaweed-based hydrocolloid industry is reflected in our rankings and market share both in the PRC and the international markets. Pursuant to the Frost & Sullivan Report, we ranked first amongst the agar-agar producers, both in the PRC and the global market, in terms of both the sales volume and sales value in 2018. Pursuant to the same report, our market share in the PRC agar-agar market in 2018 was 31.6% in terms of sales volume and 33.7% in terms of sales value. Our market share in the global agar-agar market in 2018 was 13.4% in terms of sales volume and 10.3% in terms of sales value. Pursuant to the Frost & Sullivan Report, we ranked second amongst the carrageenan producers in the PRC in 2018, with the market share of 22.7% in terms of sales volume and 27.7% in terms of sales value. Our market share in the global carrageenan market in 2018 was 9.4% in terms of sales volume and 10.4% in terms of sales value⁽¹⁾. Our products are sold under our brands⁽²⁾ or in bulk volume not bearing our brands. During the Track Record Period and up to the Latest Practicable Date, we sold our products in the PRC and 48 countries and territories in North America, South America, Europe, Asia, and Africa.

Leveraging our leading position in the production of agar-agar products and carrageenan products, we also provide a wide range of blended products for different food applications. We have launched hydrocolloid products for non-food applications, such as air-fresheners since September 2013, agarose since August 2016, vegan medicine capsule since November 2018, and beauty products since January 2019. We have also developed different grades of agar-agar products in terms of gel strength between 500 g/cm² and 1,300 g/cm² for different food and non-food applications.

As of the date of this prospectus, we have four production plants in the PRC, namely Greenfresh (Fujian) Production Plant, Lvqi (Fujian) Production Plant, Lvbao (Quanzhou) Production Plant, and Shiyanhaiyi Production Plant in Fujian Province and Hubei Province, the PRC. Each of these production plants has its own production and warehousing facilities and is dedicated for the production of different types of seaweed-based and plant-based hydrocolloid products. We review and

Notes:

- (1) Pursuant to the Frost & Sullivan Report, the global ranking of carrageenan producers is not available because there is no public information on the market share of other producers of carrageenan products. Our market share of 9.4% in terms of sales volume and 10.4% in terms of sales value in the global carrageenan market in 2018 was based on our total sales and the estimated market size of the global carrageenan market in 2018.
- (2) These brands include 金閩南 , Greenfresh , Luzao , and .

BUSINESS

rationalise from time to time the usage and the combination of our production facilities for the production of our hydrocolloid products. Our production facilities can also be adjusted to accommodate the production volume of different types of seaweed-based and plant-based hydrocolloid products in response to the change in customers' demand for our products promptly.

We also work in collaboration with the universities and institutions in the PRC, such as Fujian Agriculture and Forestry University (福建農林大學) and Jimei University (集美大學), to improve the quality of our hydrocolloid products as well as our production and processing technology. We believe that such collaborations would allow us to keep abreast of the latest market trends in the end markets in which our customers operate.

The PRC is one of the major exporters in the global hydrocolloid market, according to the Frost & Sullivan Report. We have benefitted from the noticeable growth of the hydrocolloid industry in recent years. The sales volume of hydrocolloid products in the PRC grew at a CAGR of 5.1% from 2013 to 2018 and is expected to grow at a CAGR of 7.0% from 2019 to 2023, according to the Frost & Sullivan Report. The increasing use of seaweed-based or plant-based hydrocolloid products by food producing and processing companies is partly due to the increasing health awareness, consumers' preference for natural food and the search of alternatives to animal-extracted gelatine in food production and processing industry. Our products are sold nationwide in the PRC and the international markets.

As a result of our devoted efforts and commitments, we have achieved significant growth during the three years ended 31 December 2018. Our revenue increased from HK\$535.1 million in 2016 to HK\$661.6 million in 2017 and further to HK\$997.1 million in 2018. Our net profit increased from HK\$53.4 million in 2016 to HK\$92.8 million in 2017 and further to HK\$93.8 million in 2018. During the three months ended 31 March 2019, our revenue amounted to HK\$190.3 million, as compared to HK\$176.7 million during the three months ended 31 March 2018, representing an increase of 7.7%, and our net profit during the three months ended 31 March 2019 amounted HK\$17.3 million, as compared to HK\$5.2 million during the three months ended 31 March 2018, representing an increase of 232.7%.

Following the implementation of the future plans and completion of the Share Offer, our Directors believe that we will continue to maintain our market position in the seaweed-based hydrocolloid market both in the PRC and the global market.

BUSINESS

OUR STRENGTHS

We believe that the following strengths have contributed, and will continue to contribute, to our success and distinguish us from our competitors:

We are a leading seaweed-based hydrocolloid producer both in the PRC and the global market.

We are a leading seaweed-based hydrocolloid producer in the PRC and the global market. Pursuant to the Frost & Sullivan Report, we ranked first amongst the agar-agar producers, both in the PRC and the global market, in terms of both the sales volume and sales value in 2018. Pursuant to the same report, our market share in the PRC agar-agar market in 2018 was 31.6% in terms of sales volume and 33.7% in terms of sales value. Our market share in the global agar-agar market in 2018 was 13.4% in terms of sales volume and 10.3% in terms of sales value. Pursuant to the Frost & Sullivan Report, we ranked second amongst the carrageenan producers in the PRC in 2018, with the market share of 22.7% in terms of sales volume and 27.7% in terms of sales value. Our market share in the global carrageenan market in 2018 was 9.4% in terms of sales volume and 10.4% in terms of sales value in 2018.⁽¹⁾ Our Directors believe that our leading position in the seaweed-based hydrocolloid market is reflected in our rankings and our market share in the PRC and international hydrocolloid markets.

Our Directors believe that we are well positioned to continue to solidify our market share in the hydrocolloid industry and take advantage of the rapidly growing demand for hydrocolloid products in both the PRC and the global market. The PRC is the world's largest exporter of agar-agar accounting for 41.8% of the market share in the agar-agar market in terms of export volume in 2018 and one of the leading exporters of carrageenan in 2018. We believe that we have the experience, resources, and competitive strengths to capitalise the growth of the hydrocolloid market in both the PRC and the global market to further expand our market share.

As a leading producer of seaweed-based and plant-based hydrocolloid products, we have benefitted from the noticeable growth of the hydrocolloid industry in recent years. The sales volume of hydrocolloid products in the PRC grew at a CAGR of 5.1% from 2013 to 2018 and is expected to grow at a CAGR of 7.0% from 2019 to 2023, according to the Frost & Sullivan Report. Pursuant to the Frost & Sullivan Report, the sales volume of carrageenan in the PRC accounted for 22.0% of the total sales volume of hydrocolloid products in the PRC in 2018 and is expected to increase to 28.7% by 2023. The sales volume of agar-agar accounted for 8.3% of the total sales volume of hydrocolloid products in the PRC in 2018 and is expected to increase to 9.2% by 2023. According to the National Bureau of Statistics of China, the total income generated by the food producing and processing businesses in the PRC increased from RMB1.8 trillion in 2013 to RMB2.5 trillion in 2017,

Note:

- (1) Pursuant to the Frost & Sullivan Report, the global ranking of carrageenan producers is not available because there is no public information on the market share of other producers of carrageenan products. Our market share of 9.4% in terms of sales volume and 10.4% in terms of sales value in the global carrageenan market in 2018 was based on our total sales and the estimated market size of the global carrageenan market in 2018.

BUSINESS

representing a CAGR of 8.8%. With the expansion of the food producing and processing industry and the breakthrough in the applications of hydrocolloid products, our Directors expect that the demand for hydrocolloid products will continue to increase. Such industry growth is reflected in the growth in our sales during the Track Record Period.

In addition, the recent trend of using sustainable source for food has also led to the increasing use of hydrocolloid products. More consumers have switched to vegetarian diet to pursue, among others, a healthier life style. Hence, food producing and processing businesses tend to use seaweed-based and plant-based hydrocolloid products to align with the requirements and expectations of customers.

Our Directors also expect that there will be increasing use of hydrocolloid products in non-food applications including beauty products, supplement capsules and medicinal purposes. Hydrocolloid products, in particular carrageenan products, possess good solubility and water-binding properties and can serve as a good emulsifier for skincare products. We believe that the increasing use of hydrocolloid products in non-food applications will further stimulate the demand for hydrocolloid products in the PRC and the global market.

Against the above recent industry development and recent consumption trends, our Directors believe that we are able to enjoy the economic benefits arising from the increasing demand for seaweed-based and plant-based hydrocolloid products in food and non-food applications as a leading producer of these products.

We have strong product research and development capability.

We strive to increase our market share by improving our products and product formulas and developing new products and product formulas to align with the industry trends and demand of the customers.

Our product research and development team works closely with our production team to optimise production processes to enhance product quality, product formulas, processing technology, and production efficiency. In addition, our product research and development team also works closely with our quality control and sales and marketing teams in enhancing our existing products and developing new products and product formulas based on the feedbacks from our customers and our market research. We have established a product research centre in Xiamen, Fujian Province, the PRC, and have research and development technicians based at each of our production plants, which had an aggregate of 57 research and development team members as of 31 March 2019, nine of them hold a master's degree majoring in food science and chemistry and 25 hold a bachelor's degree with experience in the food industry. We also focus our product research and development efforts to improve the processing technology and test and modify the composition of our blended products to optimise the quality and functions of our products.

By virtue of our strong product research and development capability, we were recognised as “Engineering Technology Research Centre of Seaweed Polysaccharide Enterprise (Fujian)” (福建省海藻多糖企業工程技術研究中心) by the Science and Technology Commission of Fujian Province (福建省科學技術廳) in June 2016. In addition, we have been accredited with “Leading Enterprise of

BUSINESS

Carrageenan Production in Fujian Province” (福建省卡拉膠生產標杆企業) and “Leading Enterprise of Agar Production in Fujian Province” (福建省瓊脂生產標杆企業) by the Fujian Food Industry Association (福建省食品工業協會) in March 2017. See the paragraphs under “Awards and recognitions” in this prospectus.

We are keen to explore cooperation opportunities with renowned universities and institutions in the PRC for advancement of our production and processing technologies. During the Track Record Period, we entered into various cooperative agreements with the universities and institutions in the PRC for joint research projects. We work in collaboration with universities and institutions in the PRC, such as Institute of Oceanology, Chinese Academy of Sciences (中國科學院海洋研究所), Fujian Agriculture and Forestry University (福建農林大學), and Jimei University (集美大學), for improvements of our product quality, product formulas and processing technology as well as the development of new applications of our products. In 2013, we carried out a joint research project with Jimei University (集美大學) on “The development and industrial application of key technologies for production of milk beverage stabiliser with seaweed polysaccharides in lieu of gelatine” (利用海藻多糖替代明膠生產乳飲料穩定劑的關鍵技術開發及產業化應用). In 2017, we carried out a joint research project with Institute of Oceanology, Chinese Academy of Sciences (中國科學院海洋研究所) on “Preparation and application of high performance agarose” (高性能瓊脂糖的製備與應用).

In September 2018, the research project on the processing technology of red edible seaweed jointly initiated by Greenfresh (Fujian), Lvqi (Fujian), and Jimei University (集美大學) has been accepted by Ministry of Agricultural and Rural Affairs of the PRC to be added to the list of national-standard agricultural product processing technology research and development centres (國家農產品加工技術研發中心) in the PRC.

We offer a wide range of seaweed-based and plant-based hydrocolloid products including agar-agar products, carrageenan products, and konjac products, and their respective blended products.

We offer a wide range of seaweed-based and plant-based hydrocolloid products including agar-agar products, carrageenan products, and konjac products, and their respective blended products. As of 31 March 2019, we offered to our customers 22 types of agar-agar products and 43 types of carrageenan products of different specifications for different food and non-food applications. As of 31 March 2019, we offered 19 types of konjac products and more than 302 types of blended products to our customers. We believe that our ability to develop new products and product formulas with applications suitable for our customers is important in maintaining our market share in the hydrocolloid market. We plan to continue our investment in new product developments to distinguish ourselves from our major competitors. We believe it is important to continue to develop products in response to the latest market trends and the changing needs and requirements of consumers in order to stay competitive in the hydrocolloid industry.

We are committed to the improvement of our production and processing technology in order to develop products and product formulas that can align with the industry trend and the needs and requirements of our customers for use and applications in food production and processing, beauty products, medicine, and household and bio-engineering products. For example, we have obtained

various patents in the PRC in connection with the development and improvement of the processing techniques of agar-agar and carrageenan, and extraction of carrageenan, to develop and enhance features and benefits of our hydrocolloid products for different functionalities for use in different applications.

Deep processing products

The following sets forth a list of our agar-agar products and carrageenan products using deep processing technology:

Quick-dissolve agar-agar (速溶瓊脂)

With its low melting point, quick-dissolve agar-agar can be used in food applications including yogurt, lactobacillus drinks and ice-cream, which require low temperature control during food processing.

Agarose (瓊脂糖)

We have also developed agarose which is suitable for use as a medium for electrophoresis and can be used in molecular biology for the separation of large molecules, for example DNA, by electrophoresis.

Carrageenan with high water-retention (高保水性卡拉膠)

Our carrageenan products have high gel strength with high water retention that can combine with meat protein to enhance gelling function, improve freeze-thaw stability, and reduce loss of water during cooking and as a result enhance tenderness and juiciness of meat products. It can be used as gelling agent in meat products including ham, sausage, barbecue sausage, meat skewers, chicken fillets, chicken steaks and soft candies, and confectionaries.

High acid-resistant carrageenan (高耐酸性卡拉膠)

We have developed carrageenan products which can achieve high acid resistance level to pH 3.2, which tackle the shortcoming in the use of plant-derived hydrocolloid products in the making of soft candies. Our high acid-resistant carrageenan products provide a solution for the use of carrageenan as a hydrocolloid product in the production of soft candies, which can provide a sufficient level of acidity to generate the kind of fruit flavour and sourness resembling that of real fruits.

Blended products

We produce blended products with a combination of different hydrocolloid products according to specific formulas and processing techniques. We have launched a number of blended products in 2018, including:

BUSINESS

Soft candy powder for starch moulds (用於澱粉模具的軟糖粉)

Though gelatine is widely used as a gelling agent in the making of soft candies and confectionaries, gelatine generally cannot entirely meet the needs of the confectionary market with its shortcoming of melting at temperature at around 40°C. We have developed this blended product for soft candies which can be heated to a concentration level of 78% with good fluidity and as such can be used compatibly with starch mould in the production process of soft candies. The end products have good elasticity and chewiness, and can be used to replace gelatine in the making of vegetarian soft gummy candies.

High acid-resistant soft candy powder for fruit pulp (高耐酸性果漿的軟糖粉)

We have developed blended products for confectioneries which allows the adding of more than 50% of pulp and 3% of acid to create the mouthfeel and texture resembling that of real fruits, and with longer shelf life.

High acid-resistant jelly powder (高耐酸性果凍粉)

Jelly powder generally has a pH value between 3.8 - 4.2, which poses limitation to generate the kind of mouthfeel and taste resembling that of real fruits. The reason for restricting to such pH range is primarily because plant-derived hydrocolloid products generally have poor acid resistance. We have developed blended product for jelly powder that has higher acid resistance level to pH 3.2, which provides sufficient acidity to generate the kind of fruit flavour and sourness resembling that of real fruits.

Our strategies are to continue to launch new agar-agar products, carrageenan products, and their respective blended products to the market for selection by our customers.

We have developed interchangeable production lines for different hydrocolloid products.

As of 31 December 2018, we have established production facilities at four locations in Fujian Province and Hubei Province, the PRC, namely, Greenfresh (Fujian) Production Plant, Lvqi (Fujian) Production Plant, Lvbao (Quanzhou) Production Plant, and Shiyanhaiyi Production Plant, see the section headed “Business — Production facilities” in this prospectus. During the year ended 31 December 2018, our total annual design production capacity has reached 18,700 tonnes, and certain of our production facilities can be used for the production of agar-agar products and carrageenan products interchangeably. The production lines can be switched to accommodate for the production of agar-agar products and carrageenan products within a short period of time by adjusting certain steps in the production process. The production lines at Workshop No. 2 of Greenfresh (Fujian) Production Plant and Workshop No. 1 of Lvqi (Fujian) Production Plant can be used for the production of agar-agar products and carrageenan products following minor equipment adjustments and cleaning. The adjustments may require up to two days to complete. During the Track Record Period, we have switched the products produced by the production line at Workshop No. 2 of Greenfresh (Fujian) Production Plant in August and December in 2015, October 2016, and March 2017 in response to the customers’ demand.

BUSINESS

We have dedicated quality management system from procurement to the entire production process.

We are committed to maintaining high product quality and employ enhanced quality management procedures from procurement to the entire production process. We have established procurement systems to ensure that the dried seaweed sourced by us from Independent Third Parties are suitable for our production requirements and at competitive prices. To ensure the quality of dried seaweed sourced by us, we maintain regular communications with the seaweed suppliers during the harvest period on the quality of seaweed harvested and any material changes in the market prices. We may visit our seaweed suppliers, if required, to ensure that the dried seaweed procured by us satisfy the relevant product quality standards. We believe that our leading market position is also underpinned by the quality of our products. To meet the quality requirements of our customers, we have implemented and maintained enhanced quality management and assurance procedures across our production facilities to ensure our product quality.

As of 31 March 2019, our quality control team had 52 staff, and six of them have more than six years of experience in quality control in the food industry and possess the relevant food inspection experience. We have our quality control team based at our production facilities as well as the locations of our seaweed suppliers to ensure that the entire procurement and production process are conducted in accordance with our quality standards.

We implement a strict quality management system, including HACCP, QS, and ISO certifications. We apply the relevant industry standards in our production process, including ISO 9001 and ISO 22000, to ensure that our products are consistently produced in compliance with the applicable industry standards. Our Greenfresh (Fujian) Production Plant and our Lvqi (Fujian) Production Plant have been certified to conform to ISO 22000:2005 from 19 September 2019 to 29 June 2021 and from 14 September 2018 to 28 September 2021, respectively. Our quality management system with respect to our Greenfresh (Fujian) Production Plant, Shiyanghaiyi Production Plant, and Lvbao (Quanzhou) Production Plant have been certified to conform to ISO 9001:2015 and GB/T 19001-2016 standards effective from 19 September 2019 to 21 September 2022, 6 November 2017 to 8 October 2020 and 14 May 2018 to 27 May 2021, respectively. Our HACCP system with respect to our production facilities in Shiyanghaiyi Production Plant has been certified to conform to GB/T 27341-2009 and GB/T 14881-2013 requirements effective from 6 November 2017 to 5 November 2020.

We have imposed quality control in each of the key processes, in particular, the raw material procurement process, inspection of raw materials, inspection of finished products, and metal detections. In addition, we adopt designated hygiene and safety standards in each of our production facilities, which our employees are required to comply with during the production process. As a result of our enhanced quality control measures, we have been accredited with BRC, HALAL, KOSHER, FSSC 22000, HACCP, ISO 9001, and ISO 22000 for our quality management standards. We believe that our commitment in maintaining the quality control standard will support our continued expansion and further enhance our leading market position.

BUSINESS

We have a solid customer base.

Our products are sold in the PRC and the international markets. Our customer base includes renowned food producing and processing companies in the PRC and the global market as well as trading companies around the world which re-sell our products to their customers. Some of our five largest customers have long history in food producing and processing industry and are well recognised as the renowned companies in the respective business segments. During the Track Record Period and up to the Latest Practicable Date, our five largest customers in each year/period have an average of 6.4 years, 6.6 years, 6.4 years, and 7.4 years of business relationship with us, respectively. Out of our 10 largest customers for the Track Record Period, five of them are internationally recognised food producing and processing companies. Our Directors believe that we have established close business relationships with our major customers, and such business relationships will continue to grow with the increasing number of hydrocolloid products offered by us for various food and non-food applications.

We have an experienced and visionary management team with proven track record.

We believe that the vision and experience of our senior management as well as their dedication to our Group have contributed to the success of our business as well as the continuous growth and profitability of our business.

Our executive Directors and members of our senior management and key operating personnel possess extensive operating and industry experience in our business, some of them have been with us or in the related industry for around 20 years. Our senior management and operating team has in-depth knowledge of our industry, which enables us to respond promptly to the latest market trends and changing needs and requirements of customers. Our senior management team strives to put in consistent effort to cultivate a corporate culture that puts emphasis on quality and safety and position ourselves as a provider of quality products.

Our dedicated management team spearheads our business operations and drives our future growth plans. Their experience and industrial knowledge enable us to develop new products and product formulas and identify and grasp new business opportunities. Our management team plays an important role in establishing a corporate culture which focuses on consistent delivery of high quality products and continuous innovations. We believe that our experienced management team has been key to our success in the past and will continue to contribute to our growth in the future.

BUSINESS

OUR STRATEGIES

We aim to achieve sustainable growth in our production and sales and enhance our market position in the hydrocolloid market by implementing the following strategies.

We will expand our production capacity and improve the operational efficiency.

We plan to further strengthen our leading position in the seaweed-based hydrocolloid market and to capture a greater market share in the seaweed-based and plant-based hydrocolloid market both in the PRC and the global market. We plan to increase our production capacity to meet the increasing demand for our products. Pursuant to the Frost & Sullivan Report, the sales volume of agar-agar in the PRC grew at a CAGR of 7% from 2013 to 2018 and is projected to grow at a CAGR of 9.7% from 2019 to 2023 whereas the sales volume of carrageenan in the PRC grew at a CAGR of 12.7% from 2013 to 2018 and is projected to grow at a CAGR of 14.6% from 2019 to 2023.

Recent expansion plans

As of the Latest Practicable Date, we have completed the construction of the factory buildings for quick-dissolve agar-agar products, refined iota carrageenan products, and konjac gum products at a new production plant adjacent to Lvqi (Fujian) Production Plant. The installation of the plant and machinery for the production line of quick-dissolve agar-agar products has also been completed, and the trial production has commenced from the first quarter of 2019. Commercial production of the production line for quick-dissolve agar-agar products has commenced in the second quarter of 2019. The production line for the production of iota carrageenan products has commenced trial production in the third quarter of 2019 and commercial production will commence towards the end of 2019. The production line for the production of konjac gum products will commence trial production during the second quarter of 2020 and commercial production will commence from the third quarter of 2020. See the paragraphs under “Recent expansion plans” below for further information on our recent expansion plans.

Future expansion plans

In anticipation of the growth in the demand for hydrocolloid products both in the PRC and the global market, we plan to construct new production plants in the PRC and Indonesia. The following sets forth further information on these future expansion plans:

- (1) As part of the recent expansion plans set forth above, construction of a new production plant in the PRC adjacent to Lvqi (Fujian) Production Plant for the production of (a) refined iota-carrageenan products with an annual design production capacity of 180 tonnes and (b) konjac gum product with an annual design production capacity of 1,500 tonnes. The production line for the production of iota carrageenan products has commenced trial production in the third quarter of 2019 and commercial production will commence towards the end of 2019. The production line for the production of konjac gum products will commence trial production during the second quarter of 2020 and commercial production will commence from the third quarter of 2020.

BUSINESS

- (2) Construction of a new production plant in Longhai City, Zhangzhou City, Fujian Province, the PRC for the production of (a) agarose with an annual design production capacity of 50 tonnes, (b) agar microspheres with an annual design production capacity of 10 tonnes, and (c) agarophyte with an annual design production capacity of 200 tonnes. Trial production of these three production lines would commence from the first quarter of 2020.
- (3) Construction of a new production plant in Indonesia for the production of semi-refined carrageenan with an annual design production capacity of 3,000 tonnes. Trial production of this production line would commence during the second half of 2020 and commercial production towards the end of 2020.
- (4) Construction of a new production plant in Zhangzhou City, the PRC for the production of agar-agar products with an annual design production capacity of 1,000 tonnes. Trial production of this production line would be commenced during the first half of 2022 and commercial production would commence towards the end of 2022.

See the paragraphs under “Expansion plans of our production facilities” below for further information on our future expansion plans, including the scale of the production plants, the plant and machinery, and the funding arrangement.

Our Directors believe that our expansion plans for our production facilities could bring us the following benefits:

- (a) the expanded capacity will be used for satisfying the current increasing demand and help us capture the long-term demand growth in the hydrocolloid market and the downstream markets of food production and processing and beauty products, medicinal and household and bio-engineering applications, such as air-fresheners and electrophoresis agarose;
- (b) our production facilities will be installed with advanced production machinery and equipment that satisfies the requisite quality standard, while there will also be upgrade to our existing production facilities resulting in cost savings through maximising the production efficiency;
- (c) our production facilities to be constructed in Indonesia would enable us to have direct and efficient access to the source of raw materials with cost savings on transportation; and
- (d) the increase in our operational scale could also bring us additional benefits from economies of scale.

Our Directors confirm that the new products to be launched by our Group, namely quick-dissolve agar-agar products, iota-carrageenan products, agarose, agar microspheres, and agarophyte, would not involve fundamentally different production process, as compared with the current production process in operation. Certain steps, such as acidity neutralisation and electrostatic extraction, would need to be adjusted or upgraded for the production of such products. On this basis and with the experience and expertise of our product research and development team members who have the experience in the production of new products during the Track Record Period, our Directors believe that we have

BUSINESS

sufficient experience and expertise to manage and implement the expansion plans and the commercial production of these new products. Our Directors believe that we can strengthen our market position and achieve economies of scale by expanding our existing production facilities and constructing new production facilities.

Improvement in operational efficiency

Apart from expanding our production capacity, we believe that improving our operational efficiency is also key to maintaining our competitive position. As such, we plan to improve our processing technologies and further increase automation in our production processes to improve our operational efficiency to optimise our cost structure and production efficiency.

We also intend to leverage our scale of operation to pursue more efficient sourcing of the principal raw materials to reduce our procurement costs. We believe that it can further enhance our control over the procurement of raw materials to secure a stable supply and ensure the quality of our raw materials procured.

We will further strengthen our product research and development capability and continue to develop products and product formulas pursuant to the industry trends.

We believe that continuous product development and improvement following the latest market trend and changing needs and requirements of the customers is key to maintaining our competitive position and allow our further growth and expansion of business.

Our product research and development team will continue to work closely with our production team and sales and marketing team in improving our processing techniques, enhancing our production technology and efficiency as well as developing new products and product formulas to keep abreast of and cater to the industry trend and changing needs and requirements of customers.

We also plan to further strengthen our product research and development capacity by adopting a well-defined policy in respect of our spending on product research and development activities. We currently expect, and the Board will adopt formally by way of resolutions, that around 1.5% of our revenue in each financial year will be used for product research and development activities for that year. We will improve our expertise and technical know-how in relation to our product quality, production technology, and operational efficiency. We will continue our cooperation with renowned academic institutions, such as Institute of Oceanology, Chinese Academy of Sciences (中國科學院海洋研究所), Fujian Agriculture and Forestry University (福建農林大學), and Jimei University (集美大學), to keep abreast of the latest technical know-how and expertise in hydrocolloid industry and to cultivate talents, which we believe can further strengthen our competitiveness and enlarge our market share.

We will enhance our sales and marketing coverage.

We believe the breadth, depth, and effectiveness of our sales network are crucial to the further development of our business. We plan to further enhance our penetration in the international markets with a focus on the Southeast Asian countries as we perceive such targeted markets with high population and relatively less-advanced food production and processing technology present significant growth potentials for our hydrocolloid products.

BUSINESS

We intend to initiate more targeted marketing activities. We will also expand our own sales teams to enhance the sales of our products in such markets. We will continue to run various marketing campaigns, participate in trade shows and exhibitions, and pay visit to perspective customers, to further enhance recognition for our products in such markets. We believe that we are well positioned to capture new business opportunities leveraging our expertise and experience in the production of hydrocolloid products and our product research and development capability in product formulas and introducing new products with new functions and characteristics to cater to the needs and requirements of customers. We believe our expansion in such markets will help enlarge our customer base and boost our sales further.

OUR BUSINESS MODEL

We are a producer of seaweed-based and plant-based hydrocolloid products in the PRC. Our hydrocolloid products include agar-agar products, carrageenan products, konjac products, and their respective blended products, which are derived from natural sources and have a seaweed or plant origin. We source dried seaweed from Independent Third Parties. Our business activities also include seaweed cultivation, which provides an additional source of the principal raw material of seaweed for our production requirements. Our hydrocolloid products are sold to food producing and processing company customers and trading company customers in the PRC and international markets under our own brands or in bulk volume not bearing our brands.

OUR PRODUCTS

We produce and sell seaweed-based and plant-based hydrocolloid products including agar-agar products, carrageenan products, and konjac products, and their respective blended products. As of 31 March 2019, we offered to our customers 22 types of agar-agar products and 43 types of carrageenan products of different specifications for different food and non-food applications. As of 31 March 2019, we offered 19 types of konjac products and more than 302 types of blended products to our customers.

Our hydrocolloid products are derived from natural materials, amongst which agar-agar products and carrageenan products are derived from dried red seaweed and konjac products are derived from plant. Our hydrocolloid products have the functional properties of gelling and thickening in food producing and processing for improving the shelf-life and quality attributes of food and are widely used in different food applications and industries including jellies and dessert, meat products, dairy products, and beverages.

The use of hydrocolloid products in food improves food by achieving the desired viscosity, texture, and mouthfeel and as a result, improves the sensory characteristics. The viscosity and textural characteristics (for example, whether creamy or chewy, spreadable or long and brittle or elastic) vary widely with the kind and the quantity of hydrocolloid products used. Our hydrocolloid products can either be used on its own or in combination with other hydrocolloids in modifying the texture and viscosity of food formulations for different food applications. Different hydrocolloids when used in combination with one another may confer different properties of viscosity, gelling effect, and texture to food because of the synergistic interactions between different types of hydrocolloids.

The table below sets forth the key characteristics of the four principal types of our hydrocolloid products:

	<u>Agar-agar products</u>	<u>Carrageenan products</u>	<u>Konjac products</u>	<u>Blended products</u>
Principal applications	— Food applications (including beverages, dairy products, ice-cream, jellies, puddings, jam, bakery products, meat products, confectioneries, yogurt and lactobacillus drinks)	— Food applications (including dairy products, bakery products, jams, candies, beverages and meat products)	— Food applications (including vegan meat and meat substitutes, health food, dairy products, beverages, noodles, dairy desserts, jellies, candies, and meat products)	— Food applications (including jellies, meat products and soft candies)
Principal functions	— Household and bio-engineering products, (including air-fresheners and agarose) — Gelling agent — Thickening agent	— Gelling agent — Providing viscosity — Good water binding	— Thickening, stabilising, suspending and film forming — Improving texture and mouthfeel in food applications	— Gelling agent for jellies — Gelling agent and thickener for meat products — Gelling agent for soft candies
Number of products offered as of 31 March 2019	22	43	19	302
Packaging size	25 kg (standard) or such other packaging sizes as requested by our customers	25 kg (standard) or such other packaging sizes as requested by our customers	25 kg (standard) or such other packaging sizes as requested by our customers	25 kg (standard) or such other packaging sizes as requested by our customers
Principal raw materials	Dried seaweed (extracted from red seaweed such as gracilaria)	Dried seaweed (extracted from red seaweed such as eucheuma)	Plant (extracted from konjac)	Carrageenan, konjac, xanthan gum, pectin, salt and other condiment

BUSINESS

	Agar-agar products	Carrageenan products	Konjac products	Blended products
Production process	See the paragraphs under “Production process of our hydrocolloid products” below:			
Production facilities used to produce the products	(1) Greenfresh (Fujian) Production Plant	(1) Greenfresh (Fujian) Production Plant	(1) Shiyanghaiyi Production Plant	(1) Greenfresh (Fujian) Production Plant
	(2) Lvqi (Fujian) Production Plant	(2) Lvqi (Fujian) Production Plant		(2) Lvqi (Fujian) Production Plant
		(3) Lvbao (Quanzhou) Production Plant		(3) Lvbao (Quanzhou) Production Plant
Average production time	Approximately three days on the basis of processing of a container of 2,300 kg of dried gracilaria	—	Approximately half day on the basis of processing of a container of 500 kg of konjac crude powder	Approximately four to five hours on the basis of processing of a container of 1,000 kg of blended products
		For refined carrageenan products, approximately three days on the basis of processing of a container of 2,600 kg of dried eucheuma		
		—	For semi-refined carrageenan products, approximately two days on the basis of processing of a container of 3,500 kg of dried eucheuma	
Target customers	Food producing and processing companies, household and bio-engineering product manufacturers, culturing agent manufacturers, and plant breeding manufacturers	Food producing and processing companies, household product manufacturers, culturing agent products manufacturers	Food producing and processing companies	Food producing and processing companies

BUSINESS

Agar-agar products

Agar-agar is derived from seaweed and is widely used in the production of beverages, jam, bakery food, meat products, and desserts. Agar-agar can enhance food texture with its strong gelling ability. Different agar-agar products will have different gel strength for improving the mouthfeel of food products.

The table below sets forth certain information on our agar-agar products:

Product categories of agar-agar products	Benefits and features	Applications	Number of products offered as of 31 March 2019
— General agar-agar products	<ul style="list-style-type: none"> — As a thickener — As a gelling agent — For enhancement of food texture — As a stabilising agent in food applications — As a water soluble dietary fibre 	<ul style="list-style-type: none"> — Food applications (including beverages, dairy products, ice-cream, jellies, puddings, jam, bakery products, meat products, and confectioneries) — Air freshener, other household applications and as a medium for culturing 	10
— Quick-dissolve agar-agar products	<ul style="list-style-type: none"> — With low melting point, can be used in food producing and processing (such as yogurt, lactobacillus drinks and ice-cream) which require low temperature control during food processing 	<ul style="list-style-type: none"> — Food applications (including yogurt, lactobacillus drinks, and ice-cream) 	9
— Agarose	<ul style="list-style-type: none"> — As a medium for electrophoresis 	<ul style="list-style-type: none"> — For use in molecular biology for the separation of large molecules, such as DNA, by electrophoresis 	3

Carrageenan products

Carrageenan is derived from seaweed and is widely used as a gelling and thickening agent in food processing industries including dairy products, bakery products, jellies, puddings, jams, candies, beverages and meat products. Carrageenan improves the viscosity, texture, and firmness of food for a broad range of food applications. Carrageenan is used in meat products to provide texture and firmness to sausages as well as juiciness and sliceability to cooked ham. When used in meat products, the gelling and water-holding capacity of carrageenan can enhance the texture of meat products.

BUSINESS

There are in general two major types of carrageenan, namely, refined carrageenan and semi-refined carrageenan. Eucheuma (cottonii and spinosum), which is mainly found in tropical coastal areas including Indonesia and Philippines, is the main category of seaweed used in our production of carrageenan.

The table below sets forth certain information on our carrageenan products:

<u>Product categories of carrageenan products</u>	<u>Benefits and features</u>	<u>Applications</u>	<u>Number of products offered as of 31 March 2019</u>
— Refined kappa-carrageenan	<ul style="list-style-type: none"> — As a gelling agent, — With moderate viscosity, stability and high transparency — Gelling and thickening in food applications — Maintaining stability for optimal shelf life, viscosity and mouthfeel — Improving food texture 	<p>Food applications (including jelly, chewy candy, ice-cream, bakery products, and meat products)</p> <p>Non-food applications (including beauty products and personal care products)</p>	21
— Refined iota-carrageenan	<ul style="list-style-type: none"> — As a water retention agent and for formation of soft gel — As a binding agent — Gelling, thickening, film forming and dispersing in a stable way — Gelling and water retention in meat products to reduce roughness, increase juiciness and enhance texture 	<p>Food applications (including dairy products, meat products, candies, jellies, and puddings)</p> <p>Non-food applications (including dietary supplements, drugs, beauty products, and health supplements)</p>	2
— Semi-refined kappa-carrageenan	<ul style="list-style-type: none"> — For gel formation and water retention in meat products thereby improving the meat texture by reducing toughness and increasing juiciness — As a binding agent — As a beer clarifying agent 	<p>Food applications (including meat products, sauces and dressings, bread and pastries, beverages and condiments)</p> <p>Non-food applications (including beauty products and chemical products for household use)</p>	15

BUSINESS

Product categories of carrageenan products	Benefits and features	Applications	Number of products offered as of 31 March 2019
— Semi-refined iota-carrageenan	<ul style="list-style-type: none"> — For formation of soft gel — For formation of thin film — As a thickener — As a water retention agent — As a beer clarifying agent 	<p>Food applications (including dairy products, meat products, candies, jellies, puddings, ice-cream, and beer)</p> <p>Non-food applications (including dietary supplements, health supplements and beauty products)</p>	5

Konjac products

Konjac products are sourced from plant and is generally used as hydrocolloid product in food production and processing industries of vegan and meat substitutes, dairy products, beverages, noodles, jellies, puddings, desserts, and meat products to enhance food viscosity, prevent watering out, enhance spreadability, and extend shelf life. Our konjac products include konjac gum and konjac powder (varies in transparency and purity level), have both thickening and stabilising properties. As of 31 March 2019, we offered 19 types of konjac products to our customers.

Blended products

We produce blended products with a combination of different hydrocolloid products, according to specific formulas and processing techniques. Our blended products are offered to food producing and processing companies for various food applications. Through our continuous efforts in developing and optimising product formulas, upgrading our processing technology, and implementing enhanced quality control measures, we produce and supply a wide range of blended products pursuant to the market trends and the changing needs and requirements of customers. As of 31 March 2019, we offered more than 302 types of blended products.

BUSINESS

The table below sets forth certain information on some of our major blended products:

<u>Product categories of blended products</u>	<u>Benefits and features</u>	<u>Applications</u>	<u>Number of products offered as of 31 March 2019</u>
— Powder for puddings with smooth texture	<ul style="list-style-type: none"> — Delicate and smooth mouthfeel resembling the mouthfeel of milk puddings — Few release of water — Suitable for food with high protein and fat 	Puddings	4
— Jelly powder (with no release of water and high transparency)	<ul style="list-style-type: none"> — No release of water — Highly transparent — Melt in the mouth instantly when being placed in the mouth 	Jellies	5
— Jelly powder for household use	<ul style="list-style-type: none"> — Suitable for home-made jelly and pudding — Smooth and delicate mouthfeel 	Jellies	4
Thickener for meat products			
— Blended hydrocolloid product for pre-treatment of meat products	<ul style="list-style-type: none"> — Strong binding ability with meat protein — Inhibit setback of starch in meat products — Enhance crispiness and texture of meat products — Enhance tenderness and juiciness of meat products 	Pre-treatment of meat products	6

BUSINESS

Product categories of blended products	Benefits and features	Applications	Number of products offered as of 31 March 2019
— Injection type	<ul style="list-style-type: none"> — In the form of saline solution with low viscosity and small particle size which has good dispersion and can form homogeneous solution for ease of injection — Formation of gel which has a firm texture with a certain degree of elasticity, with good water retention and stability — Strong binding ability with meat protein which allows a smooth cutting surface, clear meat fibre texture and good elasticity — Enhance tenderness and juiciness of meat products 	Bacon, steak, and braised food	6
— Tumbling, chopping type	<ul style="list-style-type: none"> — High gel strength with high viscosity and strong water retention — Combine with meat protein to enhance gelling function, increase water retention and emulsifying properties and improve freeze-thaw stability — Inhibit starch setback and improve texture and mouthfeel of meat products — Enhance release of flavour, reduce loss of water during pan-frying, deep-frying, boiling, roasting 	Ham, sausage, barbecue sausage, meat skewers, chicken fillets, and chicken steaks	8

BUSINESS

Product categories of blended products	Benefits and features	Applications	Number of products offered as of 31 March 2019
<ul style="list-style-type: none"> — Thermal-irreversible type 	<ul style="list-style-type: none"> — Form thermal-irreversible gel with good elasticity — Have thickening and emulsifying functions, and synergistic effect with meat protein and starch which allow long cooking time — Enhance tenderness and crispiness yet offering resistance to the bite with enhanced sliceability 	<p>Hot pot products, such as meat balls, fruit, and vegetable cakes</p>	5
Gelling agent for soft candies			
<ul style="list-style-type: none"> — High acid-resistant 	<ul style="list-style-type: none"> — Can attain pH value (a measurement of acidity) of 3.2-3.5 — Taste and mouthfeel resembling closely to that of real fruits — Good chewiness — Strong water retention — Stable shelf life 	<p>Soft candies, and confectionaries</p>	5
<ul style="list-style-type: none"> — Vegetable-based gummy candies with good elasticity 	<ul style="list-style-type: none"> — Pure vegan source — More heat resistant than gelatine gummy with elasticity similar to that of gelatine — High water retention level — High transparency 	<p>Soft candies</p>	2
<ul style="list-style-type: none"> — Powder for soft candy with crispiness 	<ul style="list-style-type: none"> — High water retention — End products with crispiness in texture and mouthfeel, and can be used in the making of fruit substitutes for coconut, pears, and other snack foods — Long shelf life 	<p>Coconut cake, rock sugar, and pear cake</p>	2

BUSINESS

Product categories of blended products	Benefits and features	Applications	Number of products offered as of 31 March 2019
— Powder for soft candies with aeration	<ul style="list-style-type: none"> — End products with increased volume, and lighter weight than that of traditional soft candy — Create soft mouthfeel, with the texture of soft candy — Suitable to be combined with chocolate — High acid resistance level — Long shelf life 	Soft candies, and marshmallow	4
— Soft candy powder for starch moulding	<ul style="list-style-type: none"> — High transparency, high water retention level, and high degree of chewiness — High level of fluidity — Stable shelf life 	Soft candies	5
— Soft candy powder for fruit pulp	<ul style="list-style-type: none"> — For use with fruit pulp of up to 50.0% — High acid resistance level — End products with texture and taste similar to that of real fruits — Stable shelf life 	Fruit pulp soft candies	1
— Powder for fruit jam soft candies	<ul style="list-style-type: none"> — End products with taste and texture similar to that of fruit jam and is suitable for the making of fruit jam soft candy — Long shelf life 	Soft candies, and fruit jam confectioneries	1

BUSINESS

SALES AND CUSTOMERS

We have dedicated sales and marketing teams and have established a sales centre in Xiamen, Fujian Province, the PRC, which is responsible for the overall management of our sales and marketing activities. As of 31 March 2019, our sales and marketing teams had 34 staff and was and is currently led by Mr. CHO Chun Wo, one of our senior management team members. We have different sales teams dedicated to managing our sales to food producing and processing company customers pursuant to product types and trading company customers pursuant to geographical locations of these customers.

The table below sets forth an analysis of our revenue by business segments for the years/periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	<i>HK\$'000</i>	<i>% of revenue</i>	<i>HK\$'000</i>	<i>% of revenue</i>	<i>HK\$'000</i>	<i>% of revenue</i>	<i>HK\$'000</i>	<i>% of revenue</i>	<i>HK\$'000</i>	<i>% of revenue</i>
	<i>(unaudited)</i>									
Agar-agar products	260,723	48.7	302,044	45.7	346,493	34.8	57,606	32.6	64,260	33.8
Carrageenan products	201,888	37.7	279,734	42.3	534,851	53.6	106,365	60.2	104,663	55.0
Konjac products	20,218	3.8	15,477	2.3	32,506	3.3	2,776	1.6	10,925	5.7
Blended products	52,257	9.8	64,313	9.7	83,206	8.3	9,989	5.6	10,436	5.5
Total	<u>535,086</u>	<u>100.0</u>	<u>661,568</u>	<u>100.0</u>	<u>997,056</u>	<u>100.0</u>	<u>176,736</u>	<u>100.0</u>	<u>190,284</u>	<u>100.0</u>

The table below sets forth the sales volume and the average unit selling prices by business segments during the years/periods indicated:


	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	<i>Average unit selling price</i>	<i>Average unit selling price</i>	<i>Average unit selling price</i>	<i>Average unit selling price</i>	<i>Average unit selling price</i>	<i>Average unit selling price</i>	<i>Average unit selling price</i>	<i>Average unit selling price</i>	<i>Average unit selling price</i>	<i>Average unit selling price</i>
	<i>Sales volume (tonnes)</i>	<i>(per tonne)</i>	<i>Sales volume (tonnes)</i>	<i>(per tonne)</i>	<i>Sales volume (tonnes)</i>	<i>(per tonne)</i>	<i>Sales volume (tonnes)</i>	<i>(per tonne)</i>	<i>Sales volume (tonnes)</i>	<i>(per tonne)</i>
	<i>(tonnes) HK\$'000</i>									
Agar-agar products	2,531.85	102.98	2,724.34	110.87	3,318.41	104.42	490.42	117.46	624.17	102.95
Carrageenan products	4,895.88	41.24	5,219.16	53.60	7,049.42	75.87	1,323.10	80.39	1,253.80	83.48
Konjac products	275.72	73.33	176.30	87.79	272.41	119.33	22.37	124.09	83.80	130.37
Blended products	949.10	55.06	1,105.03	58.20	1,156.27	71.96	134.99	74.00	142.52	73.22
Total	<u>8,652.55</u>		<u>9,224.83</u>		<u>11,796.51</u>		<u>1,970.88</u>		<u>2,104.29</u>	

See the section headed “Financial Information — Principal components of our current assets and current liabilities — Inventories” in this prospectus for analyses of the sales volume, production volume, and the use of inventory of raw materials.

BUSINESS

Information on the sales volume and average unit selling prices of our agar-agar products, carrageenan products, konjac products, and blended products, is set forth in the section headed “Financial Information — Principal components of our consolidated statements of profit or loss — Revenue” in this prospectus.

Our brands

We commenced sales of hydrocolloid products under our own brand of Luzao  in the PRC in May 2001. Our products are sold under our brands⁽¹⁾ or in bulk volume not bearing our brands. For sales of hydrocolloid products under our own brands, our customers may choose the products from our product catalogues. Our hydrocolloid products sold to customers in the international markets normally do not bear our brands.

The table below sets forth an analysis of our sales under our brands and not bearing our brands during the years/periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	<i>(unaudited)</i>									
Products sold under our brands	332,977	62.2	336,197	50.8	475,838	47.7	75,111	42.5	79,664	41.9
Products sold without our brands	202,109	37.8	325,371	49.2	521,218	52.3	101,625	57.5	110,620	58.1
Total	<u>535,086</u>	<u>100.0</u>	<u>661,568</u>	<u>100.0</u>	<u>997,056</u>	<u>100.0</u>	<u>176,736</u>	<u>100.0</u>	<u>190,284</u>	<u>100.0</u>

We intend to increase the sales of products under our own brands in order to strengthen customer loyalty which can facilitate our further expansion of business in the future.

Note:

(1) These brands include , Greenfresh , Luzao , and .

BUSINESS

Geographical markets

During the Track Record Period and up to the Latest Practicable Date, we sold our products in the PRC and 48 countries and territories in North America, South America, Europe, Asia (excluding China), and Africa. The table below sets forth an analysis of our revenue by delivery destinations for the years/periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	<i>HK\$'000</i>	<i>% of revenue</i>	<i>HK\$'000</i>	<i>% of revenue</i>	<i>HK\$'000</i>	<i>% of revenue</i>	<i>HK\$'000</i>	<i>% of revenue</i>	<i>HK\$'000</i>	<i>% of revenue</i>
	<i>(unaudited)</i>									
China	332,977	62.2	336,197	50.8	475,838	47.7	75,111	42.5	79,664	41.9
Europe	110,917	20.7	195,803	29.6	345,986	34.7	70,353	39.8	69,354	36.5
Asia (excluding China)	47,122	8.8	57,410	8.7	107,947	10.8	17,114	9.7	26,370	13.9
South America	21,224	4.0	35,393	5.3	26,981	2.7	2,061	1.2	5,682	3.0
North America	13,134	2.5	24,965	3.8	33,500	3.4	9,618	5.4	7,868	4.0
Africa	9,712	1.8	11,800	1.8	6,804	0.7	2,479	1.4	1,346	0.7
Total	535,086	100.0	661,568	100.0	997,056	100.0	176,736	100.0	190,284	100.0

Notes:

- (1) European countries refer to the United Kingdom, Germany, France, Spain, Belgium, Netherlands, Denmark, Poland, Russia, Ukraine, Romania, Latvia, Albania, Lithuania, Bulgaria, and Italy, etc.
- (2) Asian countries and territories refer to China (Taiwan), China (Hong Kong), Vietnam, Korea, Japan, Malaysia, Singapore, Philippines, Thailand, Indonesia, India, Turkey, Uzbekistan, and Iran, etc.
- (3) Countries in South America refer to Argentina, Brazil, Peru, Uruguay, and Chile, etc.
- (4) Countries in North America refer to US, Canada, and Mexico, etc.
- (5) Countries in Africa refer to Algeria, Egypt, Morocco, Nigeria, and Ghana, etc.

Our hydrocolloid products are shipped to different locations as requested by our customers primarily because of the increasing demand of the overseas customers and our sales and marketing efforts abroad. Our hydrocolloid products are sold under our brands or in bulk volume not bearing our brands. Our konjac products are mainly sold to our customers in the PRC and other Asian countries and territories because of the consumers' demand for konjac products in these markets. Blended products are mainly sold to customers in the PRC.

BUSINESS

Sales to customers in the PRC

All of our domestic sales are conducted with food producing and processing companies and trading companies in the PRC and all of our sales to customers in the PRC market are under our brands⁽¹⁾.

During the three years ended 31 December 2018, revenue generated from our domestic sales in the PRC amounted to HK\$333.0 million, HK\$336.2 million, and HK\$475.8 million, respectively, accounting for 62.2%, 50.8%, and 47.7% of our total revenue, respectively. During the three months ended 31 March 2019, revenue generated from our domestic sales in the PRC amounted to HK\$79.7 million and accounted for 41.9% of our total revenue, as compared to HK\$75.1 million and 42.5% for the three months ended 31 March 2018.

During the three years ended 31 December 2018, we had 63, 83, and 129 PRC trading company customers, respectively, to which we sold our hydrocolloid products. During the three months ended 31 March 2019, we had 46 PRC trading company customers, as compared to 49 PRC trading company customers during the three months ended 31 March 2018, to which we sold our hydrocolloid products.

Sales to customers in international markets

We have started selling to customers in international markets in 2002. During the Track Record Period and up to the Latest Practicable Date, our products are sold in more than 48 countries and territories and regions in Europe, Asia (excluding China but including Japan and Korea), North America, South America and Africa. As of 31 March 2019, we had a team of seven sales professionals dedicated to managing our sales to international markets. During the Track Record Period, all of our sales to customers in international markets were sold to overseas food producing and processing companies or trading companies in the PRC and overseas.

During the three years ended 31 December 2018, revenue generated from our sales to international markets amounted to HK\$202.1 million, HK\$325.4 million, and HK\$521.2 million, respectively, accounting for 37.8%, 49.2%, and 52.3%, respectively, of our total revenue in such periods. During the three months ended 31 March 2019, revenue generated from our sales to international markets amounted to HK\$110.6 million and accounted for 58.1% of our total revenue, as compared to HK\$101.6 million and 57.5% for the three months ended 31 March 2018.

During the three years ended 31 December 2018, we had 38, 45, and 43 trading company customers, respectively, to which we sold our hydrocolloid products in the international markets. During the three months ended 31 March 2019, we had 25 international trading company customers, as compared to 23 international trading company customers during the three months ended 31 March 2018, to which we sold our hydrocolloid products. Our sales to the international markets are also conducted through trading company customers in the PRC. During the three years ended 31 December

Note:

(1) These brands include 金閩南 , Greenfresh , Luzao , and HAIYU .

BUSINESS

2018, we had five, eleven, and nine trading company customers in the PRC through which we sold our hydrocolloid products internationally. During the three months ended 31 March 2019, we had four PRC, trading company customers, as compared to six PRC trading company customers during the three months ended 31 March 2018, to which we sold our hydrocolloid products internationally.

Our products are required to comply with the local regulations and standards on food safety and product quality in all international markets to which our products are sold. Our international customers may also require us to follow the prescribed standards in respect of quality, raw materials and labelling. Our sales to international customers are shipped on FOB basis or CIF basis.

As confirmed by our PRC Legal Advisers, we are in compliance with all applicable PRC laws and regulations relevant to our international sales during the Track Record Period and up to the Latest Practicable Date. Our Directors confirm that we have completed all necessary procedures to obtain the applicable health and food safety approvals, certificates, registrations or other required confirmations from the relevant government authorities and in the countries to which we export our products.

Nature of business of our customers

Most of our customers are food producing and processing companies and trading companies in the PRC and overseas. In determining the classification, our Directors assume, based on their industry knowledge and the information received from our customers, that our trading company customers would re-sell our products to their own customers with or without modifications. The table below sets forth an analysis of our sales by the business nature of our customers for the years/periods indicated:

	Year ended 31 December			Three months ended 31 March						
	2016	2017	2018	2018	2019					
	<i>% of</i>	<i>% of</i>	<i>% of</i>	<i>% of</i>	<i>% of</i>					
	<i>HK\$'000</i>	<i>revenue</i>	<i>HK\$'000</i>	<i>revenue</i>	<i>HK\$'000</i>	<i>revenue</i>				
	<i>(unaudited)</i>									
Food producing and processing companies	413,555	77.3	497,651	75.2	756,430	75.9	137,935	78.0	145,482	76.5
Trading companies	121,521	22.7	163,906	24.8	240,366	24.1	38,772	22.0	44,744	23.5
Others ⁽¹⁾	10	*	11	*	260	*	29	*	58	*
Total	<u>535,086</u>	<u>100.0</u>	<u>661,568</u>	<u>100.0</u>	<u>997,056</u>	<u>100.0</u>	<u>176,736</u>	<u>100.0</u>	<u>190,284</u>	<u>100.0</u>

* Value insignificant.

Note:

(1) This amount includes revenue generated from our sales to selected research institutions in the PRC.

BUSINESS

Food producing and processing company customers

Most of our products are sold to food producing and processing companies, which use our products as raw materials for the production of their own products. Direct sales to food producing and processing companies enable us to effectively monitor and collect information and feedback on our products from our customers, and promptly respond to the changing needs and requirements of consumers, shifting consumer preferences, and market trends.

During the three years ended 31 December 2018, revenue generated from our sales to food producing and processing company customers amounted to HK\$413.6 million, HK\$497.7 million, and HK\$756.4 million, respectively, accounting for 77.3%, 75.2%, and 75.9%, respectively, of our total revenue. During the three months ended 31 March 2019, revenue generated from our sales to food producing and processing company customers amounted to HK\$145.5 million, representing 76.5% of our total revenue, as compared to HK\$137.9 million and 78.0% for the three months ended 31 March 2018. As of 31 December 2016, 2017, and 2018, and 31 March 2019, we sold our products to 170, 242, 315, and 164 food producing and processing company customers, respectively. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, all of our food producing and processing company customers are Independent Third Parties.

Trading company customers

Some of our products are sold to trading companies in the PRC and overseas which on-sell our products to food producing and processing companies in the PRC and overseas as their own customers. As far as our Directors are aware, our sales to the trading companies during the Track Record Period were supported by the onward sales from our trading company customers to their end customers.

Pursuant to the Frost & Sullivan Report, it is an industry practice in the PRC and the global market that food producing and processing companies may choose to source their raw materials through trading companies. There are benefits associated with this arrangement. The food producing and processing companies may leverage the sourcing capability of the trading companies to identify a stable supply of hydrocolloid products from various hydrocolloid producers. Through such business arrangement, the food producing and processing companies can also save time and costs. Food producing and processing companies may engage different trading companies for the sourcing of hydrocolloid products and as such, reduce the risk of over-reliance on any individual trading company, and these trading companies would not normally disclose to the hydrocolloid producers the identity of and the terms of trade with their end customers. From the perspective of the hydrocolloid producers, sales to trading companies allow them to increase the sales to downstream customers and enlarge the sales network for their products without incurring any substantial amount on sales and marketing.

BUSINESS

Our customers include trading companies because of the following reasons:

- (1) the trading companies are not exclusively conducting business with us, and they source food ingredient products for their own customers and, as far as our Directors are aware, would re-sell our products to their own customers with or without modifications;
- (2) it is an industry practice that food producing and processing companies may choose to source their raw materials through trading companies, as set forth in the Frost & Sullivan Report;
- (3) we do not have any long-term sales contracts entered into with any of the trading company customers, and all of our sales to the trading company customers are conducted on the basis of purchase orders received from the trading company customers from time to time, the terms of which are entered into on an arm's length basis upon normal commercial terms. Our Directors understand that the trading company customers would have received purchase confirmations from their own customers before confirming the purchase orders with us. Our Directors further understand that these trading companies would approach different suppliers (including members of our Group) for comparison of the prices and the quality of products offered by these suppliers;
- (4) each transaction with our trading company customers is independently negotiated and conducted on a non-consignment basis without any unconditional right to return the products to us except that (a) the products are defective (b) the quality/specifications of the products are not in full compliance with the quality/specifications of the products required by the trading company customers;
- (5) except for visits to the trading company customers for business development purpose, we cannot impose any requirement or have control on the business operations of the trading company customers. Nor can we impose requirements on our trading company customers or have control on the recommended price range or packaging for on-sell of our products, minimum sales amount, sales targets, rebates, confidentiality undertaking, and non-competition undertaking; and
- (6) save for a shareholder of a trading company customer who was one of our five largest customers for the two years ended 31 December 2016 and used to be a shareholder of Lvqi (Xiamen) from which we purchased the equity interest in Lvqi (Xiamen), all trading company customers and their ultimate beneficial owners, based on the confirmations obtained from our trading company customers and the industry knowledge of our Directors, are Independent Third Parties.

During the three years ended 31 December 2018, revenue generated from our sales to trading company customers amounted to HK\$121.5 million, HK\$163.9 million, and HK\$240.4 million, respectively, accounting for 22.7%, 24.8%, and 24.1%, respectively, of our total revenue. During the three months ended 31 March 2019, revenue generated from our sales to trading company customers amounted to HK\$44.7 million and accounted for 23.5% of our total revenue, as compared to HK\$38.8 million and 22.0% for the three months ended 31 March 2018. As of 31 December 2016, 2017, 2018, and 31 March 2019, we had 99, 126, 167, and 70 trading company customers, respectively.

BUSINESS

During the Track Record Period and up to the Latest Practicable Date, save for a shareholder of a customer who was one of our five largest customers for the year ended 31 December 2016 and used to be a shareholder of Lvqi (Xiamen) and one of the vendors when we acquired all the equity interest in Lvqi (Xiamen) in May 2017, all of our trading company customers were Independent Third Parties.

Additional information on our trading company customers

The table below sets forth the changes in the number of trading company customers for the years/periods indicated:

	Year ended 31 December			Three months ended
	2016	2017	2018	31 March 2019
	Number of trading company customers as of the beginning of the year/period	88	99	126
Net increase (decrease) in the number of trading company customers during the year/period.	11	27	41	(97)
Number of trading company customers as of the end of the year/period	99	126	167	70

During the Track Record Period and up to the Latest Practicable Date, we have not entered into any long-term sales agreements with any trading company customers. Our sales with the trading companies were concluded on a case-by-case basis, and the purchase orders placed by our trading company customers will include information on the type of products, specifications, quantity, unit price of products, payment, and delivery terms. Our business volume with each of these trading company customers in a particular year is dependent on (a) the business of the trading company customers with their own end customers; (b) the nature of the products required by the end customers of our trading company customers; and (c) whether the price offered by us are competitive as compared with other suppliers sourced by the trading company customers. Hence, we are not able to anticipate the number of our trading company customers during a particular year or period. There was a substantial decrease in the number of our trading company customers as of 31 March 2019, and such decrease was primarily due to the decreased levels of purchase orders received by the trading companies from their own end customers. Our Directors do not consider that the decrease would have any impact on our operating results as these trading company customers may place their purchase orders from time to time during the rest of the year.

We recognise our sales following shipment of our products and that such products have been accepted by our trading company customers, and the title and the risk of such products have been passed to our trading company customers. We ship our products to the warehouse of our trading company customers or such other destinations as requested.

BUSINESS

For international sales, our trading company customers would require the quality of our products to meet the export requirements under the export and import quarantine control and the requirements of the importing countries and in full compliance with the relevant laws, regulations, and rules of the importing countries.

Our five largest customers

During the three years ended 31 December 2018, sales to our five largest customers accounted for 47.0%, 37.9%, and 38.7% of our total revenue, respectively, and sales to our largest customer, accounted for 20.7%, 13.0%, and 15.9% of our total revenue, respectively. During the three months ended 31 March 2019, sales to our five largest customers accounted for 33.6% of our total revenue, and sales to our largest customers accounted for 12.9% of our total revenue. During the three months ended 31 March 2018, sales to our five largest customers accounted for 44.8% of our total revenue, and sales to our largest customers accounted for 20.0% of our total revenue. Changes in the composition of our five largest customers during the Track Record Period were primarily due to changes in the purchase volume from the customers for their business reasons given that there is no long-term sales agreement entered into between these customers and us. None of our Directors, their respective associates or any of our Shareholders holding more than five per cent. of our Shares in issue following completion of the Share Offer, and to the best knowledge of our Directors, held any interests in any of our five largest customers during the Track Record Period.

The table below sets forth certain information on our five largest customers during the Track Record Period:

Three months ended 31 March 2019

Five largest customers	Sales amount		Type of products purchased	Business scope	Location of headquarters	Background of customers and their scale of operation	Approximate length of relationship with our Group as of the Latest Practicable Date (year)
	<i>HK\$'000</i>	%					
Customer A	24,549.5	12.9	Carrageenan products	Food producing and processing company	Spain	A producer of carrageenan products headquartered in Spain, which focuses on the manufacture, application and customization of hydrocolloid products. ⁽¹⁾	8.3
Customer I	12,584.8	6.6	Carrageenan products and konjac products	Food producing and processing company	PRC	A company focuses on the wholesale of pre-packaged food, bulk food, and merchandise of primary household products and packaging materials. The registered capital of this customer is RMB60.0 million.	11.2

(2)

BUSINESS

Five largest customers	Sales amount		Type of products purchased	Business scope	Location of headquarters	Background of customers and their scale of operation	Approximate length of relationship with our Group as of the Latest Practicable Date (year)
	HK\$'000	%					
Customer J	10,424.7	5.5	Carrageenan products and agar-agar products	Food producing and processing company	South Korea	A producer of food additives headquartered in South Korea. ⁽¹⁾	5.7
Customer C	9,296.5	4.9	Carrageenan products and blended products	Food producing and processing company	PRC	A non-wholly owned subsidiary of a company listed on the Stock Exchange, which focuses on livestock breeding, livestock slaughtering, manufacture and sales of packaging materials and meat products. The registered capital of this customer is RMB3,229.6 million. ⁽²⁾	7.7
Customer K	7,109.9	3.7	Carrageenan products and agar-agar products	Trading company	PRC	A company engaging in the wholesale of pre-packaged food and food additives the import and export of various commodities and technologies. The registered capital of this customer is RMB2.0 million. ⁽²⁾	4.0

Notes:

- (1) Based on the latest information obtained by us in public domain.
- (2) Based on the latest information obtained from the National Enterprise Credit Information Publicity System.

Year ended 31 December 2018

Five largest customers	Sales amount		Type of products purchased	Business scope	Location of headquarters	Background of customers and their scale of operation	Approximate length of relationship with our Group as of the Latest Practicable Date (year)
	HK\$'000	%					
Customer A	158,468.5	15.9	Carrageenan products	Food producing and processing company	Spain	A producer of carrageenan products headquartered in Spain, which focuses on the manufacture, application and customisation of hydrocolloid products. ⁽¹⁾	8.3
Customer B	67,996.9	6.8	Agar-agar products, carrageenan products, konjac products and blended products	Trading company	PRC	A company engaging in the wholesale and retail of plastic, metal and electrical products, office supplies and daily necessities, and the import and export of goods. The registered capital of this customer is RMB0.5 million. ⁽²⁾	6.3

BUSINESS

Five largest customers	Sales amount		Type of products purchased	Business scope	Location of headquarters	Background of customers and their scale of operation	Approximate length of relationship with our Group as of the Latest Practicable Date (year)
	HK\$'000	%					
Customer C	65,127.8	6.5	Carrageenan products, and blended products	Food producing and processing company	PRC	A non-wholly owned subsidiary of a company listed on the Stock Exchange, which focuses on livestock breeding, livestock slaughtering, manufacture and sales of packaging materials and meat products. The registered capital of this customer is RMB3,229.6 million. ⁽²⁾	7.7
Customer D	58,861.2	5.9	Agar-agar products	Food producing and processing company	PRC	A company engaged in the business of manufacturing and selling of agar-agar products and additives for blended products. The registered capital of this customer is RMB30.0 million. ⁽³⁾	7.2
Customer E	36,256.7	3.6	Agar-agar products	Food producing and processing company	Italy	A multi-national supplier of hydrocolloids and additives for food, beauty products and pharmaceutical products with offices and manufacturing facilities in Europe and Asia. ⁽³⁾	2.5

Notes:

- (1) Based on the latest information obtained by us in public domain.
- (2) Based on the latest information obtained from the National Enterprise Credit Information Publicity System.
- (3) Based on the latest information obtained from the National Enterprise Credit Information Publicity System.

BUSINESS

Year ended 31 December 2017

Five largest customers	Sales amount		Type of products purchased	Business scope	Location of headquarters	Background of customers and their scale of operation	Approximate length of relationship with our Group as of the Latest Practicable Date (year)
	HK\$'000	%					
Customer A	86,205.7	13.0	Carrageenan products	Food producing and processing company	Spain	A producer of carrageenan products headquartered in Spain, which focuses on the manufacture, application and customisation of hydrocolloid products. ⁽¹⁾	8.3
Customer D	73,495.1	11.1	Agar-agar products, carrageenan products and konjac products	Food producing and processing company	PRC	A company engaged in the business of manufacturing and selling of agar-agar products and additives for blended products. The registered capital of this customer is RMB30.0 million. ⁽²⁾	7.2
Customer B	34,006.9	5.1	Agar-agar products, carrageenan products, konjac products and blended products	Trading company	PRC	A company engaging in the wholesale and retail of plastic, metal and electrical products, office supplies and daily necessities, and the import and export of goods. The registered capital of this customer is RMB0.5 million. ⁽²⁾	6.3
Customer C	31,065.1	4.7	Carrageenan products, and blended products	Food producing and processing company	PRC	A non-wholly owned subsidiary of a company listed on the Stock Exchange, which focuses on livestock breeding, livestock slaughtering, manufacture and sales of packaging materials and meat products. The registered capital of this customer is RMB3,229.6 million. ⁽²⁾	7.7
Customer F	26,360.2	4.0	Agar-agar products and carrageenan products	Food producing and processing company	PRC	A company engaging in the research and development and promotion of processing technology of meat products, additives, agricultural products, as well as the manufacture of food additives and seasonings. The registered capital of this customer is RMB5.0 million. ⁽²⁾	3.4

Notes:

- (1) Based on the latest information obtained by us in public domain.
- (2) Based on the latest information obtained from the National Enterprise Credit Information Publicity System.

BUSINESS

Year ended 31 December 2016

Five largest customers	Sales amount		Type of products purchased	Business scope	Location of headquarters	Background of customers and their scale of operations	Approximate length of relationship with our Group as of the Latest Practicable Date (year)
	HK\$'000	%					
Customer D	110,812.3	20.7	Agar-agar products, carrageenan products and konjac products	Food producing and processing company	PRC	A company engaged in the business of manufacturing and selling of agar-agar products and additives for blended products. The registered capital of this customer is RMB30.0 million. ⁽²⁾	7.2
Customer A	52,250.2	9.8	Carrageenan products	Food producing and processing company	Spain	A producer of carrageenan products headquartered in Spain, which focuses on the manufacture, application and customisation of hydrocolloid products. ⁽³⁾	8.3
Customer C	42,684.7	8.0	Carrageenan products, and blended products	Food producing and processing company	PRC	A non-wholly owned subsidiary of a company listed on the Stock Exchange, which focuses on livestock breeding, livestock slaughtering, manufacture and sales of packaging materials and meat products. The registered capital of this customer is RMB3,229.6 million. ⁽²⁾	7.7
Customer G ⁽¹⁾	26,942.8	5.0	Agar-agar products, carrageenan products, and konjac products	Trading company	PRC	A company engaging in the import and export of goods and the wholesale of chemical raw materials, carrageenan products, food additives, leather goods, and clothing products. The registered capital of this customer is RMB3.0 million. ⁽²⁾	4.5
Customer H	18,842.3	3.5	Agar-agar products	Food producing and processing company	Spain	A company headquartered in Spain and engaging in the manufacture of food grade agar, agarose, biochemical agar, peptone and products used in food, biochemistry, molecular biology, bacterial culture and plant tissue culture. It is a privately-owned business. ⁽³⁾	4.5

Notes:

- (1) The shareholder of Customer G, who became the shareholder of Customer G in February 2016, used to be a shareholder of Lvqi (Xiamen) and one of the vendors when we acquired all the equity interest in Lvqi (Xiamen) in May 2017. See the section headed “History, Development, and Reorganisation — Our subsidiaries — PRC subsidiaries” in this prospectus.
- (2) Based on the latest information obtained from the National Enterprise Credit Information Publicity System.
- (3) Based on the latest information obtained by us in public domain.

BUSINESS

Credit period and payments

The credit period we provided to our customers is subject to various factors, including their scale of operations, length of business relationship with us, and their historical payment records. Except for certain customers which we consider as having high credit worthiness are granted credit period of up to 180 days, most of our customers are granted credit period of not more than 90 days from the invoice date. Our customers in the PRC are required to settle the payments with us in RMB. Our international customers mainly settle our payments in US dollars or Euro. During the three years ended 31 December 2018, our sales denominated in US dollars or Euro accounted for 37.8%, 49.2%, and 52.3%, respectively, of our total revenue. During the three months ended 31 March 2019, our sales denominated in US dollars or Euro accounted for 58.1% of our revenue, as compared to 57.5% for the three months ended 31 March 2018.

We have not used any hedging policy against fluctuations in the foreign currencies in relation to our overseas sales during the Track Record Period and up to the Latest Practicable Date.

During the Track Record Period, we did not experience any major default in payments by our customers which could have a material adverse impact on our business and financial condition and operating results.

None of our customers have settled their payments to us through third parties.

During the year ended 31 December 2016, our net impairment losses on financial assets amounted to HK\$5.1 million. During the year ended 31 December 2017, we had impairment wrote-back of HK\$1.4 million. During the year ended 31 December 2018, our net impairment losses amounted to HK\$0.7 million. During the three months ended 31 March 2019, our net impairment gain on financial assets amounted to HK\$1.1 million, as compared to HK\$0.7 million for the three months ended 31 March 2018. The impairment loss was comprised of specific impairment (against the balance owed by a particular customer) and the amount of impairment to be made under our accounting policy, see the section headed “Financial Information — Principal components of our current assets and current liabilities” in this prospectus.

Product pricing

We generally adopt a “cost-plus” approach in determining the selling prices of our hydrocolloid products. Changes in the average unit selling prices of our hydrocolloid products are generally affected by a number of factors, including applications of our products, demand and supply dynamics, purchase cost of raw materials, and selling prices of similar products offered by our competitors. If there is any material increase in the average unit purchase cost, we would also transfer the cost increase to our customers. If there is any material fluctuation in the prices of raw materials or the exchange rates between RMB and US\$ and Euro, we would transfer the price increase to our customers.

BUSINESS

We operate in a competitive environment, even though we may be able to determine the selling prices of some of our products, including higher-grade agar-agar products (with high gel strength), which may not be offered by our competitors and readily available in the market. Pursuant to the Frost & Sullivan Report, there has been an increase in the demand for hydrocolloid products in recent years. Our Directors believe that we would be able to transfer to our customers the increase in the cost of raw materials within a short period of time. Hence, the selling prices of our hydrocolloid products generally followed the price trends of our principal raw materials during the Track Record Period.

Delivery and logistics

Delivery of our products to our customers in the PRC is primarily made by trucks, whereas delivery to our international customers is on FOB basis or CIF basis.

We generally engage third party transportation/logistics service providers to deliver products from our production facilities or warehouses to the ports or locations designated by our customers. We select shipment/logistics service providers based on their reputation, scale of operation, track record and cost estimates. We usually enter into agreements with our transportation/logistics service providers on an annual basis under the standardised terms and conditions of our transportation/logistics service providers. Our transportation/logistics service providers will be liable for any delay of delivery and loss in transit. During the three years ended 31 December 2018, the transportation cost incurred by us for engaging Independent Third Parties amounted to HK\$4.0 million, HK\$4.5 million, and HK\$6.0 million, respectively, representing 1.0%, 0.9%, and 0.8%, respectively of our total cost of sales. During the three months ended 31 March 2019, the transportation cost incurred by us for engaging Independent Third Parties amounted to HK\$1.2 million, as compared to HK\$1.6 million for the three months ended 31 March 2018.

Our products are required to comply with the local regulations and standards on food safety and product quality in all international markets in which our products are sold to. We have also obtained the registration certificate for consignors and consignees for import and export of goods in the PRC.

Our Directors confirm that we have not experienced any material disruption or damage to our products in the delivery of our products to our customers during the Track Record Period and up to the Latest Practicable Date.

BUSINESS

Product recall and consumer feedbacks

We have an established product recall policy. Our quality control system enables us to track all material information of our final products in different lots, allowing us to readily identify and locate defective batches of products in case of product recalls. Upon being notified that some of our products may be contaminated or defective, we will evaluate the necessity for a product recall. Once we decide that there is a need for product recall, we will notify the relevant teams including procurement, production, warehousing, quality control and logistics to identify the relevant product batch to be recalled and our sales personnel will then promptly inform the relevant customers.

Our customers are not allowed to return or exchange products except for contaminated or defective products or products that do not meet the specifications. During the Track Record Period and up to the Latest Practicable Date, there were no product recalls or material product returns from our customers. We did not record any provision for product warranties during the Track Record Period.

We operate sales service hotline during normal business hours to respond to customer enquiries and complaints. Our customers may also make enquiries or complaints by way of email. Upon receiving any enquiries and complaints, our customer service staff will promptly respond and report internally to the relevant departments. Our sales centre, quality centre and research and development centre will assist to resolve issues on sales, product application and testing, technology and product quality, respectively. We ensure the enquiries and complaints are dealt with appropriately and remedial measures are carried out promptly. During the Track Record Period and up to the Latest Practicable Date, we have not received any material customer complaints on product quality.

Seasonality

Taking into consideration the diverse locations of our customers and the wide range of end products into which our products could be used for production and processing, our Directors consider that sales of our products are generally not subject to seasonal fluctuations from an overall perspective. There are, however, fluctuations in the monthly and the quarterly amounts of our sales due to the following reasons:

- (1) Our customers place their purchase orders according to their own requirements or the requirements of their end customers. This could result in timing difference in receiving the purchase orders by us and delivering our products to our customers upon which we recognise our revenue.
- (2) Our sales to customers in the international market are not being affected by any significant seasonal fluctuations because of the diverse locations of these international customers.
- (3) Our sales to customers in the PRC are being affected by the consumption pattern, consumers' preference, and the seasonal demand for food and beverage products in the end markets. Such sales generally increase in summer and certain festive seasons in the PRC.

BUSINESS

The above reasons could result in fluctuations in the monthly and the quarterly amounts of our sales, but such fluctuations are primarily due to a combination of business reasons and to a lesser extent, PRC end-market seasonal factor.

MARKETING

Our sales and marketing team work closely for the promotion of our products. Our sales and marketing team is responsible for the marketing activities of our Group, serving our existing customers and promoting new products to new customers. Our sales and marketing teams are primarily responsible for communications with our customers, business development, implementing marketing strategies and conducting promotion activities. In some cases, our sales and marketing teams will assist in the provision of after-sales services to our customers and collecting market feedbacks on our new products.

We sell our products under our own brand, Luzao, since 2001. We focus our marketing efforts on promoting our products and our brands. Advertising through printed media are carried out to enhance brand awareness and recognition amongst the target customers. We also participate in international trade shows and exhibitions in the PRC and overseas to promote our products to potential buyers and collect information on market trends and consumer preferences.

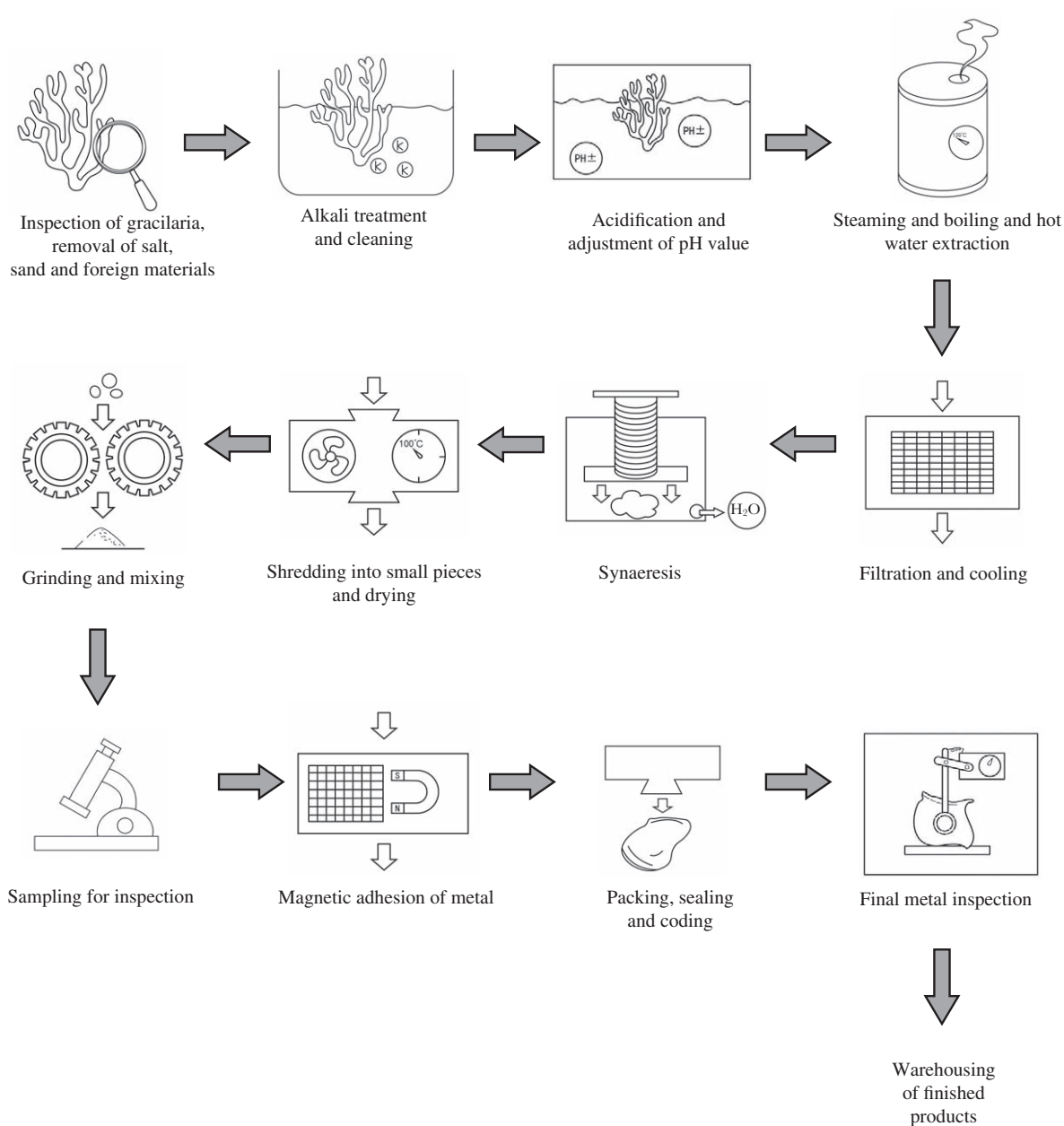
During the three years ended 31 December 2018, our marketing and promotion expenses amounted to HK\$1.4 million, HK\$2.0 million, and HK\$1.9 million, respectively, equivalent to 0.3%, 0.3%, and 0.2% of our total revenue. During the three months ended 31 March 2019, our marketing and promotion expenses amounted to HK\$0.3 million, as compared to HK\$0.7 million for the three months ended 31 March 2018.

PRODUCTION PROCESS OF OUR HYDROCOLLOID PRODUCTS

The diagrams below illustrate the key stages of the production process of our hydrocolloid products including agar-agar products, carrageenan products, konjac gum products, and their respective blended products.

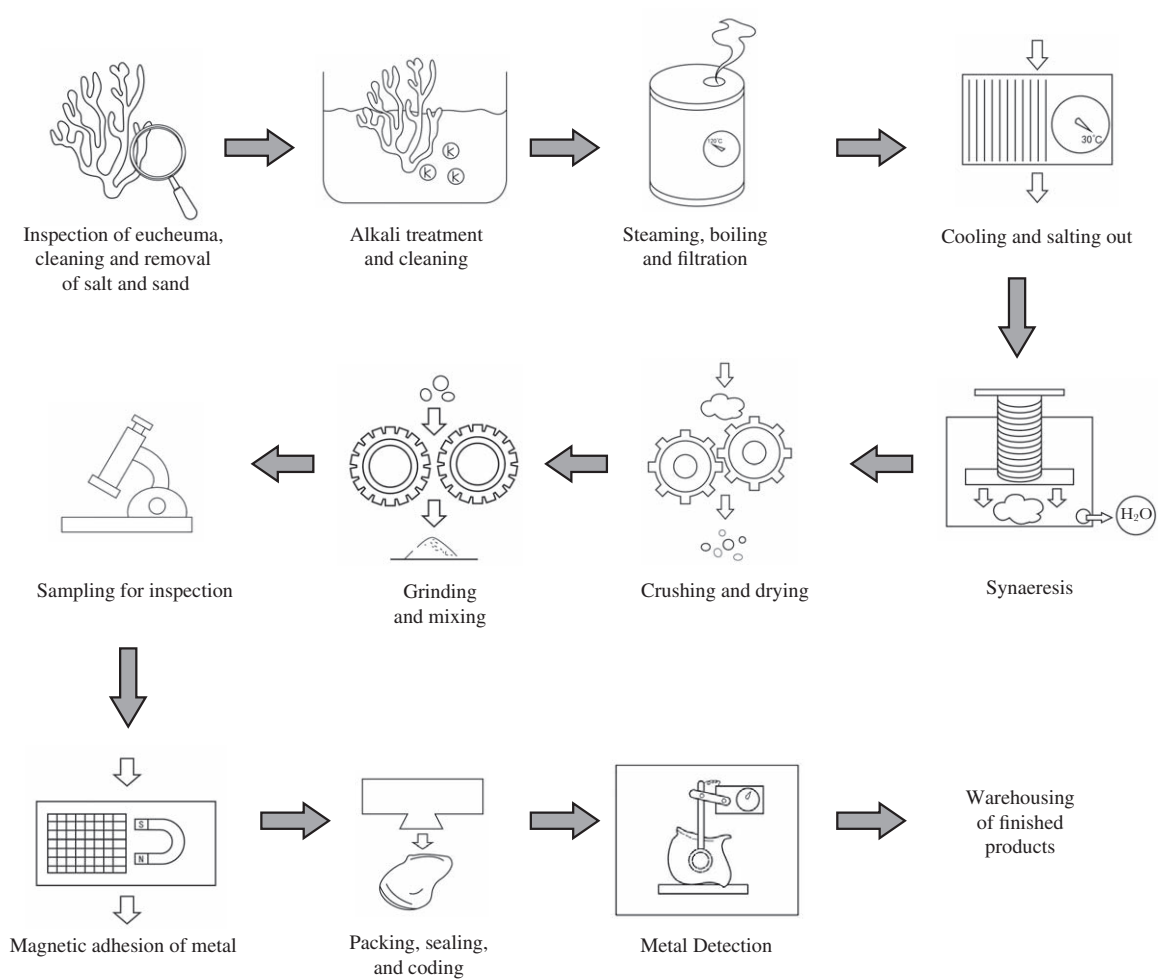
Production process of agar-agar products

The entire process typically takes approximately three days to complete on the basis of processing of a container of 2,300 kg of dried gracilaria.



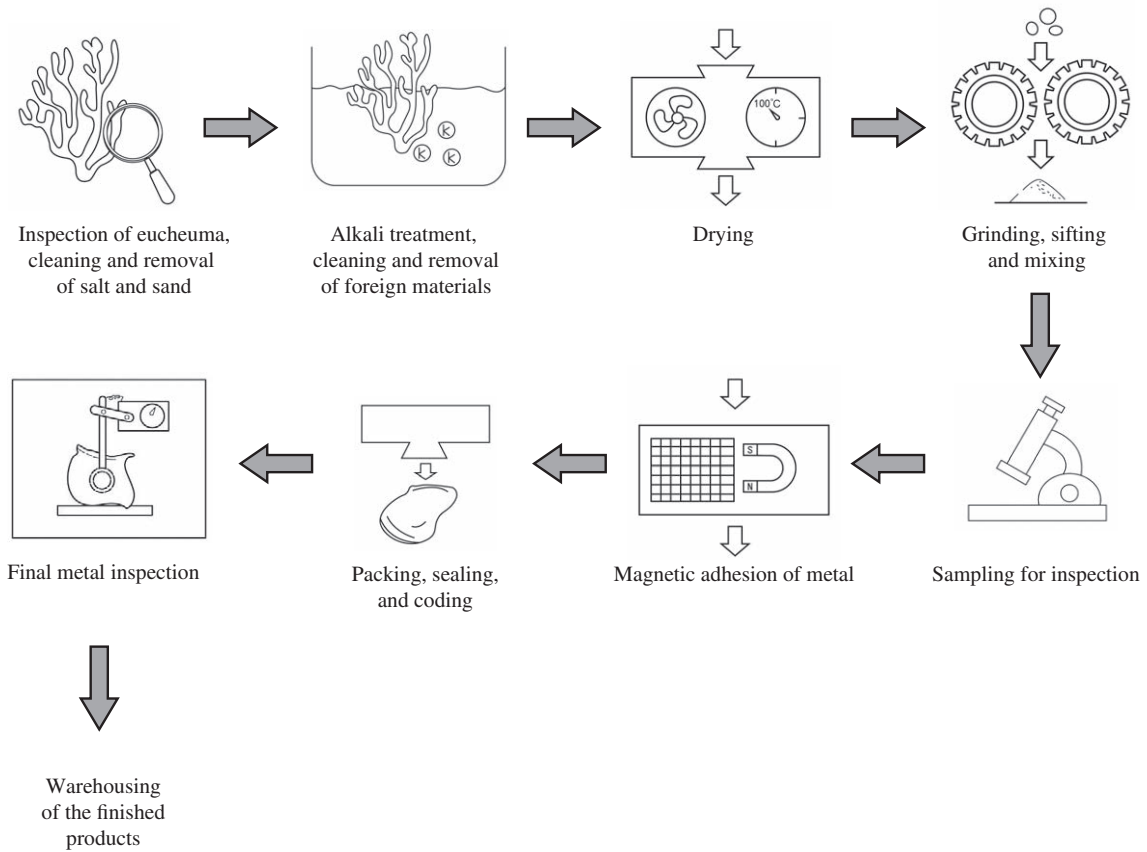
Production process of refined carrageenan products

The entire process typically takes approximately three days to complete on the basis of processing of a container of 2,600 kg of dried eucheuma.



Production process of semi-refined carrageenan products

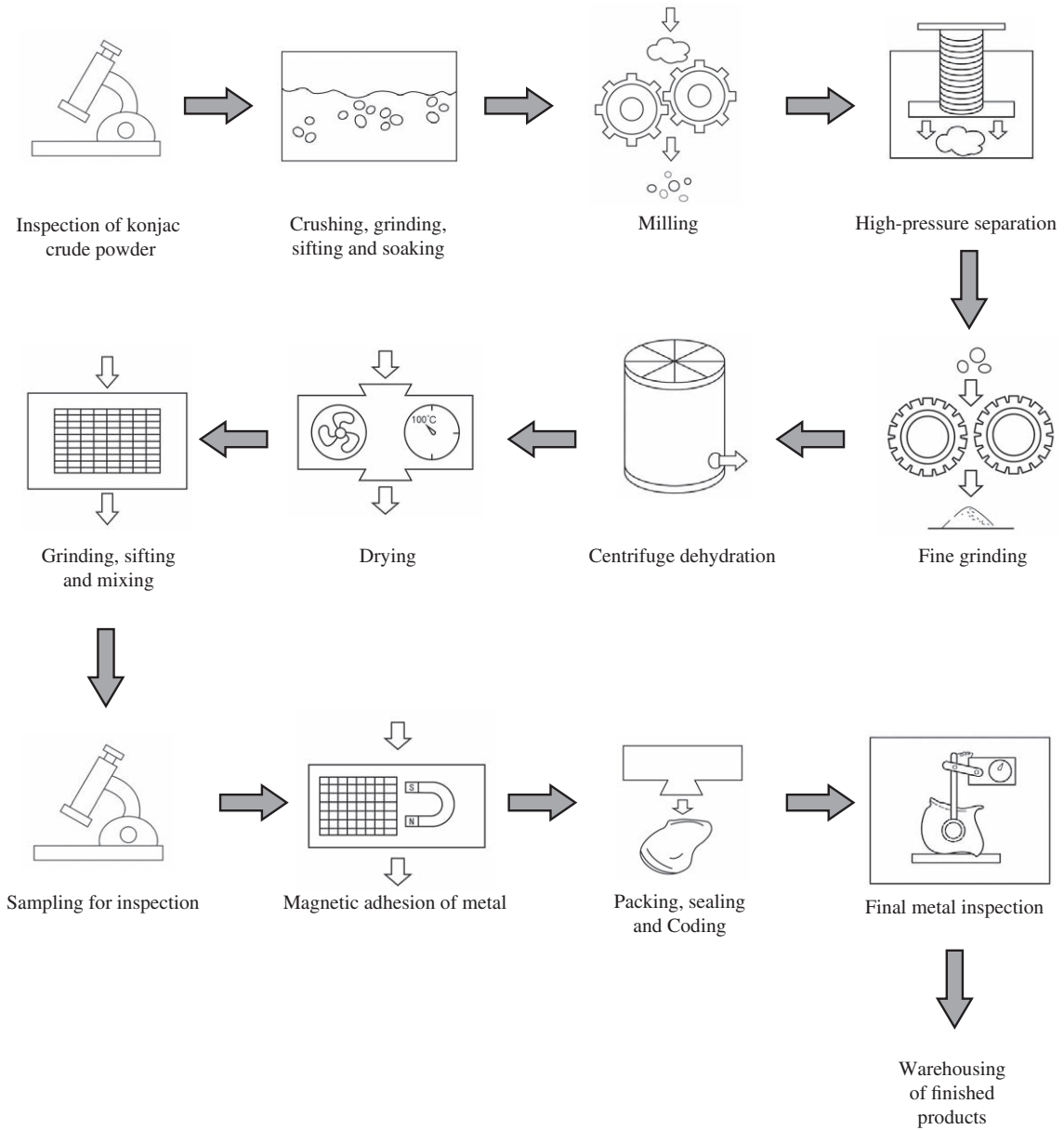
The entire process typically takes approximately two days to complete on the basis of processing of a container of 3,500 kg of dried eucheuma.



BUSINESS

Production process of konjac gum products

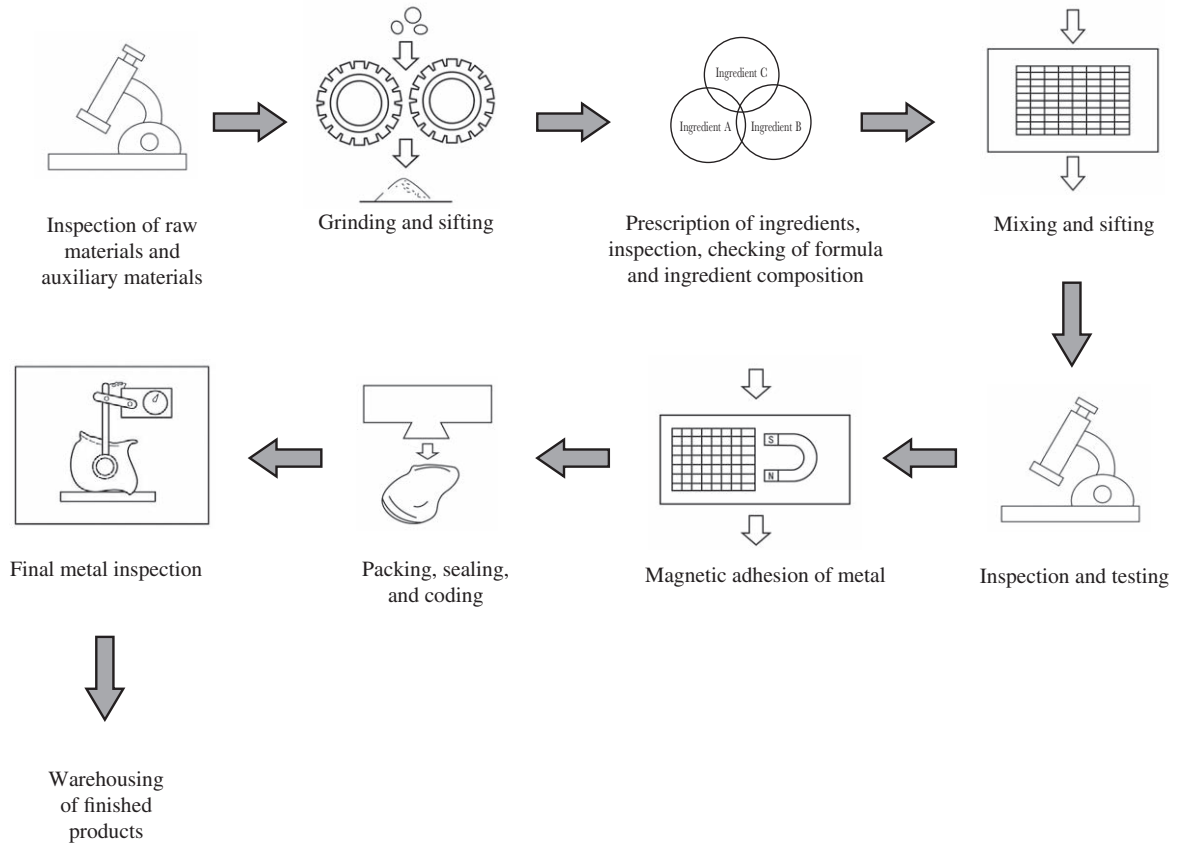
The entire process typically takes approximately half day to complete on the basis of processing of a container of 500 kg of konjac crude powder.



BUSINESS

Production process of blended products

The entire process typically takes approximately four to five hours to complete on the basis of processing of a container of 1,000 kg of our finished products.



BUSINESS

Procurement of raw materials and ancillary materials

Our procurement centre procures raw materials and ancillary materials pursuant to our procurement plan which is prepared based on our production needs, sales orders received by our sales and marketing centre, and the historical and future price trends of the relevant raw materials. We maintain a list of suppliers who can meet our quality requirements and we only purchase raw materials from such suppliers. We procure dried seaweed from suppliers in Indonesia and ancillary materials from suppliers in China. During the Track Record Period, we sourced most of the dried seaweed from Indonesia and in this connection, we have sent our staff members to Indonesia, who will conduct on-site inspections of dried seaweed (of salt and other foreign materials) before confirming our purchase orders. Detailed analysis of dried seaweed will also be conducted by us on a sample and random basis. We normally choose dried seaweed of a combination of quality in order to satisfy our production needs of our hydrocolloid products of different specifications. Our purchase of dried seaweed is also based on our Directors' anticipation of the price trends and our production requirements. For more details regarding our suppliers and procurement policies, see “— Procurement of Raw Materials and Suppliers” below.

Inspection and testing of raw materials

For dried seaweed, our staff members will conduct on-site and sample inspections. Incoming dried seaweed will also be tested for foreign materials at our laboratory before dispatching the dried seaweed for production of different kinds of hydrocolloid products. Raw materials (including dried seaweed and other ancillary materials) that can meet our quality requirements will be delivered to the warehouse by batches and will be dispatched for further processing.

Removal of salt, sand, and other foreign materials

Dried seaweed is sifted to remove salt, sand, and other foreign materials.

The following sets forth the processing steps of agar-agar, refined carrageenan, semi-refined carrageenan, konjac gum and blended products prior to the step of coding, sealing and packing:

Agar-agar products

Alkali treatment and cleaning

Gracilaria is treated with alkali before extraction, which can cause an increase in gel strength of the agar-agar. Dried seaweed is heated in sodium hydroxide at 80-90 °C for three hours in the alkaline treatment process. The seaweed is then washed thoroughly with water to remove the alkali.

Acidification and adjustment of pH value

The seaweed is treated with hydrochloric acid for acidification to facilitate agar to dissolve in the hot water extraction, which is then heated with sodium hydroxide solvent to adjust the pH value to 8-9.

BUSINESS

Steaming and boiling and hot water extraction

The seaweed is boiled in hot water at the temperature of 95-115 °C until completely dissolves.

Filtration and cooling

The hot extract is filtered to remove the seaweed residue by pumping through a filter press with a filter cloth. Filtrate is then cooled to form a gel, which is broken into strips.

Synaeresis

Agar gel is filtered in a pressure filter equipment to separate the liquid from the agar gel through synaeresis and gel pressing. The remaining agar gel is peeled off from the cloth.

Shredding into small pieces and drying

Agar gel is shredded into smaller pieces and dried in a drying machine to the required moisture level pursuant to the specifications and quality requirements.

Grinding and mixing

Dried agar gel is fed to the grinding mill and is crushed and disintegrated to the required size and blended pursuant to the specifications and quality requirements.

Refined carrageenan products

Alkali treatment and cleaning

Seaweed that has been cleaned is heated in the alkaline solution of sodium hydroxide and potassium chloride for about four hours. Alkali treatment can increase the gel strength of the carrageenan in the seaweed. The potassium part of the solution combines with the carrageenan in the seaweed to produce a gel, which prevents the carrageenan from dissolving in the hot solution and affecting gel extraction. The alkali treated seaweed is washed thoroughly to remove the alkali and is soaked to absorb water.

Steaming, boiling and filtration

The treated seaweed is dissolved into solution through steaming and boiling under high temperature of 95-98°C. Seaweed that is not dissolved is mixed with filter aid and removed by filtering in a pressure filter.

BUSINESS

Cooling and salting out

Hot gel solvent is cooled until reaching temperature equal to or less than 32°C. Potassium chloride solvent is added and seaweed gel is formed through salting out.

Synaeresis

Seaweed gel is filtered in a pressure filter equipment for synaeresis. Pressure is applied to force the separation of the water from the seaweed gel.

Crushing and drying

The remaining seaweed gel is crushed to small particles and dried in a drying machine to the required moisture level pursuant to the specifications and requirements.

Grinding and mixing

Dried gel is fed into the grinding mill for crushing and disintegrating into powder pursuant to the required particle size and is mixed evenly pursuant to the quality requirements and specifications.

Semi-refined carrageenan products

Alkali treatment, cleaning, and removal of foreign materials

Seaweed that has been cleaned is heated in the alkaline solution of sodium hydroxide and potassium chloride for about four hours. The alkali treatment can increase the gel strength of the carrageenan in the seaweed. The potassium part of the solution combines with the carrageenan in the seaweed to produce the seaweed gel, which prevents the carrageenan from dissolving in the hot solution and affecting gel extraction. The alkali treated seaweed is washed thoroughly to remove the alkali. The treated seaweed is placed on the drying machine conveyor to remove the foreign materials manually.

Drying

The treated seaweed which has received the alkaline treatment and has been thoroughly cleaned to remove foreign materials is dried in a drying machine to the required moisture level pursuant to the specifications and requirements.

Grinding, sifting, and mixing

Dried seaweed is shredded and fed to the grinding mill for crushing and disintegrating into powder which is then sifted and evenly blended pursuant to the quality requirements and specifications.

BUSINESS

Konjac gum

When we use konjac flakes as raw material for the production of konjac gum, additional steps of crushing, grinding and sifting shall be included in the production process of konjac gum:

Crushing of konjac flakes

Konjac flakes (composed of konjac glucomannan and starch granules) are crushed in the grinding mill.

Grinding, sifting, and soaking

Konjac flakes are broken up and disintegrated into tiny particles and konjac glucomannan granules are separated from starch particles by cyclonic separation in the grinding mill and sifting to provide konjac crude powder. Konjac crude powder is soaked in a solution of ethanol with a concentration level of 40-50%.

Milling

Konjac crude powder is grinded in the mill which leads to further reduction of the particle size and for removal of the starch on the surface of the particles.

High-pressure separation

Starch and other materials are removed and separated by high pressure separation machine.

Fine grinding

Further grinding in the mill to reduce the particle size of konjac gum.

Centrifuge dehydration

Ethanol and water are removed from konjac gum by centrifuge machine.

Drying

Drying of konjac gum with vacuum dryer to remove the remaining ethanol and water.

Grinding, sifting, and mixing

Konjac gum that has been dried is fed to the grinding mill and is grinded and sifted to powder pursuant to the required particle size. Konjac gum is mixed evenly pursuant to the quality requirements and specifications.

BUSINESS

Blended products

Grinding and sifting

Raw materials are fed to the grinding equipment for crushing and disintegrating into powder pursuant to the specifications and are filtered in a sifting equipment.

Prescription of ingredients

Prescription of ingredients for the blended product is determined pursuant to the product formula, specifications and requirements.

Inspection, checking of formula and ingredient composition

We conduct inspection and checking of formula and ingredient composition of raw materials for further processing.

Mixing and sifting

Raw materials are sifted and blended pursuant to the specifications and requirements.

Magnetic adhesion of metal

Final product will go through the magnetic adhesion process to test for the presence of metal.

Inspection

Final products will then go through the quality control inspection process.

Final metal detection

Final products will go through the final metal inspection procedure to test for the presence of metal.

Coding, sealing, and packing

Final products are weighed and packed in accordance with the relevant product specifications. The product packaging contains the product name, net weight, batch number of production and production date. Our system keeps track of all our finished products enabling us to trace the status of each product in storage or in transit until they are sold to our customers. We then proceed to seal the products. We conduct sampling tests on every batch of the final products to ensure they fully meet the quality requirements and specifications.

Warehousing

Finished products are moved to our inventory storage area.

BUSINESS

Delivery

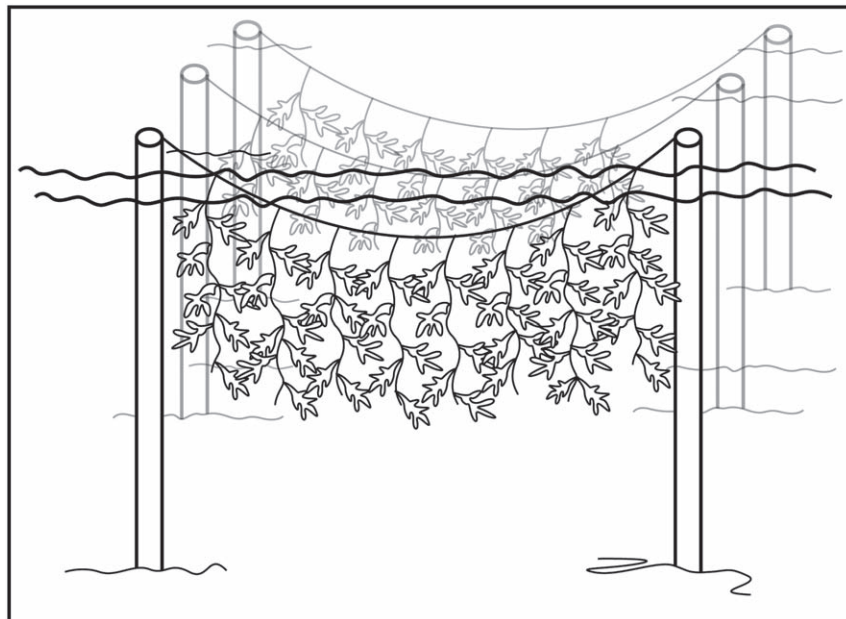
Finished products are delivered to our customers. We ensure only those batches of products which pass our sample checks can be released and dispatched to our customers.

SEAWEED CULTIVATION

Our seaweed cultivation facilities in the PRC provided us with a small portion of the seaweed used by us during the Track Record Period. Our cultivation facilities were currently used for production purpose and serve as trial operation for the farmers. Nevertheless, our Directors believe that such facilities represent a business milestone. During the three years ended 31 December 2018, the amount of seaweed cultivated by us represented 1.7%, 2.0%, and 0.3% of our total purchase of seaweed in terms of tonnes for our production purpose. During the three months ended 31 March 2019, the amount of seaweed cultivated by us represented 0.4% of our total purchase of seaweed in terms of tonnes for our production purpose, as compared to 0.9% for the three months ended 31 March 2018.

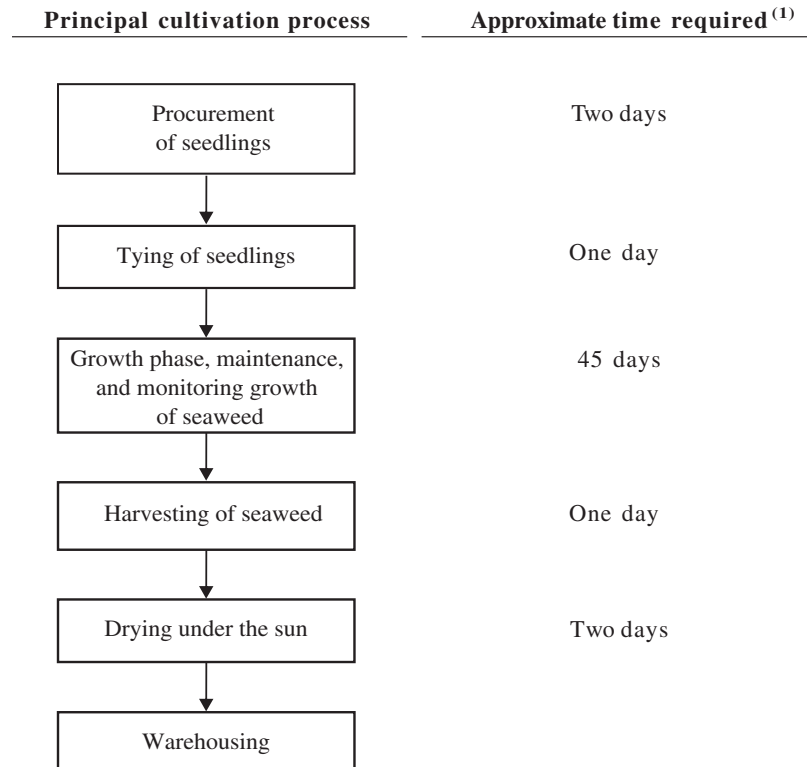
Cultivation approach

We use fixed off-bottom line approach in our seaweed cultivation. Fixed off-bottom line approach is generally suitable for cultivation on sea areas with sandy bottom, shallow, and clean water. Wooden stakes are driven to the sea bottom with the tying of ropes to the stakes. Seaweed seedlings are tied to the ropes attached to the stakes. The diagram below illustrates the structure of this cultivation approach used by us in the sea cultivation area.



BUSINESS

In most cases, the harvest cycle would be between 45 days and 60 days. Subject to adverse weather condition, we would have 5 to 6 harvests during the cultivation season from September to July of each year. The diagram below illustrates the major steps of cultivation process of seaweed:



Note:

(1) The estimated time for each production process is based on the seaweed collected from 5,000 seedlings (20 mu).

Procurement of seedlings

Seedlings are procured from suppliers in the PRC.

Tying of seedlings

Seedlings are tied to the ropes attached to the wooden stakes in the cultivation base.

Growth phase, maintenance, and monitoring the growth of seaweed

Regular maintenance involves removing other seaweed growth on the plants or the ropes, removing any poorly growing plants and making any necessary repairs to the wooden stakes or ropes.

BUSINESS

Drying under the sun

Harvested seaweed is moved to the drying area and is dried under the sun for two days.

Warehousing

Dried seaweed is moved to our warehouse and is stored in cool, dry and well-ventilated conditions.

Cultivation area

We carried out our cultivation activities at West of Baiyu, Gangwei Town, Longhai City, Zhangzhou City, Fujian Province, the PRC and South of Wuyu, Longhai City, Zhangzhou City, Fujian Province, the PRC, which commenced commercial operation from January 2015 and January 2016, respectively. The table below sets forth further information on our seaweed cultivation area:

<u>Locations</u>	<u>Type of seaweed</u>	<u>Total sea area</u>	<u>Total cultivation area</u>	<u>Year of commencement of commercial operation</u>	<u>Expiry date of the current lease</u>
		<i>(sq.m.)</i>	<i>(sq.m.)</i>		
West of Baiyu					
Gangwei Town					
Longhai City					
Zhangzhou City					
Fujian Province					
The PRC	Gracilaria	348,249	300,001.5	January 2015	15 April 2019
South of Wuyu					
Longhai City					
Zhangzhou City					
Fujian Province					
The PRC	Gracilaria	349,429	193,334.3	January 2016	15 April 2019

We are in discussion with the relevant authorities in the PRC on the renewal of the above lease agreements upon the terms and conditions acceptable to us. On 12 April 2019, we received a notification from Longhai City Marine and Fisheries Bureau (龍海市海洋與漁業局) and Longhai City Natural Resources Bureau (龍海市自然資源局) that the renewal process of leases is being handled by the Longhai City Natural Resources Bureau (龍海市自然資源局) which would be completed after the renewal of grant of the sea use right. We will continue to be allowed to use the area for cultivation purpose before the renewal.

Save as disclosed in the paragraphs under “Non-compliance matters — Sea use rights” below, our PRC Legal Advisers confirm that our operations in respect of the cultivation of seaweed are in full compliance with the applicable laws and regulations in the PRC.

BUSINESS

The table below sets forth the quantity of seaweed cultivated by us, the annual cultivation capacity, actual cultivation volume, and the utilisation rates for the years/periods indicated:

Locations	Type of seaweed cultivated	Date of commencement of commercial operation	Total cultivation area	As of 31 December 2016	Year ended 31 December 2016	
				Annual cultivation capacity	Actual cultivation volume	Utilisation rate
			<i>(sq.m.)</i>	<i>(tonnes)</i>	<i>(tonnes)</i>	<i>(%)</i>
West of Baiyu, Gangwei Town, Longhai City, Zhangzhou City, Fujian Province, The PRC	Gracilaria	January 2015	173,334.2 ⁽¹⁾	702.0	562.1	80.1
South of Wuyu, Longhai City, Zhangzhou City, Fujian Province, The PRC	Gracilaria	January 2016	193,334.3	783.0 ⁽²⁾	572.0	73.1
Locations	Type of seaweed cultivated	Date of commencement of commercial operation	Total cultivation area	As of 31 December 2017	Year ended 31 December 2017	
				Annual cultivation capacity	Actual cultivation volume	Utilisation rate
			<i>(sq.m.)</i>	<i>(tonnes)</i>	<i>(tonnes)</i>	<i>(%)</i>
West of Baiyu, Gangwei Town, Longhai City, Zhangzhou City, Fujian Province, The PRC	Gracilaria	January 2015	300,001.5 ⁽¹⁾	810.0	441.0	54.4
South of Wuyu, Longhai City, Zhangzhou City, Fujian Province, The PRC	Gracilaria	January 2016	193,334.3	522.0 ⁽²⁾	446.0	85.4

BUSINESS

Locations	Type of seaweed cultivated	Total cultivation area	As of 31 December 2018	Year ended 31 December 2018	
			Annual cultivation capacity	Actual cultivation volume	Utilisation rate
		(sq.m.)	(tonnes)	(tonnes)	(%)
West of Baiyu, Gangwei Town					
Longhai City, Zhangzhou City					
Fujian Province, the PRC	Gracilaria	300,001.5 ⁽¹⁾	810.0	105.0	13.0
South of Wuyu, Longhai City					
Zhangzhou City, Fujian Province					
The PRC	Gracilaria	193,334.3	522.0 ⁽²⁾	74.0	14.2

Notes:

- (1) We improved our seaweed cultivation method by allowing for more space between seedlings, which facilitated better nutrient intake by the seedlings and as such, the cultivation area for seaweed increased during the three years ended 31 December 2018.
- (2) We reduced the number of seedlings tied to each hanging rope for the purpose of improving the nutrient absorption and hence, it reduced the annual cultivation capacity in the relevant cultivation area.

Locations	Type of seaweed cultivated	Total cultivation area	As of 31 March 2019	Three months ended 31 March 2019	
			Annual cultivation capacity	Actual cultivation volume	Utilisation rate
		(sq.m.)	(tonnes)	(tonnes)	(%)
West of Baiyu, Gangwei Town					
Longhai City, Zhangzhou City					
Fujian Province, the PRC	Gracilaria	300,001.5	202.5	30.0	14.8
South of Wuyu, Longhai City					
Zhangzhou City, Fujian Province					
The PRC	Gracilaria	193,334.3	130.5	20.0	15.3

Although we have increased our seaweed cultivation area during the year ended 31 December 2017, the actual cultivation volume of seaweed was decreasing during the Track Record Period. Such decrease was primarily due to the fact that we have not used our own cultivation areas as the principal source of supply of seaweed. The market prices of dried gracilaria per tonne remained generally at low levels as compared with our cultivation and processing cost. Our Directors do not consider that there is material impact on our business operations as we could source dried gracilaria at low cost from Independent Third Parties.

Our Directors would assess the market conditions from time to time for the purpose of minimising the cost of purchase of seaweed. Our Directors have no current intention to suspend our seaweed cultivation business for the reason that such seaweed cultivation business would provide back-up supply of seaweed as well as facilities for improving the quality of seaweed for our production purpose.

BUSINESS

During the three years ended 31 December 2018, the cultivation cost per tonne amounted to HK\$6,352.0, HK\$7,096.7, and HK\$8,093.3, respectively. During the three months ended 31 March 2019, the cultivation cost per tonne amounted to HK\$8,363.7, as compared to the HK\$7,851.8 for the three months ended 31 March 2018. Such increase was mainly due to the decrease in the cultivation volume in 2018, as compared to the year of 2017. Our Directors consider that the cultivation cost is substantially higher than the cost of purchase of dried gracilaria due to our cultivation volume has yet to achieve economies of scale during the Track Record Period.

PROCUREMENT OF RAW MATERIALS AND SUPPLIERS

Raw materials

The principal raw materials used in our production process are dried seaweed (cottonii, gracilaria, and spinosum) and konjac crude powder/konjac flakes. Gracilaria are used in the production of our agar-agar products. Cottonii and spinosum are used in the production of our carrageenan products. Konjac crude powder/konjac flakes are used in the production of our konjac products. Carrageenan and konjac are mixed and blended in different combinations in the production of our blended products. The table below sets forth an analysis of our purchase cost of raw materials during the years/periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	<i>% of purchase cost of raw materials</i>	<i>% of purchase cost of raw materials</i>	<i>% of purchase cost of raw materials</i>	<i>% of purchase cost of raw materials</i>	<i>% of purchase cost of raw materials</i>	<i>% of purchase cost of raw materials</i>	<i>% of purchase cost of raw materials</i>	<i>% of purchase cost of raw materials</i>	<i>% of purchase cost of raw materials</i>	
	<i>HK\$'000</i>	<i>materials</i>	<i>HK\$'000</i>	<i>materials</i>	<i>HK\$'000</i>	<i>materials</i>	<i>HK\$'000</i>	<i>materials</i>	<i>HK\$'000</i>	<i>materials</i>
	<i>(unaudited)</i>									
Dried seaweed										
Cottonii	116,283.4	33.2	209,687.9	45.2	370,688.1	57.4	65,148.3	54.7	108,351.4	54.6
Gracilaria	142,288.9	40.7	119,978.8	25.9	111,066.0	17.2	18,787.6	15.8	23,548.4	11.9
Spinosum	3,874.0	1.1	4,617.8	1.0	10,968.4	1.7	1,576.7	1.3	4,535.6	2.3
	262,446.3	75.0	334,284.5	72.1	492,722.5	76.3	85,512.6	71.8	136,435.4	68.8
Konjac crude powder . .	18,962.3	5.4	27,892.2	6.0	28,031.6	4.3	8,532.0	7.2	38,117.8	19.2
Konjac flakes	1,359.7	0.4	11,526.3	2.5	—	—	—	—	—	—
Other materials ⁽¹⁾ . . .	67,177.2	19.2	89,895.5	19.4	125,100.0	19.4	25,113.5	21.0	23,890.1	12.0
Total	349,945.5	100.0	463,598.50	100.0	645,854.1	100.0	119,158.1	100.0	198,443.3	100.0

Note:

- (1) The other materials include supplemental raw materials, such as alkaline, perlite, potassium and chloride which are used in the production process or as part of raw materials for the production of our hydrocolloid products.

BUSINESS

The table below sets forth an analysis of the average unit purchase cost (per tonne) of each of our principal raw materials during the years/periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	<i>Average unit purchase of purchase (tonne)</i>	<i>cost (per tonne) HK\$'000</i>	<i>Quantity purchase of purchase (tonne)</i>	<i>cost (per tonne) HK\$'000</i>	<i>Quantity purchase of purchase (tonne)</i>	<i>cost (per tonne) HK\$'000</i>	<i>Average unit purchase of purchase (tonne)</i>	<i>cost (per tonne) HK\$'000</i>	<i>Quantity purchase of purchase (tonne)</i>	<i>cost (per tonne) HK\$'000</i>
Dried seaweed										
Cottonii	19,151.48	6.07	21,858.05	9.59	29,045.15	12.76	4,812.49	13.54	7,241.85	14.96
Spinosum	1,212.82	3.19	1,087.25	4.25	2,108.08	5.20	350.97	4.49	734.86	6.17
Gracilaria	<u>21,277.60</u>	<u>6.69</u>	<u>20,833.67</u>	<u>5.76</u>	<u>24,656.19</u>	<u>4.50</u>	<u>3,647.75</u>	<u>5.15</u>	<u>5,744.60</u>	<u>4.10</u>
	41,641.90	6.30	43,778.97	7.64	55,809.42	8.83	8,811.21	9.70	13,721.31	9.94
Konjac powder	402.78	47.08	389.44	71.62	355.06	78.95	109.53	77.90	436.60	87.31
Konjac flakes	<u>52.71</u>	<u>25.80</u>	<u>346.46</u>	<u>33.27</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total	<u><u>42,097.39</u></u>		<u><u>44,514.87</u></u>		<u><u>56,164.48</u></u>		<u><u>8,920.74</u></u>		<u><u>14,157.91</u></u>	

During the three years ended 31 December 2018, we purchased 41,641.9 tonnes, 43,779.0 tonnes, and 55,809.4 tonnes of dried seaweed (cottonii, spinosum, and gracilaria), respectively, which accounted for the largest item of purchase in the cost of purchase of raw materials. During the three months ended 31 March 2019, we purchased 13,721.3 tonnes of dried seaweed, as compared to 8,811.2 tonnes for the three months ended 31 March 2018, and such purchase continued to represent the largest item of purchase in the cost of purchase of raw materials. During the three years ended 31 December 2018, the cost of purchase of dried seaweed amounted to HK\$262.4 million, HK\$334.3 million, and HK\$492.7 million, respectively, and accounted for 75.0%, 72.1%, and 76.3% of the cost of purchase of raw materials. During the three months ended 31 March 2019, the cost of purchase of dried seaweed amounted to HK\$136.4 million and accounted for 68.8% of the cost of purchase, as compared to HK\$85.5 million and 71.8% for the three months ended 31 March 2018.

We procure dried seaweed primarily from suppliers in Indonesia, which are Independent Third Parties. We primarily procure dried gracilaria for our production of agar-agar products and dried euचेuma (including cottonii and spinosum) for our production of carrageenan products.

Apart from sourcing dried seaweed from Independent Third Parties, we have established our own seaweed cultivation base in the PRC since 2015. Our seaweed cultivation facilities are currently used as trial operation and cultivation model for the farmers to engage in seaweed cultivation. Our Directors believe that seaweed suppliers are readily available in Indonesia, the Philippines, and the PRC and on this basis, we can secure sufficient supply of quality dried seaweed in a timely manner upon acceptable terms if any individual supplier fails to provide us with the dried seaweed in time.

BUSINESS

During the three years ended 31 December 2018, the dried seaweed used for production amounted to 41,233 tonnes, 40,560 tonnes, and 57,528 tonnes, respectively, and the production volume of agar-agar products and carrageenan products amounted to 7,747 tonnes, 8,232 tonnes, and 11,592 tonnes, respectively. The use of dried seaweed increased by 39.5% and the production volume of agar-agar products and carrageenan products increased by 49.6%. During the three months ended 31 March 2019, the dried seaweed used for production amounted to 11,062 tonnes and the production of agar-agar products and carrageenan products amounted to 2,157 tonnes. The percentage increase of the dried seaweed used in production was less than the percentage increase in the production volume of agar-agar products and carrageenan products during the Track Record Period, with the yield improved from 5.32 tonnes in 2016 to 4.96 tonnes in 2018, representing an improvement of 7.3%. The continuous improvement during the Track Record Period was due to the following factors:

- (1) The operation of the plant and machinery as part of the production process, such as alkali treatment and cleaning equipment, and steaming, boiling, and hot extraction equipment, has been adjusted and modified continuously so as to reduce the wastage of dried seaweed in the production process. The use of our patented technology, further information on which is set forth in Appendix V to this prospectus, has also improved the production efficiency.
- (2) Technology over the filtration and collection of colloid have been upgraded so as to reduce the loss of colloid contents in small size, together with close monitoring and additional training of front line staff for adherence to the standard operating procedures for the purpose of reducing the loss of colloid.
- (3) We have imposed enhanced quality control on the dried seaweed purchased by us, and this has reduced the water content and the amount of impurity of dried seaweed and increased the utilisation of the dried seaweed for production requirement.
- (4) The continuous increases in the production volume has resulted in benefits generated from the bulk purchases of seaweed in our business operations.

In 2017, we sold dried seaweed to a trading company which was one of our customers (not being one of our five largest customers) during the Track Record Period. We were then granted by a seaweed supplier a credit period for the purchase and upon the request of such supplier, we had purchased additional amount of dried seaweed from such supplier at that time. There was no minimum purchase amount from such seaweed supplier, and the purchase was completed by us following arm's length negotiations with the seaweed supplier. The sales of the dried seaweed was a one-off transaction and did not form part of our ordinary course of business.

We also source other raw materials, such as alkali and perlite, from Independent Third Parties in the PRC.

The lead time for our dried seaweed purchase generally ranges from 28 to 44 days for seaweed procured from overseas depending on the location of the seaweed suppliers.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we did not experience any material difficulty or shortage or significant delay in the supply of major raw materials including seaweed and do not anticipate any significant shortage or delay in such supply would take place in the foreseeable future.

BUSINESS

Procurement policies

Our procurement team formulate procurement plans on a monthly basis with reference to our production capacity, anticipated price trends of raw materials, our production requirements, and the latest sales projections. We may from time to time, in anticipation of increase in raw material price in the future, strategically increase purchase of certain key raw materials, such as dried seaweed (*gracilaria*, *cottonii*, and *spinosum*) and konjac crude powder/konjac flakes, for the purpose of mitigating the impact of price fluctuations on our purchase cost of raw materials.

Our raw materials are generally sourced from a number of suppliers. We reduce our reliance on any single source of supply for our raw materials by maintaining multiple suppliers for our major raw materials. In order to ensure the quality of dried seaweed procured from third parties, we maintain regular communications with the seaweed suppliers (which are primarily in Indonesia) during the harvest period on the quality of seaweed harvested and any material change in the market prices. We visit our seaweed suppliers from time to time to ensure that the dried seaweed procured satisfy the relevant quality standards. During the Track Record Period, we sourced most of the dried seaweed from suppliers in Indonesia. We have sent our staff to Indonesia to conduct on-site inspections of seaweed before confirming our purchase orders. Detailed analysis of the dried seaweed purchased will also be conducted by us on a sampling and random basis when the dried seaweed have been delivered to our warehouse. We normally choose dried seaweed of different qualities in order to satisfy the production needs of our hydrocolloid products. The purchase volume and the time of purchase of dried seaweed are also based on our Directors' anticipation of the price trends and our production requirements.

Delivery

Raw materials purchased by us from our suppliers in the PRC for our production are delivered directly from our suppliers to our production plants. Raw materials purchased from our suppliers overseas are shipped from our suppliers to the ports in the PRC. The costs relating to the delivery of the raw materials from the ports to our production plants will be borne by us.

Our suppliers

We source dried seaweed primarily from overseas suppliers and ancillary materials primarily from suppliers in the PRC. We maintain a list of suppliers that can meet our requirements for quality. For each type of our major raw materials, such as dried seaweed, we generally maintain a list of 10 to 21 suppliers to ensure stable supply and to reduce our reliance on any individual supplier. For the principal ancillary materials, we would normally maintain a list of not less than three suppliers for securing a stable supply. As of 31 March 2019, our five largest suppliers had business relationship with us for such period as in the range between 1.9 year and 8.0 years. During the three years ended 31 December 2018, dried seaweed, i.e. *cottonii*, *gracilaria*, and *spinosum*, sourced from suppliers in Indonesia accounted for 99.7%, 97.7%, and 97.9% of the total volume of dried seaweed imported by us. During the three months ended 31 March 2019, dried seaweed sourced from suppliers in Indonesia accounted for 95.8% of the total volume of dried seaweed imported by us, as compared to 97.5% for the three months ended 31 March 2018. Based on the information available to us, five major suppliers

BUSINESS

of dried seaweed being members of the Indonesia Seaweed Association have production capacity of in aggregate not less than 234,000 tonnes of dried seaweed in 2018, which our Directors believe that they have sufficient capacity to provide us with constant supply of different types of dried seaweed required for our production purpose.

We have not entered into long-term agreements with our suppliers during the Track Record Period, as our Directors believe that it is an industry practice for maintaining flexibility both in terms of the purchase quantity and price. Our purchase with our suppliers are generally made on individual purchase orders with reference to our production plans and demand for our products. We include in our purchase orders for raw materials the product specifications, quantity and quality specifications, payment terms and delivery schedules. Our suppliers are required to provide raw materials adhering to the quality requirement and specifications and are responsible for any liabilities caused by product defects. We closely monitor the supply and demand conditions of raw materials and will make corresponding adjustments in our procurement plan if there is any anticipated shortage of supply or changes in the prices of the raw materials. In anticipation of any potential price increase, we may increase our inventory of raw materials in order to have a better control of our production cost. See the section headed “Financial Information — Principal factors affecting our operating results” and “Financial Information — Our operating results — Cost of sales” in this prospectus.

In some cases, we will settle payment with our suppliers upon delivery of the raw materials to us. Payment terms granted by our suppliers may vary, which depends on various factors including our relationship with the suppliers and the size of our orders. Our suppliers generally extend to us credit terms ranging from 30 to 90 days upon our receipt of raw materials and invoice. Some of our suppliers would require us to settle payments prior to delivery. During the Track Record Period, we mainly settled payments with our overseas suppliers of seaweed in US dollars and other PRC suppliers in Renminbi by telegraphic transfers. During the Track Record Period, we were generally able to pass the increase in the cost of seaweed to our customers.

We adopt strict procedures in selecting our suppliers. We consider various factors in selecting and retaining a supplier, including the overall track record, financial conditions, industry reputation, expertise and experience, product quality and quality control measures, production capacity and efficiency to meet our delivery timelines. We also conduct regular evaluation on our suppliers in order to review their performance and will replace the unsatisfactory suppliers on a gradual basis. We also implement various measures to monitor the performance of our suppliers, including sample inspections and on-site visits, if we consider necessary.

BUSINESS

Our five largest suppliers

The tables below set forth certain information with respect to our Group's five largest suppliers during the Track Record Period:

Three months ended 31 March 2019

Five largest suppliers	Purchase amount		Type of products supplied	Business scope	Location of headquarters	Background of suppliers and their scale of operation	Approximate length of relationship with our Group as of the Latest Practicable Date (year)
	HK\$'000	%					
Supplier A	36,246.0	18.3	Gracilaria, cottonii, and spinosum	Manufacturer	Indonesia	Manufacturer and supplier of seaweed and fisheries with issued capital of Indonesian Rupiah 1,000.0 million. ⁽¹⁾	6.3
Supplier B	25,706.5	13.0	Gracilaria, cottonii, and spinosum	Manufacturer	Indonesia	Supplier of algae products privately-owned by individuals with no published information on scale of business operation. ⁽¹⁾	6.3
Supplier C	21,567.9	10.9	Gracilaria, cottonii, and spinosum	Manufacturer	Indonesia	Supplier of algae products with issued capital of Indonesian Rupiah 500.0 million. ⁽¹⁾	8.5
Supplier E	14,293.4	7.2	Cottonii, Gracilaria and spinosum	Trading company	Hong Kong	An international trading company engaged in international trade business, warehousing, investment and logistics business privately-owned by individuals with no published information on scale of business operation. ⁽¹⁾	2.4
Supplier I	14,187.2	7.1	Konjac powder	Manufacturer	PRC	Manufacture and supplier of agricultural products such as konjac powder with registered capital of RMB3.0 million. ⁽²⁾	2.9

Notes:

- (1) Based on the latest information obtained by us in public domain.
(2) Based on the latest information obtained from the National Enterprise Credit Information Publicity System.

BUSINESS

Year ended 31 December 2018

Five largest suppliers	Purchase amount		Type of products supplied	Business scope	Location of headquarters	Background of suppliers and their scale of operation	Approximate length of relationship with our Group as of the Latest Practicable Date (year)
	HK\$'000	%					
Supplier A	170,954.6	26.5	Gracilaria, cottonii, and spinosum	Manufacturer	Indonesia	Manufacturer and supplier of seaweed and fisheries with issued capital of Indonesian Rupiah 1,000.0 million. ⁽¹⁾	6.3
Supplier B	79,518.4	12.3	Gracilaria, cottonii, and spinosum	Manufacturer	Indonesia	Supplier of algae products privately-owned by individuals with no published information on scale of business operation. ⁽¹⁾	6.3
Supplier C	77,051.4	11.9	Gracilaria, cottonii, and spinosum	Manufacturer	Indonesia	Supplier of algae products with issued capital of Indonesian Rupiah 500.0 million. ⁽¹⁾	8.5
Supplier D	58,097.8	9.0	Gracilaria, cottonii, and spinosum	Manufacturer	Indonesia	Supplier of algae products with issued capital of Indonesian Rupiah 2,000.0 million. ⁽¹⁾	5.8
Supplier E	34,164.2	5.3	Cottonii, Gracilaria and spinosum	Trading company	Hong Kong	An international trading company engaged in international trade business, warehousing, investment and logistics business privately-owned by individuals with no published information on scale of business operation. ⁽¹⁾	2.4

Note:

(1) Based on the latest information obtained by us in public domain.

BUSINESS

Year ended 31 December 2017

Five largest suppliers	Purchase amount		Type of products supplied	Supplier type/ Business scope	Location of headquarters	Background of suppliers and their scale of operation	Approximate length of relationship with our Group as of the Latest Practicable Date (year)
	HK\$'000	%					
Supplier A	73,943.1	15.9	Gracilaria, cottonii, and spinosum	Manufacturer	Indonesia	Manufacturer and supplier of seaweed and fisheries with issued capital of Indonesian Rupiah 1,000.0 million. ⁽²⁾	6.3
Supplier F	68,385.7	14.8	Gracilaria, cottonii, and spinosum	Trading company	PRC	Supplier of chemicals, plastic products, technical services; import and export of goods with registered capital of RMB492.9 million. ⁽³⁾	4.6 ⁽¹⁾
Supplier C	51,664.2	11.1	Gracilaria, cottonii, and spinosum	Manufacturer	Indonesia	Supplier of algae products with issued capital of Indonesian Rupiah 500.0 million. ⁽²⁾	8.5
Supplier B	49,857.9	10.8	Gracilaria, cottonii, and spinosum	Manufacturer	Indonesia	Supplier of algae products privately-owned by individuals with no published information on scale of business operation. ⁽²⁾	6.3
Supplier D	29,312.2	6.3	Gracilaria, cottonii, and spinosum	Manufacturer	Indonesia	Supplier of algae products with issued capital of Indonesia Rupiah 2,000.0 million. ⁽²⁾	5.8

Notes:

- (1) We have not purchased from this supplier since the end of 2017 but this supplier is still on our supplier list.
- (2) Based on the latest information obtained by us in public domain.
- (3) Based on the latest information obtained from the National Enterprise Credit Information Publicity System.

BUSINESS

Year ended 31 December 2016

Five largest suppliers	Purchase amount		Type of products supplied	Supplier type/ Business scope	Location of headquarters	Background of suppliers and their scale of operation	Approximate length of relationship with our Group as of the Latest Practicable Date (year)
	HK\$'000	%					
Supplier G	43,585.6	12.5	Gracilaria, cottonii, and spinosum	Manufacturer	Indonesia	Supplier of algae products with issued capital of Indonesian Rupiah 1,000.0 million. ⁽¹⁾	6.5
Supplier C	34,685.2	9.9	Gracilaria, cottonii, and spinosum	Manufacturer	Indonesia	Supplier of algae products with issued capital of Indonesian Rupiah 500.0 million. ⁽¹⁾	8.5
Supplier B	31,100.5	8.9	Gracilaria, cottonii, and spinosum	Manufacturer	Indonesia	Supplier of algae products privately-owned by individuals with no published information on scale of business operation. ⁽¹⁾	6.3
Supplier F	26,090.1	7.5	Gracilaria, cottonii, and spinosum	Trading company	PRC	Supplier of dangerous chemicals and plastic products; import and export of goods with registered capital of RMB492.9 million. ⁽²⁾	4.6 ⁽³⁾
Supplier H	17,571.0	5.0	Gracilaria and its seeds	Manufacturer	PRC	Individual supplier of algae products and sea cucumber with no published information on his financial standing. ⁽²⁾	N/A ⁽⁴⁾

Notes:

- (1) Based on the latest information obtained by us in public domain.
- (2) Based on the latest information obtained from the National Enterprise Credit Information Publicity System.
- (3) We have not purchased from this supplier since the end of 2017 but this supplier is still on our supplier list.
- (4) We have ceased to purchase from this supplier since August 2017 because of quality issue.

BUSINESS

During the three years ended 31 December 2018, the cost of purchase from our five largest suppliers amounted to HK\$153.0 million, HK\$273.2 million, and HK\$419.8 million, respectively, representing 43.8%, 58.9%, and 65.0%, respectively, of our total purchase and the cost of purchase from our largest supplier amounted to HK\$43.6 million, HK\$73.9 million, and HK\$171.0 million, respectively, representing 12.5%, 15.9%, and 26.5%, respectively, of our total purchase. During the three months ended 31 March 2019, the cost of purchase from our five largest suppliers amounted to HK\$112.0 million and accounted for 56.5% of our total purchase, and the cost of purchase from our largest suppliers amounted to HK\$36.2 million and accounted for 18.3% of our total purchase. During the three months ended 31 March 2018, the cost of purchase from our five largest suppliers amounted to HK\$76.6 million and accounted for 64.3% of our total purchase, and the cost of purchase from our largest suppliers amounted to HK\$37.1 million and accounted for 31.1% of our total purchase. The increased in the supplier concentration during the year ended 31 December 2018 and the three months ended 31 March 2019 was primarily due to the stable supply of dried seaweed and quality, as well as competitive pricing and credit policy offered by our largest supplier. Our Directors do not consider that we rely on our largest supplier as the products i.e. dried seaweed, can be sourced from other suppliers in Indonesia.

None of our Directors, their respective close associates or any Shareholder who, to the best knowledge of our Directors, owns more than five per cent. of our Shares in issue has any interest in any of these five largest suppliers immediately following completion of the Share Offer.

OUR CUSTOMERS WHICH ARE OUR SUPPLIERS

We produce a wide range of seaweed-based and plant-based hydrocolloid products and as such, our customers include not only food producing and processing companies, but also trading companies which act for their own customers in sourcing the required products and materials. Different companies have their own production and purchasing policies, which are primarily driven by the cost of purchase, the nature of products, and the time and destination of delivery of the products. Our customers include food producing and processing companies and trading companies, which may also be our suppliers of materials, because of the following reasons:

- (1) Food producing and processing companies may not be engaged in the production of all materials for their production requirement because of cost of purchase, quantity required for production, time for delivery or that they choose not to be engaged in the such production activities for their own commercial reasons. In such event, these companies would normally purchase such materials from their approved suppliers like us or through their own approved purchase agents, i.e. trading companies, to source their required materials.
- (2) Trading companies in the industry are engaged in sale and purchase of a wide range of semi-finished products, such as hydrocolloid in raw forms and auxiliary products (including starch and potassium citrate) for their own customers. Hence, these trading companies may act for their own customers in sourcing hydrocolloid products from us or may contact us if they carry suitable raw materials for our production requirement upon commercial terms acceptable to us.

BUSINESS

- (3) Each transaction has been negotiated on an arm's length basis on the prevailing market conditions. We have never been engaged in any sale and buy-back transactions with the same customer of the same kind of materials or products.

In light of the foregoing, during the Track Record Period, there were 14 customers of our Group from which we purchased ancillary materials, such as liquid alkali and potassium citrate. The aggregate amount of purchase from these customers during the Track Record Period was insignificant, as compared with our cost of purchase of raw materials. Our Directors do not consider that we rely on any of these customers (which are our suppliers) because of the insignificant amount of transactions involved and that these materials may also be sourced from other suppliers.

Save for a shareholder of a customer who was one of our five largest customers for the two years ended 31 December 2016 and used to be a shareholder of Lvqi (Xiamen) from which we purchased the equity interest in Lvqi (Xiamen) in May 2017, our Directors confirm that, these customers and their ultimate beneficial owners, based on the confirmations received from these customers, are Independent Third Parties.

The table below sets forth the percentages to our total sales and our total purchase attributable to the 14 customers (which are our suppliers) for the years/periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
Percentage to our total revenue . .	8.3%	8.4%	10.1%	6.6%	5.2%
Percentage to our total purchases of raw materials	5.7%	3.7%	1.4%	1.9%	0.6%

Our Directors further confirm that the terms of transactions with these 14 customers (which are our suppliers) are generally consistent with market practices and upon normal commercial terms which are similar to those transactions with our other customers and suppliers. Each transaction is negotiated on an arm's length basis and is completed independently with reference to the then prevailing market conditions of the materials or products being the subject matters of the transaction.

Based on their historical record and credit, we have granted a credit period of not more than 90 days to these 14 customers (which are our suppliers). The credit approval process and the length of the credit period provided to these customers are generally consistent with the same provided to our other customers. Our Directors confirm that there has been no preference provided to these customers because of the fact that they are our suppliers.

BUSINESS

The amount of gross profit attributable to the sales to these 14 customers (which are our suppliers) during the three years ended 31 December 2018 amounted to HK\$11.4 million, HK\$14.7 million, and HK\$30.3 million, respectively, and the gross profit margin was 25.8%, 26.5%, and 30.1%, respectively. During the three months ended 31 March 2019, the amount of gross profit attributable to the sales to these 14 customers amounted to HK\$2.9 million and the gross profit margin was 29.7%. The gross profit margins for our sales to these customers/suppliers during the Track Record Period were slightly higher than our average gross profits margins during the same period because of two reasons: First, during the Track Record Period, 60.5%, 61.5%, 52.6%, and 22.2% of the revenue of our sales to these customers (which are our suppliers) were derived from the sales of agar-agar products which enjoyed relatively high gross profit margins. Second, our average gross profit margins during the Track Record Period included sales of different types of products produced by us of different quality which are sold to our customers at different locations at different selling prices with different gross profit margins. Our average gross profit margin is therefore not reflective of or comparable with the profitability of individual products or otherwise comparable to the gross profit margins of a particular type of product. Hence, in light of these factors and the fact that all transactions with the 14 customers (which are our suppliers) are negotiated on an arm's length basis, our Directors consider that the profitability of these sales transactions is commercially reasonable. The table below sets forth further information on these 14 companies during the Track Record Period:

14 companies which are both our customers and suppliers	Location of headquarters of our customers	Business scope of our customers	Principal business and scale of operation of our customers	Types of products that we sold to our customers during the Track Record Period	Types of products that we purchased from our customers during the Track Record Period	Reasons for the transactions	Approximate length of relationship with us as of the Latest Practicable Date (Year)
Company A	PRC	Food producing and processing company	Research and development of food processing technology; sales of food additives with registered capital of RMB1.0 million.	Konjac products and blended products	Pectin	We purchase pectin from Company A for our production of blended products that are distributed by Company A and we sell konjac products and blended products to this customer for their production requirement as this customer may from time to time require these products for its own production. This customer also produces different types of konjac products and blended products, but the production levels may not be sufficient from time to time.	1.5

BUSINESS

14 companies which are both our customers and suppliers	Location of headquarters of our customers	Business scope of our customers	Principal business and scale of operation of our customers	Types of products that we sold to our customers during the Track Record Period	Types of products that we purchased from our customers during the Track Record Period	Reasons for the transactions	Approximate length of relationship with us as of the Latest Practicable Date (Year)
Company B	PRC	Food producing and processing company	Manufacture and sales of chemical reagents and food additives; sales of pastries and dairy products with registered capital of RMB20.0 million.	Carrageenan products	Modified starch	We purchase modified starch from Company B as raw material for our production of blended products that are distributed by Company B and we sell carrageenan products to this customer from time to time as this customer is also selling different types of carrageenan products or otherwise it uses the carrageenan products for its own production requirement.	6.3
Company C	PRC	Food producing and processing company	Sales of food additives, packaging materials and packaged food products with registered capital of RMB1.0 million.	Agar-agar products and konjac gum	Xanthan gum, maltodextrin, potassium citrate, sodium citrate, konjac gum, sodium carboxymethyl cellulose	Company C is in the business of sales of food additives and operates a wide sales network. We sell agar-agar products and konjac gum to this customer for its production requirement, and the amount sold represents an insignificant portion of the requirement of this customer.	5.2
Company D	PRC	Trading company	Sales of glass equipment, toner, pigments and chemical products with registered capital of RMB0.1 million.	Carrageenan products, agar-agar products and blended products	Sodium hypochlorite, ethanol	Both parties have products that meet each other's needs.	7.9

BUSINESS

14 companies which are both our customers and suppliers	Location of headquarters of our customers	Business scope of our customers	Principal business and scale of operation of our customers	Types of products that we sold to our customers during the Track Record Period	Types of products that we purchased from our customers during the Track Record Period	Reasons for the transactions	Approximate length of relationship with us as of the Latest Practicable Date (Year)
Company E	PRC	Food producing and processing company	Manufacture and sales of food additives, algae products and food products with registered capital of RMB32.0 million.	Agar-agar products	Sodium alginate	Company E is an established manufacturer of food additives and as such, we source from it sodium alginate as raw materials. We sell agar-agar products to this customer for its production requirement, and the amount sold represents an insignificant portion of the requirement of this customer.	6.4
Company F	PRC	Trading company	Sales of electric products, metals, construction materials, clothing and wearing and daily necessities with registered capital of RMB0.5 million.	Agar-agar products	Maltodextrin, potassium citrate, sodium citrate	Both parties have products that meet each other's needs.	5.4

BUSINESS

14 companies which are both our customers and suppliers	Location of headquarters of our customers	Business scope of our customers	Principal business and scale of operation of our customers	Types of products that we sold to our customers during the Track Record Period	Types of products that we purchased from our customers during the Track Record Period	Reasons for the transactions	Approximate length of relationship with us as of the Latest Practicable Date (Year)
Company G ⁽¹⁾	PRC	Trading company	Import and export of commodities and technologies; wholesales of chemical raw materials, carrageenan products, food additives, leather goods auxiliaries and clothing products with registered capital of RMB3.0 million.	Carrageenan products, agar-agar products and blended products	Euclidean, gracilaria	Company G has many years of experience in the food industry and possesses a wide sales channel.	4.5
Company H ⁽²⁾	PRC	Trading company	Wholesale and retail of plastic, metal and electricity products, office supplies and daily necessities; import and export of commodities and technologies with registered capital of RMB0.5 million.	Agar-agar products, carrageenan products, konjac products and blended products	Euclidean	Company H has many years of experience in the food industry and possesses a wide sales channel.	6.3
Company I	PRC	Trading company	Sales of food additives and food products; import and export of technologies with registered capital of RMB1.0 million.	Carrageenan products, agar-agar products, konjac products and blended products	Citric acid, sodium carbonate, sodium hexametaphosphate	Company I has many years of experience in the food industry and possesses a wide network across the supply chain.	4.6

Notes:

- (1) Company G is one of our top five customers (Customer G) during the year ended 31 December 2016. See the paragraphs under “Our five largest customers” above.
- (2) Company H is one of our top five customers (Customer B) during the two years ended 31 December 2018. See the paragraphs under “Our five largest customers” above.

BUSINESS

14 companies which are both our customers and suppliers	Location of headquarters of our customers	Business scope of our customers	Principal business and scale of operation of our customers	Types of products that we sold to our customers during the Track Record Period	Types of products that we purchased from our customers during the Track Record Period	Reasons for the transactions	Approximate length of relationship with us as of the Latest Practicable Date (Year)
Company J	PRC	Trading company	Research and development of biotechnology; sales of food additives, edible agricultural products, pre-packaged food and daily necessities; import and export of technologies with registered capital of RMB15.0 million.	Agar-agar products and blended products	Agar-agar	Both parties have products that meet each other's needs.	3.2
Company K	PRC	Trading company	Sales of edible packaging materials and equipment, food additives, pre-packaged food and bulk food, dairy products and primary agricultural and sideline products with registered capital of RMB1.0 million.	Agar-agar products	caustic soda	Both parties have products that meet each other's needs.	4.1
Company L	PRC	Trading company	Sales of glass products and daily necessities; trade of chemical reagents with registered capital of RMB2.1 million.	Carrageenan products and agar-agar products	Liquid alkali, disodium edetate, oxalic acid and other auxiliary materials	Company L has a wide network across the supply chain and the sales channel.	7.3

BUSINESS

14 companies which are both our customers and suppliers	Location of headquarters of our customers	Business scope of our customers	Principal business and scale of operation of our customers	Types of products that we sold to our customers during the Track Record Period	Types of products that we purchased from our customers during the Track Record Period	Reasons for the transactions	Approximate length of relationship with us as of the Latest Practicable Date (Year)
Company M	PRC	Trading company	Import and export of technologies; sales of clothing and wearing, plastic products, leather, construction materials and daily necessities with registered capital of RMB2.3 million.	Carrageenan products	Eucheuma	Company M has a wide network across the supply chain and the sales channel.	2.9
Company N	PRC	Trading company	Wholesale and retail of food additives, wholesale of fruits and vegetables, wholesale of dairy and other pre-packaged products, import and export of technologies with registered capital of RMB1.0 million	Carrageenan products, konjac products and blended products	Locust bean gum	Company N has a wide network across the supply chain and the sales channel.	4.3

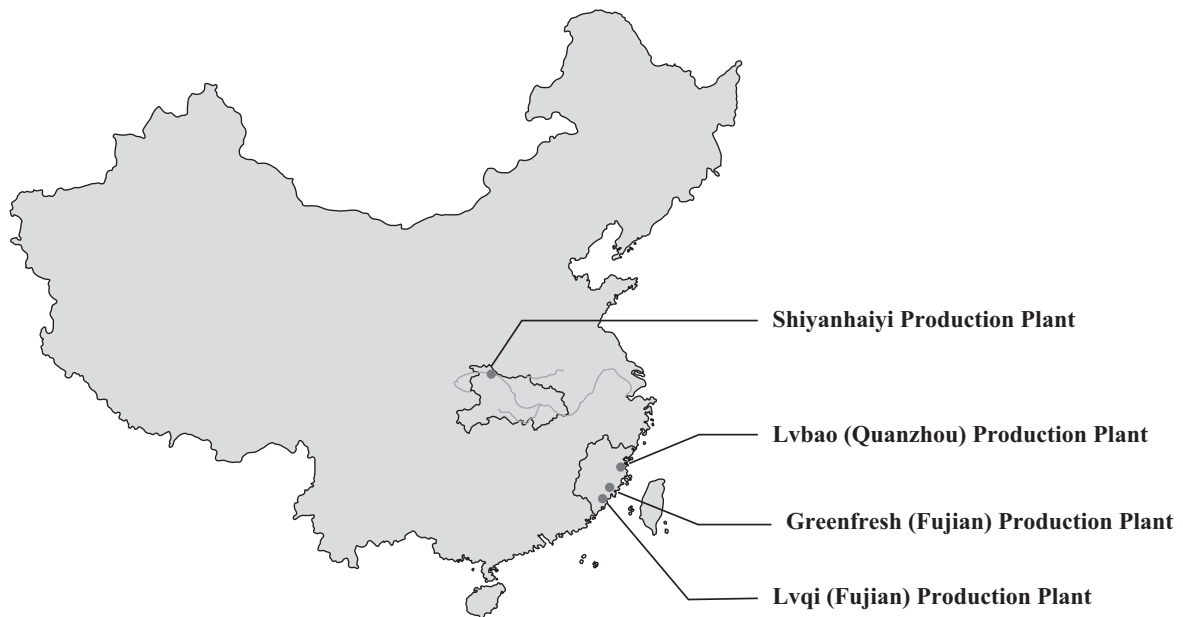
BUSINESS

PRODUCTION FACILITIES

As of the Latest Practicable Date, we had four production plants, namely Greenfresh (Fujian) Production Plant, Lvqi (Fujian) Production Plant, Lvbao (Quanzhou) Production Plant, and Shiyanhaiyi Production Plant, with an aggregate site area of 178,761.06 square metres and an aggregate gross floor area of 84,528.95 square metres, located in three major cities, in Fujian Province and Hubei Province of PRC. Each of these production plants is designed for the production of designated products with built-in flexibility that certain production lines may be used for the production of different types of agar-agar and carrageenan products subject to adjustments and modifications. For more details of the land parcels and buildings of our production facilities, see the paragraphs under “Properties and sea use rights” below.

Locations of our production plants

The map below shows the geographic distribution of our production plants as of the Latest Practicable Date:



BUSINESS

The table below sets forth further information on our production plants as of the Latest Practicable Date:

Our production plants	Location of our production plants	Year of commencement of commercial production of the first workshop	Number of workshops in operation	Total site area <i>(sq. m.)</i>	Aggregate gross floor area <i>(sq. m.)</i>	Principal products produced as of the Latest Practicable Date
Greenfresh (Fujian) Production Plant	Anshan Industrial Park Zhangzhou City Zini Area, Longhai City Fujian Province, the PRC	2010	5	93,279.03	53,845.88	Agar-agar products, carrageenan products, and blended products
Lvqi (Fujian) Production Plant	Neiding Farm, Jiaomei Town Neiding Industrial Park Zhangzhou Taiwan Investment Zone Zhangzhou City Fujian Province, the PRC	2012	2	69,814	21,670.85	Agar-agar products, blended products, and quick-dissolve agar-agar
Lvbao (Quanzhou) Production Plant	No. 97, 3rd Parcel Maoting Village Yonghe Town Jinjiang City Fujian Province, the PRC	2001	1	6,437	3,545.15	Carrageenan products and blended products
Shiyanghaiyi Production Plant	No. 22, Pulin Road Pulin Industrial Park Maojian District Shiyan City Hubei Province, the PRC	2013	2	9,231.03	5,467.07	Konjac gum products and konjac powder
Total				<u>178,761.06</u>	<u>84,528.95</u>	

BUSINESS

Design production capacity by production plants, actual production volume, and utilisation rates

The table below sets forth a summary of the design production capacity, actual production volume and utilisation rates by products of our current production plants for the years/periods indicated.

Production plants	Principal products	Year ended 31 December						Three months ended 31 March					
		2016			2017			2018			2019		
		Design production capacity (tonnes)	Actual production volume (tonnes)	Utilisation rate %	Design production capacity (tonnes)	Actual production volume (tonnes)	Utilisation rate %	Design production capacity (tonnes)	Actual production volume (tonnes)	Utilisation rate %	Design production capacity (tonnes)	Actual production volume (tonnes)	Utilisation rate %
Greentech (Fujian) Production Plant	Workshop No. 1 Commenced in June 2010	2,420 ⁽²⁾	2,009	83.02	2,420 ⁽²⁾	2,209	91.28	2,420	1,993	82.36	550	324	58.91
	Workshop No. 2 ⁽⁷⁾ Commenced in August 2015	240	216	90.00	80	72	90.00	—	—	—	—	—	—
		860	789	91.74	1,020	931	91.27	1,100	974	88.55	250	197	78.80
	Workshop No. 4 Commenced in August 2010	2,530	2,290	90.51	2,530	2,107	83.28	2,530	2,359	93.24	575	479	83.30
	Workshop No. 5 Commenced in October 2017				900	298	33.11	3,300	2,225	67.42	750	381	50.80
					315	180	57.14	1,155	888	76.88	263	161	61.22
	Workshop No. 6 Commenced in September 2017			480	171	35.63		919	69.62		300	181	60.33
	Sub-total	6,050	5,304	87.67	7,745	5,968	77.06	11,925	9,358	79.14	2,688	1,723	64.10
Liqi (Fujian) Production Plant	Agar-agar products	1,100	982	89.27	1,100	800	72.73	1,100	829	75.36	250	153	61.20
	Agar-agar products/ Quick-dissolve agar-agar products	1,045	917	87.75	1,045	787	75.31	1,045	774	74.07	238	150	63.03
	Sub-total	2,145	1,899	88.53	2,145	1,587	73.98	2,145	1,603	74.72	488	303	62.09
Lvbaio (Quanzhou) Production Plant	Refined carrageenan products	770	544	70.65	770	677	87.92	770	631	81.95	175	131	74.86
	Konjac powder	330	80	24.24	330 ⁽³⁾	89	26.97	330	67	20.30	75	19	25.33
Shiyanhayyi Production Plant	Workshop No. 1 Commenced in September 2013	330	288	87.27	330 ⁽³⁾	283	85.76	330	326	98.79	75	127	169.33 ⁽⁸⁾
	Workshop No. 2 Commenced in October 2013												
	Sub-total	660	368	55.76	660	372	56.36	660	393	59.55	150	146	97.33
		3,300	968	29.33	3,300	1,078	32.67	3,300	1,148	34.79	750	144	19.20
	Total	12,925	9,083		14,620	9,682		18,700	13,133		4,251	2,447	

Mixing tanks installed at different production plants for production of blended products

See the section headed “Financial information — Principal components of our current assets and current liabilities — Inventories” in this prospectus for analyses of the sales volume, production volume, and the use of inventory of raw materials.

BUSINESS

Notes:

- (1) We had replaced the boilers at Workshops No. 1 and 3 at Lvqi (Fujian) Production Plant during the period from April to June 2017 which has reduced the monthly production capacity of Workshops No. 1 and 3 by 30 tonnes during the three-month period from April to June 2017.
- (2) Shutdown of the production facilities for the maintenance of plant and machinery at Greenfresh (Fujian) Production Plant Workshop No. 1 for seven days and 13 days in 2016 and 2017, respectively.
- (3) Shutdown of the production facilities for the maintenance of plant and machinery at Shiyanhaiyi Production Plant for eight days in 2017.
- (4) The annual design production capacity is the total quantity of the relevant products that each workshop can produce in the relevant year or period, which is based on the time required for the production of products and the actual working operating hours of the production facilities, assuming 15 days for the repairs and maintenance in each year.
- (5) The utilisation rate is calculated based on the actual production volume divided by the annual design production capacity in the relevant year or period.
- (6) The production capacity of our production facilities for the year ended 31 December 2018 includes approximately one month of inspection, repairs and maintenance, and shutdown for commercial production because of public holidays in the PRC including the Chinese New Year. Hence, the production capacity and the corresponding utilisation rates are slightly less than 50.0% of the annual design production capacity of the production facilities.
- (7) The production lines at Workshop No. 2 of Greenfresh (Fujian) Production Plant and Workshop No. 1 of Lvqi (Fujian) Production Plant can be used for the production of agar-agar products and carrageenan products following minor equipment adjustments and cleaning. The adjustments may require up to two days to complete. During the Track Record Period, we have switched the products produced by the production line at Workshop No. 2 of Greenfresh (Fujian) Production Plant in August and December 2015, October 2016, and March 2017 in response to the customers' demand. During the two years ended 31 December 2018, we have not made any adjustments to products produced by these two production lines because of completion of construction of additional production lines at Workshop No. 5 and Workshop No. 6 of Greenfresh (Fujian) Production Plant for our hydrocolloid products.
- (8) The utilisation rate was more than 100% as a result of increasing the operating hours of the relevant production facilities.

BUSINESS

Design production capacity by business segments and utilisation rates

The table below sets forth the design production capacity of our Group by business segments for the years/periods indicated:

	Year ended 31 December						Three months ended 31 March					
	2016			2017			2018			2019		
	Design production capacity (tonnes)	Actual production volume (tonnes)	Utilisation rates (%)	Design production capacity (tonnes)	Actual production volume (tonnes)	Utilisation rates (%)	Design production capacity (tonnes)	Actual production volume (tonnes)	Utilisation rates (%)	Design production capacity (tonnes)	Actual production volume (tonnes)	Utilisation rates (%)
Agar-agar products	3,005	2,688	89.45	3,645	2,689	73.77	4,565	3,496	76.58	1,038	681	65.61
Carrageenan products	5,960	5,059	84.88	7,015	5,543	79.02	10,175	8,096	79.57	2,313	1,476	63.81
Konjac products	660	368	55.76	660	372	56.36	660	393	59.55	150	146	97.33
Blended products	3,300	968	29.33	3,300	1,078	32.67	3,300	1,148	34.79	750	144	19.20
Total	12,925	9,083	70.27	14,620	9,682	66.22	18,700	13,133	70.23	4,251	2,447	57.56

Note:

(1) The design production capacity of our production facilities for the year ended 31 December 2018 includes one month of inspection, repairs and maintenance, and shutdown for commercial production because of public holidays in the PRC.

BUSINESS

The table below sets forth the expected annual design production capacity of our production facilities for the year ending 31 December 2019 following completion of our expansion plans:

	Year ending 31 December 2019
	<i>(tonnes)</i>
Agar-agar products	6,325
Carrageenan products	10,355
Konjac products	660
Blended products	<u>3,300</u>
Total	<u><u>20,640</u></u>

Utilisation rates of our production plants

There are various factors that would affect the utilisation levels of our production plants. These factors include the quality, supply and timely delivery of raw materials, the level of our inventory, and any scheduled inspections and repairs and maintenance for our production plants and testing and commissioning works required prior to the commencement of production of each type of our principal products. The average utilisation rates for Greenfresh (Fujian) Production Plant, Lvqi (Fujian) Production Plant, Lvbao (Quanzhou) Production Plant, and Shiyanghaiyi Production Plant during the year ended 31 December 2018 was 79.1%, 74.7%, 82.0%, and 59.6%, respectively. The average utilisation rates for Greenfresh (Fujian) Production Plant, Lvqi (Fujian) Production Plant, Lvbao (Quanzhou) Production Plant, and Shiyanghaiyi Production Plant during the three months ended 31 March 2019 was 64.1%, 62.1%, 74.9%, and 97.3%, respectively. Although the average utilisation rate of each of our production plants has not reached the maximum level during the year ended 31 December 2018 and further affected by holiday reason during the three months ended 31 March 2019, the utilisation rates of certain workshops for agar-agar and carrageenan products have exceeded 76.0% as of 31 December 2018 and 83.3% for the three months ended 31 March 2019.

The average utilisation rates of workshop Nos. 1, 2, and 4 at Greenfresh (Fujian) Production Plant (which are used for the production of semi-refined and refined carrageenan products and agar-agar products) achieved more than 85.2% during the year ended 31 December 2018 and the three months ended 31 March 2019. Workshop Nos. 5 and 6 commenced commercial production in October 2017 and September 2017, respectively, and their utilisation rates have increased to 67.1% during the year ended 31 December 2018 and the three months ended 31 March 2019.

The utilisation rates of workshop Nos. 1 and 3 at Lvqi (Fujian) Production Plant (which are used for the production of a wide-range of agar-agar products) have reached 74.0% during the year ended 31 December 2017. The utilisation rate has achieved 72.4% during the year ended 31 December 2018 and the three months ended 31 March 2019.

BUSINESS

The utilisation rate of workshop No. 1 at Lvbao (Quanzhou) Production Plant (which is used for the production of refined carrageenan products) was 82.0% during the year ended 31 December 2018 and was in normal condition, during the year ended 31 December 2018 and the three months ended 31 March 2019 to 74.9% with a slight back off in utilisation rate.

We focused on the production of konjac gum products instead of konjac powder and as a result, the workshop No. 2 at Shiyanghaiyi Production Plant have reached full capacity during the year ended 31 December 2018. The konjac powder workshop No. 1 at Shiyanghaiyi Production Plant was under-utilised in 2018 because the demand for konjac powder had yet to reach a high level.

The principal production equipment used in the production process of blended products are mixing tanks, which are installed at each of our production plants for ease of production arrangements. The mixing tanks are auxiliary equipment, and our Directors confirm that they will not be used in full capacity.

We have improved the automation level in our production process. Our current production facilities comprise automated plant and machinery, or have been designed and installed to suit our production needs. As part of our routine maintenance works, we regularly monitor our production facilities and upgrade the production process for the purpose of enhancing our production efficiency. Our in-house research and development teams collaborate with our production equipment suppliers in the design of our production facilities for continuous improvements in our production process.

In order to maximise the utilisation level of our production plants, we have adopted a comprehensive maintenance system, which includes scheduled downtimes for maintenance and repairs and regular inspections of production facilities. As of 31 December 2018 and 31 March 2019, our repairs and maintenance team consisted of 26 employees. We carry out routine daily cleaning and maintenance of our production facilities to extend their useful lives. Our production plants and equipment are subject to different maintenance schedules and downtime periods. We maximise our production capacity by scheduling major maintenance works during holiday seasons or during Chinese New Year holiday not exceeding 15 days each year. We did not experience any material or prolonged interruptions or unexpected suspension to our production process due to failure in our production facilities during the Track Record Period.

Plant and machinery and maintenance

Our production plants are designed by us and are installed with plant and machinery selected by us and sourced from several suppliers for installation and assembly. We have the experience and expertise to support on-site installation and maintenance of our production facilities. The component suppliers in respect of our production facilities are selected through bidding process and the key factors in determining our selection of the equipment/component suppliers include bidding price and relevant industry experience of such equipment/component suppliers. As of the Latest Practicable Date, we owned all the principal plants and machinery used in our production process.

BUSINESS

The table below sets forth a brief description of the plant and machinery installed at each of our production plants:

Production plants	Principal products	Principal plant and machinery installed	Major functions	Dates of completion of installation in different stages	Approximate weighted average remaining useful life	
Greenfresh (Fujian) Production Plant	Refined carrageenan products	24 sets of alkali treatment and cleaning equipment (碱處理及清洗設備)	Alkali treatment and cleaning of seaweed.	2010-2014	4.8 years	
		21 sets of cooking and filtering equipment (蒸煮及過濾設備)	Steaming and boiling of seaweed under high temperature. Seaweed that is not dissolved is removed by filtering.	2010-2015	4.3 years	
		35 sets of alkali treatment, cleaning and steaming equipment (碱處理、清洗及蒸煮設備)	Alkali treatment and cleaning of seaweed. Steaming and boiling of seaweed under high temperature.	2017	8.1 years	
		25 sets of filtering equipment (過濾設備)	Seaweed that is not dissolved is removed by filtering.	2017-2018	8.8 years	
		42 sets of cooling and salting out equipment (冷卻及鹽析設備)	Cooling of hot seaweed gel solvent. Seaweed gel is formed through salting out.	2010-2018 2017	2.9 years 8.7 years	
		10 sets of dewatering equipment (脫水設備)	Pressure is applied to force the separation of water from the seaweed gel.	2010-2015 2017	2.3 years 8.7 years	
		Semi-refined carrageenan products	Four sets of alkali treatment, cleaning and removal of foreign matter equipment (碱處理、清洗及去除異物設備)	Alkali treatment and cleaning of seaweed.	2016-2018 2017	8 years 6.2 years
			Five sets of drying equipment (烘乾設備)	Drying of the treated seaweed to the required moisture level.	2016	7.8 years
					2018	9 years

BUSINESS

Production plants	Principal products	Principal plant and machinery installed	Major functions	Dates of completion of installation in different stages	Approximate weighted average remaining useful life
		23 sets of grinding, sifting and mixing equipment (研磨、篩選及混合設備)	Grinding, sifting and mixing of dried seaweed pursuant to the quality requirements and specifications.	2013-2018	7.8 years
				2017	7 years
	Agar-agar products	53 sets of alkali treatment and cleaning equipment (鹼處理及清洗設備)	Alkali treatment and cleaning of seaweed.	2014-2015	5.6 years
				2017	7.4 years
		16 sets of acidification and pH adjustment equipment (酸化及酸鹼度平衡設備)	Acidification to facilitate agar-agar to dissolve in hot water extraction and adjustment of pH value of the solvent.	2014-2017	1.7 years
				2017	8.7 years
		20 sets of steaming and boiling and hot water extraction equipment (蒸煮及熱水提取設備)	Seaweed is boiled in hot water until completely dissolves.	2015	6.7 years
				2017	8.7 years
		86 sets of filtering and cooling equipment (過濾及冷卻設備)	Hot extract is filtered to remove the seaweed residue. Filtrate is then cooled to form agar gel.	2014-2015	6.5 years
				2017	8.7 years
		37 sets of synaeresis equipment (脫水設備)	Agar gel is filtered in a pressure filter equipment to separate liquid from the agar gel through synaeresis and gel pressing.	2015-2016	6.7 years
				2017	8.7 years
	Blended products	22 sets of raw materials and ancillary materials testing equipment (原材料及輔料檢測設備)	Testing of raw materials and ancillary materials.	2011-2018	4 years
				Six sets of mixing and sifting equipment (研磨及過篩設備)	2017-2018
			Raw materials are sifted and blended pursuant to the specifications and requirements.		

BUSINESS

Production plants	Principal products	Principal plant and machinery installed	Major functions	Dates of completion of installation in different stages	Approximate weighted average remaining useful life
Lvqi (Fujian) Production Plant	Agar-agar products	53 sets of alkali treatment and cleaning equipment (碱處理及清洗設備)	Alkali treatment and cleaning of seaweed.	2012-2017	3.6 years
				2014	4.8 years
		Four sets of acidification and pH adjustment equipment (酸化及酸鹼度平衡設備)	Acidification to facilitate agar-agar to dissolve in hot water extraction and adjustment of pH value of the solvent.	2014	4.8 years
				2014	4.8 years
		10 sets of steaming and boiling and hot water extraction equipment (蒸煮及熱水提取設備)	Seaweed is boiled in hot water until completely dissolves.	2012-2014	4.2 years
				2014	4.8 years
		45 sets of filtering and cooling equipment (過濾及冷卻設備)	Hot extract is filtered to remove the seaweed residue. Filtrate is then cooled to form agar gel.	2012-2017	3.9 years
				2013-2014	5.4 years
		72 sets of synaeresis equipment (脫水設備)	Agar gel is filtered in a pressure filter equipment to separate the liquid from the agar gel through synaeresis and gel pressing.	2014-2016	5.1 years
				2012-2014	4 years
	Quick-dissolve agar-agar products	3 sets of screw extruder (螺桿擠壓機)	Raw materials extrusion	2019	10 years
		2 sets of membrane filter press (隔膜壓機)	Separation of alcohol from the agar gel	2019	10 years
		7 sets of alcohol storage tank (酒精儲罐)	Temporary storage of alcohol	2019	10 years
Lvbao (Quanzhou) Production Plant	Refined carrageenan products	Five sets of alkali treatment and cleaning equipment (碱處理及清洗設備)	Alkali treatment and cleaning of seaweed.	2000-2010	0.5 years

BUSINESS

Production plants	Principal products	Principal plant and machinery installed	Major functions	Dates of completion of installation in different stages	Approximate weighted average remaining useful life
		15 sets of cooking and filtering equipment (蒸煮及過濾設備)	Steaming and boiling of seaweed under high temperature. Seaweed that is not dissolved is removed by filtering.	2000-2009	0.1 years
		Nine sets of cooling and salting out equipment (冷卻及鹽析設備)	Cooling of hot seaweed gel solvent. Seaweed gel is formed through salting out.	2000-2009	0.0 years ⁽¹⁾
		20 sets of dewatering equipment (脫水設備)	Pressure is applied to force the separation of water from the seaweed gel.	2000-2014	0.8 years
Shiyanhaiyi Production Plant	Konjac crude powder	Seven sets of crushing equipment (粉碎設備)	Crushing of raw materials in the grinding mill.	2013	4.4 years
		Konjac gum	Eight sets of crushing, grinding, sifting and soaking equipment (破碎、研磨、篩選及浸泡設備)	Crushing, grinding and sifting of raw materials and soaking in ethanol solution	2013-2016
		One set of high pressure separation equipment (高壓分離設備)	Separation of starch and other impurities from konjac powder	2013	4.5 years
		Five sets of fine grinding equipment (精細研磨設備)	Separation of starch from konjac powder and further grinding into smaller particles	2013	4.6 years
		One set of centrifugal dewatering equipment (離心脫水設備)	Removal of ethanol and water from konjac flour	2013	4.6 years

Note:

- (1) The nine sets of cooling and salting out equipment have been used for many years, and there is no remaining useful life according to our accounting records.

BUSINESS

Our principal facilities and machinery generally have useful lives of around 10 to 20 years, and such useful lives may be extended for a longer period if they are under proper repairs and maintenance. We believe that our production facilities are well maintained and are in good operating condition, and none of these production facilities, or the production technology involved, is obsolete or outdated. We have implemented standardised procedures and guidelines for the operation, management, and maintenance of our production facilities. We carry out regular inspections and assessments of the condition of our production facilities and conduct regular repair and maintenance. We estimate that the average remaining useful lives of our production facilities are in the range between two years and five years.

Transportation

All of our production facilities are strategically located with convenient access to highway networks. We primarily rely on road transportation for the delivery of raw materials to our production plants. Some of our imported raw materials are delivered by sea to the loading ports close to our production plants, where we arrange for transportation to our production plants. Delivery cost of finished products to our customers is included in the purchase price we charged to our customers. We generally arrange with logistics companies which are Independent Third Parties to deliver our products to the designated locations as required by the customers.

EXPANSION PLANS OF OUR PRODUCTION FACILITIES

Reasons for our expansion plans

We are in the production industry of seaweed-based and plant-based hydrocolloid products, and we believe it is important for us to remain competitive by maintaining readily available production capacity for our product offerings which, as of the Latest Practicable Date, comprised more than 374 products in four principal categories. According to the Frost & Sullivan Report, we enjoy leading position in the agar-agar and carrageenan products in the global market as well as the domestic market in the PRC. Our Directors believe that the continuous increases in our production capacity were one of our key success factors in the past, and our production capacity for agar-agar and carrageenan products have increased at an year-on-year rate of 30.7% and 23.2%, respectively, during the three years ended 31 December 2018. Our capital expenditure in respect of the purchase of property, plant and machinery also amounted to HK\$54.5 million, HK\$121.8 million, and HK\$56.5 million, respectively, during the three years ended 31 December 2018. The increase in our production capacity can support our increasing production volume, and the average utilisation rates for Greenfresh (Fujian) Production Plant, Lvqi (Fujian) Production Plant, Lvbao (Quanzhou) Production Plant, and Shiyanhaiyi Production Plant during the year ended 31 December 2018 was 79.1%, 74.7%, 82.0%, and 59.6%, respectively. The average utilisation rates for Greenfresh (Fujian) Production Plant, Lvqi (Fujian) Production Plant, Lvbao (Quanzhou) Production Plant, and Shiyanhaiyi Production Plant during the three months ended 31 March 2019 was 64.1%, 62.1%, 74.9%, and 97.3%, respectively. Although the average utilisation rate of each of our production plants has not reached the maximum level during the year ended 31 December 2018 and further affected by holiday reason during the three months ended 31 March 2019, the utilisation rates of certain workshops for agar-agar and carrageenan

BUSINESS

products have exceeded 76.0% as of 31 December 2018 and 83.3% for the three months ended 31 March 2019. Our Directors consider that our utilisation rates have reached such levels which are appropriate for us to consider further expansion of our production capacity. In formulating expansion plans for our production capacity, our Directors have considered the following:

- (a) There is insufficient space at each of our production plants to allow for further erection of new premises, installation of new production machinery and equipment, as well as installation of new ancillary facilities. The current design of our existing production plants have all been process flow and machine type specific and any kinds of alternation and expansion would involve rearrangement of the existing production facilities which may not be technically feasible or cost effective.
- (b) We have reviewed the efficiency of our existing production facilities and are of the view that our existing production facilities are operating under optimal condition and are in good maintenance condition. As such, there are limitations for any significant improvement to be made to our production efficiency or production capacity by way of further upgrade of such production facilities.
- (c) If there is any improvement or modification to our existing production facilities, it will necessitate temporary suspension to our current production process. Such suspension or disruption is undesirable and will inevitably have impact on our current close-to-optimal level of production activities.
- (d) Modifications or upgrades to our existing production facilities for production of new products would involve installation of new production machinery and equipment and related ancillary facilities, such as water treatment plant and processing facilities, as well as the re-design of the layout of the production plant, which will also require additional approvals to be sought from the PRC Government, the time required for all such approvals may not necessarily be shorter than that of the construction of new production plants and facilities given that the procedures and the standards required in applying for such new approval are similar to the procedures involved in applying for new approval for the new production facilities.

In light of the foregoing, our Directors are of the view that continuous investments in expanding our production capacity by way of constructing new production plants and facilities is the most appropriate approach for our business expansion, and is also one of the principal purposes for the Listing. We expect that our capital expenditure would amount to HK\$107.4 million in 2019. Our Directors do not consider that we will have excessive production capacity for two principal reasons. First, pursuant to the Frost & Sullivan Report, the demand for agar-agar and carrageenan products in the PRC and the global market will continue to increase. Second, we have the pipeline products, such as quick-dissolve agar-agar products and refined iota- carrageenan products, that could be launched shortly and would increase our market share in the agar-agar and carrageenan product markets. See the section headed “Industry Overview — Overview of the global and the PRC hydrocolloids market” in this prospectus for the estimated increasing demands for seaweed-based and plant-based hydrocolloid products.

BUSINESS

Our Directors intend to implement the following expansion plans on our production facilities.

Recent expansion plans

We are constructing a new production plant adjacent to Lvqi (Fujian) Production Plant, which will include three production lines for the production of (a) quick-dissolve agar-agar products with an annual design production capacity of 1,500 tonnes, (b) refined iota-carrageenan products with an annual design production capacity of 180 tonnes, and (c) konjac gum products with an annual design production capacity of 1,500 tonnes. Lvqi (Fujian) has obtained the requisite construction work planning and commencement approvals prior to commencing the construction of the three production lines. Lvqi (Fujian) has commenced the construction of such production facilities since October 2017. These new production facilities cover a total site area of 37,680 square metres with a total gross floor area of 8,266.21 square metres.

As of the Latest Practicable Date, we have completed the construction of the factory buildings for quick-dissolve agar-agar products, refined iota carrageenan products, and konjac gum products at the new production plant adjacent to Lvqi (Fujian) Production Plant. The installation of the plant and machinery for the production line of quick-dissolve agar-agar products has also been completed, and trial production has commenced from the first quarter of 2019. Commercial production of the production line for quick dissolve agar-agar products has commenced in the second quarter of 2019. The production line for the production of iota carrageenan products has commenced trial production in the third quarter of 2019 and commercial production will commence towards the end of 2019. The production line for the production of konjac gum products will commence trial production during the second quarter of 2020 and commercial production will commence from the third quarter of 2020.

The estimated total investment for land acquisition, construction of production facilities, and the installation of the plant and machinery for the three production lines would be HK\$55.6 million. As of the Latest Practicable Date, we have incurred HK\$29.2 million. We plan to incur the remaining balance of HK\$26.4 million out of the net proceeds from the Share Offer, of which HK\$26.0 million will be used for the payment for the construction cost of two factory buildings and plant and machinery for the production lines of refined iota carrageenan and konjac gum and HK\$0.4 million will be used for the payment of the remaining balance of the purchase price of the plant and machinery for the production line for quick-dissolve agar-agar products. Assuming that the utilisation rate of this production plant is 80.0% of its design production capacity, we expect that the investment would pay back by 2023 and the breakeven period would be three years.

BUSINESS

Future expansion plans

In anticipation of the growth in the demand for hydrocolloid products both in the PRC and the global market, we plan to construct new production plants in the PRC and Indonesia. The following sets forth further information on these future expansion plans:

- (1) *As part of the recent expansion plans set forth above, construction of a new production plant in the PRC adjacent to Lvqi (Fujian) Production Plant for the production of (a) refined iota-carrageenan products with an annual design production capacity of 180 tonnes and (b) konjac gum products with an annual design production capacity of 1,500 tonnes*

As set forth in the paragraphs under “Recent expansion plans” above, we are currently constructing a new production plant adjacent to Lvqi (Fujian) Production Plant, which will include three production lines for the production of quick-dissolve agar-agar products, refined iota carrageenan products, and konjac gum products. Trial production of the production line of quick-dissolve agar-agar products has commenced from the first quarter of 2019. Commercial production has commenced in the second quarter of 2019. The production line for the production of iota carrageenan products has commenced trial production in the third quarter of 2019 and commercial production will commence by the end of 2019. The production line for the production of konjac gum products will commence trial production during the second quarter of 2020 and commercial production will commence from the third quarter of 2020. We plan to use HK\$26.4 million from the net proceeds from the Share Offer to fund the remaining balance of the total investment cost. Assuming that the utilisation rate of this production plant is 80% of its design production capacity, we expect that the total investment will pay back by 2023 and the breakeven period would be three years.

- (2) *Construction of a new production plant in Longhai City, Zhangzhou City, Fujian Province, the PRC for the production of (a) agarose with an annual design production capacity of 50 tonnes, (b) agar microspheres with an annual design production capacity of 10 tonnes, and (c) agarophyte with an annual design production capacity of 200 tonnes*

Further, taking into consideration the expanding product range of our agar-agar products, we intend to invest in the construction of a new production plant in Zhangzhou City, the PRC with an annual design production capacity of 50 tonnes of agarose, 10 tonnes of agar microspheres, and 200 tonnes of agarophyte. On 15 March 2019, we entered into the land transfer agreement for the land parcel of 26,362 sq. m., on which the new production plant in Longhai City, Zhangzhou City, Fujian Province is to be constructed, for the purchase price of RMB7.2 million. The amount has been settled by us out of our internal financial resources, and the land acquisition has been completed. The construction of the production plant, installation of plant and machinery, and trial production of these three production lines would commence during the first quarter of 2020.

The estimated total investment of this new production plant is HK\$90.0 million, including the land acquisition cost of RMB7.2 million (equivalent to HK\$8.8 million). We plan to use HK\$81.2 million out of the net proceeds from the Share Offer to fund this project. Assuming that the utilisation rates of this production plant is 75% of its design production capacity, we expect that the total investment will pay back by 2025 and the breakeven period would be five years.

BUSINESS

(3) *Construction of a new production plant in Indonesia for the production of semi-refined carrageenan with an annual design production capacity of 3,000 tonnes*

We plan to construct a new production plant in Indonesia with an annual design production capacity of 3,000 tonnes of semi-refined carrageenan, for which we have acquired four parcels of land with a total site area of 63,370 sq.m. As of the Latest Practicable Date, we have not yet commenced the construction of such production plant. We anticipate that we will complete the construction of the production plant and installation of plant and machinery during the first half of 2020, and trial production would commence from the second half of 2020 and commercial production would commence towards the end of 2020.

We plan to finance the investment in Indonesia by a combination of equity and debt financing obtained from local banks in Indonesia, which will minimise the foreign exchange risk. We estimate that the total investment for constructing the new production plant and factory buildings in Indonesia is HK\$38.4 million, including the acquisition cost of the four parcels of land. As of the Latest Practicable Date, we had incurred HK\$10.8 million for the acquisition of four parcels of land and payment of land related tax and professional fees. We plan to use HK\$27.6 million out of the net proceeds from the Share Offer for the construction of this production plant and factory buildings. Assuming that the utilisation rate of this production plant is 80% of its design production capacity, we expect that the total investment will pay back by 2025 and the breakeven period would be five years.

Our Directors confirm that the investment decision is based on our strategic plan to enhance our competitive advantage in the production of semi-refined carrageenan products in the long term. Since 2011, Indonesia has been the major country from which we have sourced our dried seaweed. We currently have assigned staff members to Indonesia for the purpose of ensuring the quality of dried seaweed sourced by us. During the three years ended 31 December 2018, dried seaweed, i.e. cottonii, gracilaria, and spinosum, sourced from suppliers in Indonesia accounted for 99.7%, 97.7%, and 97.9% of the total volume of our purchase of dried seaweed. Cottonii and spinosum are primarily used in the production of a wide range of carrageenan products, and the volume we sourced from Indonesia accounted for 99.4%, 95.8%, and 96.3% of our total purchase volume during the three years ended 31 December 2018. During the three months ended 31 March 2019, dried seaweed sourced from suppliers in Indonesia accounted for 95.8% of the total volume of dried seaweed purchased by us, as compared to 97.5% for the three months ended 31 March 2018.

Our Directors believe there has been a trend for PRC hydrocolloid producers to set up production plants in Indonesia and as a matter of fact, one of our largest competitors in carrageenan products has established a production plant in Indonesia in 2017 with an annual production capacity of 15,000 tonnes of semi-refined carrageenan products. There are also other PRC producers of various operation scales of hydrocolloids-based products which have established production plants in Indonesia.

BUSINESS

We intend to use our production plant in Indonesia for the production and sales of certain basic types of semi-refined carrageenan products to customers outside the PRC. We consider it would be more efficient and cost effective if we have a production base in Indonesia because of the following reasons:

- (a) The cost of construction of production plant and factory buildings in Indonesia is generally lower than the cost in the PRC. Hence, the total amount and the depreciation charge on our investment in fixed assets may be reduced. We expect that the annual depreciation charge could be reduced by up to 60% on an annual basis.
- (b) We can have significant savings in transportation costs and time because our production plant in Indonesia is located close to our target market of Southeast Asian countries and the source of raw material of dried seaweed. We can have a better control of the production and transportation process. Based on the current freight rates, we estimate that we can save up to 3.6% of the sea freight cost per tonne of dried seaweed and the transportation time can also be shortened by an average of 13 days.
- (c) The average labour cost in Indonesia is generally lower than the average labour cost in the PRC. Although the labour in Indonesia is less efficient and their productivity is generally lower than skilled workers in the PRC, our Directors believe that the labour cost per tonne of dried seaweed that may be incurred by us could be reduced by up to 70% on an annual basis.
- (d) We plan to sell and deliver the semi-refined carrageenan products direct to our customers in the overseas markets. Our production plant in Indonesia will allow us to explore further penetration in our target of Southeast Asian countries because of the tariff-free environment amongst certain countries in the region.

We have also considered the less favourable factors for operating a production plant in Indonesia. The infrastructure in Indonesia is generally less advanced with lower labour productivity level than in the PRC. We may need to source supplementary production materials from other Asian countries. We may also need to provide additional trainings to our staff in Indonesia. We plan to recruit experienced management staff in Indonesia and the PRC for the management of the production plant in Indonesia. As we have experience in the procurement of seaweed from Indonesia and that we have retained professional advisers in advising us on the regulatory requirements for establishing the production plant in Indonesia, our Directors consider that we will be well prepared to commence our production business in Indonesia.

The production plant is scheduled to commence commercial production towards the end of 2020, we will engage professional advisers on the transfer pricing arrangement for the sale and purchase transactions between Greenfresh (Indonesia) and Greenwich (China), if any.

BUSINESS

- (4) *Construction of a new production plant in Zhangzhou City, Fujian Province, the PRC for the production of agar-agar products with an annual design production capacity of 1,000 tonnes*

We will construct a new agar-agar production plant with an annual design production capacity of 1,000 tonnes.

As of the date of this prospectus, we have received an acknowledgement from the municipal government of Zini City, Fujian Province, the PRC on the land parcel requested by us for the construction of the relevant production plant. We expect the location of the land parcel can be confirmed by the end of the first quarter of 2020. In selecting the land parcel, our Directors consider that the site area should be not less than 20,000 sq.m. and should be within 3 km from any of the existing production plants of our Group. We expect that we would complete the land acquisition procedures by the first half of 2020 and that will commence trial production during the first half of 2022 and commercial production would commence towards the end of 2022. The estimated total investment of our new production plant is HK\$82.1 million, all of which will be settled out of the net proceeds from the Share Offer. As of the Latest Practicable Date, we have not incurred any investment cost for this production plant. Assuming that the utilisation rate of this production plant is 80% of its design production capacity, we expect that the total investment will pay back by 2027 and the breakeven period would be five years.

Further information on our expansion plans

The table below sets forth further information on our expansion plans which will be financed by the net proceeds from the Share Offer:

Production plants	Types of hydrocolloid products to be produced	Annual design production capacity	Total site area /Total gross floor area	Completed/ Planned business milestones	Estimated total investment ⁽¹⁾	Expected investment breakeven period	Source of funding for the estimated total investment ⁽²⁾
1. Production plant adjacent to Lvqi (Fujian) Production Plant - Construction of two factory buildings and one storage facility with supporting infrastructure	Quick-dissolve agar-agar products Refined iota-carrageenan products Konjac gum products	1,500 tonnes 180 tonnes 1,500 tonnes	37,680 sq.m./ 8,266.21 sq.m.	Quick-dissolve agar-agar products 3rd quarter 2018: Factory construction (Completed) 4th quarter 2018: Installation of plant and machinery (Completed) 1st quarter 2019: Trial production 2nd quarter of 2019: Commercial production	HK\$55.6 million (as to HK\$6.6 million for the land acquisition, HK\$27.4 million for construction of the factory buildings and other facilities, and HK\$21.6 million for acquisition and installation of plant and machinery)	Three years	- HK\$29.2 million has been paid out of our internal financial resources. - HK\$26.4 million will be funded out of the net proceeds from the Share Offer.
				Refined iota-carrageenan 3rd quarter 2018: Factory construction (Completed) 2nd quarter 2019: Installation of plant and machinery (Completed) 3rd quarter 2019: Trial production End of 2019: Commercial production			
				Konjac gum products 3rd quarter 2018: Factory construction (Completed) <i>Konjac gum products</i> 1st quarter 2019: Installation of plant and machinery 2nd quarter 2020: Trial production 3rd quarter 2020: Commercial production			

BUSINESS

Production plants	Types of hydrocolloid products to be produced	Annual design production capacity	Total site area / Total gross floor area	Completed/ Planned business milestones	Estimated total investment ⁽¹⁾	Expected investment breakeven period	Source of funding for the estimated total investment ⁽²⁾
2. Production plant (intended to be located at Longhai City, Zhangzhou City, Fujian Province) on the land to be acquired - Construction of factory building and supporting infrastructure - Purchase plant and machinery for production purpose - Construction of two production facilities, one storage facility, and three superior staff dormitory	Agarose Agar microspheres Agarophyte	50 tonnes 10 tonnes 200 tonnes	66,917.03 sq.m./ 53,845.88 sq.m.	2nd quarter 2019: Complete land acquisition (Substantially completed) 4th quarter 2019: Complete factory construction 4th quarter 2019: acquisition and installation of plant and machinery 1st quarter of 2020: Trial production	HK\$90.0 million (as to HK\$8.8 million for the land acquisition, HK\$34.2 million for construction of dormitory, HK\$29.9 million for construction of factory buildings and other facilities, and HK\$17.1 million for acquisition and installation of plant and machinery)	Five years	- HK\$8.8 million has been paid out of our internal resources. - HK\$81.2 million will be funded out of the net proceeds from the Share Offer.
3. Production plant located at Jalan Raya Klatakan Village, Kendit District, Klatakan Regency, Situbondo Province, East Java, Indonesia	Semi-refined carrageenan products	3,000 tonnes	63,370 sq.m./ Not fixed at the present stage	2nd quarter 2018: Complete land acquisition (Completed) 2nd quarter 2019: Commencement of factory construction 1st half 2020: Installation of plant and machinery 2nd half 2020: Trial production End of 2020: Commercial production	HK\$38.4 million (as to HK\$9.1 million for the land acquisition, HK\$16.6 million for construction of factory buildings and other facilities, and HK\$12.7 million for acquisition and installation of plant and machinery)	Five years	- HK\$10.8 million has been paid out of our internal financial resources. - HK\$27.6 million will be funded out of the net proceeds from the Share Offer.
4. Production plant in Zhangzhou City, Fujian Province ⁽³⁾ - Purchase of a parcel of land of 30 mu	Agar-agar products	1,000 tonnes	N/A ⁽³⁾ / N/A ⁽³⁾	1st half 2020: Complete land acquisition 2nd half 2020: Commencement of factory construction 4th quarter 2021: Installation of plant and machinery 1st half 2022: Trial production End of 2022: Commercial production	HK\$82.1 million (as to HK\$6.8 million for the land acquisition, HK\$57.0 million for construction of factory buildings and other facilities, and HK\$18.3 million for acquisition and installation of plant and machinery)	Five years	HK\$82.1 million will be funded out of net proceeds from the Share Offer.

Notes:

- (1) Estimated total investment cost includes cost on the acquisition of land, construction cost of production facilities, and acquisition installation cost of relevant plant and machinery.
- (2) For more information on the source of funding, see the section headed “Future Plans and Proposed Use of Net Proceeds from the Share Offer” in this prospectus.
- (3) We have received an acknowledgement from the municipal government of Zhangzhou City, Fujian Province, the PRC, on the land parcel requested by us for the construction of the relevant production plant. In selecting the land parcel, our Directors consider that the area should be not less than 20,000 sq.m. and should be within 3 km from any of the existing production plants of our Group. We expect that we would complete the land acquisition procedures by the first half of 2020 and that will commence the trial production by the first half of 2022.

BUSINESS

Increase in our production capacity

Following the implementation of our expansion plans set forth above, the annual design production capacity of our principal products will increase, and the table below sets forth additional information on such increase in our annual design production capacity:

Principal products	Annual production capacity for the year ended 31 December 2018	Annual production capacity after implementation of our expansion plans in 2019 ⁽¹⁾	Annual production capacity after implementation of our expansion plans in 2020	Annual production capacity after implementation of our expansion plans in 2022
	<i>(tonnes)</i>	<i>(tonnes)</i>	<i>(tonnes)</i>	<i>(tonnes)</i>
Agar-agar products				
Agar-agar products	4,565	4,565	4,565	5,565 ⁽²⁾
Quick-dissolve agar-agar products	—	1,500	1,500	1,500
Agarose	—	50	50	50
Agar microspheres	—	10	10	10
Agarophyte	—	200	200	200
Carrageenan products				
Refined kappa-carrageenan . .	6,490	6,490	6,490	6,490
Refined iota-carrageenan . . .	—	180	180	180
Semi-refined carrageenan. . . .	3,685	3,685	6,685 ⁽³⁾	6,685
Konjac products				
Konjac powder.	330	330	330	330
Konjac gum.	330	330	1,830	1,830
Blended products.	<u>3,300</u>	<u>3,300</u>	<u>3,300</u>	<u>3,300</u>
Total	<u><u>18,700</u></u>	<u><u>20,640</u></u>	<u><u>25,140</u></u>	<u><u>26,140</u></u>

Notes:

- (1) Newly constructed production facilities in 2019.
- (2) Annual increase in production capacity of agar-agar products from 2020 to 2022 is approximately 10%.
- (3) Planned annual design production capacity of 3,000 tonnes of semi-refined carrageenan products will be contributed by our new production plant to be constructed in Indonesia in order to release the production capacity of the production plants in the PRC and allocate the production of refined carrageenan products to Indonesia to achieve higher overall economic benefits.

As set forth in the table above, our expansion plans focus on enhancing our production capacity for the production of new types of agar-agar products and semi-refined carrageenan products over the next two years. Our Directors therefore consider that our expansion plans are not overly aggressive and believe that such expansion is well-supported by the anticipated future market growth of hydrocolloid products. See the section headed “Industry Overview — Outlook of key downstream industries for hydrocolloids” of this prospectus for detailed information on the market outlook of hydrocolloid product markets in the PRC and the global market.

BUSINESS

Plant and machinery to be acquired

The table below sets forth the principal plant and machinery to be acquired for each of the new production plants to be constructed under our future expansion plans:

Production plants	Products	Principal plant and machinery installed	Major functions
1. Production plant adjacent to Lvqi (Fujian) Production Plant	Refined iota carrageenan products	Steam boiling tank (蒸煮罐)	Treated seaweed is dissolved into solution through steaming and boiling under high temperature
		Ceramic membrane concentrating equipment (陶瓷膜濃縮設備)	Concentration of mucilages
		Membrane filter press (隔膜壓濾機)	Separation of solid iota carrageenan from the seaweed gel through filtering in the filter press
	Konjac gum products	Grinding equipment set and steel platform (磨漿組合設備及鋼平台)	Grinding and separation of konjac flakes
		Double cone rotary vacuum dryer (雙維回轉真空乾燥機)	Ethanol and water are removed from konjac gum through centrifuge dehydration
		Double-effect light ethanol recovery device assembly (雙效淡酒回收裝置總成)	Recovery of ethanol removed from centrifuge dehydration

BUSINESS

Production plants	Products	Principal plant and machinery installed	Major functions
2. Production plant intended to be located in Longhai City, Zhangzhou City, Fujian Province, the PRC	Agarose	Water purification treatment device (淨水處理裝置)	Providing purified water for the production process
		Reactor (反應釜)	Dissolving reactants and causing reactions during the production process
		Plate and frame filter (板框過濾裝置)	Removing foreign materials through filtration
	Agar microspheres	Electric heating reactor (電加熱反應罐)	Providing reaction conditions for microsphere formation
		Titanium ultrafilter (鈦合金超濾器)	Providing purification conditions for the repeated use of reaction solution
		Crosslinking and modification reactor (交聯修飾反應釜)	Enhancing microsphere performance and causing functional modification
		Reactor (反應釜)	Providing reaction environment and conditions for agarophyte production
	Agarophyte	Membrane filter press (隔膜壓濾機)	Producing purified liquid agar from purified reaction solution
		Dryer (乾燥機)	Drying of agar sheets and sterilisation
3. Production plant located at Jalan Raya, Klatakan Village, Kendit District, Klatakan Regency, Situbondo Province, East Java, Indonesia	Semi-refined carrageenan products	Alkaline treatment cleaning tank (鹼處理清洗罐)	Alkaline treatment and removal of alkali from alkali treated seaweed
		Three-stage fluidised bed drying machine (三級硫化床烘乾機)	Alkali treated seaweed is dried in a drying machine to the required moisture level
		Boiler (鍋爐)	Provision of steam power

BUSINESS

Production plants	Products	Principal plant and machinery installed	Major functions
4. Production plant in Zhangzhou City, Fujian Province, the PRC	Agar-agar products	<p>Alkaline treatment, acidification and steam boiling tanks (鹼處理、酸化、蒸煮罐)</p> <p>Membrane filter press (隔膜壓濾機)</p> <p>Dryer (乾燥機)</p>	<p>Alkaline treatment, acidification, steaming boiling and hot water extraction</p> <p>Filtration to remove the seaweed residue by pumping through a filter press and the agar gel is filtered in a pressure filter equipment to separate the liquid from the agar gel through synaeresis and gel pressing</p> <p>Agar gel is dried in a drying machine to the required moisture level</p>

Investment cost and benefit analyses

We adopt a prudent approach in formulating our expansion plans. In this connection, we have considered the following factors before implementing our expansions plans.

- (1) The annual percentage increase in our production capacity for the two years ending 31 December 2020 following completion of our expansion plans is expected to be 15.9%, which is comparable to the annual percentage increase of the same of 20.3% during the three years ended 31 December 2018. Our Directors consider that the planned percentage increase in our production capacity is generally consistent with the anticipated growth in the sales volume of agar-agar products at a CAGR of 9.7% and carrageenan products at a CAGR of 14.6% in the PRC for the four years ending 31 December 2023, as set fifth in the Frost & Sullivan Report. See the section headed “Industry Overview — Overview of the global and the PRC hydrocolloids market” in this prospectus for further information.
- (2) We expect that the demand for agar-agar products and carrageenan products would increase during the next four years in both the PRC and the global market according to the Frost & Sullivan Report.
- (3) The expected investment payback period for our production plants is anticipated to be in the range between three years and five years, which is based on the expected net profit of each production plant and its respective investment cost. The expected net profit is the direct outcome of the estimated gross profit of each production plant. In estimating our investment payback period, we did not consider the benefits that may be generated from the enhanced economies of scale and the higher average selling prices of our products in relation to the higher proportion of sales of agar-agar products with high gel strength and refined carrageenan products. Our Directors believe that the gross profit margins adopted by us in determining the expected investment payback period are prudent estimates notwithstanding the average selling prices of our products are expected to adjust downward in the years ahead.

BUSINESS

According to the Frost & Sullivan Report, the estimated average annual unit selling prices of agar-agar products, carrageenan products, and konjac gum products during the five-year period from 2019 to 2023 are expected to adjust downward within a range between CAGR of (2.1%) and CAGR of (3.4%). It is, however, stated in the Frost & Sullivan Report that:

- (a) The average unit selling prices cover agar-agar products of various gel strengths ranging from 400g/cm² to 1200g/cm². The average unit selling prices of agar-agar products with high gel strength are generally higher than those with low gel strength.
- (b) The average unit selling prices cover carrageenan products of various gel strengths. In addition, refined carrageenan products can generally be sold at higher prices than semi-refined carrageenan products.

Our Directors believe that one of the principal reasons attributable to the expected general decreases in the average unit selling prices of agar-agar products and carrageenan products lies in the price sensitivity of low gel strength agar-agar products and semi-refined carrageenan products. With our leading position in the industry, we can manage to maintain our gross profit margin as most of our agar-agar products are of high gel strength and our carrageenan products are primarily refined carrageenan products (refined kappa-carrageenan products and refined iota-carrageenan products), both of which can command higher average unit selling prices, as compared to the agar-agar of low gel strength and most of the semi-refined carrageenan products. In addition, according to the requirements of our existing customers on product safety and stability, our Directors believe that our products would have better resistance to price fluctuations on account of our reputation and quality of our products, unless there are significant decreases in the prices of the principal raw materials. In such event, as mentioned in the Frost & Sullivan Report, quality suppliers like us would continue to be able to maintain the average unit selling prices at least for such period of time that allows us to enjoy the benefits of reduced cost of production.

With regard to the new products planned to be produced by us, such as quick-dissolve agar-agar, refined iota-carrageenan, agarose, agar microspheres, and agarophyte, which are high-end agar-agar and carrageenan products and the selling prices of these products are less sensitive to fluctuations in the cost of production.

In relation of the semi-refined carrageenan production plant in Indonesia, we use the same gross profit margin as in our production plants in the PRC even though the production cost in Indonesia is generally lower than the production cost in the PRC. We believe that the cost advantage in Indonesia may be offset by the initial cost of operations and the efficiency loss upon commencement of commercial production of the production plant.

- (4) The expected investment breakeven period would be in the range between three and five years based on the expected levels of utilisation of the production plants, the investment costs, and the revenue and hence net profit that may be generated from the sales of our principal products. This range of investment breakeven period is generally consistent with the investment breakeven period of our existing production plants in the PRC.

BUSINESS

In light of the foregoing, our Directors confirm that our expansion plans are determined following due consideration of the costs and benefits involved, based on the current information available to our Directors, as well as the prevailing market conditions and possible levels of demand for our hydrocolloid products.

QUALITY MANAGEMENT

We have formulated our quality control system in accordance with the requirements under the relevant PRC laws and regulations and have implemented quality control measures throughout our production process. Our quality control team is in charge of the overall quality control of our production and reviews the implementation of our quality control system on a regular basis. Our quality control team is responsible for identifying any quality control issues and providing solutions to our production team to address the relevant quality control issues. Our quality control staff also examine our products at each key stage of the production process to ensure our products meet the required quality standards. In addition, our quality control staff submit to the management inspection reports in respect of the product quality of raw materials and finished products, production process and compliance with the relevant national standards on production quality and food safety and recommended improvement procedures. Members of our production team and quality control team are required to acquire relevant knowledge and trainings in relation to the production and product assessment in respect of quality control.

As of 31 December 2018, our quality control team consisted of 52 staff and was led by Mr. GUO Dongxu. See the section headed “Directors, Senior Management, and Employees” in this prospectus for further information of his qualifications and experience. Six staff in our quality control team have over six years of experience in the quality control in food industry and possess relevant food inspection experience.

We have been accredited with BRC, HALAL, KOSHER, FSSC 22000, HACCP, ISO 9001, and ISO 22000 for quality control standards. See the paragraphs under “Quality certification” below for further information of these certifications.

Quality standards and certificates

Our operations comply with the applicable PRC laws and regulations in relation to food production, as well as the quality control requirements imposed by the China State Food and Drug Administration and/or its local branches. We are also subject to annual inspection by the relevant PRC Government authorities. Our quality control system has received various international quality management certifications, including certifications for International Organisation for Standardisation (ISO). We received these certifications by applying for and passing the relevant documentary and on-site inspections by independent accreditation bodies. These certifications are subject to independent audits by the relevant accreditation bodies.

BUSINESS

ISO 9001: 2015

ISO 9001:2015 specifies requirements for quality management system pursuant to which the organisation needs to demonstrate its ability to consistently provide products that can meet customer demand and applicable statutory and regulatory requirements and aims to enhance customer satisfaction through the effective application of the system, including continual improvement of the system and the assurance of conformity to customer and applicable statutory and regulatory requirements.

Our quality management system with respect to our Greenfresh (Fujian) Production Plant, Shiyanhaiyi Production Plant and Lvbao (Quanzhou) Production Plant have been certified to conform to ISO 9001:2015 and GB/T 19001-2016 standards effective from 30 August 2017 to 21 September 2019, 6 November 2017 to 8 October 2020 and 4 May 2018 to 27 May 2021, respectively.

HACCP

HACCP is a safety control management system to address food safety through the control of biological, chemical and physical risks in the production, procurement and handling of raw material to the production of finished products, distribution and consumption of finished product.

Our HACCP system with respect to our production facilities in Shiyanhaiyi Production Plant has been certified to conform to GB/T 27341-2009 and GB/T 14881-2013 requirements effective from 6 November 2017 to 5 November 2020.

ISO22000:2005

ISO 22000:2005 specifies requirements for a food safety management system to control food safety in order to ensure that the food is safe for consumption.

Our Greenfresh (Fujian) Production Plant and our Lvqi (Fujian) Production Plant have been certified to conform to ISO 22000:2005 from 19 September 2019 to 29 June 2021 and from 14 September 2018 to 28 September 2021, respectively.

BUSINESS

Quality certifications

The table below sets forth the major certifications or licences we have obtained for our products or production facilities:

Certificate/licence	Production plant/subsidiary	Issuing body/ authority	Date of issue	Expiry date	Detailed information
ISO 22000:2005					
ISO 22000:2005 Food Safety Management System Certification	Lvqi (Fujian)	Intertek Certification Limited	14 September 2018	28 September 2021	Food safety management system for manufacturers
ISO 22000:2005 Food Safety Management System Certification	Greenfresh (Fujian)	Intertek Certification Limited	19 September 2019	29 June 2021	Food safety management system for manufacturers
ISO 9001:2015					
ISO 9001:2015 Quality Management System Certification	Greenfresh (Fujian)	China Quality Certification Centre	19 September 2019	21 September 2022 ⁽¹⁾	Quality management system for the design, production and sales
ISO 9001:2015 Quality Management System Certification	Shiyanhaiyi	China Quality Mark Certification Group	6 November 2017	8 October 2020	Quality management system for the design, production and sales
ISO 9001:2015 Quality Management System Certification	Lvbao (Quanzhou)	China Quality Certification Centre	4 May 2018	27 May 2021	Quality management system for the design, production and sales
KOSHER					
KOSHER	Lvqi (Fujian)	KOF-K Kosher Certification	24 July 2018	31 July 2020	Certification for food that conforms to regulations of Jewish religious dietary laws
KOSHER	Shiyanhaiyi	KOF-K Kosher Certification	19 January 2018	28 February 2020	Certification for food that conforms to regulations of Jewish religious dietary laws
KOSHER	Greenfresh (Fujian)	KOF-K Kosher Certification	24 July 2018	31 July 2020	Certification for food that conforms to regulations of Jewish religious dietary laws
KOSHER	Lvbao (Quanzhou)	KOF-K Kosher Certification	24 July 2018	31 July 2020	Certification for food that conforms to regulations of Jewish religious dietary laws
FSSC 22000					
FSSC 22000	Lvqi (Fujian)	Intertek Certification Limited	13 November 2016	12 November 2019 ⁽¹⁾	Food safety management system
HACCP					
HACCP	Shiyanhaiyi	China Quality Mark Certification Group	6 November 2017	5 November 2020	Food safety and quality management system

BUSINESS

Certificate/licence	Production plant/subsidiary	Issuing body/ authority	Date of issue	Expiry date	Detailed information
BRC					
BRC	Greenfresh (Fujian)	Intertek Certification Limited	24 October 2018	9 November 2019 ⁽¹⁾	Food safety standard
BRC	Shiyanghaiyi	Intertek Certification Limited	14 December 2018	24 December 2019 ⁽¹⁾	Food safety standard
HALAL (ARA)					
HALAL (ARA)	Shiyanghaiyi	The Indonesian Council of Ulama	31 July 2019	30 July 2021	Certification of permissible food under traditional Islamic law
HALAL (ARA)	Greenfresh (Fujian)	The Indonesian Council of Ulama	25 January 2019	24 January 2021	Certification of permissible food under traditional Islamic law
FDA					
Certificate of registration with FDA	Greenfresh (Fujian)	Registrar Corp	23 October 2018	31 December 2019 ⁽¹⁾	Certification that the facility is registered with the FDA pursuant to the Federal Food Drug and Cosmetic Act, as amended by the Bioterrorism Act of 2002 and the FDA Food Safety Modernisation Act

Note:

- (1) We will apply for renewal of these certificates/licenses when they are about to expire in accordance with the respective renewal requirements. Our Directors do not anticipate that there is any legal impediment for the renewal as of the date of this prospectus.

Quality control on the sourcing of raw materials

We have implemented a quality control system for raw materials pursuant to which each batch of raw materials delivered to our production plants are tested on a sampling basis for both physical and chemical properties, such as appearance, hygiene standards and chemical content. We have also implemented policies in relation to the storage of raw materials, including storage temperature, ventilation and humidity conditions.

We have adopted and maintained designated procedures in the selection of our suppliers. We select our suppliers taking into account their qualifications, production capacity, management of upstream suppliers, quality control, environmental compliance, production facilities, inspection facilities and their major upstream suppliers and customers. We also evaluate the performance of our suppliers annually (including but not limited to conducting on-site inspection of suppliers' facilities) to evaluate their performance. We will cease to procure from those suppliers who fail to meet our criteria. We may dispatch staff to have on-site inspection of our suppliers, and the potential suppliers in Indonesia. We also monitor the performance of our suppliers including sampling inspection and on-site inspection.

BUSINESS

Quality control on the production process

We apply and adhere to the relevant industry standards in our production process, including ISO 9001 and ISO 22000, to ensure that our products are consistently produced in compliance with the relevant industry standards.

Each stage of our production is closely monitored by our quality control staff. Our quality control department is responsible for ensuring our staff follow our guidelines on production procedures and our products meet the relevant quality, hygiene and food safety standards of our internal guidelines and the requirements and standards in the PRC and the relevant countries our products are exported to.

We have imposed quality control on each of our key production process, in particular, in the process of inspection of raw materials, inspection of finished products, and metal detection.

In addition, we have also adopted strict hygiene and safety standards in each of our production facilities. We require our production staff to clean and sterilise our production facilities daily before and after the production. All wastes are to be disposed of at regular intervals during the day. All our employees are required to follow designated sanitising procedures, wear caps, uniforms, gloves and overshoes before they are allowed to enter our production facilities.

Quality control on the finished products

Each batch of our finished products is tested on a sampling basis and is inspected to ensure that they have proper and accurate labelling and have met the relevant quality standards and product specifications.

Quality control on storage of the inventory

We have implemented operation procedures for our warehouse, including record keeping in a timely manner, proper and clear labelling and periodic stock-taking. We also maintain storage conditions in our warehouse in accordance with the categories and production dates of raw materials and finished products.

Response to customers' complaints and feedbacks

It is our policy that all complaints and feedbacks from our customers are handled promptly upon receipt. Complaints are processed and directed to the relevant departments for their prompt handling. Our customers are entitled to refuse to accept our products if they are defective and do not meet the relevant product specifications. Our sales and marketing team is required to have proper record of the reasons for the complaints, ways the complaints are handled and resolved as well as preventive measures to be implemented to prevent recurrence of similar incidents in the future.

BUSINESS

Product return policy

We accept return or exchange for any defective products or products that are damaged during the course of delivery after our examination and approval. During the Track Record Period, there was no return of our products due to product defects or otherwise, which could have material adverse impact on our business operations.

INVENTORY MANAGEMENT

Our inventory consists mainly of raw materials, work-in-progress, and finished products. We have implemented an inventory control systems that require co-ordination among our various departments, including procurement, production, and finance departments. We implement inventory control systems throughout the procurement and production process to ensure that (a) we will have sufficient raw materials and ancillary materials for our production requirements; (b) the production process would not be interrupted/delayed because of shortage of raw materials or bottlenecking; and (c) we will not keep excessive inventory of finished products. Our inventory control system tracks the incoming and outgoing inventory, which enables us to maintain an optimal level of raw materials and finished products. We monitor our inventory levels to meet our customers' requirements, production schedule and to minimise the wastage on inventory obsolescence.

Raw materials

We prepare annual production plan based on our production capacity. Our annual production plan is subject to periodical adjustments with reference to the actual sales we have achieved. Pursuant to the annual production plan, a monthly production plan will be prepared, upon which we will adjust our raw material procurement plan taking into consideration the prevailing market prices as well as the feedback and information obtained from the suppliers in Indonesia on the likely level of supply of different kinds of seaweed. Our inventory level is determined principally by our production requirements, production capacity, sales forecast, and purchase orders received from our customers. We normally maintain dried seaweed that will be sufficient to support around 40 days of our production requirements. We may strategically increase our inventory of dried seaweed if we anticipate that the market prices of dried seaweed would increase taking into consideration the feedback and information obtained from the suppliers. We may also increase the inventory of konjac crude powder/konjac flakes if the market prices are acceptable to us. These measures are implemented for the purpose of reducing the impact of price fluctuations on the purchase cost of raw materials.

We monitor our inventory levels on a daily basis to ensure that we have real-time and updated information on our inventory of raw materials that match with our latest production schedule and procurement plan. We adopt a first-in-first-out approach in the use of our raw materials.

BUSINESS

Work-in-progress

Our work-in-progress refers to partially completed products that are still in the production process. Our objective is to avoid any bottleneck in the production process that may build up the work-in-progress.

Finished products

We generally do not maintain a high level of inventory of finished products and our finished products would normally be stored in our warehouses for around 55 days pending completion of final product testings and customers' confirmation on delivery.

See the section headed "Financial information — Principal components of our current assets and current liabilities — Inventories" in this prospectus for analyses of the sales volume, production volume, and the use of inventory of raw materials.

Warehouse management

We have warehouse at each of our four production plants. We ensure each type of raw materials and finished products are stored in different compartments of our warehouses with clear labelling and batch numbers. Our warehouse management policy also imposes requirements on temperature, ventilation, and humidity level. Our raw materials are stored under well-ventilated storage conditions with controlled temperature and humidity as required. Our finished products are stored in separate warehouses and are placed in designated areas and labelled in batches pursuant to product types and dates of production.

PRODUCT RESEARCH AND DEVELOPMENT

We believe that continuous product research and development is important in maintaining our leading position in the hydrocolloid industry. In order to keep pace with the changing customer needs and requirements, the latest market trends, and the evolving technological developments, we devote resources to conduct product research and development and product formulas as well as upgrades for our production process and production and processing technology. Greenfresh (Fujian) has participated in the preparation and the drafting of the PRC food safety national standards on carrageenan products (GB 1886.169-2016) and agar-agar products (GB 1886.239-2016) published by the National Health and Family Planning Commission of the PRC in 2016, as confirmed by the relevant PRC government authorities in March 2019. Our executive Director, Mr. GUO Dongxu, and our deputy head of research and development department were principally involved in the project. This mandate to Greenfresh (Fujian) is a recognition of our research and development capability and allows us to be well positioned in the development of new carrageenan and agar-agar products with different features for different applications in full compliance with the relevant PRC national standards. As of the date of this prospectus, we have established a product research centre in Xiamen, Fujian Province, the PRC, and have research and development team members based at each of our production plants. As of 31 March 2019, we had an aggregate of 57 research and development team

BUSINESS

members, nine of them held a master's degree majoring in food science and chemistry and 25 held a bachelor's degree with experience in the food industry. Our product research and development efforts are currently led by Mr. DAI Longjin, one of our senior management team members.

Our product research and development team focuses on improving the production and processing technology of our hydrocolloid products of agar-agar, carrageenan, and konjac gum, improving the technology of extraction of seaweed polysaccharides, development of new products and product formulas for our hydrocolloid products and blended products in response to market trend and market demand to improve product performance and functionalities for applications in the downstream industries.

We are committed to the improvement of our production and processing technology to develop products and product formulas that can align with the industry trend and the needs and requirements of our customers for use and applications in the downstream industries of food production and processing, personal care, household and bio-engineering applications. For example, we have obtained various patents in the PRC in connection with development and improvement of the processing techniques of agar-agar and carrageenan, extraction of carrageenan, to develop and enhance features and benefits of our hydrocolloid products for different functionalities for use in different applications. For more information on our patents registered in the PRC, see the paragraphs under "B. Further Information about our Business — 2. Intellectual property rights of our Group" in Appendix V to this prospectus.

Our product research and development team works closely with our production team to optimise the production process to enhance product quality and production efficiency. Our product research and development efforts primarily focus on keeping track of market trends and changing needs and requirements of our customers in order to improve our products and product formulas. We focus our efforts on improving the quality and product formula of our products, based on the feedback collected from our customers. We also test and modify the composition of our blended product to enhance the functions and optimise the quality of our products.

We also endeavour to enhance the automation level of our production processes and improvement of our machinery and equipment to improve production efficiency and product quality.

During the Track Record Period, we entered into various cooperative agreements with universities and institutions in China for joint research projects for advancement in production and processing technologies. We strive to leverage cooperation with third parties, such as universities and colleges, to accelerate our product research and development efforts.

BUSINESS

The table below sets forth the details of the major product research and development projects we carried out jointly with our research partners as of the Latest Practicable Date:

Year	Research partners	Product research and development projects	Research topics	Economic benefits sharing	Intellectual property rights arisen out of the product research and development projects	Investment amount	Status
2018	Jimei University (集美大學)	Establishment of a red edible seaweed processing technology development centre (紅藻加工技術研發專業中心) with the research partner, Greenfresh (Fujian), and Lvqi (Fujian)	Details of the project and the related definitive agreements have yet to be agreed with the research partner as the project has just been accepted by the Ministry of Agricultural and Rural Affairs of the PRC to be added to the list of national-standard agricultural product processing technology research and development centres (國家農產品加工技術研發中心) in the PRC.				
2017	Institute of Oceanology, Chinese Academy of Sciences (中國科學院海洋研究所)	The preparation and application of high performance agarose (高性能瓊脂糖的製備與應用)	A project under the Fujian Department of Science & Technology (福建省科技廳)	Jointly shared among the partners according to the efforts incurred by the relevant parties.	Jointly owned by the partners.	RMB1.5 million to be provided by us when we commence the project.	Project thesis has been submitted to the relevant authorities for approval and the interim testing was commenced in December 2018.
2015	Jimei University (集美大學)	The development and industrial application of carrageenan production technology by enzyme in lieu of alkaline method (酶法代替鹼法提取卡拉膠生產技術開發及產業化應用)	Special project for the development of marine high-tech industry of Fujian Province (福建省海洋高新產業發展專項項目)	The profit generated from the development and industrial applications of the technology shall belong to the party principally responsible for the relevant part of the project.	The intellectual property rights shall belong to the party principally responsible for the relevant part of the project.	RMB2.0 million	Ongoing
2015	Fujian Agriculture and Forestry University (福建農林大學) and Jimei University (集美大學)	The research and demonstration of key technologies for seaweed high-value processing (海藻高值化加工關鍵技術的研究與示範)	Major special projects on science and technology of Fujian Province in 2015 (2015年福建省科技重大專項專題項目)	Jointly shared among the partners according to the efforts incurred by the relevant parties.	Jointly owned among the parties.	We provide full funding for the project in the total amount of RMB1.3 million.	Concluded

BUSINESS

Year	Research partners	Product research and development projects	Research topics	Economic benefits sharing	Intellectual property rights arisen out of the product research and development projects	Investment amount	Status
2015	Jimei University (集美大學)	The research and application of low gel strength agar production process (低凝膠強度瓊脂生產工藝的研究與應用)	2016 special fund for the adjustment of marine and fishery structures in Fujian Province (2016福建省海洋與漁業結構調整專項資金)	N/A ⁽¹⁾	The intellectual property rights of the research report shall belong to our research partner. We have the right of first refusal in relation to the intellectual property rights of the research project.	RMB20,000	Ongoing
2015	Jimei University (集美大學)	The fermentation production of agar sulphate esterase and extraction of agar by enzyme method (發酵生產瓊脂硫酸酯酶及酶法提取瓊脂)	A project under the science and technology program of Fujian Province (福建省科技計劃項目)	N/A ⁽¹⁾	The intellectual property rights of the research report shall belong to our research partner and we have the right of first refusal in relation to the intellectual property rights of the research project.	We provide raw materials to our research partner in the total amount of RMB5.0 million	Ongoing
2014	Fujian Agriculture and Forestry University (福建農林大學)	The application and demonstration of the key technologies for high strength carrageenan extraction through treatment of compound alkali and compound enzyme (複合鹼及複合酶處理提取高強度卡拉膠關鍵技術的應用與示範)	Marine economic innovative development demonstration project of Fujian Province (福建省海洋經濟創新發展區域示範項目)	N/A ⁽²⁾	Jointly owned by the partners.	We receive 70% of the government subsidy for the project and the investment amount incurred by us was RMB3.0 million	Concluded

Notes:

- (1) Our Directors confirm that there is no such provision in the relevant agreement. As the project is an ongoing project, we will discuss with the relevant party should there be any economic benefit generated from the project.
- (2) Our Directors confirm that the agreement does not have any “profit sharing” provision, but the agreement contains a provision that each party will enjoy the economic benefits derived from its own works.

BUSINESS

Year	Research partners	Product research and development projects	Research topics	Economic benefits sharing	Intellectual property rights arisen out of the product research and development projects	Investment amount	Status
2013	Jimei University (集美大學) and Xiamen Huison Biotech Co., Ltd (廈門匯盛生物有限公司)	The production of seaweed polysaccharide modified enzyme and the development of applied technologies thereof (海藻經濟多糖改性專用酶的生產及應用技術開發)	Project of Centre for Southern Seas Studies, Xiamen(廈門南方海洋研究中心項目)	N/A ⁽³⁾	The intellectual property rights shall belong to our research partner. We have the right of first refusal in relation to the intellectual property rights of the research project.	RMB2,500,000	Concluded
2013	Fujian Agriculture and Forestry University (福建農林大學)	The development and demonstration of the key technologies and safety control for preparation of high strength agar by ultrasonic wave (超聲波輔助製備高強度瓊脂關鍵技術及安全控制的開發與示範)	A demonstration area for innovative development of marine economy of Fujian Province (福建省海洋經濟創新發展區域示範)	N/A ⁽⁴⁾	We shall own 40% of the intellectual property rights and our research partner shall own the remaining 60% of the intellectual property rights.	We provide full funding for the project in the total amount of RMB3.0 million	Concluded

Notes:

- (3) Our Directors confirm that the agreement contains a provision that the parties will enter into further agreement on sharing of economic benefits. Our Directors further confirm that there is no new agreement entered into for the purpose as the project has been concluded.
- (4) Our Directors confirm that even though there was a provision in the original agreement on the payment of service fee and profit sharing, such provision was terminated by a supplemental agreement entered into by the parties in April 2014. Our Directors further confirm that the project has been concluded and there is no new agreement to be entered into for the purpose.

BUSINESS

During the three years ended 31 December 2018, our research and development cost amounted to HK\$10.1 million, HK\$11.5 million, and HK\$14.1 million, respectively. During the three months ended 31 March 2019, we incurred product research and development costs of HK\$3.0 million, as compared to HK\$4.0 million during the three months ended 31 March 2018. These amounts were also charged to our consolidated statements of profit or loss.

LICENCES AND PERMITS

We have business presence in Hong Kong and the PRC. In Hong Kong, we do not require any specific licence or approval other than the business registration certificates. Our subsidiaries in Hong Kong are duly incorporated under the laws of Hong Kong. Our subsidiary in Indonesia is duly established under the laws of Indonesia and has obtained the principal licence from the Investment Coordinating Board of the Republic of Indonesia and has obtained business licences from the Government of Indonesia issued Indonesia's electronic integrated business licensing services. In the PRC, our PRC Legal Advisers confirm that each member of our Group established in the PRC have obtained the requisite governmental licences, permits, and certification which are necessary for our business operations. Our PRC Legal Advisers further confirm that we are in full compliance with the terms and conditions of our licences, permits, and certification in all material respects. Our Directors confirm, and our PRC Legal Advisers and our legal advisers as to the law of Indonesia concur, that during the Track Record Period and up to the Latest Practicable Date, we did not experience any difficulty in applying for or renewing any of our licences, permits, and certification necessary for our business operations in the PRC.

Set forth below are the governmental licences, permits, and certification which are material to our business:

<u>Licences/permits/certification</u>	<u>Issuing authority</u>	<u>Subsidiary</u>	<u>Date of issue</u>	<u>Expiry date</u>
(1) Food Production License (食品生產許可證)	Fujian Food and Drug Administration (福建省食品藥品監督管理局)	Greenfresh (Fujian)	7 September 2018	9 August 2020
	Fujian Market Supervision Administration (福建省市場監督管理局)	Lvqi (Fujian)	2 August 2019	30 March 2022
	Fujian Food and Drug Administration (福建省食品藥品監督管理局)	Lvqi (Fujian)	31 March 2017	30 March 2022
	Shiyan Food and Drug Administration (十堰市食品藥品監督管理局)	Shiyanhaiyi	10 October 2018	24 May 2021
	Fujian Food and Drug Administration (福建省食品藥品監督管理局)	Lvbao (Quanzhou)	28 October 2016	25 September 2021

BUSINESS

<u>Licences/permits/certification</u>	<u>Issuing authority</u>	<u>Subsidiary</u>	<u>Date of issue</u>	<u>Expiry date</u>
(2) PRC Customs Registration Form for Customs Declaration Entities (中華人民共和國海關報關單位註冊登記證書)	Zhangzhou Customs District of the People's Republic of China (中華人民共和國漳州海關)	Greenfresh (Fujian)	21 September 2015	N/A
	Zhangzhou Customs District of the People's Republic of China (中華人民共和國漳州海關)	Lvqi (Fujian)	23 February 2017	N/A
(3) Registration Form for Customs Declaration Entities (報關單位註冊登記證書)	Shiyan Customs District of the People's Republic of China (中華人民共和國十堰海關)	Shiyanhaiyi	23 June 2016	N/A
(4) PRC Customs Registration Form for Consignors and Consignees of Imported or Exported Goods (中華人民共和國海關進出口貨物收發貨人報關註冊登記證書)	Quanzhou Customs District of the People's Republic of China (中華人民共和國泉州海關)	Lvbao (Quanzhou)	28 June 2017	N/A
(5) Registration Form for Customs Declaration Entities (報關單位註冊登記證書)	Xiamen Customs District of the People's Republic of China (中華人民共和國廈門海關)	Lvqi (Xiamen)	1 June 2017	N/A
(6) Entry-Exit Inspection and Quarantine Inspection Enterprises Record Form (出入境檢驗檢疫報檢企業備案表)	Xiamen Entry-Exit Inspection and Quarantine Bureau of the People's Republic of China (中華人民共和國廈門出入境檢驗檢疫局)	Greenfresh (Fujian)	23 February 2016	N/A
	Xiamen Entry-Exit Inspection and Quarantine Bureau (廈門出入境檢驗檢疫局)	Lvqi (Fujian)	8 December 2016	N/A
	Fujian Entry-Exit Inspection and Quarantine Bureau of the People's Republic of China (中華人民共和國福建出入境檢驗檢疫局)	Lvbao (Quanzhou)	22 January 2018	N/A
	Xiamen Entry-Exit Inspection and Quarantine Bureau of the People's Republic of China (中華人民共和國廈門出入境檢驗檢疫局)	Lvqi (Xiamen)	27 May 2017	N/A
(7) Certificate of Filing Registration for an Entity Applying for Inspection and Quarantine by itself (自理報檢企業備案登記證明書)	Xiangyang Entry-Exit Inspection and Quarantine Bureau of the People's Republic of China (中華人民共和國襄陽出入境檢驗檢疫局)	Shiyanhaiyi	18 November 2013	N/A

BUSINESS

Licences/permits/certification	Issuing authority	Subsidiary	Date of issue	Expiry date
(8) Foreign Trade Operator Registration Form (對外貿易經營者備案登記表)	Zhangzhou Commercial Bureau (漳州市商務局)	Lvqi (Fujian)	1 July 2013	N/A
		Shiyanghaiyi	16 March 2015	N/A
		Lvqi (Xiamen)	27 May 2017	N/A
(9) Record for Food Manufacturing Export Enterprises (出口食品生產企業備案證明)	Hubei Entry-Exit Inspection and Quarantine Bureau (湖北出入境檢驗檢疫局)	Shiyanghaiyi	1 December 2017	30 November 2021
(10) Registration Form for the Application for Certificate of Origin for Export Goods of the People's Republic of China (中華人民共和國出口貨物原產地證明書註冊登記證)	Hubei Entry-Exit Inspection and Quarantine Bureau (湖北出入境檢驗檢疫局)	Shiyanghaiyi	18 November 2013	N/A
(11) Registration Form for an Enterprise Applying for Certificate of Origin (原產地證申報企業註冊登記證書)	Quanzhou Entry-Exit Inspection and Quarantine Bureau, Jinjiang Office (泉州出入境檢驗檢疫局晉江辦事處)	Lvbao (Quanzhou)	22 January 2018	N/A
(12) Aquaculture in Waters and Tidal Flats Licence (水域灘塗養殖證)	Longhai Municipal People's Government (龍海市人民政府)	Donghaiwan	27 April 2018	31 March 2019 ⁽¹⁾
			29 May 2018	15 April 2019 ⁽¹⁾
			23 March 2018	15 January 2020
			23 March 2018	15 January 2020
			23 March 2018	15 January 2020
(13) PRC Water Drawing Permit (中華人民共和國取水許可證)	Longhai Municipal Water Conservancy Bureau (龍海市水利局)	Greenfresh (Fujian)	1 August 2016	2 August 2021

Note:

- (1) On 24 September 2019, we received a notification from Longhai City Marine and Fisheries Bureau (龍海市海洋與漁業局) and Longhai City Natural Resources Bureau (龍海市自然資源局) that the renewal of the sea use right certificate of Greenfresh (Fujian) is currently handled by Longhai City Natural Resources Bureau (龍海市自然資源局). After completion of the renewal of sea use certificate, Greenfresh (Fujian) will continue to lease the sea use rights to Donghaiwan for seaweed cultivation and then Donghaiwan can renew the Waters and Tidal Flats Licence (水域灘塗養殖證). Longhai City Marine and Fisheries Bureau (龍海市海洋與漁業局) confirmed that Donghaiwan would continue to be allowed to use the area for cultivation before completion of the renewal of Aquaculture in Waters and Tidal Flats Licence (水域灘塗養殖證).

BUSINESS

INTELLECTUAL PROPERTY

As of the Latest Practicable Date, we obtained ten patents for invention, two patents for design, and 31 patents for new utility models in the PRC. Our patents are principally related to the improvements in our production process and our product formulas, which were attributable to the improvement in our production efficiency during the Track Record Period. As of the Latest Practicable Date, we also had 27 registered trademarks in the PRC and eight registered trademarks in Hong Kong. In addition, as of the Latest Practicable Date, we had 27 pending patent applications in the PRC, one pending trademark application in each of Hong Kong, Indonesia, India, and Thailand. Details of our registered intellectual property rights which we consider to be or may be material to our business are set forth in the paragraphs under “B. Further Information about our Business — 2. Intellectual property rights of our Group” in Appendix V to this prospectus.

We believe protecting and enforcing our intellectual property rights are of significant importance to our business operation, reputation and branding. We seek to maintain registration of intellectual property rights that are material to our business under appropriate categories and in appropriate jurisdictions. However, a number of proprietary know-how that is not patentable and processes for which patents are difficult to enforce are also important for us.

We have entered into confidential agreements with all of our senior management team as well as research and development team members, which require these personnel to strictly comply with our confidentiality requirements. These agreements also require our employees to assign to us all of the inventions, designs and technologies they develop in connection with their employment with us.

Despite our efforts to protect our proprietary rights, unauthorised parties may attempt to copy or otherwise obtain and use our intellectual property rights. It is difficult to monitor unauthorised use of technology and know-how. In addition, our competitors may independently develop technology and/or know-how similar to ours. Our precautions may not prevent misappropriation or infringement of our intellectual property. During the Track Record Period and up to the Latest Practicable Date, to the best of our knowledge, we had not been subject to any material intellectual property claims which could have a material adverse effect on our business or operations.

BUSINESS

PROPERTIES AND SEA USE RIGHTS

Pursuant to Chapter 5 of the Listing Rules and section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, save and except the disclosure set forth in Appendix III to this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies Ordinance (Miscellaneous Provisions) in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance (Miscellaneous Provisions) which requires a valuation report with respect to all our Group's interests in land or buildings.

Pursuant to Rule 5.01B(2) of the Listing Rules, our Directors confirm that:

- we do not have any property interest that forms part of property activities as of 31 December 2018; and
- save and except the disclosure set forth in Appendix III to this prospectus, no single property interest that forms part of non-property activities has a carrying amount of 15% or more of our total assets as of 31 December 2018.

Owned properties

We own and occupy certain land parcels and buildings in the PRC and Indonesia for our business operations. These owned properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. As of the Latest Practicable Date, we owned fourteen land parcels with a total site area of 242,131.06 sq.m. and buildings with a total gross floor area of 84,528.95 sq.m.. These properties are primarily used as our production facilities, warehouses, staff quarters, and administrative offices to support our business operations. These land parcels and buildings are situated in Fujian Province and Hubei Province, the PRC and Indonesia. The owned land situated in Indonesia is consisted of four land parcels which will be developed as our production facilities for the production of hydrocolloid products through the use of part of the net proceeds from the Share Offer, see the section headed "Future Plans and Proposed Use of Net Proceeds from the Share Offer" in this prospectus.

BUSINESS

The table below sets forth information on our legally owned properties in the PRC and Indonesia as of the Latest Practicable Date:

Locations	Properties	Total site area	Total gross floor area of the buildings	Approved land usage	Term	Particulars of occupancy
Properties held and occupied by our Group in the PRC						
Anshan Industrial Park, Zini Town Longhai City Zhangzhou City Fujian Province The PRC	The property comprises four parcels of land with 13 buildings and various structures erected thereon.	93,279.03 sq.m.	53,845.88 sq.m.	Industrial use	The land use rights of the property have been granted for terms expiring between 17 August 2058 and 14 March 2069.	The property is occupied by our Group for production, storage, office, staff quarters and ancillary purposes.
Neiding Farm Jiaomei District Longhai City Zhangzhou City Fujian Province The PRC	The property comprises three parcels of land with eight industrial buildings and various structures erected thereon ("Part A"). In addition to Part A, the property also comprises three buildings that are under construction.	69,814 sq.m.	21,670.85 sq.m.	Industrial use	The land use rights of the property have been granted for terms expiring between 24 May 2061 and 25 June 2067.	The property is occupied by our company for production, storage, office and ancillary purposes.
Maoting Village Yonghe Town Jinjiang City Fujian Province The PRC	The property comprises two parcels of land with two industrial buildings and various structures erected thereon.	6,437 sq.m.	3,545.15 sq.m.	Industrial use	The land use rights of the property have been granted for terms expiring between 26 June 2057 and 9 June 2065.	The property is occupied by our Group for production, office and ancillary purposes.
No. 22 Pulin Road Pulin Industrial Park, Maojian District, Shiyan City, Hubei Province, The PRC	The property comprises a parcel of land with four industrial buildings and various structures erected thereon.	9,231.03 sq.m.	5,467.07 sq.m.	Industrial use	The land use rights of the property have been granted for a term expiring on 30 October 2062.	The property is occupied by our Group for production, office, staff quarters, canteen, cold storage and ancillary purposes.

BUSINESS

Locations	Properties	Total site area	Total gross floor area of the buildings	Approved land usage	Term	Particulars of occupancy
Property held for development by our Group in Indonesia						
Jalan Raya Klatakan Village, Kendit District, Klatakan Regency, Situbondo Province, East Java, Indonesia	The property comprises four parcels of land.	63,370 sq.m.	N/A	Industrial use	The land use rights of the property have been granted for a term of 30 years commencing on 6 June 2018 and 29 June 2018.	The property is currently vacant.

As advised by our PRC Legal Advisers, save as disclosed in the paragraphs under “Non-compliance matters — Owned properties in the PRC” below, we have obtained the land use right certificates and building ownership certificates and permits for, and legally own, our owned land parcels and properties in the PRC.

As confirmed by our legal advisers as to the law of Indonesia, we have obtained the land use right certificates and legally own all of our owned land parcels in Indonesia.

Properties currently under construction

As of the Latest Practicable Date, three industrial buildings were erected on a parcel of land situated at Neiding Farm, Jiaomei District, Longhai City, Zhangzhou City, Fujian province, the PRC, with a total gross floor area of 8,266.21 sq.m. upon completion.

The total cost for the construction of the three industrial buildings amounts to HK\$27.4 million, of which we have settled HK\$8.5 million as of 31 March 2019. In addition, we have incurred for purchase of plant and machinery in the amount of HK\$14.1 million. We have financed the construction cost and the cost on purchase of plant and machinery through our internally generated financial resources and debt financing.

The outstanding construction costs will be paid at the time of completion of construction of the three industrial buildings. Our PRC Legal Advisers confirm that we have obtained the relevant construction approvals and permits for commencement of the construction of the three industrial buildings.

See the property valuation report as set forth in Appendix III to this prospectus for further information of the property interests held and occupied and under development by us.

BUSINESS

Leased properties

As of the Latest Practicable Date, we leased an office unit in Hong Kong and four properties in the PRC for use as our offices and production facilities. The table below sets forth further information on our leased properties in Hong Kong and the PRC:

Location	Total gross floor area	Usage	Lease term
Hong Kong			
Unit A, 16th Floor, @Convoy 169 Electric Road Hong Kong	2,074 sq.f.	Office	5 July 2017 to 4 July 2020
PRC			
Unit 105 of Zone A, Jinhaiwan Fortune Centre, Nos. 998 and 1000 Anling Road, Huli District, Xiamen City, Fujian Province The PRC	268.7 sq.m.	Office	1 January 2018 to 31 December 2020
Portion of Unit 604, Jinhaiwan Fortune Centre, Nos. 998 and 1000 Anling Road, Huli District, Xiamen City, Fujian Province, The PRC.	302.6 sq.m.	Office	1 January 2018 to 31 December 2020
Room 315-2, No. 4 Avenue 1661, Jialuo Highway, Jiading District, Shanghai, The PRC	12 sq.m.	Office	7 December 2018 to 6 December 2021
No. 97, 3 Parcel, Maoting Yonghe Town, Jinjiang City Fujian Province, The PRC	6,000 sq.m.	Production and water treatment ancillary facilities	1 January 2015 to 31 December 2024

As advised by our PRC Legal Advisers, save as disclosed in the paragraphs under “Non-compliance matters — Leased properties in the PRC” below, the lease agreements underlying the relevant leased properties that we entered into are in compliance with the applicable PRC laws and regulations and the use of the leased properties are in compliance with the industrial policy and land supply policy or the relevant town planning requirement in the PRC.

BUSINESS

Lease of office premises from Mr. GUO Dongxu

During the year ended 31 December 2017, we leased office premises of 773.7 sq.m. from Mr. GUO Dongxu, one of our executive Directors. The lease area has been reduced to 571.3 sq.m. from 1 January 2018. The two office premises are situated at Unit 105 of Zone A and portion of Unit 604, Jinhaiwan Fortune Centre, Nos. 998 and 1000 Anling Road, Huli District, Xiamen City, Fujian Province, the PRC. During the three years ended 31 December 2018, the amount of rent (exclusive of management fee, water and electricity charges, and other outgoings which are payable to Independent Third Parties) paid by us to Mr. GUO Dongxu amounted to nil, HK\$0.7 million and HK\$0.42 million, respectively.

Following the Listing, we will continue to lease the two office premises with an area of 268.7 sq.m. and 302.6 sq.m., respectively, from Mr. GUO Dongxu, a connected person of our Company, for a period of three years commencing from 1 January 2018 for annual rental of RMB356,491.2, pursuant to the Lease Agreements. See the section headed “Continuing Connected Transactions” in this prospectus.

Sea use rights

The table below sets forth information on the sea use rights in the PRC owned by us as of the Latest Practicable Date:

No.	Location	Members of our Group owning the sea use right	Total site area	Approved usage	Term	Particulars of occupancy
1	West of Baiyu Gangwei Town Longhai City Zhangzhou City Fujian Province The PRC	Greenfresh (Fujian)	348,249.00 sq.m.	Seaweed cultivation	The sea use right has been granted to Greenfresh (Fujian) for term expiring on 15 April 2019. ⁽¹⁾	The sea use right is leased by Greenfresh (Fujian) to Donghaiwan for seaweed cultivation with lease term from 16 April 2018 to 15 April 2019 ⁽²⁾
2	South of Wuyu Longhai City Zhangzhou City Fujian Province The PRC	Greenfresh (Fujian)	349,429.00 sq.m.	Seaweed cultivation	The sea use right has been granted to Greenfresh (Fujian) for term expiring on 15 April 2019. ⁽¹⁾	The sea use right is leased by Greenfresh (Fujian) to Donghaiwan for seaweed cultivation with lease term from 1 January 2018 to 31 March 2019 ⁽²⁾
3	Doumei village Gangwei Town Longhai City Zhangzhou City Fujian Province The PRC	Donghaiwan	476,430.00 sq.m.	Seaweed cultivation	The sea use right has been granted to Donghaiwan for term commencing from 7 November 2016 and expiring on 6 November 2021.	The property is not used for cultivation of seaweed because of high labour cost for cultivation of seaweed in the areas.

BUSINESS

No.	Location	Members of our Group owing the sea use right	Total site area	Approved usage	Term	Particulars of occupancy
4	Doumei village Gangwei Town Longhai City Zhangzhou City Fujian Province The PRC	Donghaiwan	417,504.00 sq.m.	Seaweed cultivation	The sea use right has been granted to Donghaiwan for term commencing from 7 November 2016 and expiring on 6 November 2021.	The property is not used for cultivation of seaweed because of high labour cost for cultivation of seaweed in the areas.
5	Doumei village Gangwei Town Longhai City Zhangzhou City Fujian Province The PRC	Donghaiwan	381,330.00 sq.m.	Seaweed cultivation	The sea use right has been granted to Donghaiwan for term commencing from 7 November 2016 and expiring on 6 November 2021.	The property is not used for cultivation of seaweed because of high labour cost for cultivation of seaweed in the areas.

Note:

- (1) On 24 September 2019, we received a notification from Longhai City Marine and Fisheries Bureau (龍海市海洋與漁業局) and Longhai City Natural Resources Bureau (龍海市自然資源局) that the renewal of the sea use right certificate is currently handled by Longhai City Natural Resources Bureau (龍海市自然資源局). According to the notification, Longhai City Natural Resources Bureau and Longhai City Marine and Fisheries Bureau confirmed that Greenfresh (Fujian) will continue to be allowed to have sea use right before the completion of renewal of the sea use right certificate which is in process due to the delay of transfer of administrative licensing functions from Longhai City Marine and Fisheries Bureau to Longhai City Natural Resources Bureau.
- (2) Before the completion of the renewal process of sea use right certificate, Greenfresh (Fujian) will continue to lease the sea use right to Donghaiwan for seaweed cultivation. Besides, according to the notification, Longhai City Marine and Fisheries Bureau confirmed that Donghaiwan would continue to be allowed to use the area for cultivation before the completion of renewal of Aquaculture in Waters and Tidal Flats Licence (水域灘塗養殖證).

As confirmed by our PRC Legal Advisers, save as disclosed in the paragraphs under “Non-compliance matters — Sea use rights” below, we have obtained the sea use right certificates and notification in respect of the sea use rights and are permitted to use the sea area for seaweed cultivation. Our PRC Legal Advisers also confirm that, save as disclosed above, the lease agreements underlying the sea use rights that we entered into are in compliance with the applicable laws and regulations.

AWARDS AND RECOGNITIONS

Greenfresh (Fujian) was appointed as the vice president unit of China Algae Industry Association (中國藻業協會) for a five-year term commenced from 1 January 2019 to 31 December 2023, and the president unit of the first session of China Algae Industry Association Carrageenan Branch (中國藻業協會紅藻膠分會) in March 2019. The table below sets forth the major awards and recognitions received by us during the Track Record Period:

Year of receipt	Awards/recognitions	Issuing entities
June 2019	Food Safety Management Excellence Award (食品安全管理優秀獎)	Fujian Food Safety Promotion Association (福建省食品安全促進會)

BUSINESS

<u>Year of receipt</u>	<u>Awards/recognitions</u>	<u>Issuing entities</u>
January 2019	Single Product Champion Award — Carrageenan (單項產品冠軍獎 - 卡拉膠)	Fujian Food Industry Association (福建省食品工業協會)
January 2019	Single Product Champion Award — Agar (單項產品冠軍獎 — 瓊脂)	Fujian Food Industry Association (福建省食品工業協會)
January 2019	Economic Contribution Award (經濟建設貢獻獎)	Longhai Municipal Government of the PRC (龍海市人民政府)
October 2018	Certificate of satisfaction on the Food Industry Enterprise Credit Management System (食品工業企業誠信管理體系之認證證書)	Fujian Food Industry Association (福建省食品工業協會)
July 2018	Trustworthy and contract-abiding Enterprise (守合同重信用單位)	Longhai Municipal Government of the PRC (龍海市人民政府)
December 2017	Fujian Province Expert Service Base (福建省級專家服務基地)	Fujian Provincial Department of Human Resources and Social Security (福建省人力資源和社會保障廳)
October 2017	Quality Leading Brand of Food Additives Industry in China (全國食品添加劑行業質量領先品牌)	China Quality Inspection Association (中國質量檢驗協會)
October 2017	National Quality and Stability Inspection of Qualified Products (全國質量檢驗穩定合格產品)	China Quality Inspection Association (中國質量檢驗協會)
October 2017	National Trustworthy Quality Products (全國質量信得過產品)	China Quality Inspection Association (中國質量檢驗協會)
September 2017	Leading Enterprise in Food Industry (食品行業領軍企業)	Zhangzhou Food Industry Association of China Food News (中國食品報社 漳州市食品工業協會)
September 2017	Third Place of the Fujian Science and Technology Progress Award 2016 (2016年度福建省科學技術進步獎三等獎) (海藻經濟多糖改性酶的發酵生產及應用技術開發)	Fujian Provincial People's Government (福建省人民政府)
June 2017	2016 Famous Brand Product of Fujian Province (2016年度福建省名牌產品)	Fujian Provincial People's Government (福建省人民政府)
June 2017	BOCHK Corporate Environmental Leadership Awards 2016 (中銀香港企業環保領先大獎2016)	Bank of China (Hong Kong), Hong Kong Federation of Industry (中國銀行(香港)、香港工業總會)

BUSINESS

Year of receipt	Awards/recognitions	Issuing entities
May 2017	First Place of Shanghai Marine Science and Technology Progress Award (Fermented production and applied technology development of modified enzyme from seaweed economic polysaccharide) (上海海洋科技進步獎“一等獎”(海藻經濟多糖改性酶的發酵生產及應用技術開發))	Shanghai Marine Science and Technology Award Committee (上海海洋科學技術獎獎勵委員會)
March 2017	Leading Enterprise of Carrageenan Production in Fujian Province (2016-2019) (福建省卡拉膠生產標杆企業(2016-2019))	Fujian Food Industry Association (福建省食品工業協會)
March 2017	Leading Enterprise of Agar-Agar Production in Fujian Province (2016-2019) (福建省瓊膠生產標杆企業(2016-2019))	Fujian Food Industry Association (福建省食品工業協會)
February 2017	Award for Contribution to Longhai Economic Development for 2016 (龍海市2016年度經濟建設貢獻獎)	Longhai Municipal Committee of Communist Party and Longhai Municipal Government of the PRC (中共龍海市委龍海市人民政府)
December 2016	Famous Trademark of Fujian Province (福建省著名商標)	Administration for Industry & Commerce of Fujian (福建省工商行政管理局)
July 2016	Leading Enterprise of Fujian Province (福建省第八輪(2016-2020)農業產業化) (省級重點龍頭企業)	Department of Agriculture of Fujian Province (福建省農業廳) Fujian Provincial Department of Forestry (福建省林業廳) Fujian Provincial Department of Ocean and Fisheries (福建省海洋與漁業廳) Fujian Provincial Grain Administration (福建省糧食局) Fujian Provincial Federation of Supply and Marketing Cooperatives (福建省供銷合作社) Fujian Provincial Department of Finance (福建省財政廳)
June 2016	Fujian Engineering Technology Research Centre for Seaweed Polysaccharide Enterprises (福建省海藻多糖企業工程技術研究中心)	Fujian Provincial Department of Science and Technology (福建省科學技術廳)

BUSINESS

Year of receipt	Awards/recognitions	Issuing entities
June 2016	2016-2019 Base Construction for Pursue of Innovation by and Joint Training of Graduates (2016-2019年研究生實踐創新與聯合培養基地建設)	Steering Committee of National Professional Degree Graduate Education for the Agriculture Industry (全國農業專業學位研究生教育指導委員會)
March 2016	2015 Famous Brand Product of Fujian Province (2015年度福建省名牌產品)	Fujian Provincial People's Government (福建省人民政府)
January 2016	2015 Zhangzhou Science and Technology Progress Award "Second Class" (Treatment of compound alkali and compound enzyme to extract high-strength carrageenan and the research and development of its safety control technology) (2015年漳州市科學技術進步獎“二等獎”(複合城和複合酶處理提取高強度卡拉膠及其安全控制技術研發))	Zhangzhou Municipal People's Government (漳州市人民政府)
December 2015	Model Enterprise of Setting Up Integrity System 2015 awarded by Food Industry Association (2015年食品工業協會誠信體系建設示範企業)	Fujian Food Industry Association (福建省食品工業協會)
December 2015	Best Ten Leading Enterprises in Marine Industry in Fujian Province 2014 (2014年度福建省海洋產業十佳龍頭企業)	Fujian Development and Reform Commission (福建省發展和改革委員會) Fujian Provincial Department of Finance (福建省財政廳) Fujian Provincial Department of Ocean and Fisheries (福建省海洋與漁業廳)
November 2015	Certificate of Outstanding Product Award (Agar) (優秀產品獎證書(瓊脂))	Assessment Steering Committee of China Hi-tech Fair (中國國際高新技術成果交易會組委會)
November 2015	Famous Trademark of Fujian Province (福建省著名商標)	Administration for Industry & Commerce of Fujian (福建省工商行政管理局)

BUSINESS

EMPLOYEES

Most of our employees are based in the PRC, and we had eight employees based in Hong Kong as of 31 March 2019. As of 31 March 2019, we had 1,106 full-time employees, respectively. The table below sets forth our full-time employees by functions:

Business functions	Number of employees
Management	36
Procurement and production	760
Human resources and office administration	78
Accounting and finance	67
Product research and development staff based in our product research and development centre and the production plants	57
Quality management	52
Sales and marketing	34
Other supporting staff	22
Total	<u><u>1,106</u></u>

We take into consideration a number of factors including our business strategies, development plans, industry trends and the competitive environment when making hiring decisions. We recruit our employees based on various factors including their education background, work experience and our vacancy needs. All of our employees are paid at a fixed salary.

We believe the ability to recruit and retain experienced and skilled labour is crucial to our development and growth. We provide trainings to our new employees and on-the-job trainings to our employees and such trainings cover various areas of our operations including knowledge on the operations of the production machinery and equipment, safety inspections, and the internal control system of our Group.

During the three years ended 31 December 2018, we incurred total staff costs (including salaries, wages, allowance and benefits) of HK\$40.3 million, HK\$54.0 million, and HK\$93.3 million, respectively. During the three months ended 31 March 2019, we incurred total staff costs of HK\$22.5 million, as compared to HK\$19.5 million during the three months ended 31 March 2018.

We have maintained good working relationship with our employees. During the Track Record Period and up to the Latest Practicable Date, we did not experience any labour disputes that could have a material and adverse effect on our business, financial conditions or operating results.

BUSINESS

PRC

Social insurance contribution

As required under the applicable PRC laws and regulations, we are required to participate in the social welfare schemes which provide pension insurance, medical insurance, work injury insurance, maternity insurance and unemployment insurance for our employees.

Housing provident fund

We are also required under the applicable PRC laws and regulations to provide our employees in the PRC with the social welfare schemes covering housing provident funds and housing benefits.

Save as disclosed in “Business — Non-compliance Matters — Contributions to PRC social insurance and housing provident fund” below, we believe that we have complied with the relevant national and local labour and social welfare laws and regulations in the PRC in all material respects.

Hong Kong

In Hong Kong, we participate in a mandatory provident fund scheme established under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong). Employees contribute 5.0% of their relevant income to the mandatory provident fund scheme and we contribute 5.0% of the each employee’s monthly base salary.

OCCUPATIONAL SAFETY

Our staff in Hong Kong is covered by employees’ compensation insurance. In the PRC, we are subject to the PRC laws and regulations on labour, safety and work-related incidents. We have in place safety guidelines and operating manuals on the safety measures for our production process. We provide safety apparatuses to our workers at our production facilities, which includes protective masks, gloves, and shoes. We also provide our employees with training programmes on work safety to ensure that all of our employees are aware of our safety procedures and policies, which includes guidelines for safety management, proper operation and usage of equipment and machinery, emergency situations handling, and accident reporting rules.

We have implemented various work safety policies and procedures to ensure that our operations are in compliance with the applicable laws and regulations. The material equipment and machinery at our production facilities are subject to periodical maintenance and our employees are required to receive training to enhance their awareness of safety in the workplace. During the Track Record Period, we did not encounter any material safety incidents.

As confirmed by our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, we complied with the PRC workplace safety regulatory requirements in all material respects. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we did not encounter any incidents or complaints that would adversely affect our business and financial condition and operating results in any material aspect.

BUSINESS

INSURANCE

We maintain various insurance covering our buildings and motor vehicles. As confirmed by our PRC Legal Advisers, we are not required under the PRC laws to maintain any product liability insurance. Our employee-related insurance consists of employee pension insurance, employees' compensation, medical insurance, and housing funds as required by the PRC laws and regulations. During the three years ended 31 December 2018, the insurance premium paid by us amounted to HK\$1.7 million, HK\$2.6 million, and HK\$8.5 million, respectively. During the three months ended 31 March 2019, we paid insurance premium of HK\$2.7 million, as compared to HK\$1.0 million during the three months ended 31 March 2018.

We believe that our insurance coverage is adequate in the context of our business and in line with our industry practice. During the Track Record Period and up to the Latest Practicable Date, we were not made or had been the subject of any material insurance claims.

ENVIRONMENTAL PROTECTION

We have business presence in Hong Kong and the PRC. Our business presence in Hong Kong does not involve any production activities and hence, would not be subject to any particular laws and regulations on environmental protection in Hong Kong. In the PRC, we have four production facilities at which we carry out our production process for our hydrocolloid products. The production process may involve discharge of waste water, solid waste, exhaust emission and dust and noise. Our production activities in the PRC are therefore subject to the PRC national and local environmental laws, regulations and rules including, among others, the Environmental Protection Law of the PRC. See the section headed "Applicable Laws and Regulations — Laws and regulations relating to environmental protection" in this prospectus.

The wastes generated from our production process are waste water, solid waste, exhaust emission, and noise. To ensure that our production process is in full compliance with the applicable PRC environmental protection laws and regulations, we have implemented the following environmental protection measures:

- conducting environmental impact assessments before the construction of production facilities and the commencement of commercial production;
- treatment of waste water generated from our production process in our waste water processing facilities/sewage treatment plant before discharge;
- proper disposal of scraps of seaweed generated from production process through third-party waste treatment companies with appropriate qualifications;
- timely payment of sewage processing fees to the relevant PRC authorities;
- treatment of exhaust emission through sulphur removal and removal of dust by way of filtering; and
- treatment of noise by installation of sound proofing devices and walls.

BUSINESS

Our cost of compliance with the applicable environmental protection laws and regulations during the three years ended 31 December 2018 was HK\$8.1 million, HK\$11.4 million, and HK\$25.8 million, respectively. During the three months ended 31 March 2019, our cost of compliance amounted to HK\$4.9 million, as compared to HK\$4.7 million during the three months ended 31 March 2018. The significant increase in the environmental compliance cost throughout the Track Record Period was primarily due to increasing use of waste treatment materials in our environmental protection facilities and the amortisation of the emission rights acquired by us for a period of five years from January 2018 to December 2022 for RMB14,590,935.81 (equivalent to HK\$18.4 million) by Greenfresh (Fujian). Effective from 1 January 2017, the municipal government of Fujian Province, the PRC has implemented a policy that enterprises discharging waste water or other emission from its newly constructed or renovated production facilities would need to acquire discharge rights from the government even though the production process as well as the nature of emission have not changed. In this connection, we have entered into the Fujian Province Rights Transaction Agreement (the “**Agreement**”) with Longhai City Environment Protection Bureau (龍海市環境保護局) for the purchase of the discharge rights, and the following sets forth the terms of the Agreement:

Date:	December 2017
Period cover:	Five years from 1 January 2018 to 31 December 2022
Parties:	Longhai City Environment Protection Bureau (龍海市環境保護局) (the “ Transferor ”) Greenfresh (Fujian) (the “ Transferee ”)
Subject matter:	The Transferor has agreed to transfer the discharge rights to the Transferee for a period of five years commenced from 1 January 2018 to 31 December 2022 during which the Transferee shall be entitled to discharge, during the course of its production, on an annual basis, the following chemical in the waste water discharged by Greenfresh (Fujian): <ul style="list-style-type: none">— 356,508 tonnes of chemical oxygen demand;— 53,477 tonnes of sulphur dioxide;— 61,692 tonnes of ammonia nitrogen; and— 37.56 tonnes of nitrogen oxides.

BUSINESS

Termination: If any of the parties to the Agreement terminates the Agreement without reasons, the terminating party may be liable for termination penalty of 10% of the total contractual sum of the Agreement and all damages incurred by the other party.

If any of the provisions in the Agreement cannot be performed due to any breach or wrongdoing of any party to the Agreement, the defaulting party would be liable for loss and damages incurred by the other party. If the non-performance of any provision in the Agreement is caused by the breach or wrongdoing of the parties to the Agreement, both parties would be required to bear the responsibilities on a contributory basis.

Based on the information currently available and the production schedules of our Group, our Directors confirm that the levels of permitted discharge under the Agreement are sufficient for the production requirements of Greenfresh (Fujian) and Greenfresh (Fujian) has not received any default notice or termination notice from the Transferor.

NON-COMPLIANCE MATTERS

Overview

During the Track Record Period, members of our Group were involved in a number of non-compliance incidents, all of which were related to the business operations of our Group in the PRC. These non-compliance incidents may be categorised into non-compliances with the laws and regulations relating to (1) construction and environmental protection; (2) owned properties in the PRC; (3) leased properties in the PRC; (4) sea use rights; and (5) PRC social insurance and housing provident fund. The following sets forth the detailed information on the non-compliance incidents which are material to our business.

(1) Construction and environmental protection

(a) Construction of production facilities without the environmental impact assessment approval

In November 2016, Greenfresh (Fujian) received a notice of administrative penalty issued by Zhangzhou City Environmental Protection Bureau (漳州市環境保護局) for constructing the production facilities without obtaining the environmental impact assessment approval. As of the date of issue of the notice, Greenfresh (Fujian) had completed construction of the first and the second floors of two three-storey production plants, a three-storey warehouse, the first to fifth floors of a seven-storey staff quarter, and piling works of the waste water treatment facilities. The non-compliance was mainly due to our local management at the relevant time being not familiar with the relevant regulatory requirements.

BUSINESS

Revenue contributed by the production activities on such owned properties amounted to HK\$44.5 million and HK\$48.6 million for the two years ended 31 December 2018, accounting for 6.7%, and 4.9% of our total revenue in the respective periods. Gross profit attributable to production activities on such owned properties amounted to HK\$11.0 million and HK\$12.2 million for the two years ended 31 December 2018 and net profit contributed by such owned properties was HK\$5.0 million and HK\$4.0 million over the same period, respectively. During the three months ended 31 March 2019, the amount of revenue contributed by the production activities was nil and the gross profit amounted to nil, as compared to HK\$48.6 million and HK\$12.2 million for the three months ended 31 March 2018, respectively.

Penalty and potential legal impact

According to the Environmental Protection Law of the PRC (中華人民共和國環境保護法), a construction project that has not undergone environmental impact assessment as legally required may not commence construction. In addition, where the discharge of pollutants by enterprises, public institutions, and other businesses in violation of laws and regulations has caused or may cause any serious pollution, the environmental protection administrative departments of the People's Governments at and above the county level and other departments with environmental protection supervision and administration functions may seize or impound the facilities or equipment causing the discharge of pollutants. Where a construction employer commences construction without filing the construction project environmental impact document as legally required or without the approval for the environmental impact assessment, the environmental protection supervision and administration functions shall order the construction employer to cease such construction and to pay the fine, and may order for restoration of the construction site to its original state.

According to the Law of the People's Republic of China on Environmental Impact Assessment (中華人民共和國環境影響評價法), where a construction employer commences construction without obtaining the approval for the construction project environmental impact report, the environmental protection authority at or above the county level shall order the construction employer to cease construction and, depending on the circumstances of its violation of law and the harmful consequences, to pay the fine of not less than 1% but not more than 5% of the total investment in such construction project, and may order for restoration of the construction site to its original state. The person in-charge and other personnel of the construction entity who are held to be directly responsible shall be given an administrative punishment.

Pursuant to the laws and the notice of administrative penalty, Greenfresh (Fujian) was ordered to pay a fine of RMB1.05 million and Greenfresh (Fujian) had settled such fine. As of the Latest Practicable Date, Greenfresh (Fujian) had obtained the environmental impact assessment approval issued by Longhai Municipal Environmental Protection Bureau (龍海市環境保護局) for construction of the production facilities. Our PRC Legal Advisers confirm that Longhai Municipal Environmental Protection Bureau is the competent authority to issue the environmental impact assessment approval for Greenfresh (Fujian).

BUSINESS

Enhanced internal control procedures

We have established the administrative procedures and policies in respect of undertaking of construction projects since March 2018. We have formalised the procedures for obtaining the requisite permits, and approvals in respect of environmental impact assessment prior to commencing constructions of production facilities and buildings. We have employed a construction superintendent (as our full-time employee) who is a registered civil engineer in the PRC and is familiar with the applicable laws and regulations in relation to construction projects in the PRC. The superintendent will ensure requisite permits, and approvals in respect of environmental impact assessment have been obtained prior to commencing constructions of production facilities and buildings. The superintendent will prepare the approval form of construction commencement/production specifying the status of approvals and permits obtained and will only commence construction after obtaining approval from the general manager and members of the Board.

See also the rectification steps set forth in paragraph (a) under “Enhanced internal control and rectification steps implemented by our Group” below.

(b) Non-compliance with the waste water discharge standard

In November 2016, Greenfresh (Fujian) received a notice of administrative penalty issued by Zhangzhou City Environmental Protection Bureau (漳州市環境保護局) that Greenfresh (Fujian) did not satisfy certain waste water discharge standards mandated by the PRC Water Pollution Prevention and Control Law. The non-compliance was mainly due to the relevant staff not adhering closely to our policies and procedures in respect of the treatment and discharge of waste water.

Penalty and potential legal impact

According to the then effective Water Pollution Prevention and Control Law of the PRC(中華人民共和國水污染防治法), discharge of water pollutants shall be within the state or local prescribed standards for discharge of water pollutants and indicators for the total discharge control of major water pollutants. Where any entity discharges water pollutants beyond the state or local prescribed standards for the discharge of water pollutants or the allowed permitted discharge volume, the administrative department of environmental protection under the People’s Government at or above the county level shall, order for treatment of the pollution within a certain time limit and impose a fine of not less than twice the amount of pollutant discharge fee it should pay but not more than five times of the amount.

Pursuant to the laws and the notice of administrative penalty, Greenfresh (Fujian) was ordered to pay an administrative penalty of RMB82,024.0, and such amount has been settled in full. In September 2019, written confirmation letters have been obtained from Longhai Ecology and Environment Bureau (龍海生態環境局) confirming that, except for the penalties above, Greenfresh (Fujian) was in compliance with the applicable laws and applications in respect of environment protection policy during the Track Record Period.

BUSINESS

Enhanced internal control procedures

We have established the policies and procedures in respect of waste water discharge standard and treatment process since November 2016. Our staff in the safety management department are required to record, review and have analysis of the statistics daily to monitor the waste water discharge and emission levels to ensure compliance with the relevant discharge and emission standard under the applicable laws and regulation. We have enhanced trainings provided to our staff on policies and procedures in respect of environmental protection including waste water discharge standard and waste water treatment process to ensure compliance with the environmental laws and other applicable laws. We have also designated a supervisor to be responsible for ensuring our production activities and the staff adhere to the relevant discharge and emission standards under the applicable laws and regulations. We will also perform regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks.

Save for the above incidents, our PRC Legal Advisers confirm that we have complied with the relevant environmental laws and regulations in the PRC in all material respects and had obtained all the required environmental permits and approvals for our production facilities and we were not subject to and had not been subject to any penalty for failure to comply with the applicable environmental laws and regulations during the Track Record Period and up to the Latest Practicable Date.

(2) Owned properties in the PRC

(a) Construction of a waste water treatment plant prior to obtaining the required approval

In May 2015, Greenfresh (Fujian) received a notice of administrative penalty issued by Longhai Municipal Land and Resources Bureau (龍海市國土資源局) for constructing a waste water treatment plant on collective-owned land without obtaining prior approval from the relevant regulatory authorities. Greenfresh (Fujian) commenced construction of such waste water treatment plant in February 2014 and completed construction in November 2014. The non-compliance was mainly due to our local management at the relevant time being not familiar with the relevant regulatory requirements. Such construction of the waste water treatment plant was in progress at the time we received the notice of administrative penalty and did not contribute to the revenue of our Group during the Track Record Period and up to the Latest Practicable Date.

Penalty and potential legal impact

According to the Land Administration Law of the PRC (中華人民共和國土地管理法) and its regulations for the implementation, collectively-owned land shall not be used for non-agricultural purpose unless approvals have been obtained for conversion of the land from collectively-owned land to state-owned land and change of the permitted use of the land from agricultural to construction purpose.

Illegal occupation and use of land without obtaining approval or obtaining such approval by deceitful means shall be ordered by the competent department of land administration of the People's Government at or above the county level to return the illegally occupied land. Any conversion of agricultural land into construction land without authorisation in violation of the overall planning for

BUSINESS

use of land shall dismantle the newly-built constructions and other facilities on the illegally occupied land and restore the original state of the land within a specified period of time. Where such construction conforms to the overall planning for use of land, the constructions and other facilities on the illegally occupied land shall be confiscated and may concurrently be imposed a fine, such fine shall amount to not more than RMB30 per square meter of such illegal occupied land.

Administrative sanctions shall be imposed on the person-in-charge and other personnel directly responsible; where a crime has been constituted, there shall be investigation of criminal liability pursuant to law.

Pursuant to the laws and the notice of administrative penalty, Greenfresh (Fujian) was ordered to pay a penalty of RMB 63,715 and reinstate the illegally occupied land with confiscation of the buildings and facilities that had been constructed on the site. According to the confirmation issued by Longhai Municipal Land and Resources Bureau (龍海市國土資源局) in August 2018, Greenfresh (Fujian) had settled such penalty and had obtained the land use right certificate for such land previously occupied without completing the proper procedures.

Enhanced internal control procedures

We have established the administrative procedures and policies in respect of undertaking of construction projects since March 2018, pursuant to which we have formalised the procedures in respect of obtaining the construction works planning permit, construction works commencement permit and record of completion and acceptance. We have employed a construction superintendent (as our full-time employee) who is a registered civil engineer in the PRC and is familiar with the applicable laws and regulations in relation to construction projects in the PRC. The superintendent will ensure requisite permits, and approvals have been obtained prior to commencing construction of production facilities and buildings to ensure compliance of the construction works with the relevant laws and regulations. The superintendent will prepare the approval form of construction commencement/production specifying the status of approvals and permits obtained and will only commence construction after obtaining approval from the general manager and members of the Board. The superintendent is responsible for overseeing the application for the construction works planning and construction works commencement permits and record of completion and acceptance and record keeping and compliance of construction works with the relevant laws and regulations.

See also the rectification steps set forth in paragraph (a) under “Enhanced internal control and rectification steps implemented by our Group” below.

BUSINESS

(b) Construction of two warehouses and ancillary buildings of two boiler rooms without the required approvals

As of the Latest Practicable Date, Greenfresh (Fujian) had two warehouses and ancillary buildings of two boiler rooms, which completed construction during the period from 2015 to 2018 with an aggregate gross floor area of 8,522.38 sq.m. situated at Greenfresh (Fujian) Production Plant. However, Greenfresh (Fujian) had not obtained all of the construction and completion related permits and records, including the planning permit for construction land (建設用地規劃許可證), the construction works planning permit (建設工程規劃許可證), the construction works commencement permit (施工許可證) and the record of completion and acceptance (竣工驗收備案), for the constructions and operations of the above four buildings before commencement of construction and operation.

The table below sets forth the information on the two warehouses and ancillary buildings of two boilers as of the Latest Practicable Date:

Properties	Gross floor area of the buildings (sq.m.)
Warehouse A	1,250
Warehouse B	5,212.80
Ancillary building of boiler room A	1,229.66
Ancillary building of boiler room B	829.92
Total	<u>8,522.38</u>

The non-compliance was mainly due to the unfamiliarity with the relevant regulatory requirements by our then local management, who misunderstood that the two boilers and Warehouse B were ancillary facilities and no approval for construction works planning permit and construction works commencement permits were required for such construction. The relevant staff also misunderstood that the construction of Warehouse A, which was then meant to be a construction on a temporary basis, would not require to apply for approvals for such construction. Such buildings were ancillary facilities to the production facilities and did not contribute to the revenue of our Group during the Track Record Period and up to the Latest Practicable Date.

Maximum penalty and potential legal impact

According to the Urban and Rural Planning Law of PRC (中華人民共和國城鄉規劃法), if a construction project is carried out without obtaining the construction works planning permit for such construction project, the relevant government authority shall order for suspension of construction and rectification or dismantling within a prescribed period of time, confiscation of the properties or the illegal gains and imposition of a fine of not more than 10% of the construction cost. As such, Greenfresh (Fujian) would be subject to a maximum penalty of RMB0.50 million (equivalent to HK\$0.6 million), representing 10% of the construction costs of the relevant properties, due to its failure to obtain the construction works planning permit.

BUSINESS

According to the Construction Law of PRC (中華人民共和國建築法) and the Administrative Measures for Construction Permits of Construction Projects (建設工程施工許可管理辦法), if the project is constructed without obtaining the construction works commencement permit, the relevant government authority shall order for suspension of construction, rectification within a prescribed period of time and imposition of a fine between 1% and 2% of the contract price of such construction projects. As such, Greenfresh (Fujian) would be subject to a maximum penalty of RMB0.1 million (equivalent to HK\$0.1 million), representing 2% of the contract price of the construction projects of the properties, due to the failure to obtain the construction works commencement permits.

According to the Administrative Regulations on the Quality Management of Construction Engineering (建設工程質量管理條例), if a party fails to submit an acceptance report, relevant recognition documents or use approval document for filing within a prescribed period, the relevant government authority shall order for remedial action to be taken and a fine of RMB 200,000 and RMB 500,000 to be paid.

Views of our PRC Legal Advisers

Greenfresh (Fujian) has obtained (1) Certification in regard to Green Fresh Company's Industrial Building Post-registering Real Estate Title Certification (關於綠新公司工業廠房補辦不動產權屬登記的證明) (the "**Certification I**") issued by Longhai City Enterprise Listing Work Group Office (龍海市企業上市工作領導小組辦公室) and endorsed by Longhai Urban and Rural Planning and Construction Bureau (龍海市城鄉規劃建設局); (2) Certification in regard to the Material Warehouse of Workshop 1 of Green Fresh Company (關於綠新公司一廠原料倉庫的證明) (the "**Certification II**") issued by Longhai City Enterprise Listing Work Group Office and endorsed by Longhai Municipal Land and Resources Bureau; and (3) Certification in regard to the Construction Planning of the Material Warehouse of Workshop 1 of Green Fresh Company (關於綠新公司一廠原料倉庫規劃建設的證明) (the "**Certification III**") issued by Longhai City Enterprise Listing Work Group Office and endorsed by Longhai Urban and Rural Planning and Construction Bureau.

In respect of Warehouse A, Certification I confirms that (1) part of Warehouse A (642 sq.m.) shall be demolished to satisfy the fire control requirement; (2) after settling the fine of RMB 10 per square meter of Warehouse A, real estate title of the remaining area of Warehouse A (608 sq.m.) can be post-registered by Greenfresh (Fujian) and there is no material impediment involved in respect of such post-registration; (3) except for the fine, there is no other penalty or arrangement imposed on Greenfresh (Fujian).

In respect of Warehouse B, Certification II and III confirm that (1) Warehouse B is the ancillary facility of the land and Greenfresh (Fujian) did not obtain the planning and construction permits; (2) if Greenfresh (Fujian) stops using Warehouse B and completes the demolition works of Warehouse B before 30 September 2019, and re-applies for the construction work approval in accordance with the planning, there will not be any penalty or arrangement imposed on Greenfresh (Fujian).

On 16 April 2019, Greenfresh (Fujian) completed the post-registration process and obtained the real estate certificate of warehouse A.

BUSINESS

In respect of ancillary buildings of boiler room A and B, Certification I confirms that (1) ancillary buildings of boiler rooms A and B are the ancillary facilities of the entire construction project; (2) after settling the fine of RMB 10 per square meter of the building and adjusting the relevant planning of construction, real estate title of ancillary buildings of boiler rooms A and B can be post-registered by Greenfresh (Fujian) and there is no material impediment involved in respect of such post-registration; (3) except for the fine, there is no other penalty or arrangement imposed on Greenfresh (Fujian).

Pursuant to the notice of administrative penalty issued by Longhai Urban and Rural Planning and Construction Bureau (龍海市城鄉規劃建設局) in March 2019, Greenfresh (Fujian) was ordered to pay a penalty of RMB 33,095.8, which is the total amount of the fine of 10 per square meter of Warehouse A (1,250 sq.m.) and ancillary buildings of boiler room A(1,229.66 sq.m.) and B(829.92 sq.m.), for the constructing and operating buildings without obtaining the relevant permits and records. Greenfresh (Fujian) had settled such penalty. The notice further confirmed that Green Fresh(Fujian) can reapply the project planning and construction permits of buildings.

On 12 March 2019, Greenfresh (Fujian) obtained the project planning and construction permits of Warehouse A and ancillary buildings of boiler room A and B. On 16 April 2019, Greenfresh (Fujian) completed the post-registration process and obtained the real estate certificate of above buildings.

In addition, written confirmation have been obtained from Longhai City Natural Resources Bureau (龍海市自然資源局) confirming that except the penalty above which has been settled, Greenfresh (Fujian) is in compliance with the applicable laws in respect of construction and land planning policy during the Track Record Period. As confirmed by our PRC Legal Advisers, Longhai City Natural Resources Bureau (龍海市自然資源局) is competent authority to issue the above confirmation letter.

In light of the foregoing, our PRC Legal Advisers are of the view that if Greenfresh (Fujian) can satisfy the requirements set forth in Certifications I, II and III issued and endorsed by the relevant authorities above, the likelihood that Greenfresh (Fujian) would be required by the relevant authorities to implement further remedial measures or demolish the buildings and ancillary facilities or being imposed further penalties is low.

Enhanced internal control measures

Based on the view of our PRC Legal Advisers, we consider that there would be remote risks of such title defects on our business operations. We have established the administrative procedures and policies in respect of undertaking of construction projects since March 2018. We have formalised the procedures in respect of obtaining environmental impact assessment, construction works planning permit, construction works commencement permit and record of completion and acceptance. We have also established construction works policy containing details of the construction works planning and construction works commencement permits and record of completion and acceptance that need to be obtained. We have employed a construction superintendent (as our full-time employee) who is a registered civil engineer in the PRC and is familiar with the applicable laws and regulations in relation to construction projects in the PRC. The superintendent will ensure requisite permits, and approvals have been obtained prior to commencing construction of production facilities and buildings to ensure compliance of the construction works with the relevant laws and regulations. The superintendent will

BUSINESS

prepare the approval form of construction commencement/production specifying the status of approvals and permits obtained and will only commence construction after obtaining approval from the general manager and members of the Board. The superintendent is responsible for overseeing the application for the construction works planning and construction works commencement permits and record of completion and acceptance and record keeping and compliance of construction works with the relevant laws and regulations. See also the rectification steps set forth in paragraph (a) under “Enhanced internal control and rectification steps implemented by our Group” below.

(3) Leased properties in the PRC

Construction of waste water treatment plant and seaweed drying area without the required permits

Lvbao (Quanzhou) has constructed a waste water treatment plant and seaweed drying area in the leased premises at No. 97, 3 parcel, Maoting, Yonghe Town, Jinjiang City, Fujian Province, the PRC, which is a collectively-owned land, prior to obtaining approval from the relevant government authorities to change the land ownership from collectively-owned to State-owned land and change the land use from agricultural to construction purpose.

The non-compliance was mainly due to our local management at the relevant time being not familiar with the relevant regulatory requirements. The waste water treatment plant and seaweed drying area were ancillary facilities to the production facilities and did not contribute to the revenue of our Group during the Track Record Period and up to the Latest Practicable Date.

Our Directors consider that the ancillary facilities are not critical to our operations. Should our use of the land be adversely affected, our Directors believe that we will be able to lease alternative premises or relocate the ancillary facilities erected thereon without significant disruption to our business and operation. Our Directors consider that the uncertainty with respect to the validity of the lease agreement would not have any material adverse impact on our operations as a whole.

Our estimated cost for demolishing the ancillary facilities would be less than HK\$0.12 million. Based on the foregoing, our Directors do not foresee any material impairment to our Group’s business and financial position in the event of such request by the relevant authority.

Maximum penalty and potential legal impact

According to the Land Administration Law of the PRC (中華人民共和國土地管理法) and its regulations for the implementation, collectively-owned land shall not be used for non-agricultural purpose unless approvals have been obtained for conversion of the land from collectively-owned land to state-owned land and change of the permitted use of the land from agricultural to construction purpose. Buildings constructed on collectively-owned land for non-agricultural purpose may be ordered by the relevant regulatory authority for rectification of such non-compliances including demolishing the buildings constructed on such land and reinstating the land to its original state and paying penalties for such non-compliances. The maximum fine shall be not more than RMB30 per sq.m. of illegally occupied land and not more than twice of the amount of the reclamation cost of the relevant agricultural land. Pursuant to the “Notice of the Provincial People’s Government of Fujian Province, the Provincial Land Bureau, the Provincial Department of Finance, and the Provincial

BUSINESS

Physical Affairs Commission on the Collection and Use of Farmland Reclamation Fees in Fujian Province” (福建省人民政府批轉省土地局、省財政廳、省物委關於福建省耕地開墾費徵收和使用規定的通知), the maximum reclamation cost of the agricultural land shall be RMB 12 per sq.m. on the basis that the agricultural land per capita is less than 200 sq.m. or 0.3 mu.

According to the Construction Law of the PRC (中華人民共和國建築法) and the Administrative Measures for Construction Permits of Construction Projects (建設工程施工許可管理辦法), if the project is constructed without obtaining the construction works commencement permit, the relevant government authority shall order for suspension of the construction, rectification within a prescribed period of time and imposition of a fine between 1% and 2% of the contract price of the construction project.

Views of our PRC Legal Advisers

Our PRC Legal Advisers have advised us that there is uncertainty with respect to the validity of the lease agreement due to our use of the relevant land in contravention to the permitted use. As a result, the validity of the lease agreement may be subject to challenge.

Our PRC Legal Advisers have also advised us that as we have constructed the waste water treatment plant and seaweed drying area in the leased premises prior to obtaining approval from the relevant government authorities to change the land ownership from collectively-owned to State-owned land and change the permitted use of the land from agricultural to construction purpose, we may be ordered to rectify such non-compliance, including demolishing the constructions on such leased premises or requiring us to vacate from such premises, reinstating the land to its original state and paying a fine for such non-compliance.

Lvbao (Quanzhou) has made application with the relevant government authorities to convert the land ownership from collectively-owned to State-owned land and the land use from agricultural to construction purpose. As of the Latest Practicable Date, there was no material impediment involved in respect of such application as confirmed by our PRC Legal Advisers. Set forth below are the written documents from government authorities to confirm the land use planning of the leased premises and the converting process of land use and ownership:

- (a) Checklist of Land Used for Construction Projects (建設項目用地情況核查表) which has been obtained from Jinjiang Land and Resources and Geographic Information Bureau (晉江市國土與資源地理信息中心) confirming that (1) the use of the leased premises is consistent with the overall land use planning of Yonghe Town from 2006 to 2020; (2) the leased premises is not basic farmland.
- (b) Reference Letter regarding the construction project of Lvbao (Quanzhou) (關於綠寶(泉州)生化有限公司建設項目的推薦函), which has been obtained from The People’s Government of Yonghe Town, Jinjiang City (晉江市永和鎮人民政府) confirming that (1) the use of the leased premises is consistent with the overall land use planning and urban-rural planning and the status of land is construction land; (2) the leased premises is not basic farmland; (3) application of Lvbao (Quanzhou) for the Stated-owned land has been transferred to the Office for Jinjiang Land Projects Pre-Approval Steering Committee (晉江市項目用地預審領導小組辦公室) for further approval.

BUSINESS

In addition, written confirmations have been obtained from Jinjiang Housing and Urban-rural Construction Bureau (晉江市住房和城鄉建設局) and Jinjiang Municipal Natural Resources Bureau (晉江市自然資源局) confirming that Lvbao (Quanzhou) is in compliance with the applicable laws and applications in respect of land use, construction and land planning policy during the Track Record Period. Our PRC Legal Adviser also confirm that Jinjiang Land and Resources and Geographic Information Bureau, The People's Government of Yonghe Town, Jinjiang City, Jinjiang Housing and Urban-rural Construction Bureau, and Jinjiang Municipal Natural Resources Bureau are competent authorities to issue the above confirmation letters and written documents.

Based on the above, our PRC Legal Advisers are of the view that the use of the leased collectively-owned land for non-agricultural purpose will not cause material impediment to the Listing.

Enhanced internal control measures

We have established the administrative procedures and policies in respect of undertaking of construction projects since March 2018, pursuant to which we have formalised the procedures in respect of obtaining environmental impact assessment, construction works planning permit, construction works commencement permit and record of completion and acceptance. We have employed a construction superintendent (as our full-time employee) who is a registered civil engineer in the PRC and is familiar with the applicable laws and regulations in relation to construction projects in the PRC. The superintendent will ensure requisite permits, and approvals have been obtained prior to commencing construction of production facilities and buildings to ensure compliance of the construction works with the relevant laws and regulations. The superintendent will prepare the approval form of construction commencement/production specifying the status of approvals and permits obtained and will only commence construction after obtaining approval from the general manager and members of the Board. The superintendent is responsible for overseeing the application for the construction works planning and construction works commencement permits and record of completion and acceptance and record keeping and compliance of construction works with the relevant laws and regulations.

We have established the administrative procedures and policies in respect of management of leased properties since June 2018. We have assigned designated staff in the human resources and administrative department to be responsible for ensuring compliance of the leased properties in respect of permitted land use, including whether the leased properties should only be used for non-agricultural purpose, prior to entering into lease agreements with the lessors of the leased properties. Our designated staff also ensure due registration of the lease agreements subsequent to entering into the lease agreements with the lessors by communicating with the lessors to obtain their cooperation and collect the application documents for lease registrations. Our compliance team will also check and monitor whether lease registrations in respect of all our leased properties have been duly registered with the relevant government authorities.

See also the rectification steps set forth in paragraph (a) under “Enhanced internal control and rectification steps implemented by our Group” below.

BUSINESS

See also the rectification steps set forth in paragraph (b) under “Enhanced internal control and rectification steps implemented by our Group” below.

(4) Sea use rights

Non-registration of lease agreement in respect of lease of sea use rights and engaging in seaweed cultivation activities prior to obtaining the Aquaculture in Waters and Tidal Flats Licence (水域灘塗養殖證)

During the Track Record Period, Donghaiwan had carried out seaweed cultivation activities at two locations, namely, West of Baiyu, Gangwei Town, Longhai City, Zhangzhou City, Fujian Province, the PRC and South of Wuyu, Gangwei Town, Longhai City, Zhangzhou City, Fujian Province, the PRC, the sea use rights of which have been granted to Greenfresh (Fujian) for terms both expiring on 15 April 2019 and according to the notification issued by Longhai City Marine and Fisheries Bureau (龍海市海洋與漁業局) and Longhai City Natural Resources Bureau (龍海市自然資源局) on 24 September 2019, Greenfresh (Fujian) will continue to be allowed to have sea use right before the completion of renewal of the sea use right certificate which is in process due to the delay of transfer of administrative licensing functions from Longhai City Marine and Fisheries Bureau (龍海市海洋與漁業局) to Longhai City Natural Resources Bureau (龍海市自然資源局). Donghaiwan had not entered into lease agreements with Greenfresh (Fujian) for lease of the sea use rights and has not filed such lease agreements with the relevant regulatory authorities. Besides, Donghaiwan had failed to apply for Aquaculture in Waters and Tidal Flats Licence (水域灘塗養殖證) issued by Longhai Municipal People’s Government (龍海市人民政府) prior to engaging in the seaweed cultivation activities in the leased sea areas. The non-compliance was mainly caused by our local management at the relevant time being not familiar with the relevant regulatory requirements on lease of sea use rights. Revenue contributed by seaweed cultivation activities on such leased sea areas for which no lease agreement had been entered into and registered amounted to HK\$7.2 million, HK\$8.4 million, and HK\$0.4 million for the three years ended 31 December 2018, accounting for 1.3%, 1.3%, and 0.0% of our total revenue in the respective periods. Net profit attributable to seaweed cultivation activities on such leased sea areas for which no lease agreement had been entered into and registered amounted to HK\$2,997,000, HK\$65,000, and nil for the three years ended 31 December 2018. We did not generate any revenue from seaweed cultivation activities on leased areas for which no lease agreement has been entered into during the three months ended 31 March 2019.

Penalty and potential legal impact

According to the provisions of the Regulations on the Administration of Sea Area Use Rights (海域使用權管理規定) issued by State Oceanic Administration (國家海洋局), parties to the lease must register the lease agreement with the registration authority if the right to use the sea area is leased, and the lease of the sea area without registration of the lease agreement with the registration authority is invalid. Pursuant to the Fisheries Law of the PRC (中華人民共和國漁業法), application should be made with the Local People’s Government Fishery Administrative Department (地方人民政府漁業行政主管部門) for the Aquaculture in Waters and Tidal Flats Licence (水域灘塗養殖證) for engaging in seaweed cultivation activities in the sea area. The parties who fail to comply with such provisions may be ordered to rectify such non-compliance, re-apply for the license to operate the seaweed cultivation activities or demolish the cultivation facilities constructed in such sea area within a prescribed time limit.

BUSINESS

Views of our PRC Legal Advisers

Based on the above, our PRC Legal Advisers are of the view that lease of the sea use rights by Greenfresh (Fujian) to Donghaiwan during the Track Record Period without entering into the lease agreements and registering such lease agreements with the relevant regulatory authorities is not in compliance with the relevant PRC laws and regulations and as such, the lease of the sea area at the above two locations by Greenfresh (Fujian) to Donghaiwan may be invalid. Our PRC Legal Advisers also advised that Donghaiwan may be ordered to rectify such non-compliance, re-apply for the Aquaculture in Waters and Tidal Flats Licence (水域灘塗養殖證) for engaging in seaweed cultivation activities or demolish the cultivation facilities constructed on such sea area within the prescribed time period.

In view of the fact that the Greenfresh (Fujian) and Donghaiwan had executed lease agreements in respect of lease of the sea use rights and registered such lease agreements with the registration authority, Donghaiwan had re-applied for the Aquaculture in Waters and Tidal Flats Licence (水域灘塗養殖證), which is still valid according to the notification issued by Longhai City Marine and Fisheries Bureau (龍海市海洋與漁業局) and Longhai City Natural Resources Bureau (龍海市自然資源局) on 24 September 2019 and the confirmation (關於龍海市東海灣海藻養殖綜合開發有限公司海洋及漁業管理守法情況的證明) issued by Longhai City Marine and Fisheries Bureau (龍海市海洋與漁業局) on 18 September 2019 confirming Donghaiwan was in compliance with the applicable laws and regulations in the PRC for engaging in seaweed cultivation activities and have obtained the requisite governmental licences, permits, and certification which are necessary for its business operations of seaweed cultivation, our PRC Legal Advisers are of the view that the failure by Donghaiwan then to register the lease agreements of the sea use rights with the relevant regulatory authorities and to engage in seaweed cultivation activities without the relevant licence in the past will not affect the operation of Donghaiwan in the future.

Enhanced internal control measures

We have established the administrative procedures and policies in respect of the management of leased properties since June 2018. We have assigned designated staff in the human resources and administrative department to be responsible for ensuring due registration of the lease agreements of the sea use rights subsequent to entering into the lease agreements with the lessors. Our compliance team will also check and monitor whether lease registrations in respect of all our leased properties of sea use rights have been duly registered with the relevant government authorities. Our designated staff will also be responsible for monitoring and ensuring requisite governmental licences, permits, and certification have been obtained prior to engaging in seaweed cultivation activities and will only commence seaweed cultivation activities after obtaining approval from the general manager and members of the Board.

See also the rectification steps set forth in paragraph (b) under “Enhanced internal control and rectification steps implemented by our Group” below.

BUSINESS

(5) PRC social insurance and housing provident fund

During the Track Record Period, we had not made full contributions to the social insurance plans and housing provident fund for our employees in the PRC in a timely manner as prescribed by the relevant PRC laws and regulations. Some of our employees are not willing to participate in the social welfare schemes of the city where they temporarily reside in as such contributions are not transferrable to other PRC cities.

The aggregate unpaid amounts by the relevant member of our Group to the social insurance authorities and the housing provident fund authorities were RMB0.8 million (equivalent to HK\$1.0 million), RMB0.8 million (equivalent to HK\$0.9 million), and a reversal of RMB1.3 million (equivalent to HK\$1.5 million), respectively, during the three years ended 31 December 2018. The reversal during the year ended 31 December 2018 was due to the previous over-accruals as a result of staff departure and in relation to the accrued sum accumulated over the normal staff turnover period which is considered less likely be payable by us. We made provision of the unpaid amounts of RMB6.0 million (equivalent to HK\$6.7 million), RMB6.8 million (equivalent to HK\$8.2 million), and RMB5.5 million (equivalent to HK\$6.3 million) in respect of the social insurance and housing provident fund contributions, respectively, as of 31 December 2016, 2017 and 2018. As of 31 December 2018, full payment of the social insurance and housing provident fund has been made and no additional accruals would need to be made. During the three months ended 31 March 2019, the aggregate unpaid amount of social insurance and housing provident fund by the relevant member of our Group amounted to a reversal of RMB0.6 million (equivalent to HK\$0.7 million) due to the previous over-accruals. We made such provision of RMB4.9 million (equivalent to HK\$5.7 million) as of 31 March 2019.

As of the Latest Practicable Date, we have made social insurance contribution and housing provident funds for all employees of our Group in the PRC except for a small number of employees who have confirmed in writing to us that they would not participate in the social insurance contribution and housing provident funds. We undertake in the event that competent authorities in the PRC require us to make contributions within a stipulated time period or make additional contributions and overdue fine, we will duly comply in a timely manner.

Maximum penalty and potential legal impact

According to the Social Insurance law of the PRC (中華人民共和國社會保險法), our PRC Legal Advisers advise us that for the overdue social insurance contributions, the relevant authorities may require us to pay, within a prescribed time limit, the outstanding amount with an additional late payment penalty at the daily rate of 0.05%. If we fail to make the overdue contributions within such time period, a penalty equal to one to three times of the outstanding amount may be imposed. The maximum amount of late charges which may potentially be imposed on our Group as a result of non-compliance with the requirements of social insurance contributions is estimated to be RMB7.7 million (equivalent to HK\$9.0 million), RMB8.5 million (equivalent to HK\$9.8 million), and RMB4.2 million (equivalent to HK\$5.0 million), respectively, for the three years ended 31 December 2018. The maximum amount of late charges which may potentially be imposed on us is estimated to be RMB0.4 million (equivalent to HK\$0.5 million) for the unpaid amount during the three months ended 31 March 2019.

BUSINESS

Our PRC Legal Advisers further advise us that pursuant to the “Regulations on the Management of Housing Provident Fund”(住房公積金管理條例), an employer shall make full contribution to the housing provident fund in a timely manner and shall not make overdue or inadequate contribution. If an employer does not make such contribution in accordance with the relevant PRC laws and regulations, the relevant housing provident management centre may order such employer to make supplemental contributions within the stipulated time period. If such employer does not make contributions within the time period, an enforcement application can be made to the people’s court. Other than the outstanding amounts of the housing provident fund, there are no additional late charges as provided under the “Regulations on the Management of Housing Provident Fund”.

Views of our PRC Legal Advisers

Written confirmations from the social insurance authorities and the housing provident fund authorities have been obtained. These confirmations state, in respect of the relevant periods stated therein, that no administrative penalties had been imposed and the relevant member of our Group was in compliance with the relevant laws and regulations and employees participating in the social insurance contributions and housing provident funds during the Track Record Period. Our PRC Legal Advisers are of the view that the written confirmations were issued by the competent authority in the PRC.

As of the Latest Practicable Date, we had not received any notification from the relevant PRC authorities on our non-compliance with the required amount contributions to the social insurance plans and housing provident funds. We have not received any demand for any additional payment (of fine and penalty) or additional contributions. We were also not aware of any complaints from our employees or demands for additional payment of social insurance plans or housing provident fund contributions. We have not received any legal documentation from labour arbitration tribunals or the PRC courts regarding any complaint or disputes in this regard.

Our PRC Legal Advisers are of the view that the risk of the social insurance authorities and the housing provident fund authorities in the PRC initiating any actions to compel us to make additional contributions to the social insurance plans and housing provident funds and imposing any penalty on us is remote.

Enhanced internal control measures

We have established the administrative procedures and policies in respect of payment of social insurance and housing provident fund since August 2018. In order to enhance our corporate governance and to prevent future potential non-compliance incidents, we have assigned designated personnel to monitor the status of payments of social insurance and housing provident fund on a monthly basis in order to ensure that we have made these payments in full for our employees on time in accordance with the applicable laws and regulations. Written records with respect to the payment status for the social insurance and housing provident fund are properly prepared, maintained and reviewed by the designated personnel on a monthly basis. The designated personnel include the managers of finance department and administrative department and the general manager. Our PRC Legal Advisers also provided trainings to the responsible personnel on any updates of the relevant laws and regulations for social insurance and housing provident fund and will continue to provide

BUSINESS

such trainings to our staff in the future. In addition, our Controlling Shareholders have agreed to indemnify us monetary fines, settlements payments and any associated costs and expenses which would be incurred or suffered by us in connection with the aforesaid non-compliance occurred on or before the Listing Date.

Directors' views and Sponsor's views on the non-compliance incidents

Our Directors' views on the non-compliance incidents are set forth below:

1. The non-compliance incidents were mainly due to the unfamiliarity with the relevant PRC regulatory requirements by our then management.
2. Our PRC Legal Advisers have provided detailed information on the non-compliance incidents, the legal consequences, rectification actions taken by us and the status of compliance as of the Latest Practicable Date.
3. With respect to our failure to comply with certain construction and environmental laws and regulations in the PRC in relation to the construction of certain production facilities and waste water discharge, we have rectified the non-compliance incidents and received confirmation from the relevant municipal environmental protection bureau confirming that the relevant member of our Group was in compliance with the applicable laws and regulations in respect of environmental protection policy during the Track Record Period save for the incident mentioned above.
4. With respect to the non-compliance relating to our owned properties, our PRC Legal Advisers advised that subject to our compliance with certain conditions imposed by the PRC government authority, the risk for the relevant PRC government authority to impose any further penalty on us, or to order demolishing the relevant buildings and ancillary facilities or to request our Group to take any further remedial measures, is remote. Our Directors confirm that we are implementing the remedial measures according to the timeline imposed by the relevant PRC government authority, i.e. to demolish Warehouse B before the imposed deadline of 30 September 2019 and to complete the relevant registration in respect of Warehouse A and boiler rooms A and B before the deadline.

Our Directors further confirm that we have completed the relevant landscape measurement and building surveys of Warehouse A and boiler rooms A and B and has submitted the revised floor plan to the relevant PRC government authority for approval. Our Directors expect that the registration would be completed by April 2019. For Warehouse B, we will demolish it before the deadline.

5. With respect to our leasing of land in contravention of the permitted usage, Lvbao (Quanzhou) has made application with the relevant government authorities to convert the land ownership from collectively-owned to State-owned land and the land use from agricultural to construction purpose. As of the Latest Practicable Date, we have not been notified by any relevant PRC government authority that the application for conversion of land ownership and land use right would not be processed or would be rejected.

BUSINESS

6. With respect to our failure in entering into and registering a lease agreement amongst members of our Group for the use of the sea use rights, we have already executed and registered the relevant lease agreements, and re-applied for and obtained the license for engaging in seaweed cultivation activities. Our PRC Legal Advisers have also confirmed that our failure to register the lease agreements or obtain the relevant license for engaging in seaweed cultivation activities will not affect our business operation in future.
7. With respect to our failure to make full contributions to the social insurance plans and housing provident fund in the PRC during the Track Record Period, our Directors consider that the outstanding amount involved, being RMB6.8 million (equivalent to HK\$8.1 million), is insignificant and therefore such non-compliance will not have any material adverse impact on the business and financial position of our Group. Other than the non-compliance incident as disclosed in this prospectus, members of our Group have contributed social insurance contributions and housing provident fund for all employees in the PRC except for a few who confirmed in writing to relevant members of our Group in the PRC that they would not participate in the social insurance and housing provident fund on a voluntary basis.

Based on the above, our Directors are of the view, and the Sponsor concurs with our Directors, that the past non-compliance incidents during the Track Record Period will not affect the suitability of our Directors to act as directors of a listed issuer on the Stock Exchange under Rules 3.08 and 3.09 of the Listing Rules.

Enhanced internal control and rectification steps implemented by our Group

For the purpose of adhering to good corporate governance and complying with the applicable laws and regulations in the PRC, we have implemented enhanced internal control system and procedures as follows:

- (a) we have formalised the procedures for obtaining the requisite permits, and approvals in respect of environmental impact assessment prior to commencing constructions of production facilities and buildings. We have employed a construction superintendent (as our full-time employee) who is a registered civil engineer in the PRC and is familiar with the applicable laws and regulations in relation to construction projects in the PRC. The superintendent will closely monitor each construction project that may be undertaken by our Group as part of the future plans of our Group. The superintendent will also be involved in any modification/update to be undertaken to the existing production facilities of our Group. The superintendent reports to members of our Board directly. The superintendent is also responsible for overseeing the application of the requisite permits and approvals in respect of environmental impact assessment and compliance of the construction works with the relevant laws and regulations;
- (b) additional and regular trainings will be provided by our PRC Legal Advisers to the relevant staff on full compliance with the applicable laws and regulations in the PRC taking into consideration the nature of our business, the practice of the local competent authorities, and the consequence of any non-compliance incident;
- (c) compile and update lists of applicable laws and regulations that our Group would need to comply with and prepare compliance checklists and procedures for internal review and monitoring;

BUSINESS

- (d) the chief executive officer of our Group will supervise the compliance matters of our Group, and will be supported by our compliance department and internal audit department;
- (e) regular reviews and reconciliations on the amount of contributions made or to be made by us, the number of employees in the PRC, and their compensation levels for the purpose of ensuring due compliance with the applicable laws and regulations in the PRC; and
- (f) formulate, implement, and update internal control policy and procedures to ensure that no future non-compliance will be committed by us.

Our Directors confirm that the enhanced internal control and rectification steps have been duly implemented and that the internal control consultant has advised our Directors that such steps are sufficient and effective to identify and avoid any non-compliance issue of similar nature occurred during the Track Record Period.

LEGAL PROCEEDINGS

We may be involved, from time to time, in legal proceedings arising from the ordinary course of our operations. As of the Latest Practicable Date, there was no existing or threatened litigation, arbitration, administrative proceedings or claim of material importance pending or threatened by or against any member of our Group or any of our Directors which could have a material adverse effect on our business and financial condition and operating results.

SALES TO THE SANCTIONED COUNTRIES

Sales to countries subject to sanctions

The US and to a lesser extent other jurisdictions, including EU and Australia, maintain broad economic sanctions targeting certain countries or territories, the Sanctioned Countries, which include Cuba, Crimea, Iran, Syria, and North Korea. In addition, the US and other jurisdictions have implemented Targeted Sanctions Programmes on individuals or entities regardless of where they are located. For example, the US and other jurisdictions, including the EU and Australia, impose limited sanctions targeting certain entities, individuals, and activities in Russia, as well as entities majority-owned by sanctions targets globally.

BUSINESS

During the three years ended 31 December 2018, we sold our products to Iran through a trading company. Iran is a Sanctioned Country. We also sold products to Ukraine and Egypt through trading companies and Russia through our direct sales or trading companies, which are subject to the Targeted Sanctions Programmes. All of these customers are Independent Third Parties. During the three years ended 31 December 2018, sales to these trading company customers amounted to HK\$19.0 million, HK\$44.6 million, and HK\$54.1 million, respectively. During the three months ended 31 March 2019, sales to these customers amounted to HK\$9.6 million, as compared to HK\$13.2 million during the three months ended 31 March 2018. We have not specifically targeted our sales efforts to prospective customers in the Sanctioned Countries, or persons or entities subject to the Targeted Sanctions Programmes, and the sales to these countries or customers were made as a result of customers from those countries or through trading companies contacting us in response to our marketing activities held outside of the Sanctioned Countries.

Our sales to customers in the Sanctioned Countries or persons or entities subject to the Targeted Sanctions Programmes were conducted on normal commercial terms in our ordinary course of business. We have no intention to undertake any future business with or make any future sales to persons in the Sanctioned Countries or persons or entities subject to the Targeted Sanctions Programmes, proactively, or to take action that would otherwise cause us to violate or become a target under the sanctions laws of the US, EU or Australia.

We intend to continue our sales to the existing customers in the Sanctioned Countries or persons or entities subject to the Targeted Sanctions Programme. We consider that Russia is a promising market for our hydrocolloid products. Russia (leaving aside the disputed Crimea region) is not a Sanctioned Country, and our customers in Russia are not subject to the Targeted Sanctions Programmes. Nevertheless, we monitor our sales to customers in Russia from time to time in order to determine whether they are subject to the Target Sanctions Programme.

Our Directors have reviewed the guidance letter (HKEX-GL101-19) (the “**Sanction Guidance Letter**”) issued by the Stock Exchange and consider that our sales to customers in the Sanctioned Countries constitute “Secondary Sanctionable Activity” set forth in the Sanction Guidance Letter. Such activity is defined as business activity may result in the imposition of sanctions under the relevant international sanction programmes, even though no member of listing applicant is incorporated or located in any of the Sanctioned Countries and does not otherwise have any nexus with any of the Sanctioned Countries.

Sanctions risks

Our International Sanctions Legal Advisers performed the following procedures to evaluate our risk of exposure to penalties imposed under laws and regulations relating to international sanctions:

- (i) reviewed documents provided by us about our Group, our business operations, marketing efforts, revenues, sales contracts, customer lists, subsidiaries, branches, sales offices and representatives, ownership structure and management;

BUSINESS

- (ii) reviewed our list of customers during the Track Record Period against the lists of persons and organisations subject to the Targeted Sanctions Programmes, and confirming that none of these customers is on such lists; and
- (iii) received written confirmation from us that except as otherwise disclosed in this prospectus, neither our Group nor any of our affiliates (including any representative office, branch, subsidiary or other entity which forms part of our Group) conducted during the Track Record Period any business dealings in or with any other countries or persons that are subject to the Targeted Sanctions Programmes.

Taking into consideration:

- (i) the fact that the revenue derived from sales to customers in the Sanctioned Countries or persons or entities subject to the Targeted Sanction Programmes, namely Iran, Russia, Ukraine, and Egypt, in aggregate only accounted for 3.6%, 6.8%, and 5.4% of our total revenue for the three years ended 31 December 2018, respectively, and 5.0% of our revenue for the three months ended 31 March 2019;
- (ii) our business activities only constitute a “Secondary Sanctionable Activity” under the Sanction Guidance Letter;
- (iii) the fact that we have developed internal control measures designed to prevent prohibited sales to any Sanctioned Country or any violation of the Targeted Sanctions Programmes; and
- (iv) we have implemented such measures to ring-fence our exposure to sanctions risk in relation to our business activities, our Directors believe that we are not subject to any apparent or material sanction risks or our sales to customers in the Sanctioned Countries would render us not suitable for listing on the Stock Exchange,

our Directors are of the view, with which our International Sanctions Law Advisers concur, that (a) the risk of any government that maintains sanction programmes taking any material action against our Group under the current law based on our present and anticipated future business activities is remote and (b) the risk of any action being taken against our Company and the parties involved in the Share Offer and their respective directors, officers, and employees in respect of those sales is remote.

Our Directors confirm that we have not been notified that any international sanctions being imposed on us for our sales to customers in the Sanctioned Countries during the Track Record Period and up to the Latest Practicable Date. We have no present intention to expand future sales to persons in any of the Sanctioned Countries or countries subject to the Targeted Sanctions Programmes or take any actions that would otherwise cause us or other parties involved in the Share Offer, including their respective directors, officers, and employees, to violate or become a target of the sanctions laws of the US, EU, Australia, and UN.

For more information on the sanctions risk, see the section headed “Risk Factors—Risks relating to our business—We could be adversely affected as a result of our operations in certain countries that are subject to evolving economic sanctions of the US, EU, Australia and UN and other relevant sanctions authorities” in this prospectus.

BUSINESS

Internal control measures

As we intend to continue to have sales to our existing customers in countries where persons subject to sanctions operate, and in order to identify and monitor our exposure to risks associated with sanctions laws relating to such sales, we will adopt, before the Listing, enhanced internal control measures, including, among others:

- (a) we will not accept sales orders from any new customers in the Sanctioned Countries;
- (b) our Board has established a risk management committee (the “**Risk Management Committee**”) before the Listing Date, which will be chaired by our Chief Executive Officer and will include our Chief Financial Officer. The Risk Management Committee is principally responsible for monitoring our exposure to sanctions risks and overseeing the implementation of our related internal control policies;
- (c) we will maintain a control list of the Sanctioned Countries and persons and entities subject to the Targeted Sanctions Programmes and will update the list from time to time;
- (d) we will engage external legal advisers as and when required with necessary expertise and experience in sanctions matter to evaluate sanctions-related risks and will adhere to the appropriate advice provided by such external legal advisers;
- (e) our Directors will monitor our use of net proceeds from the Share Offer, and the performance of our undertaking to the Stock Exchange on sanctions matters; and
- (f) compliance and training programmes for sanctions issues will be provided to our Directors, senior management members, finance staff, and other relevant personnel.

Our Directors are of the view that the above measures will provide an adequate and effective framework to assist us in identifying and monitoring any material risks relating to sanctions law. The Sole Sponsor is of the view that the internal control measures set forth above will provide a reasonably adequate and effective framework to assist our Company in identifying and monitoring any material risk relating to sanctions laws.

Confirmation from our Company

We will not use the net proceeds from the Share Offer, whether directly or indirectly, to finance or facilitate any projects or businesses in the Sanctioned Countries or be provided to any person or entity named on the lists maintained for Targeted Sanctions Programmes in any manner that would result in any violation of sanctions by any person.

We will not undertake any transactions that would expose us or any party involved in the Share Offer and their respective directors, officers, and employees, to the risk of being sanctioned under the sanctions laws of Australia, EU or the US.

BUSINESS

We will disclose on the Stock Exchange's website and our own website if we believe that any of our activities has exposed us or our Shareholders to any material sanctions risk. We would also include such disclosure in our annual and interim reports.

If we are in breach of any of these undertakings to the Stock Exchange after Listing, it is possible that the Stock Exchange may delist our Shares.

RISK MANAGEMENT AND INTERNAL CONTROL

General information

Our risk management and internal control system and procedures are designed to meet our specific business needs and to minimise our risk exposure. We have adopted different internal guidelines, along with written policies and procedures, to monitor and reduce the risks which are relevant to our business, control our daily business operations, improve our corporate governance, and ensure due compliance with the applicable laws and regulations. Our Board and senior management are responsible for identifying and analysing the risks associated with our business operations, preparing risk mitigation plans, and assessing and reporting their effectiveness. In order to ensure due implementation of our risk management and internal control system and procedures, we have also adopted various on-going measures as set forth below:

- we have adopted internal control system and procedures which cover corporate governance, risk management, business operations, and legal and compliance matters;
- we will assess and monitor the due implementation of our risk management and internal control system and procedures by the relevant departments through regular reviews and inspections;
- we will provide internal trainings to members of our staff, as and when appropriate, in order to enable them to adhere to the internal control system and procedures;
- the engagement of qualified PRC legal advisers to ensure due compliance of our business operations in the PRC with the applicable laws and regulations;
- the engagement of external legal advisers in such other jurisdictions as we have business presence to advise us on compliance with the applicable laws and regulations and to ensure that we will not be in breach of any relevant regulatory requirements or applicable laws and regulations; and
- we have appointed Essence Corporate Finance (Hong Kong) Limited as our compliance adviser with effect from the date of the Listing, see the section headed "Directors, Senior Management, and Employees — Compliance Adviser" in this prospectus.

BUSINESS

In addition, for the purpose of preparing for the Listing, we have engaged an independent consultant (the “**Internal Control Consultant**”) to perform a review of our internal controls over financial reporting systems (the “**Internal Control Review**”). The Internal Control Review was based on the information provided by our Company and no assurance or opinion on internal controls was expressed by the Internal Control Consultant. The Internal Control Review included two phases: the first phase was conducted during the period between January 2017 and June 2018 and the second phase, which was intended to have follow-up on the findings from the first phase, was completed in July 2018. The internal control areas reviewed by the Internal Control Consultant included entity-level controls and business process-level controls, including revenue and receivables, purchases, procurements and payables, treasury, financial reporting, property, plant and equipment, taxation, payroll, insurance, and general controls of information technology. The Internal Control Consultant did not identify material internal control deficiency in the Internal Control Review under the agreed scope of review.

INTERNAL CONTROL AND AUDIT COMMITTEE

Our Audit Committee is primarily responsible for advising our Board and providing our Board with an independent view on the effectiveness of our financial reporting process, internal control, and risk management systems. See the section headed “Directors, Senior Management, and Employees — Board Committees — Audit Committee” in this prospectus for further information on the composition and responsibilities of our Audit Committee. See the section headed “Directors, Senior Management, and Employees — Board of Directors” in this prospectus for further information on the qualifications and experience on the members of our Audit Committee, who are our independent non-executive Directors.

We have also established since the fourth quarter of 2018 an internal audit department (the “**Internal Audit Department**”) under the supervision of our Board. The Internal Audit Department is established to oversee the daily implementation of internal control measures, compiling reports and proposals, and reporting to our Audit Committee on any compliance issue and the record of compliance in this respect.

With the Internal Audit Department and our Audit Committee, our Directors believe that we have established an internal control system which is commensurate with the standards required under the Listing Rules for companies listed on the Stock Exchange.

CONNECTED TRANSACTION

Following the Listing and pursuant to the Lease Agreements, we will continue to lease from Mr. GUO Dongxu, an executive Director, two office units situated at Unit 105 (the “**First Office Unit**”) and a portion of Unit 604 (the “**Second Office Unit**”) of Zone A of Jinhaiwan Fortune Centre, 998-1000 Anling Road, Huli District, Xiamen City, Fujian Province, the PRC with an area of 268.7 sq.m. and 302.6 sq.m., respectively, for a period of three years commenced from 1 January 2018 for an aggregate annual rental of RMB356,491.2. The annual rental for the First Office Unit is RMB167,668.8 and the annual rental for the Second Office Unit is RMB188,822.4. The annual rental under each of the Lease Agreements is determined by Mr. GUO Dongxu and us on arm’s length basis with reference to the prevailing market rates. The Lease Agreements are renewable on expiry date at the option of our Group.

According to Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuers engaged by us, the annual rental under each of the Lease Agreements is fair and reasonable and reflects the prevailing market rates for similar office units in similar locations in the PRC.

During the two years ended 31 December 2016, we did not lease any office unit from Mr. GUO Dongxu. During the year ended 31 December 2017, we paid annual rental of RMB564,900.2 (equivalent to HK\$651,612.4) to Mr. GUO Dongxu for the lease of the First Office Unit, Second Office Unit, and other office areas. Starting from 1 January 2018, we have only leased the First Office Unit and the Second Office Unit from Mr. GUO Dongxu, and the total amount of rental paid to him during the year ended 31 December 2018 under the Lease Agreements amounted to RMB356,491.2 (equivalent to HK\$0.4 million). During the three months ended 31 March 2019, we paid RMB89,122.80 (equivalent to HK\$0.1 million) under the Lease Agreements, as compared to RMB89,122.80 (equivalent to HK\$0.1 million) for the three months ended 31 March 2018.

As the Lease Agreements are of fixed terms, they are treated on an aggregate basis as a one-off connected transaction for our Company.

Except for the disclosure set forth above and in this prospectus, our Directors anticipate that there will not be other connected transactions to be entered into between any connected person of our Company and us upon the Listing.

DIRECTORS, SENIOR MANAGEMENT, AND EMPLOYEES

BOARD OF DIRECTORS

Our Board consists of eight Directors, comprising four executive Directors, one non-executive Director, and three independent non-executive Directors. The powers and duties of our Board include managing the business operations of our Group, formulating and implementing our business and investment plans and strategies, convening Shareholders' meetings, reporting the achievements and work progress at our Shareholders' meetings, preparing our annual budgets and annual and interim reports, formulating profit distributions and financing proposal, and exercising such other powers, functions, and duties as conferred by the Memorandum and the Articles. We have entered into a service contract with each of our executive Directors, a letter of appointment with each of our independent non-executive Directors and a letter of appointment with our non-executive Director.

The table below shows certain information with respect to our Directors:

Members of our Board

Name	Age	Date of joining us	Date of appointment as Director	Position	Roles and responsibilities	Relationship with other Directors and senior management
Mr. CHAN Kam Chung (陳金滄先生)	49	13 May 2003	3 July 2015	Executive Director, Chairman and Chief Executive Officer	Formulating the strategic planning and overseeing business administration of our Group	Mr. CHAN Kam Chung is the younger brother of Mr. CHAN Shui Yip and the brother-in-law of Mr. SHE Xiaoying
Mr. GUO Dongxu (郭東旭先生)	50	15 March 2009	5 September 2018	Executive Director, Vice Chairman, and Vice President	Responsible for project development, quality control and external business	None
Mr. CHAN Shui Yip (陳垂燁先生)	56	20 March 1999	5 September 2018	Executive Director, Vice Chairman, and Vice President	Overseeing the production management, sourcing, human resources and administration operation of our Group	Mr. CHAN Shui Yip is the elder brother of Mr. CHAN Kam Chung and the brother-in-law of Mr. SHE Xiaoying
Mr. SHE Xiaoying (佘小迎先生)	57	13 May 2003	5 September 2018	Executive Director	Overseeing the business operations of Lvbao (Quanzhou)	Mr. SHE is a brother-in-law of Mr. CHAN Kam Chung and Mr. CHAN Shui Yip
Mr. GUO Songsen (郭松森先生)	30	1 December 2011	5 September 2018	Non-executive Director	Providing strategic advice to our Board	None
Mr. HO Kwai Ching, Mark (何貴清先生)	57	25 September 2019	25 September 2019	Independent Non-executive Director	Supervising and providing independent advice to our Board	None

DIRECTORS, SENIOR MANAGEMENT, AND EMPLOYEES

Name	Age	Date of joining us	Date of appointment as Director	Position	Roles and responsibilities	Relationship with other Directors and senior management
Mr. NG Man Kung (吳文拱先生)	68	25 September 2019	25 September 2019	Independent Non-executive Director	Supervising and providing independent advice to our Board	None
Mr. HU Guohua (胡國華)	45	25 September 2019	25 September 2019	Independent Non-executive Director	Supervising and providing independent advice to our Board	None

Executive Directors

Mr. CHAN Kam Chung (陳金淙先生) (formerly known as CHAN Kam Chung (陳金鐘)), aged 49, is our executive Director, Chairman, and Chief Executive Officer. Mr. CHAN is responsible for formulating our overall strategic planning and business strategies and implementing major development policies and initiatives for the business development of our Group as a whole. Mr. CHAN is also the chairman of the Nomination Committee. Mr. CHAN Kam Chung joined us in May 2003.

In addition to his working experience in the food industry, Mr. CHAN completed a number of courses of food preservation technology (食品保鮮技術), food technology (食品工藝) from Zhangzhou Institute of Technology (漳州職業技術學院) in May 2013 on part-time basis. Mr. CHAN Kam Chung also attended the seminar of “Executive Training Programme for Fujian Entrepreneurs (常青藤創新總裁班)” organised by HKU School of Professional and Continuing Education in December 2016. Mr. CHAN has more than 20 years’ experience in processed food and hydrocolloid production, corporate planning, and financial and marketing management. Prior to joining us, Mr. CHAN Kam Chung was a director and deputy general manager of Guangda (Fujian) Foodstuff Co., Ltd. (光大(福建)食品有限公司) from the period of 1998 to 2001.

Mr. CHAN was appointed as the honorary president of the first session of China Algae Industry Association Carrageenan Branch (中國藻業協會紅藻膠分會) in March 2019.

Mr. CHAN is the younger brother of Mr. CHAN Shui Yip, our executive Director, and the brother-in-law of Mr. SHE Xiaoying, our executive Director.

Mr. GUO Dongxu (郭東旭先生), aged 50, is our executive Director, Vice Chairman, and Vice President. Mr. GUO oversees our project development, quality control, and external business affairs. Mr. GUO was the executive director and legal representative of South Fujian Agar Co., Ltd (福建省石獅市閩南瓊膠有限公司) from October 1995 to August 2018. Mr. GUO joined us in March 2009 and his first position with us was the supervisor of Lvqi (Fujian). Since December 2012, Mr. Guo has been the executive director and general manager of Lvqi (Fujian). Mr. GUO was subsequently reassigned as the Vice President and General Manager of Greenfresh (Fujian). Mr. GUO has 23 years of experience in seaweed processing and corporate management.

Mr. GUO completed the courses on food preservation, food technology, and organic chemistry (食品保鮮技術, 食品工藝, 有機化學) from Zhangzhou Institute of Technology (漳州職業技術學院) in May 2013 on a part-time basis.

DIRECTORS, SENIOR MANAGEMENT, AND EMPLOYEES

Mr. GUO was appointed as the deputy chairman of China Seaweed Association (中國藻業協會), Fujian Food Association (福建食品工業協會) and managing vice chairman of the third session of Fujian Province Food Additive Association (福建省食品添加劑和配料工業協會) in April 2012, March 2017 and February 2016. Mr. GUO was also appointed as an executive committee member (執行委員) of the Industrial and Commerce Association of Longhai City (龍海市工商業聯合會(總商會)委員). In March 2018, Mr. GUO was awarded as an outstanding entrepreneur of the seventeenth session of the outstanding entrepreneur of Fujian city (福建省優秀企業家). Mr. GUO has been appointed as the president of the first session of China Algae Industry Association Carrageenan Branch (中國藻業協會紅藻膠分會) in March 2019.

Mr. CHAN Shui Yip (陳垂燁先生) (formerly known as CHAN Kam Ku (陳金鼓)), aged 56, is our executive Director, Vice Chairman, and Vice President. Mr. CHAN oversees the product management, sourcing, human resources, and general administration of our Group. Mr. CHAN has more than 10 years' experience in business management and more than 15 years' experience in food industry. Mr. CHAN was the deputy manager of Jinjiang Xinyi Leather and Plastic Enterprise Co., Ltd. (晉江市新毅皮塑企業有限公司) from July 1988 to March 1999 and was responsible for production management. Mr. CHAN joined our Group in March 1999.

Mr. CHAN completed the courses of food preservation, food technology, and organic chemistry from Zhangzhou Institute of Technology (漳州職業技術學院) in May 2013 on a part-time basis. Mr. CHAN also completed a part-time advanced business administration course held by the Peking University Shenzhen Graduate School (北京大學深圳研究院) in June 2017. Mr. CHAN completed a part-time president financial training course (金融高管高級研修班) in Renmin University of China (中國人民大學) in September 2018.

Mr. CHAN was awarded as one of the "Talented People of Zhangzhou City" (漳州市優秀人才) by the CPC Zhangzhou Municipal Committee (中國共產黨漳州市委員會) and the People's Government of Zhangzhou (漳州市人民政府) in November 2015. Mr. CHAN was named as the Honourable Chairman of the thirteen session of the Longhai City Commercial and Industrial Association (General Chamber of Commerce) (龍海市工商業聯合會(總商會)) in December 2016 and the vice chairman of the twentieth session of Fukien Athletic Club (香港福建體育會) in March 2017.

Mr. CHAN is the elder brother of Mr. CHAN Kam Chung, our executive Director, and the brother-in-law of Mr. SHE Xiaoying, our executive Director.

Mr. SHE Xiaoying (佘小迎先生), aged 57, is our executive Director. Mr. SHE oversees the sales of our hydrocolloid products. Mr. SHE has more than 10 years' experience in food industry. Mr. SHE was the production manager of Jinjiang Xinyi Leather and Plastic Enterprise Co., Ltd. (晉江市新毅皮塑企業有限公司) from December 1988 to April 2003 and was responsible for production management. Mr. SHE joined us in May 2003 and has held a number of positions in our Group. From May 2003 to November 2011, Mr. SHE was the director and deputy manager of Lvbao (Quanzhou). From November 2007 to January 2013, Mr. SHE was the legal representative and general manager of Greenfresh (Fujian). Currently, Mr. SHE is a director of Greenfresh (Fujian) and the deputy general manager of Lvbao (Quanzhou).

Mr. SHE is a brother-in-law of Mr. CHAN Kam Chung and Mr. CHAN Shui Yip, both are executive Directors.

DIRECTORS, SENIOR MANAGEMENT, AND EMPLOYEES

Non-executive Director

Mr. GUO Songsen (郭松森先生), aged 30, is our non-executive Director. Mr. GUO joined us in December 2011. Mr. GUO graduated in June 2010 from Beijing Geely University (北京吉利學院) with a bachelor's degree in international trade. Mr. GUO has more than five years' experience in quality management.

Mr. GUO Songsen is the son of Mr. GUO Wentong, one of the founders of Lvqi (Fujian).

Independent non-executive Directors

Mr. HO Kwai Ching, Mark (何貴清先生), aged 57, is our independent non-executive Director. Mr. Ho is providing independent advice to the Board.

Mr. HO was graduated from The University of Hong Kong with a bachelor's degree in social sciences in 1984. Mr. HO is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

Mr. HO has over 18 years of experience in the securities and futures industry. Mr. HO was the chief operating officer of Oriental Patron Securities Limited from January 2014 to November 2014, the chief compliance officer of Hong Kong Mercantile Exchange Limited (香港商品交易所有限公司) (“HKMEx”) from December 2008 to January 2014, the director of business development of Sun Hung Kai Securities Limited from February 2008 to November 2008, a director of Phillip Securities (HK) Limited from June 2005 to January 2008, and worked in the compliance and corporate strategy functional unit of the Hong Kong Exchanges and Clearing Limited from December 1993 to May 2003, with his last position as vice president.

During the period between December 2008 and January 2014 working as the chief compliance officer of HKMEx, Mr. HO was mainly responsible for managing compliance functions including market surveillance, monitoring members' compliance with HKMEx rules and regulations and investigating unusual transactions. Mr. HO left HKMEx in January 2014 for his own reason.

Upon a petition by a creditor dated 15 January 2014, HKMEx underwent compulsory winding up proceedings for a total indebtedness of HK\$161.3 million and an order for the winding up of HKMEx was granted by the Hong Kong High Court on 28 April 2014. In April 2017, HKMEx and its creditors entered into a scheme of arrangement, pursuant to which Everland Group Holding Limited (the “**New Shareholder**”) acquired a controlling interest in HKMEx and that the previous claims against HKMEx by its creditors were deemed fully settled and discharged. In July 2017, the Hong Kong High Court granted an order that the scheme of arrangement be effective. In August 2018, the Hong Kong High Court ordered that the winding-up proceedings discontinued permanently.

On 24 August 2018, Mr. HO was appointed as a director of HKMEx as nominated by the New Shareholder to implement the future business plans of HKMEx as prescribed by the New Shareholder.

DIRECTORS, SENIOR MANAGEMENT, AND EMPLOYEES

As confirmed by Mr. HO, there was no wrongful act on the part of Mr. Ho leading to the winding up of HKMEx. Mr. Ho was not a director of HKMEx at any time prior to the creditors' winding-up proceedings. There was no civil claim or any allegation of fraud, dishonesty or misappropriation of assets against Mr. HO. Mr. HO was not involved in any litigation or claims in relation to his role as the chief compliance officer of HKMEx or subsequently as a director nominated by the New Shareholder.

Based on the winding-up order handed down by the Hong Kong High Court on 28 April 2014 and the statement of affair of HKMEx as of 28 April 2014, the book value of HKMEx's total assets was HK\$6.20 million and the estimated realisable value of such assets was HK\$1.24 million. On the basis that the amount of the total indebtedness of HKMEx was HK\$161.3 million as shown in the list of creditors attached with the winding-up order, HKMEx was insolvent right before the date of the winding-up order.

Mr. HO is currently engaged as an independent consultant of the New Shareholder and a director of HKMEx. As the independent consultant of the New Shareholder, Mr. HO is responsible for developing and implementing business plan to revive the business of HKMEx, which may or may not involve the operation of the futures market in Hong Kong or other jurisdictions.

Mr. HO is an independent non-executive director of Hengan International Group Company Limited (stock code: 1044.HK) and Lee Kee Holdings Limited (stock code: 637.HK), both of which are listed on the Main Board.

Save as disclosed above, Mr. HO did not hold any directorships in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years as of the date of this prospectus.

Mr. NG Man Kung (吳文拱先生), aged 68, is our independent non-executive Director. Mr. NG is providing independent advice to the Board.

Mr. NG completed an extension course in banking at the Hong Kong Polytechnic University in September 1982. Mr. NG was a honorary president of the 37th Hong Kong Chinese Bankers Club, a member of the Council of Hong Kong Polytechnic University from April 1999 to March 2002, and a member of the 5th Fujian Province Committee of the Chinese People's Political Consultative Conference.

DIRECTORS, SENIOR MANAGEMENT, AND EMPLOYEES

Mr. NG had over 40 years of experience in banking and finance. Mr. NG worked at Chiyu Banking Corporation Ltd. from July 1969 to December 2012 and was a chief executive during the period from 1992 to 2012. Mr. NG retired from Chiyu Banking Corporation Limited in 2012. Mr. NG served as a business consultant of China Orient Asset Management (International) Holdings Limited from January 2014 to April 2015 and a non-executive director of Roma Group Limited (stock code: 8072) from 24 August 2017 to 18 December 2017. Mr. NG is also an independent non-executive director of Fujian Holdings Limited (stock code: 181.HK), Ell Environmental Holdings Limited (stock code: 1395.HK), Guoan International Limited (stock code: 143.HK), HKBridge Financial Holdings Limited (stock code: 2323.HK), and Shanghai Zendai Property Limited (stock code: 755.HK), all of which are listed on the Main Board. Mr. NG is currently appointed as the chairman of the supervisory board of Well Link Bank in Macau until December 2019 under the original term of appointment.

Saved as disclosed above, Mr. NG did not hold any directorships in any public companies, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years as of the date of this prospectus.

Mr. HU Guohua (胡國華先生), aged 45, is our independent non-executive Director. Mr. HU is providing independent advice to the Board.

Mr. HU obtained a bachelor's degree in food chemistry and a master's degree in food engineering from Nanchang University (南昌大學) in 1995 and 1998, respectively. Mr. HU subsequently obtained a doctorate degree in engineering from the East China University of Science and Technology (華東理工大學) in 2006.

Mr. HU is experienced in hydrocolloid production and processed food. In addition to his academic qualifications, Mr. HU was named as one of the leading talents in science and technology (科技領軍人才) by Suzhou Industrial Park (蘇州工業園區) in 2010. Mr. HU is the Secretary General of the Professional Committee of Sweet Flavouring (甜味劑專業委員會), which is one of the Professional Committees of China Food Additives & Ingredients Association (中國食品添加劑和配料協會). Mr. HU is an independent non-executive director of Anhui JinHe Industrial Co. Ltd (SHE: 002597), a company listed on the Shenzhen Stock Exchange.

Save as disclosed above, Mr. HU did not hold any directorships in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years as of the date of this prospectus.

DIRECTORS, SENIOR MANAGEMENT, AND EMPLOYEES

Save as disclosed above, to the best of the knowledge, information, and belief of our Directors having made all reasonable enquiries, there was no information relating to our Directors that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules or any other matters concerning any Director that needs to be brought to the attention of our Shareholders as at the Latest Practicable Date. Save as disclosed above, none of our Directors has been a director of any other listed companies during the three years immediately preceding the date of this prospectus.

Each of our independent non-executive Directors has confirmed that he meets the independence criteria as set forth in Rule 3.13 of the Listing Rules.

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management of our business. In addition to our executive Directors, the table below sets out certain information relating to the senior management members of our Company:

Name	Age	Date of joining us	Position	Roles and responsibilities	Relationship with other Directors
Mr. SO Chi Man (蘇智文先生)	50	1 December 2017	Chief Financial Officer and Company Secretary	Overseeing the financial management of our Group	None
Mr. DAI Longjin (戴隆金先生)	53	1 March 2016	Assistant General Manager and chief engineer	Overseeing the research and development of our products	None
Mr. CHO Chun Wo (卓振和先生)	47	1 July 2016	Sales director	Overseeing the sales of our products	None

Mr. SO Chi Man (蘇智文先生), aged 50, is our Chief Financial Officer and Company Secretary. Mr. SO joined us in December 2017 and is responsible for overseeing the finance, compliance, merger and acquisition and investor relations of our Group. Mr. SO graduated from Hong Kong Polytechnic (currently known as the Hong Kong Polytechnic University) with a bachelor of arts degree in accountancy in October 1992. Mr. SO subsequently obtained a Master of Business Administration degree from the Hong Kong University of Science and Technology in November 2003 and has 26 years' experience in financial and accounting matters. Mr. SO has been a member of the Hong Kong Institute of Certified Public Accountants since 1996. Mr. SO became a fellow member of the Association of Chartered Certified Accountants in 2002.

Prior to joining us, Mr. SO worked at the Hong Kong office of PricewaterhouseCoopers as a manager in the audit and business advisory service from 1992 to 2000. During the period from 2000 to 2004, Mr. SO served as the financial controller of the Hong Kong Economic Times Holdings Limited, a company listed on the Stock Exchange (Stock code: 0423). From 2004 to 2011, Mr. SO was the senior vice president at BOE Optoelectronics Company Limited, a State-owned enterprise specialised in manufacturing of electronic display products in the PRC. From 2011 to 2017, Mr. SO was an executive director, chief financial officer and company secretary of Asiaray Media Group Limited, a company listed on the Stock Exchange (Stock code: 1993).

DIRECTORS, SENIOR MANAGEMENT, AND EMPLOYEES

Mr. SO was a director of Wisera International Limited (思域國際有限公司), a private company incorporated in Hong Kong and was established for the proposed business of software development business. Wisera International Limited was dissolved by striking-off by the Companies Registry on 22 October 2010 because of no business operations. Mr. SO confirms that the company was solvent at the time of striking-off.

Mr. DAI Longjin (戴隆金先生), aged 53, is our assistant general manager and chief engineer. Mr. DAI joined us in March 2016 and is responsible for overseeing our product research and development. Mr. DAI obtained his bachelor's degree in chemistry and a master's degree in analytical chemistry from East China Normal University (華東師範大學) in July 1987 and July 1990, respectively.

Mr. DAI has over 20 years of experience in the food industry. From July 1990 to June 1998, Mr. DAI served as the test laboratory manager of the Shanghai Milk Company (上海牛奶公司), a manager of the technology department of Shanghai Kaikui Food Additive Company Limited (凱惠食品有限公司), a director of Le Yi Food Production Plant (樂益食品廠) of Sinolight Corporation (輕工裝備集團) and a manager of the technology and service department and the technology department of Shanghai Ling Wei Biochemical Limited (上海凌偉生化有限公司). From 2000 to 2012, Mr. DAI served as the chief technology director (on a project basis) of Fujian Yake Food Limited (福建雅客食品有限公司). From October 2003 to March 2018, Mr. DAI served as a director and general manager of Shanghai Tiansheng Food Technology Company Limited (上海添升食品科技有限公司). Mr. DAI also served as the executive director and general manager of Tian Long Food Limited (天隆食品有限公司) from 2007 to 2014.

Mr. CHO Chun Wo (卓振和先生), aged 47, is our sales director. Mr. CHO joined us in July 2016 and is responsible for overseeing our sales and marketing. Mr. CHO obtained a bachelor of science degree from The Chinese University of Hong Kong in July 1996.

Mr. CHO has 16 years of experience in sales and marketing. Prior to joining us, Mr. CHO was employed by Jebesen Industrial Technology Company Limited (捷成工業科技有限公司) during the period from 2000 to 2016, and his latest position was Department Manager.

Mr. CHO was a director of Biofun Co., Limited (寶紛有限公司), a company incorporated in Hong Kong and was established for the proposed manufacturing business of food ingredients. On 11 January 2008, Biofun Co., Limited (寶紛有限公司) was dissolved by striking-off by the Companies Registry because it conducted no business activities. Mr. CHO confirms that this company was solvent at the time of striking-off.

Save as disclosed above, each of the senior management members is not and has not been a director of other listed companies in Hong Kong and overseas during the past three years.

DIRECTORS, SENIOR MANAGEMENT, AND EMPLOYEES

COMPANY SECRETARY

Mr. SO Chi Man (蘇智文先生), his information is set forth in the paragraphs under “Senior management” above.

BOARD COMMITTEES

The Board has established the Audit Committee, the Remuneration Committee, and the Nomination Committee.

Audit Committee

We have established the Audit Committee on 25 September 2019 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and Corporate Governance Code as set forth in Appendix 14 to the Listing Rules. The Audit Committee consists of three independent non-executive Directors, namely Mr. HO Kwai Ching, Mark, Mr. NG Man Kung, and Mr. HU Guohua. Mr. HO Kwai Ching, Mark, who has a professional qualification in accountancy, is the chairman of the Audit Committee. The primary duties of the Audit Committee are assisting our Board by providing an independent view of the effectiveness of our financial reporting process, internal control, and risk management system, overseeing the audit process, developing and reviewing our policies and performing such other duties and responsibilities as assigned by our Board.

Remuneration Committee

We have established the Remuneration Committee on 25 September 2019 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and Corporate Governance Code as set forth in Appendix 14 of the Listing Rules. The Remuneration Committee consists of three members, namely Mr. NG Man Kung, Mr. HO Kwai Ching, Mark, and Mr. CHAN Kam Chung. Mr. NG Man Kung is the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee include (a) making recommendations to the Directors regarding our policy and structure for the remuneration of all our Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies; (b) making recommendations to our Board on the remuneration packages of our Directors and senior management; (c) reviewing and approving the management’s remuneration proposals with reference to our Board’s corporate goals and objectives; and (d) considering and approving the grant of the Post-IPO Share Options.

During the Track Record Period, the remuneration for our Directors and senior management members was based on their experience, level of responsibility, and general market condition. Any discretionary bonus and other merit payments are linked to our operating results and the individual performance of each of our Directors and senior management members. We plan to adopt a remuneration policy of similar criteria after the Listing, subject to review by and the recommendation of the Remuneration Committee.

DIRECTORS, SENIOR MANAGEMENT, AND EMPLOYEES

Nomination Committee

We have established the Nomination Committee on 25 September 2019 with written terms of reference in compliance with Corporate Governance Code set forth in Appendix 14 to the Listing Rules. The Nomination Committee consists of three members, namely Mr. CHAN Kam Chung, Mr. Mr. HU Guohua, and Mr. NG Man Kung. Mr. CHAN Kam Chung is the chairman of the Nomination Committee. The primary function of the Nomination Committee is making recommendations to our Board on the appointment of members of our Board and selected members of senior management team.

CORPORATE GOVERNANCE

Our Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of our Group so as to achieve effective accountability.

Our Company has adopted the code provisions stated in the Corporate Governance Code. Our Company is committed to the view that our Board should include a balanced composition of executive and independent non-executive Directors so that there is a strong independent element on our Board, which can effectively exercise independent judgment.

CODE PROVISION A.2.1 OF THE CORPORATE GOVERNANCE CODE

Under code provision A.2.1 of the Corporate Governance Code, the responsibilities between the chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. CHAN Kam Chung has been responsible for formulating our overall business development strategies and leading our Group's overall operations, and therefore has been instrumental to our business growth. Mr. CHAN's vision and leadership have played a pivotal role in our success and achievements to date, and therefore our Board considers that vesting the roles of both the chairman and the chief executive officer in Mr. CHAN is beneficial to our business prospects and management by ensuring consistent leadership and enabling more effective and efficient overall strategic planning following the Listing. Our senior management team and our Board will provide checks-and-balances of power and authority.

Having considered the corporate governance measures that we are going to implement upon Listing, our Directors consider that the balance of power and authority for the present arrangements will not be impaired and this structure will enable us to make and implement decisions promptly and effectively. Accordingly, we have not segregated the roles of our chairman and our chief executive officer. Our Board will continue to review and consider the roles of chairman of our Board and the chief executive officer from time to time taking into consideration our business development 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 to the Listing Rules.

DIRECTORS, SENIOR MANAGEMENT, AND EMPLOYEES

BOARD DIVERSITY POLICY

In order to enhance the effectiveness of our Board and to maintain the high standard of corporate governance, our Board has adopted a diversity policy which sets forth the objective and the approach to achieve and maintain an appropriate balance of diversity of perspectives of our Board. Pursuant to the diversity policy of our Board, selection of Directors will be based on a number of factors, including, but without limitation to, gender, skills, age, industry experience, knowledge, cultural, education background, ethnicity, and length of service with us. The final decision of the appointment will be based on the suitability of the candidates and the value or expertise that he or she may contribute to our Board.

Following the Listing, pursuant to the diversity policy, we will focus on the development of the required skills and experience of our senior management staff regardless their gender and will promote them as members of our Board based on their work achievement. Taking into consideration the nature of our business, however, our Directors believe that we may need two to three years for our Board to have a balanced number of members of both genders. This will not, however, undermine the implementation of the diversity policy amongst members of our Board.

REMUNERATION OF OUR DIRECTORS AND SENIOR MANAGEMENT

Our Directors, who are also our employees, and members of our senior management team receive, in their capacity as our employees, compensation in the form of salaries, allowances, performance related cash bonuses and other benefits in kind such as contributions to pension scheme.

The aggregate amount of remuneration (including salaries, allowances, performance related cash bonuses and other benefits in kind such as contributions to pension scheme) paid to our Directors for the three years ended 31 December 2018 amounted to HK\$0.6 million, HK\$0.7 million, and HK\$3.2 million, respectively. During the three months ended 31 March 2019, such amount of remuneration was HK\$0.9 million, as compared to HK\$0.8 million for the three months ended 31 March 2018.

The aggregate amount of remuneration (including salaries, allowances, performance related cash bonuses and other benefits in kind such as contributions to pension scheme) paid to our five highest paid individuals (excluding our Directors) for the three years ended 31 December 2018 was HK\$1.0 million, HK\$2.6 million, and HK\$10.3 million, respectively. During the three months ended 31 March 2019, such amount of remuneration was HK\$2.5 million, as compared to HK\$2.1 million for the three months ended 31 March 2018.

No remuneration was paid by us to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in respect of the Track Record Period. Further, none of our Directors had waived or agreed to waive any remuneration during the same period.

Under the current arrangements as of the date of this prospectus, our Directors will be entitled to receive remuneration (including salaries, allowances, performance related cash bonuses, and other benefits in kind such as contributions to pension scheme) of HK\$3.6 million for the year ending 31 December 2019.

DIRECTORS, SENIOR MANAGEMENT, AND EMPLOYEES

SHARE OPTION SCHEMES

We have adopted the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme on 5 August 2018 and 25 September 2019, respectively. Pursuant to the Pre-IPO Share Option Scheme, we have granted the Pre-IPO Share Options to the Grantees. For details of the Share Option Schemes, see the section headed “D. Share Option Schemes — 1. Pre-IPO Share Option Scheme” in Appendix V to this prospectus.

COMPLIANCE ADVISER

We have appointed Essence Corporate Finance (Hong Kong) Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share buy-back;
- (c) where we propose to use the net proceeds from the Share Offer in a manner different from that detailed in this prospectus or where our business activities, developments or results 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.

The term of the appointment shall commence on the Listing Date and end on the date which we distribute our annual report of our financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

SHARE CAPITAL

SHARE CAPITAL

The authorised and issued share capital of our Company is as follows:

Authorised share capital

	<i>HK\$</i>
<u>50,000,000,000</u> Shares of par value HK\$0.01 each.	<u>500,000,000</u>

Issued and paid-up capital

Assuming the Over-allotment Option is not exercised and without taking into consideration any Shares which may be issued pursuant to the exercise of the Pre-IPO Share Options, and any options that may be granted under the Post-IPO Share Option Scheme, the issued share capital of our Company immediately following the completion of the Share Offer and the Capitalisation Issue will be as follows:

	<i>HK\$</i>
560,000 Shares in issue as of the date of this prospectus	5,600
599,440,000 Shares to be issued under the Capitalisation Issue	5,994,400
<u>200,000,000</u> Shares to be issued under the Share Offer	<u>2,000,000</u>
<u>800,000,000</u> Total	<u>8,000,000</u>

Assuming the Over-allotment Option is exercised in full and without taking into consideration any Shares which may be issued pursuant to the exercise of the Pre-IPO Share Options, and any option that may be granted under the Post-IPO Share Option Scheme, the issued share capital of our Company immediately following the completion of the Share Offer and the Capitalisation Issue will be as follows:

	<i>HK\$</i>
560,000 Shares in issue as of the date of this prospectus	5,600
599,440,000 Shares to be issued under the Capitalisation Issue	5,994,400
<u>230,000,000</u> Shares to be issued under the Share Offer	<u>2,300,000</u>
<u>830,000,000</u> Total	<u>8,300,000</u>

SHARE CAPITAL

MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08(1) of the Listing Rules, at the time of Listing and at all times thereafter, our Company must maintain the minimum prescribed percentage of 25% of our issued share capital in the hands of the public (as defined in the Listing Rules).

RANKING

The Offer Shares and the Shares which may be issued upon the exercise of the Over-allotment Option, the Pre-IPO Share Options, and any option that may be granted under the Post-IPO Share Option Scheme will rank equally in all respects with all other existing Shares in issue or to be issued as set forth in the above table, and will qualify for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus except for the entitlement under Capitalisation Issue.

CAPITALISATION ISSUE

Pursuant to the resolutions passed by our Shareholders on 25 September 2019, subject to the conditions set forth therein, our Directors are authorised to allot and issue a total of 599,440,000 Shares credited as fully paid at par to the Shareholders whose names appear on the register of members of our Company at the close of business on 25 September 2019 (or as they may direct) in proportion to their respective shareholdings (save that no Shareholder shall be entitled to be allotted or issued a fraction of a Share) by way of capitalisation of the sum of HK\$5,994,400 standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued pursuant to this resolution shall rank equally in all respects with the existing issued Shares.

GENERAL MANDATE

Conditional on the Share Offer becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

- (i) 20% of the total number of Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue (excluding any Share which may fall to be issued pursuant to the exercise of the Over-allotment Option); and
- (ii) the total number of Shares bought back by our Company (if any) under the general mandate to buy back Shares referred to below.

The allotment and issue of Shares under a rights issue or pursuant to the exercise of any subscription rights, warrants which may be issued by our Company from time to time, scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles, or on the exercise of the Pre-IPO Share Options, and any option that may be granted under the Post-IPO Share Option Scheme do not generally require the approval of Shareholders of our Company in general meeting and the aggregate nominal amount of Shares which our Directors were authorised to allot and issue pursuant to this mandate will not be compromised by the allotment and issue of such Shares.

SHARE CAPITAL

This mandate will expire:

- (a) at the conclusion of our Company's next annual general meeting; or
- (b) upon the expiration of the period within which our Company is required by any applicable law or the Articles to hold its next annual general meeting; or
- (c) when varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting,

whichever occurs first.

See the paragraphs under "A. Further Information about our Group — 4. Resolutions passed by our Shareholders on 5 August 2018 and on 25 September 2019" in Appendix V to this prospectus.

BUY-BACK MANDATE

Conditional on the Share Offer becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all of the powers of our Company to buy back Shares with a total number not exceeding 10% of the total number of Shares in issue or to be issued immediately following the completion of the Share Offer and the Capitalisation Issue (excluding any Shares which may fall to be issued upon the exercise of the Over-allotment Option, the Pre-IPO Share Options, and any option that may be granted under the Post-IPO Share Option Scheme).

This mandate only relates to buy-back transactions made on the Stock Exchange, or any other approved stock exchange(s) on which the securities of our Company may be listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and/or requirements of the Listing Rules. A summary of the relevant Listing Rules is set forth in the paragraphs under "A. Further Information about our Group — 6. Buy-back of our own securities" in Appendix V to this prospectus.

This mandate will expire:

- (a) at the conclusion of our Company's next annual general meeting; or
- (b) upon the expiration of the period within which our Company is required by any applicable law or Articles to hold its next annual general meeting; or
- (c) when varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting,

whichever occurs first.

See the paragraphs under "A. Further Information about our Group — 4. Resolutions passed by our Shareholders on 5 August 2018 and on 25 September 2019" in Appendix V to this prospectus for further information on the Buy-back Mandate.

SHARE CAPITAL

CIRCUMSTANCES UNDER WHICH GENERAL MEETING IS REQUIRED

Pursuant to the Cayman Companies Law and the Memorandum, our Company may from time to time by ordinary shareholders' resolution (i) increase our capital; (ii) consolidate and divide our capital into shares of larger amount; (iii) divide our Shares into classes; (iv) subdivide our Shares into shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may reduce our share capital or any capital redemption reserve by a Shareholders' special resolution. See the paragraphs under "2. Articles of Association — (iii) Alteration of capital" in Appendix IV to this prospectus.

Further, all or any of the special rights attached to our Share or any class of shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of our shares of that class. See the paragraphs under "2. Articles of Association — (ii) Variation of rights of existing shares or classes of shares" in Appendix IV to this prospectus.

FINANCIAL INFORMATION

The following discussion and analysis should be read in conjunction with the consolidated financial information together with the accompanying notes in the Accountant's Report included in Appendix I to this prospectus. Our financial information and the consolidated financial statements of our Group have been prepared in accordance with the HKFRS, which may differ in certain material aspects from generally accepted accounting principles in other jurisdictions. You should read the whole Accountant's Report and not rely merely on the information contained in this section. Unless the context otherwise requires, financial information in this section is described on a consolidated basis.

The discussion and analysis set forth in this section contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. Our actual results may differ significantly from those projected. Factors that could cause or contribute to such differences include, without limitation, those discussed in "Risk Factors" and "Business" and elsewhere in this prospectus

Discrepancies between totals and sums of amounts listed in this section in any table or elsewhere in this prospectus may be due to rounding.

OVERVIEW

We are a leading seaweed-based and plant-based hydrocolloid producer in the PRC. Our hydrocolloid products include agar-agar products, carrageenan products, konjac products, and their respective blended products, which are derived from natural sources and have a seaweed or plant origin. Our Directors believe that our leading position in the seaweed-based hydrocolloid industry is reflected in our rankings and market share both in the PRC and the international markets. Pursuant to the Frost & Sullivan Report, we ranked first amongst the agar-agar producers, both in the PRC and the global market, in terms of both the sales volume and sales value in 2018. Pursuant to the same report, our market share in the PRC agar-agar market in 2018 was 31.6% in terms of sales volume and 33.7% in terms of sales value. Our market share in the global agar-agar market in 2018 was 13.4% in terms of sales volume and 10.3% in terms of sales value. Pursuant to the Frost & Sullivan Report, we ranked second amongst the carrageenan producers in the PRC in 2018, with the market share of 22.7% in terms of sales volume and 27.7% in terms of sales value. Our market share in the global carrageenan market in 2018 was 9.4% in terms of sales volume and 10.4% in terms of sales value⁽¹⁾. Our products are sold under our brands⁽²⁾ or in bulk volume not bearing our brands. During the Track Record Period and up to the Latest Practicable Date, we sold our products in the PRC and 48 countries and territories in North America, South America, Europe, Asia, and Africa.

Notes:

- (1) Pursuant to the Frost & Sullivan Report, the global ranking of carrageenan producers is not available because there is no public information on the market share of other producers of carrageenan products. Our market share of 9.4% in terms of sales volume and 10.4% in terms of sales value in the global carrageenan market in 2018 was based on our total sales and the estimated market size of the global carrageenan market in 2018.
- (2) These brands include 金閩南 , Greenfresh , Luzao , and .

FINANCIAL INFORMATION

Leveraging our leading position in the production of agar-agar products and carrageenan products, we also provide a wide range of blended products for different food applications. We have launched hydrocolloid products for non-food applications, such as air-fresheners since September 2013, agarose since August 2016, vegan medicine capsule since November 2018, and beauty products since January 2019.

Seaweed-based and plant-based hydrocolloid products are commonly used in food producing and processing industry. In food production process, hydrocolloid products can enhance the appearance and texture of food and achieve the desired viscosity and mouthfeel, and have the functional properties of gelling and thickening. Hydrocolloid products are used in the food production process of dairy products, beverages, confectioneries, meat products, jellies, and desserts. We have launched hydrocolloid products for non-food applications, such as air-fresheners since September 2013 and agarose since August 2016.

As a result of our devoted efforts and commitments, we have achieved significant growth during the three years ended 31 December 2018. Our revenue increased from HK\$535.1 million in 2016 to HK\$661.6 million in 2017 and further to HK\$997.1 million in 2018. Our net profit increased from HK\$53.4 million in 2016 to HK\$92.8 million in 2017 and further to HK\$93.8 million in 2018. During the three months ended 31 March 2019, our revenue amounted to HK\$190.3 million, as compared to HK\$176.7 million during the three months ended 31 March 2018, representing an increase of 7.7%, and our net profit during the three months ended 31 March 2019 amounted HK\$17.3 million, as compared to HK\$5.2 million during the three months ended 31 March 2018, representing an increase of 232.7%.

Following the implementation of the future plans and completion of the Share Offer, our Directors believe that we will continue to maintain our market position in the seaweed-based hydrocolloid market both in the PRC and the global market.

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

Our performance during the three months ended 30 June 2019

Our business continues to grow following the Track Record Period. Based on the unaudited financial information, our sales revenue during the three months ended 30 June 2019 was slightly less than our sales revenue during the three months ended 30 June 2018. In addition, our Directors confirm that our gross profit and our gross profit margin continued to improve during the three months ended 30 June 2019, as compared to the same during the three months ended 30 June 2018, primarily due to the increases in the average unit selling prices, economies of scale, and improvement in our product mix. Our financial position has been maintained fairly stable, despite there was a decrease in the cash and bank balances. On the other hand, our net current assets increased by 27.1% as of 30 June 2019, as compared to the same as of 31 March 2019.

FINANCIAL INFORMATION

Recent developments in trade policies, tariffs, and trade barriers between the United States and China remain in flux during the first half of 2019. The trade tension continues and it is uncertain if any further measures or restrictions will be implemented. In May 2019, the US government proposed additional tariffs of 25% on another batch of imported products from China, including carrageenan and agar-agar products. As of the Latest Practicable Date, however, no additional tariffs or ad valorem duties have been levied on our products sold to our customers in the United States. Our sales to customers in North America represent on average less than four per cent. of our total sales during the three years ended 31 December 2018 and the three months ended 31 March 2019. Whilst the trade tension has no direct and significant impact on our operating results, the public discourse and advocacy in international trade barriers could affect consumers' confidence and the supply chain strategies of our international customers in sourcing products from China. These could affect our business prospects.

Listing expenses and share-based payment expenses

Our operating results during the year ending 31 December 2018 were affected by the Listing expenses and the share-based payment expenses charged to our consolidated statements of profit or loss. The Listing expenses in the total amount of HK\$16.7 million was charged to our consolidated statements of profit or loss for the year ended 31 December 2018. We expect that an additional amount of the Listing expenses of HK\$7.1 million will be charged to the consolidated statements of profit or loss for the nine months ending 31 December 2019.

The total amount of share-based payment expenses charged to our consolidated statements of profit or loss for the year ended 31 December 2018 represents the fair value of (a) the Ordinary Shares previously transferred to the Grantees on 26 February 2018 and returned to our Controlling Shareholders on 4 August 2018 and (b) the Pre-IPO Share Options granted to the Grantees on 9 August 2018 to be amortised into the relevant period. During the year ended 31 December 2018, the amount of the share-based payment expenses amounted to HK\$17.6 million. During the three months ended 31 March 2019, the total amount of share-based payment expenses charged to our consolidated statements of profit or loss amounted to HK\$1.3 million. See the paragraphs under "Principal components of our consolidated statements of profit or loss" below for further information on the Ordinary Shares previously transferred to the Grantees and the Pre-IPO Share Options.

No material adverse change

Our Directors confirm that, up to the date of this prospectus, save for the impact of the Listing expenses, the share-based payment expenses charged or to be charged to our consolidated statements of profit or loss, and the uncertainty in the international trade environment, there has been no material adverse change to our financial or trading position since 31 March 2019, being the date up to which our consolidated financial statements set forth in Appendix I to this prospectus are prepared, which could materially affect the information shown in the Accountant's Report set forth in Appendix I to this prospectus.

FINANCIAL INFORMATION

BASIS OF PRESENTATION OF OUR FINANCIAL INFORMATION

See the section headed “History, Development, and Reorganisation” in this prospectus for further information on the Reorganisation. The Reorganisation was completed in December 2016.

The Reorganisation involved the transfers of equity interests of companies engaged in our business to various companies incorporated in the BVI and held by our Controlling Shareholders. Our Company and the BVI subsidiaries had not been involved in any business prior to the Reorganisation and did not meet the definition of a business. Hence, the Reorganisation was a reorganisation of the entities conducting our business without undertaking any change in the management of such business and the ultimate beneficial owners of such business. Our Controlling Shareholders remain the same before and after the Reorganisation and they were and continue to control the entities carrying on our business, directly or indirectly. Accordingly, our Group following completion of the Reorganisation is regarded as a continuation of the business previously conducted and the historical financial information has been prepared and presented as a continuation of the consolidated financial statements of our business, with our assets and liabilities recognised and measured at the carrying amounts of our business under the consolidated financial statements of the entities during the Track Record Period.

Our historical financial information has been prepared by including the historical financial information of the companies engaged in our business and now comprising our Group as if the current group corporate structure had been in existence throughout the periods presented, or since the date when the combining companies first came under the collective control of our individual Controlling Shareholders, whichever is a shorter period.

PRINCIPAL FACTORS AFFECTING OUR OPERATING RESULTS

Our operating results have been and will continue to be affected, directly and indirectly, by a number of factors set forth below. The following factors are not exhaustive and our business and financial condition and operating results may also be affected by the risk factors set forth in the sections headed “Risk Factors” in this prospectus. Our Directors believe that the major factors that affect our operating results include:

- Sales volume and product pricing
- Product mix and offerings and consumers’ preference
- Cost of raw materials and inventory management
- Utilisation rates of our production facilities
- Income tax

FINANCIAL INFORMATION

Sales volume and product pricing

Our sales volume is affected by the level of product demand, the number of our customers, and the growth in the quantity of sales to our customers. The increase in the number of our customers and the growth in our sales quantity are related to our efforts to attract new customers and increase sales orders to our existing customers. These efforts are in turn driven by our product quality, reliability of supply of raw materials, and product pricing.

We generally adopt a cost-plus approach to determine the selling prices of our products, under which we add our desired gross profit margins, which are based on the cost of raw materials and the estimated production overhead, selling expenses, and administrative expenses, after considering the prevailing market prices of similar products. We operate in a competitive environment, even though we may be able to determine the selling prices of some of our products, including higher-grade agar-agar products (with high gel strength). Pursuant to the Frost & Sullivan Report, there has been an increase in the demand for hydrocolloid products in recent years. Our Directors believe that we would be able to transfer to our customers the increase in the cost of raw materials within a short period of time. Hence, the selling prices of our hydrocolloid products generally followed the price trends of our principal raw materials during the Track Record Period.

Sales volume and product pricing will continue to be the principal factors affecting our operating results.

Product mix and offerings and consumers' preference

Changes in our product mix and offerings will also affect our revenue and gross profit margin. Each category of our principal hydrocolloid products consists of various types of products with different specifications and grades, and the selling prices of which may vary significantly. For example, our agar-agar products include ordinary agar-agar products, quick-dissolve agar-agar products, and agarose. These products have various grades with different gel strengths and can be used for different applications. Our carrageenan products also have different gel strengths and functions for different applications. Over the years and in particular, during the Track Record Period, even though we have not changed the principal types of hydrocolloid products offered to our customers, we have constantly reviewed and modified the features, functions, and applications of our hydrocolloid products as a result of our product research and development activities. These efforts have resulted in improvement in our product mix and offerings, which have improved our revenue, amount of gross profit, and gross profit margin.

Consumers' preference is the ultimate driver of our revenue growth. Pursuant to the Frost & Sullivan Report, for example, there has been a growing trend of the use of "vegan hydrocolloid products" to replace "non-vegan hydrocolloid products" due to the growth of health awareness among consumers. Our Directors believe that this trend will continue in the foreseeable future, which will increase the demand for our seaweed-based and plant-based hydrocolloid products.

FINANCIAL INFORMATION

Cost of raw materials and inventory management

Any significant increase in the cost of raw materials could also affect our profitability and cash flows as additional working capital would be required for the purchase of raw materials as part of our inventory. We have not used any hedging policy in relation to our purchase of raw materials as we would be able to transfer the increase in the cost of raw materials to our customers generally.

The objectives of our inventory management are twofold. First, we aim to avoid accumulation of excessive inventory which would inevitably tie-up our working capital and increase the risk of overstocking if the production activities are not conducted at such levels as anticipated and planned. Second, if we could stock up the raw materials at low price and at the appropriate time, the risk in respect of fluctuations in the cost of raw materials could be mitigated to a certain extent.

Utilisation rates of our production facilities

Our operating results also depend on our production capacity and the utilisation rate of our production facilities. The utilisation rate will have a significant impact on our gross profit margin. Operation at or near full capacity, which is in the range between 80.0% and 85.0% of the design capacity, would have a significant positive impact on our profitability. If the utilisation rate of our production facilities increase, our production volume will increase and our average fixed costs per tonne will decrease, which will improve our gross profit margin.

The utilisation rate is affected by the time required for the production set-up and the time required for repairs and maintenance. Other factors affecting the utilisation rate include the level of demand for our hydrocolloid products, the overall performance of the market to which we sell our products, the performance of selected business segment, expansion of production facilities, disruption or shortage in utilities, and our ability to manage our production facilities.

Income tax

Our business operations are subject to income tax, VAT and other local taxes in the PRC, Hong Kong and Indonesia. During the three years ended 31 December 2018, the effective income tax rates were 26%, 23%, and 28%, respectively. During the three months ended 31 March 2019, the effective income tax rate of our Group was 25%, as compare to 45% during the three months ended 31 March 2018. The increase in the effective income tax rate during the year ended 31 December 2018 and the three months ended 31 March 2018 was due to the impact of the Listing expenses and the share-based payment expenses which incurred in the Company with a statutory tax rate of 0%. In addition, Lvqi (Fujian) was subject to CIT at the rate of 15% during the three years ended 31 December 2018 and three months ended 31 March 2019 because of its accreditation as a “High and New Technology Enterprise” in the PRC and that Lvqi (Fujian) has completed the registration with the local tax bureau. The current tax status of Lvqi (Fujian) will expire on 31 December 2020, and Lvqi (Fujian) is currently subject to the CIT at the rate of 15% until 31 December 2020.

During the three years ended 31 December 2018, the impact of preferential CIT amounted to HK\$3.4 million, HK\$3.5 million, and HK\$2.6 million, respectively. During the three months ended 31 March 2019, the impact of preferential CIT amounted to HK\$0.8 million, as compare to HK\$0.4 million during the three months ended 31 March 2018.

FINANCIAL INFORMATION

In addition, if we are considered a PRC resident enterprise under the PRC CIT Law, we would be subject to the CIT at the rate of 25% on our global income. See the section headed “Risk Factors — Risks relating to conducting business in the PRC — We may be considered a “PRC resident enterprise” under the CIT Law, which could result in our global income being subject to a 25% PRC enterprise income tax” in this prospectus.

CRITICAL ACCOUNTING POLICIES

The principal accounting policies applied by us in preparing the historical financial information are in accordance with the HKFRS. The historical financial information has been prepared on a historical cost basis, except for the biological assets which are measured at fair value less cost to sell and embedded derivatives of convertible bond which are carried at fair value. The preparation of the historical financial information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires us to exercise judgement in the process of applying our Group’s accounting policies.

Adoption of HKFRS 15 and HKFRS 9

For the purpose of the accountant’s report set forth in Appendix I to this prospectus, we have consistently applied the new accounting standards throughout the Track Record Period that are effective for the last reporting period commencing on or after 1 January 2018, including, inter alia, HKFRS 9 and HKFRS 15.

HKFRS 15 as issued by the HKICPA is effective for the financial year beginning on or after 1 January 2018. HKFRS 15 establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes the revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction contracts” and related interpretations.

The adoption of HKFRS 15 did not bring significant impact on the financial position and performance of our Group. As we do not meet any of the three criteria listed in the accounting principle (IFRS 15.35(a)-35(c)) for recognition of revenue over time, and therefore we recognise our revenue at point-in-time. Also, as the point of control over transfer remains the same as the point of revenue recognition under HKAS 18, our revenue recognition does not change under both HKAS 18 and HKFRS 15.

The adoption of HKFRS 9 has no significant impact on the financial position and performance of our Group as the classification and measurement of financial assets of our Group under HKFRS 9 did not change, as compared to HKAS 39, and the expected credit losses under HKFRS 9 is not significantly different from those under HKAS 39.

FINANCIAL INFORMATION

Adoption of HKFRS 16

HKFRS 16 “Leases” was issued in January 2016 and is effective for the financial year beginning on or after 1 January 2019. HKFRS 16 supersedes HKAS 17 “Leases” and related interpretations and resulted in almost all leases being recognised on the balance sheet and the distinction between operating and finance leases is removed. The only exceptions are short-term and low-value leases. Under HKFRS 16, a right-of-use asset and a lease liability are recognised. Operating cash flows increase and financing cash flows decrease as repayments of the principal portion of the lease liabilities are classified as cash flows from financing activities. The accounting treatment for lessors will not significantly change.

By applying HKFRS 16, we have recognised right-of-use asset of HK\$2.1 million, HK\$5.9 million, HK\$5.9 million, and HK\$5.5 million as of 31 December 2016, 2017, and 2018, and 31 March 2019, respectively. We have recognised lease liabilities of HK\$2.8 million, HK\$5.9 million, HK\$6.0 million, and HK\$5.6 million as of 31 December 2016, 2017, and 2018, and 31 March 2019, respectively. The adoption of HKFRS16 did not result in any significant impact on our consolidated statements of profit or loss and consolidated statements of cash flows.

For the purpose of the accountant’s report set forth in Appendix I to this prospectus, we have consistently applied the new accounting standards throughout the Track Record Period that are effective for the last reporting period commencing on or after 1 January 2019, including, inter alia, HKFRS 16. As such, we have not early adopted nor transitioned to HKFRS 16 as far as the Accountant’s Report is concerned.

We have identified certain accounting policies that are significant to the preparation of our Group’s financial statements. The following sets forth the critical accounting policies used by us in preparing the historical financial information of our Group during the Track Record Period. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgements relating to accounting items. In each case, the determination of these items requires management judgements based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider: (i) our selection of critical accounting policies; (ii) the judgements and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumption. Our significant accounting policies and estimates which are important for an understanding of our business and financial condition and operating results, are set forth in detail in note 2 of the Accountant’s Report contained in Appendix I to this prospectus.

We set forth below the accounting policies that we believe are important to us or involve the most significant estimates, assumptions and judgments used in the preparation of our financial statements.

FINANCIAL INFORMATION

Business combinations

Business combinations under common control

We apply the predecessor values accounting to account for business combination of entities or businesses under common control. The consolidated financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the contribution of the controlling party's interest. All differences between the cost of acquisition (fair value of consideration paid) and the amounts at which the assets and liabilities are recorded have been recognised directly in equity as part of the capital reserve. Transaction-related costs are expensed as incurred.

Business combinations under non-common control

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises:

- fair value of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by our Group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. We recognise any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

FINANCIAL INFORMATION

The excess of the:

- consideration transferred;
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity.

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

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 remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

Revenue recognition

Timing of recognition: We produce and sell agar-agar products, carrageenan products, konjac products, and their respective blended products. Sales are recognised when control of the products has transferred, being when the products are delivered to the customers, the customer has full discretion over channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or we have objective evidence that all criteria for acceptance have been satisfied. A contract liability is recorded as advances from customers for the cash received from the customers before the delivery of goods.

Measurement of revenue: Revenue from sales is based on the price specified in the sales contracts and is shown net of value-added tax and after eliminating sales amongst members of our Group. No element of financing is deemed present as the sales are made with a credit term up to 180 days. A 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.

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 our Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

FINANCIAL INFORMATION

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

Land use rights

Our Group acquired the rights to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded as land use rights, which are amortised over the lease periods of 30 to 50 years using the straight-line method. The land use rights are stated at historical cost less accumulated amortisation and impairment.

Property, plant, and equipment

All property, plant, and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to our Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss for the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives as follows:

Buildings	20 years
Production machineries	10 years
Factory device and equipment	3-5 years
Vehicle, office furniture, and fixtures	5 years
Leasehold improvement	shorter of estimated useful lives and remaining lease terms

The right-of-use assets are presented under the property, plant and equipment. The right-of-use assets are depreciated over the shorter of the assets' useful lives and the lease terms on a straight-line basis.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

FINANCIAL INFORMATION

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Construction-in-progress represents properties under construction and is stated at cost less accumulated impairment losses. This includes cost of construction and other direct costs. Construction-in-progress is not depreciated until such time as the assets are completed and are ready for operational use.

Intangible assets

Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

Trademarks, licences, patents, and relationship with our customers

Trademarks, licences, patents and relationship with our customers acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.

Sea use rights

We have acquired the rights to use certain sea area. The sea use rights are stated at historical cost less accumulated amortisation.

Discharge rights

We have acquired the rights to emit pollutants within authorised amounts. The discharge rights are stated at historical cost less accumulated amortisation.

FINANCIAL INFORMATION

Amortisation methods and periods

We amortise intangible assets with limited useful lives using the straight-line method over the following periods:

Trademarks and licences	2 years
Patents	10 years
Relationships with our customers.....	15 years
Sea use rights	5 years
Discharge rights	5 years

Impairment of non-financial assets

Goodwill is not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Inventories

Raw materials, work in progress and finished products are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss 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 prepayment for liquidity services and amortised over the period of the facility to which it relates.

FINANCIAL INFORMATION

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless we have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Leases

We lease various properties, equipment, and vehicles. Rental contracts are typically made for fixed periods of 1 to 10 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability as of the date at which the leased asset is available for use by us. 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. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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 lessee's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received

FINANCIAL INFORMATION

- any initial direct costs, and
- restoration costs.

Extension and termination options are included in a number of property leases across our Group. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

The right-of-use assets are presented under the property, plant and equipment. The lease liabilities are presented separately on the consolidated balance sheets.

Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where our 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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also 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 substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

FINANCIAL INFORMATION

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where our Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, 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.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying our accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

Estimated useful lives and residual values of property, plant, and equipment

Our management determines the estimated useful lives and residual values and consequently the related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitors action in response to sever industry cycles. We will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or nonstrategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives, and actual residual values. Periodic reviews could result in a change in depreciable lives and residual values and therefore changes in depreciation expenses in the future periods.

Impairment of trade and other receivables

The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. We use judgement in making these assumptions and selecting inputs to the impairment calculation, based on our past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

FINANCIAL INFORMATION

Estimated impairment of goodwill with indefinite useful life

We test annually whether goodwill and intangible assets with indefinite useful life have suffered any impairment in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

Income taxes

We are subject to income taxes in a few jurisdictions. Judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. We recognise liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation in the periods in which such estimate is changed. Deferred income tax assets and liabilities are determined using tax rates that are expected to apply when the related deferred income tax assets are realised or the deferred income tax liabilities are settled. The expected applicable tax rate is determined based on the enacted tax laws and regulations and our actual situation. We will revise the expectation where the intending tax rate is different from the original expectation.

Segment information

Our management examine our performance both from a product and geographic perspective and has identified four operating segments of our business:

- production and sales of agar-agar products;
- production and sales of carrageenan products;
- production and sales of konjac products; and
- production and sales of blended products.

The amounts provided to us with respect to total assets, total liabilities and capital expenditure are measured in a manner consistent with that of consolidated financial statements. We review the total assets, total liabilities and capital expenditure, therefore no segment information of total assets, total liabilities and capital expenditure information was presented.

FINANCIAL INFORMATION

SELECTED FINANCIAL DATA

Consolidated statements of profit or loss

The following sets forth our consolidated statements of profit or loss for the years/periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>				
Revenue	535,086	661,568	997,056	176,736	190,284
Cost of sales	<u>(416,718)</u>	<u>(485,621)</u>	<u>(730,081)</u>	<u>(130,158)</u>	<u>(139,922)</u>
Gross profit	118,368	175,947	266,975	46,578	50,362
Change in fair value of biological assets	1,198	(1,156)	(27)	(28)	—
Other income	4,677	7,963	7,649	977	1,475
Other (losses)/gains — net	(1,436)	1,907	(2,151)	(62)	(108)
Net impairment (losses)/gains on financial assets	(5,104)	1,382	(668)	695	1,113
Selling and distribution expenses	(8,791)	(12,901)	(16,126)	(4,062)	(3,787)
Administrative expenses	<u>(30,330)</u>	<u>(45,730)</u>	<u>(98,578)</u>	<u>(30,329)</u>	<u>(19,502)</u>
Operating profit	78,582	127,412	157,074	13,769	29,553
Finance income	86	88	45	18	39
Finance costs	<u>(6,850)</u>	<u>(7,052)</u>	<u>(27,346)</u>	<u>(4,402)</u>	<u>(6,485)</u>
Finance costs — net	<u>(6,764)</u>	<u>(6,964)</u>	<u>(27,301)</u>	<u>(4,384)</u>	<u>(6,446)</u>
Profit before income tax	71,818	120,448	129,773	9,385	23,107
Income tax expense	<u>(18,423)</u>	<u>(27,679)</u>	<u>(35,997)</u>	<u>(4,219)</u>	<u>(5,758)</u>
Profit for the year/period	<u>53,395</u>	<u>92,769</u>	<u>93,776</u>	<u>5,166</u>	<u>17,349</u>
Profit is attributable to:					
Owners of our Company	53,395	92,769	93,597	5,180	17,312
Non-controlling interests	—	—	179	(14)	37
	<u>53,395</u>	<u>92,769</u>	<u>93,776</u>	<u>5,166</u>	<u>17,349</u>

FINANCIAL INFORMATION

The following sets forth our consolidated statements of comprehensive income for the years/periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>	
Profit for the year/period	53,395	92,769	93,776	5,166	17,349
Items that may be reclassified subsequently to profit or loss -					
Currency translation differences	(13,002)	22,486	(25,626)	15,007	9,528
Total comprehensive income for the year/period	<u>40,393</u>	<u>115,255</u>	<u>68,150</u>	<u>20,173</u>	<u>26,877</u>
Total comprehensive income for the year/period is attributable to:					
Owners of our Company	40,393	115,255	67,971	20,187	26,840
Non-controlling interests	<u>—</u>	<u>—</u>	<u>179</u>	<u>(14)</u>	<u>37</u>
	<u>40,393</u>	<u>115,255</u>	<u>68,150</u>	<u>20,173</u>	<u>26,877</u>

The amount of the currency translation differences represents the amount of differences in the exchange rates between the presentation currency and the functional currencies of our Company's subsidiaries in the PRC at the beginning and the end of the reporting year. These exchange differences are transferred to our consolidated statement of comprehensive income because they are related to the currency translation of our business operations in the PRC as of the respective reporting dates and arising in the preparation of our consolidated financial statements. Due to the significant depreciation of RMB against HK\$ during the year ended 31 December 2016, the translation of Renminbi assets into HK\$ resulted in a significant exchange loss on currency translation of our business operations in the PRC. In 2017, the exchange rate between RMB and HK\$ appreciated and as such, we recorded an exchange gain on currency translation of our business operations in the PRC. Due to the significant depreciation of RMB during the second half of 2018, there was an exchange loss on currency translation of our business operations in the PRC. During the three months ended 31 March 2019, the exchange rate between RMB and HK\$ appreciated and as such, we recorded an exchange gain on currency translation. Such appreciation also existed during the three months ended 31 March 2018.

FINANCIAL INFORMATION

Consolidated balance sheets

The following sets forth our audited consolidated balance sheets as of the dates indicated:

	As of 31 December			As of
	2016	2017	2018	31 March
	<i>HK'000</i>	<i>HK'000</i>	<i>HK'000</i>	<i>HK'000</i>
Non-current assets				
Land use rights	29,219	50,475	53,972	54,678
Property, plant and equipment	216,141	350,696	354,298	371,739
Intangible assets	44,850	51,136	60,030	59,758
Prepayment for non-current assets	38,789	36,232	11,608	10,766
Deferred income tax assets	11,063	11,328	11,177	11,495
	<u>340,062</u>	<u>499,867</u>	<u>491,085</u>	<u>508,436</u>
Current assets				
Inventories	123,105	158,608	193,212	285,750
Biological assets	1,780	48	—	—
Trade and other receivables	82,119	116,337	193,098	155,682
Cash and bank balances.	98,271	33,123	55,855	60,898
	<u>305,275</u>	<u>308,116</u>	<u>442,165</u>	<u>502,330</u>
Total assets	<u>645,337</u>	<u>807,983</u>	<u>933,250</u>	<u>1,010,766</u>
Equity attributable to owners of our Company				
Share capital	—	—	6	6
Other reserves	77,547	147,254	162,386	174,739
Retained earnings	75,017	159,570	244,467	260,293
	<u>152,564</u>	<u>306,824</u>	<u>406,859</u>	<u>435,038</u>
Non-controlling interests	—	—	179	207
Total equity	<u>152,564</u>	<u>306,824</u>	<u>407,038</u>	<u>435,245</u>
Non-current liabilities				
Convertible Bond	—	60,517	52,644	53,254
Borrowings	61,485	53,834	63,580	63,886
Lease liabilities	1,951	4,250	4,148	3,684
Deferred income	38,888	38,030	32,861	32,693
Deferred income tax liabilities	3,018	3,157	2,406	2,424
	<u>105,342</u>	<u>159,788</u>	<u>155,639</u>	<u>155,941</u>
Current liabilities				
Trade and other payables.	196,899	124,327	93,790	123,859
Current income tax liabilities	13,908	21,492	21,565	16,162
Borrowings	175,737	193,898	253,370	277,666
Lease liabilities	887	1,654	1,848	1,893
	<u>387,431</u>	<u>341,371</u>	<u>370,573</u>	<u>419,580</u>
Total liabilities	<u>492,773</u>	<u>501,159</u>	<u>526,212</u>	<u>575,521</u>
Total equity and liabilities	<u>645,337</u>	<u>807,983</u>	<u>933,250</u>	<u>1,010,766</u>
Net current (liabilities)/assets	<u>(82,156)</u>	<u>(33,255)</u>	<u>71,592</u>	<u>82,750</u>
Total assets less current liabilities	<u>257,906</u>	<u>466,612</u>	<u>562,677</u>	<u>591,186</u>

FINANCIAL INFORMATION

PRINCIPAL COMPONENTS OF OUR CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Revenue

Our revenue is generated from the sales of our products in four principal business segments, namely agar-agar products, carrageenan products, konjac products, and their respective blended products.

Our revenue is affected by the sales volume and changes in the selling prices. During the three years ended 31 December 2018, the increase in our revenue was mainly driven by the increasing sales volume of our hydrocolloid products. Sales volume of our hydrocolloid products is generally affected by the level of demand, which in turn is affected by the consumers' preference. We do not adopt uniform selling prices for our hydrocolloid products, and the determination of which are based on the types of the hydrocolloid products, sales quantity, cost of raw materials, production costs, expected profit margin, and the selling prices of similar products offered by our competitors.

During the three years ended 31 December 2018, our revenue amounted to HK\$535.1 million, HK\$661.6 million, and HK\$997.1 million, respectively. During the three months ended 31 March 2019, our revenue amounted to HK\$190.3 million, as compared to HK\$176.7 million during the three months ended 31 March 2018. The increases in the revenue throughout the Track Record Period were primarily supported by the continuous increases in our production capacity and the number of customers which allowed us to increase our production volume and sales volume. With the improvement in production efficiency, our gross profit and the gross profit margin continued to increase. All of these resulted in the significant improvement in our profitability during the Track Record Period.

Business segments

The table below sets forth an analysis of our revenue by business segments for the years/periods indicated:

	Year ended 31 December			Three months ended 31 March						
	2016	2017	2018	2018	2019					
	<i>% of</i>	<i>% of</i>	<i>% of</i>	<i>% of</i>	<i>% of</i>					
	<i>HK\$'000</i>	<i>revenue</i>	<i>HK\$'000</i>	<i>revenue</i>	<i>HK\$'000</i>	<i>revenue</i>				
						<i>(unaudited)</i>				
Agar-agar products	260,723	48.7	302,044	45.7	346,493	34.8	57,606	32.6	64,260	33.8
Carrageenan products	201,888	37.7	279,734	42.3	534,851	53.6	106,365	60.2	104,663	55.0
Konjac products	20,218	3.8	15,477	2.3	32,506	3.3	2,776	1.6	10,925	5.7
Blended products	52,257	9.8	64,313	9.7	83,206	8.3	9,989	5.6	10,436	5.5
Total	535,086	100.0	661,568	100.0	997,056	100.0	176,736	100.0	190,284	100.0

FINANCIAL INFORMATION

We produce and sell seaweed-based and plant-based hydrocolloid products including agar-agar products, carrageenan products, konjac products, and their respective blended products. The following sets forth brief description of each of our business segments:

Sales of agar-agar products. We produce and sell agar-agar products. As of 31 December 2018, we offered 21 types of agar-agar products of different functions, specifications, and grades pursuant to different gel strengths. As of 31 March 2019, we offered 22 types of agar-agar products.

Sales of carrageenan products. We produce and sell carrageenan products. As of 31 December 2018, we offered 41 types of carrageenan products of different functions, specifications, and grades pursuant to different gel strengths. As of 31 March 2019, we offered 43 types of carrageenan products.

Sales of konjac products. These products are produced by us primarily for food processing companies. As of 31 December 2018, we offered 18 types of konjac products of different specifications and grades. As of 31 March 2019, we offered 19 types of konjac products.

Sales of blended products. We develop and produce blended products for different food applications. We would not maintain a high level of inventory of blended products. As of 31 December 2018, we offered more than 294 principal types of blended products. As of 31 March 2019, we offered 302 principal types of blended products.

We have eliminated intra-group balances and transactions in full in preparing our financial information.

Sales volume and average unit selling prices

The table below sets forth the sales volume and the average unit selling prices (per tonne) by business segments for the years/periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	<i>Average unit selling price</i>	<i>Sales volume</i>	<i>Average unit selling price</i>	<i>Sales volume</i>	<i>Average unit selling price</i>	<i>Sales volume</i>	<i>Average unit selling price</i>	<i>Sales volume</i>	<i>Average unit selling price</i>	
	(per tonne)	(tonnes)	(per tonne)	(tonnes)	(per tonne)	(tonnes)	(per tonne)	(tonnes)	(per tonne)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Agar-agar products	2,531.85	102.98	2,724.34	110.87	3,318.41	104.42	490.42	117.46	624.17	102.95
Carrageenan products	4,895.88	41.24	5,219.16	53.60	7,049.42	75.87	1,323.10	80.39	1,253.80	83.48
Konjac products	275.72	73.33	176.30	87.79	272.41	119.32	22.37	124.09	83.8	130.37
Blended products	949.10	55.06	1,105.03	58.20	1,156.27	71.96	134.99	74.00	142.52	73.22
Total	8,652.55		9,224.83		11,796.51		1,970.88		2,104.29	

FINANCIAL INFORMATION

We generally adopt a “cost-plus” approach in determining the selling prices of our hydrocolloid products. Changes in the average unit selling prices of our hydrocolloid products are generally affected by a number of factors, including applications of our products, demand and supply dynamics, purchase cost of raw materials, and selling prices of similar products offered by our competitors. If there is any material increase in the average unit purchase cost, we would also transfer the cost increase to our customers. See the paragraphs under “Production volume, cost of sales, average unit cost of sales, purchase cost of material, and average unit purchase cost” below for further information on our cost of sales and purchase cost of raw materials.

Geographical markets

Our products are sold to customers around the world with primary focus on the PRC and the European markets. The table below sets forth an analysis of our revenue by delivery destinations for the years/periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	HK\$'000	% of revenue	HK\$'000	% of revenue	HK\$'000	% of revenue	HK\$'000	% of revenue	HK\$'000	% of revenue
China	332,977	62.2	336,197	50.8	475,838	47.7	75,111	42.5	79,664	41.9
Europe	110,917	20.7	195,803	29.6	345,986	34.7	70,353	39.8	69,354	36.5
Asia (excluding China)	47,122	8.8	57,410	8.7	107,947	10.8	17,114	9.7	26,370	13.9
South America	21,224	4.0	35,393	5.3	26,981	2.7	2,061	1.2	5,682	3.0
North America	13,134	2.5	24,965	3.8	33,500	3.4	9,618	5.4	7,868	4.0
Africa	9,712	1.8	11,800	1.8	6,804	0.7	2,479	1.4	1,346	0.7
Total	<u>535,086</u>	<u>100.0</u>	<u>661,568</u>	<u>100.0</u>	<u>997,056</u>	<u>100.0</u>	<u>176,736</u>	<u>100.0</u>	<u>190,284</u>	<u>100.0</u>

Notes:

- (1) European countries refer to United Kingdom, Germany, France, Spain, Belgium, Netherlands, Denmark, Poland, Russia, Ukraine, Romania, Latvia, Albania, Lithuania, Bulgaria and Italy, etc.
- (2) Asian countries and territories refer to China (Taiwan), China (Hong Kong), Vietnam, Korea, Japan, Malaysia, Singapore, Philippines, Thailand, Indonesia, India, Turkey, Uzbekistan, and Iran, etc.
- (3) Countries in South America refer to Argentina, Brazil, Peru, Uruguay, and Chile, etc.
- (4) Countries in North America refer to the US, Canada, and Mexico, etc.
- (5) Countries in Africa refer to Algeria, Egypt, Morocco, Nigeria, and Ghana, etc.

FINANCIAL INFORMATION

Our hydrocolloid products are shipped to different locations as requested by our customers primarily because of the increasing demand of the overseas customers and our sales and marketing efforts abroad. Our hydrocolloid products are sold under our brands or in bulk volume not bearing our brands. Our konjac products are mainly sold to our customers in the PRC and other Asian countries and territories because of the consumers' demand for konjac products in these markets. Blended products are mainly sold to customers in the PRC.

The table below sets forth an analysis of our sales under our brands and not bearing our brands during the years/periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	<i>(unaudited)</i>									
Products sold under our brands	332,977	62.2	336,197	50.8	475,838	47.7	75,111	42.5	79,664	41.9
Products sold without our brands	202,109	37.8	325,371	49.2	521,218	52.3	101,625	57.5	110,620	58.1
Total	<u>535,086</u>	<u>100.0</u>	<u>661,568</u>	<u>100.0</u>	<u>997,056</u>	<u>100.0</u>	<u>176,736</u>	<u>100.0</u>	<u>190,284</u>	<u>100.0</u>

Customers

The table below sets forth an analysis of our revenue by nature of business of our customers for the years/periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	HK\$'000	% of revenue	HK\$'000	% of revenue	HK\$'000	% of revenue	HK\$'000	% of revenue	HK\$'000	% of revenue
	<i>(unaudited)</i>									
Food producing and processing companies	413,555	77.3	497,651	75.2	756,430	75.9	137,935	78.0	145,482	76.5
Trading companies	121,521	22.7	163,906	24.8	240,366	24.1	38,772	22.0	44,744	23.5
Others ⁽¹⁾	10	*	11	*	260	*	29	*	58	*
Total	<u>535,086</u>	<u>100.0</u>	<u>661,568</u>	<u>100.0</u>	<u>997,056</u>	<u>100.0</u>	<u>176,736</u>	<u>100.0</u>	<u>190,284</u>	<u>100.0</u>

* Value insignificant.

Note:

(1) This amount includes revenue generated from our sales to selected research institutions in the PRC.

Our terms of trade with customers are determined with reference to the quantity of purchase, credit history, and the type of products purchased. The nature of business activities engaged by our customers is of less relevance in determining the selling prices of our products.

FINANCIAL INFORMATION

Food producing and processing company customers

Most of our products are sold to food producing and processing companies, which use our products as raw materials for the production of their own products. Direct sales to food producing and processing companies enables us to effectively monitor and collect information and feedback from our customers, and promptly responds to the changing needs and requirements of consumers, shifting consumer preferences and market trends.

During the three years ended 31 December 2018, revenue generated from our sales to food producing and processing company customers amounted to HK\$413.6 million, HK\$497.7 million, and HK\$756.4 million, respectively, accounting for 77.3%, 75.2%, and 75.9%, respectively, of our total revenue. During the three months ended 31 March 2019, revenue generated from our sales to food producing and processing company customers amounted to HK\$145.5 million and accounted for 76.5% of our total revenue, as compared to HK\$137.9 million and 78.0% for the three months ended 31 March 2018. As of 31 December 2016, 2017, and 2018, and 31 March 2019, we sold our products to 170, 242, 315, and 164 food producing and processing company customers, respectively. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, all food producing and processing company customers are Independent Third Parties.

Trading company customers

Some of our products are sold to trading companies in the PRC and overseas, which re-sell our products to food producing and processing companies in the PRC and overseas as their own customers.

Pursuant to the Frost & Sullivan Report, it is an industry practice in the PRC and the global market that food producing and processing companies may choose to source their raw materials through trading companies. There are benefits associated with this arrangement. The food producing and processing companies may leverage the sourcing capability of the trading companies to identify a stable supply of hydrocolloid products from various hydrocolloid producers. Through such business arrangement, the food producing and processing companies can save time and costs. Food producing and processing companies may engage different trading companies for the sourcing of hydrocolloid products and as such, reduce the risk of over-reliance on any individual trading company. From the perspective of the hydrocolloid producers, sales to trading companies allow them to reach a wider group of downstream customers and enlarge the sales network for their products without incurring any substantial amount on sales and marketing.

During the three years ended 31 December 2018, revenue generated from our sales to trading company customers amounted to HK\$121.5 million, HK\$163.9 million, and HK\$240.4 million, respectively, accounting for 22.7%, 24.8%, and 24.1%, respectively, of our total revenue. During the three months ended 31 March 2019, revenue generated from our sales to trading company customers amounted to HK\$44.7 million and accounted for 23.5% of our total revenue, as compared to HK\$38.8 million and 22.0% for the three months ended 31 March 2018. As of 31 December 2016, 2017, and 2018, and 31 March 2019, we had 99, 126, 167, and 70 trading company customers, respectively.

FINANCIAL INFORMATION

During the Track Record Period and up to the Latest Practicable Date, save for a shareholder of a customer who was one of our five largest customers for the two years ended 31 December 2016 and used to be a shareholder of Lvqi (Xiamen) and one of the vendors when we acquired all the equity interest in Lvqi (Xiamen) in May 2017, all of our trading company customers were Independent Third Parties.

Production volume, cost of sales, average unit cost of sales, purchase cost of raw materials, and average unit purchase cost

We produce agar-agar products and carrageenan products from dried seaweed according to our production schedules which are determined with reference to the purchase orders or indicative orders from our customers. The production volume for these two types of products during the three years ended 31 December 2018 was limited by our production capacity, see in the section headed “Business — Production facilities” in this prospectus. We use konjac crude powder/konjac flakes as raw materials for the production of our konjac products.

The table below sets forth the production volume by business segments for the years/periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>(tonnes)</i>	<i>(tonnes)</i>	<i>(tonnes)</i>	<i>(tonnes)</i>	<i>(tonnes)</i>
Agar-agar products.	2,688	2,689	3,496	686	681
Carrageenan products	5,059	5,543	8,096	1,450	1,476
	7,747	8,232	11,592	2,136	2,157
Konjac products	368	372	393	108	146
Blended products	968	1,078	1,148	127	144
Total	9,083	9,682	13,133	2,371	2,447

The production volume of carrageenan products and konjac products set forth in the above table included carrageenan products and konjac products used by us as raw materials for the production of our blended products during the Track Record Period.

FINANCIAL INFORMATION

The cost of sales comprises cost of raw materials, labour cost, depreciation and production overheads. The table below sets forth an analysis of our cost of sales as a percentage of our revenue for the years/periods indicated:

	Year ended 31 December			Three months ended 31 March						
	2016	2017	2018	2018	2019					
	<i>% of</i>	<i>% of</i>	<i>% of</i>	<i>% of</i>	<i>% of</i>					
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>				
	<i>revenue</i>	<i>revenue</i>	<i>revenue</i>	<i>revenue</i>	<i>revenue</i>	<i>revenue</i>				
	<i>(unaudited)</i>									
Finished products, work-in-progress, and raw materials consumption	349,448	65.3	408,890	61.8	612,343	61.4	102,795	58.2	112,589	59.2
Staff related costs	26,871	5.0	31,745	4.8	46,632	4.7	9,902	5.6	10,045	5.3
Electricity and water expenses	22,416	4.2	22,833	3.5	32,689	3.3	6,790	3.8	6,423	3.4
Depreciation and amortisation	13,245	2.5	16,554	2.5	30,564	3.1	7,913	4.5	7,895	4.1
Government levies and other production costs .	4,738	0.9	5,599	0.8	7,853	0.7	2,758	1.5	2,970	1.5
Total	<u>416,718</u>	<u>77.9</u>	<u>485,621</u>	<u>73.4</u>	<u>730,081</u>	<u>73.2</u>	<u>130,158</u>	<u>73.6</u>	<u>139,922</u>	<u>73.5</u>

During the three years ended 31 December 2018, our cost of sales was HK\$416.7 million, HK\$485.6 million, and HK\$730.1 million, respectively. During the three months ended 31 March 2019, our cost of sales amounted to HK\$140.0 million, as compared to HK\$130.2 million for three months ended 31 March 2018. The increase in the cost of sales during the Track Record Period was generally consistent with our business growth. The principal components of our cost of sales include:

Finished products, work-in-progress, and raw materials consumption. Raw materials and consumables used primarily consist of our cost of raw materials, such as dried seaweed, and production costs capitalised in work-in-progress and finished products as well as our cost of consumables used in production, such as perlite and potassium chloride, and packaging materials. The total consumption volume of raw materials is affected by our production volume and production efficiency. In general, production in large quantity will enhance production efficiency as the costs of certain consumables are fixed in the production processes.

Staff related costs. Staff related costs include salaries, bonuses and other benefits for our production workers.

FINANCIAL INFORMATION

Electricity and water expenses. This represents the cost of electricity and water consumed at our production facilities for production purpose.

Depreciation and amortisation. Depreciation and amortisation consist of depreciation and amortisation on the land use rights, discharge rights, and property, plant, and equipment used in our production purpose.

The table below sets forth an analysis of our cost of sales by business segments for the years/periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	<i>% to</i>		<i>% to</i>		<i>% to</i>		<i>% to</i>		<i>% to</i>	
	<i>cost of</i>		<i>cost of</i>		<i>cost of</i>		<i>cost of</i>		<i>cost of</i>	
	<i>HK\$'000</i>	<i>sales</i>	<i>HK\$'000</i>	<i>sales</i>	<i>HK\$'000</i>	<i>sales</i>	<i>HK\$'000</i>	<i>sales</i>	<i>HK\$'000</i>	<i>sales</i>
	<i>(unaudited)</i>									
Agar-agar products	189,127	45.4	204,550	42.1	213,590	29.3	35,581	27.3	37,900	27.1
Carrageenan products	177,279	42.5	225,853	46.5	435,508	59.7	86,100	66.2	86,169	61.6
Konjac products	16,532	4.0	13,472	2.8	27,590	3.8	2,333	1.8	9,052	6.5
Blended products	33,780	8.1	41,746	8.6	53,393	7.2	6,144	4.7	6,801	4.8
Total	<u>416,718</u>	<u>100.0</u>	<u>485,621</u>	<u>100.0</u>	<u>730,081</u>	<u>100.0</u>	<u>130,158</u>	<u>100.0</u>	<u>139,922</u>	<u>100.0</u>

The table below sets forth an analysis of the average unit cost of sales by business segments for the years/periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	<i>Average</i>		<i>Average</i>		<i>Average</i>		<i>Average</i>		<i>Average</i>	
	<i>unit cost</i>		<i>unit cost</i>		<i>unit cost</i>		<i>unit cost</i>		<i>unit cost</i>	
	<i>Sales</i>	<i>of sales</i>	<i>Sales</i>	<i>of sales</i>	<i>Sales</i>	<i>of sales</i>	<i>Sales</i>	<i>of sales</i>	<i>Sales</i>	<i>of sales</i>
	<i>volume (HK\$'000/</i>	<i>volume (HK\$'000/</i>	<i>volume (HK\$'000/</i>	<i>volume (HK\$'000/</i>	<i>volume (HK\$'000/</i>	<i>volume (HK\$'000/</i>	<i>volume (HK\$'000/</i>	<i>volume (HK\$'000/</i>	<i>volume (HK\$'000/</i>	<i>volume (HK\$'000/</i>
	<i>(tonne)</i>	<i>tonne)</i>	<i>(tonne)</i>	<i>tonne)</i>	<i>(tonne)</i>	<i>tonne)</i>	<i>(tonne)</i>	<i>tonne)</i>	<i>(tonne)</i>	<i>tonne)</i>
Agar-agar products	2,531.85	74.70	2,724.34	75.08	3,318.41	64.37	490.42	72.55	624.17	60.72
Carrageenan	4,895.88	36.21	5,219.16	43.27	7,049.42	61.78	1,323.10	65.07	1,253.80	68.73
Konjac products	275.72	59.96	176.30	76.42	272.41	101.28	22.37	104.29	83.80	108.02
Blended products	949.10	35.59	1,105.03	37.78	1,156.27	46.18	134.99	45.51	142.52	47.72
Total	<u>8,652.55</u>		<u>9,224.83</u>		<u>11,796.51</u>		<u>1,970.88</u>		<u>2,104.29</u>	

FINANCIAL INFORMATION

Purchase cost of raw materials

The principal raw materials used in the production of our products include dried seaweed (gracilaria, cottonii, and spinosum), konjac crude powder, and konjac flakes. The purchase cost of raw materials increased with the increase in our business scale as well as the fluctuations in the purchase prices of dried seaweed. The table below sets forth an analysis of our purchase cost of raw materials during the years/periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	<i>% of</i>		<i>% of</i>		<i>% of</i>		<i>% of</i>		<i>% of</i>	
	<i>purchase</i>		<i>purchase</i>		<i>purchase</i>		<i>purchase</i>		<i>purchase</i>	
	<i>cost of</i>		<i>cost of</i>		<i>cost of</i>		<i>cost of</i>		<i>cost of</i>	
	<i>raw</i>		<i>raw</i>		<i>raw</i>		<i>raw</i>		<i>raw</i>	
	<i>materials</i>		<i>materials</i>		<i>materials</i>		<i>materials</i>		<i>materials</i>	
	<i>HK\$'000</i>		<i>HK\$'000</i>		<i>HK\$'000</i>		<i>HK\$'000</i>		<i>HK\$'000</i>	
	<i>(unaudited)</i>									
Dried seaweed										
Cottonii	116,283.4	33.2	209,687.9	45.2	370,688.1	57.4	65,148.3	54.7	108,351.4	54.6
Gracilaria	142,288.9	40.7	119,978.8	25.9	111,066.0	17.2	18,787.6	15.8	23,548.4	11.9
Spinosum	3,874.0	1.1	4,617.8	1.0	10,968.4	1.7	1,576.7	1.3	4,535.6	2.3
	<u>262,446.3</u>	<u>75.0</u>	<u>334,284.5</u>	<u>72.1</u>	<u>492,722.5</u>	<u>76.3</u>	<u>85,512.6</u>	<u>71.8</u>	<u>136,435.4</u>	<u>68.8</u>
Konjac crude powder	18,962.3	5.4	27,892.2	6.0	28,031.6	4.3	8,532.0	7.2	38,117.8	19.2
Konjac flakes	1,359.7	0.4	11,526.3	2.5	—	—	—	—	—	—
Other materials ⁽¹⁾	67,177.2	19.2	89,895.5	19.4	125,100.0	19.4	25,113.5	21.0	23,890.1	12.0
Total	<u><u>349,945.5</u></u>	<u><u>100.0</u></u>	<u><u>463,598.5</u></u>	<u><u>100.0</u></u>	<u><u>645,854.1</u></u>	<u><u>100.0</u></u>	<u><u>119,158.1</u></u>	<u><u>100.0</u></u>	<u><u>198,443.3</u></u>	<u><u>100.0</u></u>

Note:

- (1) These other materials include supplemental raw materials, such as alkaline, perlite, potassium and chloride, which are used in the production process.

FINANCIAL INFORMATION

The table below set forth an analysis of the average unit purchase cost (per tonne) of each of our principal raw materials during the years/periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	Quantity of purchase (tonne)	Average unit purchase cost (per tonne) HK\$'000	Quantity of purchase (tonne)	Average unit purchase cost (per tonne) HK\$'000	Quantity of purchase (tonne)	Average unit purchase cost (per tonne) HK\$'000	Quantity of purchase (tonne)	Average unit purchase cost (per tonne) HK\$'000	Quantity of purchase (tonne)	Average unit purchase cost (per tonne) HK\$'000
Dried seaweed										
Cottonii	19,151.48	6.07	21,858.05	9.59	29,045.15	12.76	4,812.49	13.54	7,241.85	14.96
Spinosum	1,212.82	3.19	1,087.25	4.25	2,108.08	5.20	350.97	4.49	734.86	6.17
Gracilaria	21,277.60	6.69	20,833.67	5.76	24,656.19	4.50	3,647.75	5.15	5,744.60	4.10
	41,641.90	6.30	43,778.97	7.64	55,809.42	8.83	8,811.21	9.70	13,721.31	9.94
Konjac crude powder . . .	402.78	47.08	389.44	71.62	355.06	78.95	109.53	77.90	436.60	87.31
Konjac flakes	52.71	25.80	346.46	33.27	—	—	—	—	—	—
Total	42,097.39		44,514.87		56,164.48		8,920.74		14,157.91	

The purchase cost of dried seaweed (gracilaria, cottonii, and spinosum) was the principal component of the purchase of raw materials. As such, we monitor from time to time the movements of the market prices of different types of dried seaweed provided by different suppliers. Direct negotiations with these suppliers are involved and in most cases, and we would be able to secure purchase at prices which are generally less than the industry average prices (which are based on import and export statistics and may not be accurate in reflecting the movements in market prices promptly) because of our on-site inspection and negotiation as well as the large volume of purchase of dried seaweed. In some cases, however, we may need to purchase the required dried seaweed even at relatively high market prices because of our production requirement. The table below sets forth the changes in the average unit purchase cost (per tonne) of our dried seaweed as compared with the movements set forth in the section headed “Industry Overview” in this prospectus during the Track Record Period:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Our average unit purchase cost</i>					
Gracilaria	6.69	5.76	4.50	5.15	4.10
Cottonii	6.07	9.59	12.76	13.54	14.96
Spinosum	3.19	4.25	5.20	4.49	6.17
<i>Industry average</i>					
Gracilaria	5.90	6.08	4.87	5.39	4.31
Cottonii	6.44	11.22	15.06	14.59	16.07
Spinosum	4.11	4.99	6.03	4.21	6.60

FINANCIAL INFORMATION

During the year ended 31 December 2017, except for our average unit purchase cost of gracilaria, changes in our average unit purchase cost of cottonii and spinosum followed the industry trends of price increase. The percentage increase in our average unit purchase cost of dried seaweed was less than the industry average as a result of our enhanced control of purchase cost and purchase volume as well as the time of purchase. The industry average prices were not representative of the market prices for dried seaweed (of different types and qualities) sourced from different countries because such prices were based on the average of the prices of different types and qualities of seaweed throughout a particular year.

Our purchase of dried seaweed is partly based on the market prices at which our Directors consider appropriate and reasonable. Because of this consideration, the purchase volume of dried seaweed may not closely follow our production requirements. The dried seaweed sourced by us, except for one sale transaction conducted in 2017 upon the request by an Independent Third Party, has been used for our production purpose.

We strategically increased our inventory of raw materials from time to time in order to reduce the impact that may be arising from the price fluctuations. Our average unit purchase cost of gracilaria decreased by 13.90% during the year ended 31 December 2017, as compared with the same for the year ended 31 December 2016, but the industry average price increased by 3.05%. The reason for the difference was that we purchased most of gracilaria during the second half of 2017, in which the market prices was expected to be lower than the first half of 2017, primarily due to the anticipated excess supply of gracilaria as a result of the over-supply of locally-grown seaweed during the second half of 2017. Our average unit purchase cost of cottonii increased by 57.99% during the year ended 31 December 2017, as compared with the industry average of 74.22% during the same year. We purchased most of the cottonii during the first three quarters of 2017 in light of the increasing price trends. However, our average unit purchase cost of spinosum increased by 33.23% in 2017, as compared with the industry average of 21.41%. The difference was primarily due to the fact that we had to purchase spinosum at the time the market prices remained at high levels for our production purpose.

The average unit purchase cost of gracilaria, cottonii, and spinosum for the year ended 31 December 2018 followed the seaweed market price trends of the same year. Further cost advantages were gained by us through our effective inventory management and ability to negotiate lower prices through our leading position in the industry.

The average unit purchase cost of gracilaria has been decreased by 20.4% during the three months ended 31 March 2019, as compared to the same period of 2018 which was mainly due to the decrease in general market price of the seaweed during the period.

The average unit purchase cost of cottonii and spinosum have been increased by 10.5% and 37.4%, respectively during the three months ended 31 March 2019, as compared to the same period of 2018 increase in general market price of the seaweed during the period.

FINANCIAL INFORMATION

Gross profit and gross profit margin

The amount of gross profit represents the difference between revenue and cost of sales during a particular year. The table below sets forth the amount of our gross profit and the gross profit margin by business segments for the years/periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	<i>Gross profit</i>		<i>Gross profit</i>		<i>Gross profit</i>		<i>Gross profit</i>		<i>Gross profit</i>	
	<i>HK\$'000</i>	<i>margin</i>	<i>HK\$'000</i>	<i>margin</i>	<i>HK\$'000</i>	<i>margin</i>	<i>HK\$'000</i>	<i>margin</i>	<i>HK\$'000</i>	<i>margin</i>
	<i>(unaudited)</i>									
Agar-agar products	71,596	27.5	97,494	32.3	132,903	38.4	22,025	38.2	26,360	41.0
Carrageenan products	24,609	12.2	53,881	19.3	99,343	18.6	20,265	19.1	18,494	17.7
Konjac products	3,686	18.2	2,005	13.0	4,916	15.1	443	16.0	1,873	17.1
Blended products	18,477	35.4	22,567	35.1	29,813	35.8	3,845	38.5	3,635	34.8
Total	<u>118,368</u>	<u>22.1</u>	<u>175,947</u>	<u>26.6</u>	<u>266,975</u>	<u>26.8</u>	<u>46,578</u>	<u>26.4</u>	<u>50,362</u>	<u>26.5</u>

Our gross profit and gross profit margin generally follows the changes in the average unit selling prices, average unit cost of sales, and average unit purchase cost. The increase in the gross profit margin during the three years ended 31 December 2018 was primarily due to the increase in the sales volume, increase in the average unit selling prices, changes in the features and applications of our products, and changes in average unit purchase cost. Throughout the three years ended 31 December 2018, the higher the sales volume of a particular type of hydrocolloid product, the lower the average unit cost of sales incurred by us and the higher the gross profit margin that would be enjoyed by us. We constantly reviewed the source of our raw materials in order to reduce our cost of sales. Changes in the purchase cost of raw materials would allow us to adjust the selling prices of our hydrocolloid products to maximise the gross profit margin.

As a result, the gross profit margin for the sales of agar-agar products increased from 27.5% in 2016 to 38.4% in 2018. The increase in the gross profit margin from 12.2% to 18.6% during the three years ended 31 December 2018 for the sales of carrageenan products was primarily due to the decrease in the average unit cost of sales. During the three years ended 31 December 2018, the gross profit margin of our konjac products fluctuated significantly because of changes in the product mix of our konjac products and the average unit cost of sales as a result of increase in the purchase of raw materials. As blended products are produced upon receiving purchase orders from our customers, we generally maintain a relatively stable gross profit margin for blended products during the three years ended 31 December 2018.

The gross profit for the sales of agar-agar increased from 38.2% for the three months ended 31 March 2018 to 41.0% for the three months ended 31 March 2019. This was largely due to increase in sales mix of quick-dissolve agar-agar which used to have higher gross profit margin. On the other hand, there was a slight decrease in gross profit margin from 19.1% for the three months ended 31 March 2018 to 17.7% for the three months ended 31 March 2019 for the sales of carrageenan products. This was caused by fluctuation in cost of raw materials. The gross profit margin of our konjac products increased from 16.0% for the three months ended 31 March 2018 to 17.1% for the three

FINANCIAL INFORMATION

months ended 31 March 2019 due to the continuous growing of demand of health food in which konjac product is a rich source of dietary fibre. Again as blended products are produced upon receiving purchase orders from our customers, we generally maintain a relatively stable gross profit margin for blends products across the Track Record Period.

Changes in fair value of biological assets

Dried seaweed are measured at fair value less the cost to sell, based on the historical harvest record. Market prices are obtained from local market, which is considered as the principal market for the purpose of the valuation.

Our Directors have engaged an independent valuer on the determination of the fair value of seaweed. Major valuation inputs used in the calculation of the fair values of the seaweed are set forth as below:

	As of 31 December			As of
	2016	2017	2018	31 March
	<i>HK\$/tonne</i>	<i>HK\$/tonne</i>	<i>HK\$/tonne</i>	2019 <i>HK\$/tonne</i>
Seedlings	3,740	N/A	N/A	N/A
Fresh seaweed	2,740	2,510	N/A	N/A

The table below sets forth an analysis of the movements in the biological assets, which refer to the seaweed cultivated by us for our production, during the years/period indicated:

	Year ended 31 December			Three
	2016	2017	2018	months
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	ended
				31 March
				2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As of 1 January	—	1,780	48	—
Increase due to purchase	3,688	3,417	328	334
Farming costs	875	843	559	303
Change in fair value due to biological transformation	8,791	5,041	624	686
Transfer of harvested seaweed to inventory	(11,493)	(11,092)	(1,544)	(1,322)
Currency translation differences	(81)	59	(15)	(1)
As of 31 December/31 March	<u>1,780</u>	<u>48</u>	<u>—</u>	<u>—</u>
Current assets				
- Unharvested seaweed	<u>1,780</u>	<u>48</u>	<u>—</u>	<u>—</u>
Weight of seaweed plantation (tonne)	<u>272</u>	<u>6</u>	<u>—</u>	<u>—</u>

FINANCIAL INFORMATION

We did not have any amount representing biological assets as of 31 March 2019 because we did not have any unharvested seaweed as of the date.

Other income

The table below sets forth an analysis of other income for the years/periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>	
Government grants					
- Received and recognised during the year	2,002	3,677	3,773	25	583
- Recognised from deferred income arising from government grants	2,466	3,457	3,553	922	871
Others	209	829	323	30	21
Total	<u>4,677</u>	<u>7,963</u>	<u>7,649</u>	<u>977</u>	<u>1,475</u>

The government grants recognised in deferred income represent subsidies received from the local governments on our investments in production facilities.

Other (losses)/gains — net

The table below sets forth an analysis of other (losses)/gains — net during the years/periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>	
Net foreign exchange (losses)/gains					
from operating activities	144	753	(1,883)	173	(11)
Losses on disposal of property, plant, and equipment - net	—	(371)	(36)	(27)	—
Gains on sales of raw materials	—	1,540	(—)	—	—
Other losses	(1,580)	(15)	(232)	(208)	(97)
Total	<u>(1,436)</u>	<u>1,907</u>	<u>(2,151)</u>	<u>(62)</u>	<u>(108)</u>

FINANCIAL INFORMATION

The other losses of HK\$1.58 million paid by us in 2016 included the amount of government penalty of HK\$1.3 million on certain environmental non-compliance matters. The other gain of HK\$1.54 million in 2017 related mainly to the one-off sales of raw materials. No major items are noted in the three months ended 31 March 2019. See the section headed “Business — Non-compliance matters — Construction and environmental protection” in this prospectus for further information.

Net impairment (losses)/gains on financial assets

Impairment losses are recognised in profit or loss within net impairment (losses)/gains on financial assets. Receivables for which an impairment provision was recognised are written-off against the provision when there is no reasonable expectation of recovering additional cash. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with us, and the failure to make contractual payments for a period of more than 36 months.

The table below sets forth an analysis of net impairment (losses)/gains on financial assets for the years/periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>HK'000</i>	<i>HK'000</i>	<i>HK'000</i>	<i>HK'000</i>	<i>HK'000</i>
				<i>(unaudited)</i>	
- Individually impaired receivables	(3,917)	995	(339)	—	—
- (Provision)/reversal of provision for impairment according to the expected credit losses matrix	(1,187)	387	(329)	695	1,113
Total	<u>(5,104)</u>	<u>1,382</u>	<u>(668)</u>	<u>695</u>	<u>1,113</u>

As of 31 December 2016, 2017, 2018, and 31 March 2019, a reconciliation of the loss allowance provision for trade receivables to the opening loss allowance for that provision is as follows:

	As of 31 December			As of 31 March
	2016	2017	2018	2019
	<i>HK'000</i>	<i>HK'000</i>	<i>HK'000</i>	<i>HK'000</i>
As of 1 January	(195)	(4,929)	(3,796)	(1,616)
(Increase in)/reversal of loss allowance recognised in profit or loss for the year/period	(5,104)	1,382	(668)	1,113
Written-off of uncollectible receivables	199	—	2,874	—
Currency translation differences	171	(249)	(26)	(5)
As of 31 December/31 March	<u>(4,929)</u>	<u>(3,796)</u>	<u>(1,616)</u>	<u>(508)</u>

FINANCIAL INFORMATION

Selling and distribution expenses

Our selling and distribution expenses are recognised as they are incurred. The table below sets forth an analysis of our selling and distribution expenses for the years/periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	HK\$'000	% to revenue	HK\$'000	% to revenue	HK\$'000	% to revenue	HK\$'000	% to revenue	HK\$'000	% to revenue
Transportation, travelling and port expenses	4,005	0.7	4,520	0.7	5,608	0.6	1,464	0.8	1,103	0.6
Staff related costs	2,188	0.4	4,251	0.6	5,102	0.5	1,254	0.7	1,429	0.8
Share-based payment expenses	—	—	—	—	1,553	0.2	290	0.2	380	0.2
Marketing and promotion expenses	1,245	0.2	1,970	0.3	1,895	0.2	735	0.4	313	0.2
Depreciation and amortisation	8	—	39	—	21	—	5	—	5	—
Other selling expenses ⁽¹⁾	1,345	0.3	2,121	0.3	1,947	0.2	314	0.2	557	0.2
Total	8,791	1.6	12,901	1.9	16,126	1.6	4,062	2.3	3,787	2.0

During the three years ended 31 December 2018, our selling and distribution expenses were HK\$8.8 million, HK\$12.9 million, and HK\$16.1 million, respectively, representing 1.6%, 1.9%, and 1.6% of our revenue. During the three months ended 31 March 2019, our selling and distribution expenses amounted to HK\$3.8 million and accounted for 2.0%, as compared to HK\$4.1 million and 2.3% for three months ended 31 March 2018. The increase in the amount of selling and distribution expenses during the Track Record Period was due to the increase in the number of staff of our sales and marketing teams as well as the share-based payment expenses in relation to the Ordinary Shares previously transferred to our sales director. Increase in our selling and distribution expenses for the three months ended 31 March 2019, as compared to the three months ended 31 March 2018, was mainly due to the increase in staff related costs and share-based payment expenses, partially offset by decrease in transportation, travelling and port expenses due to stringent cost control and decrease in marketing costs was attributable to the relatively small-scale of product exhibitions participated by us.

The principal components of our selling and distribution expenses include the following:

Transportation and port expenses. Our transportation and port expenses increased with the growth of our revenue and sales volume throughout the three years ended 31 December 2018. The decrease during the three months ended 31 March 2017 was a result of stringent cost control.

Staff related costs. Staff related costs represent the wages and salaries paid by us for sales-related staff. The increase during the Track Record Period was primarily due to the increase in the number of staff of our sales and marketing teams commensurating with the increase in our sales.

FINANCIAL INFORMATION

Share-based payment expenses. The share-based payment represented the fair value of the Ordinary Shares transferred to our sales director, Mr. CHO Chun Wo. The Ordinary Shares were transferred back to our Controlling Shareholders on 4 August 2018. See the section headed “History, Development, and Reorganisation — Incentives provided to our senior management and other persons” in this prospectus. See also the paragraphs under “Share-based payment expenses” below.

Marketing and promotion expenses. Marketing and promotion expenses include the expenses incurred by us in attending trade shows and exhibitions around the world. Trade shows and exhibitions are one of the important marketing and promotional activities of our business. Such expenses generally account for a small percentage of our sales.

Depreciation and amortisation. Depreciation represents the amount of depreciation charged on our office equipment.

Other selling expenses. These expenses include travelling expenses, insurance premium, and business entertainment expenses.

Administrative expenses

Our administrative expenses are generally recognised as they are incurred. The table below sets forth an analysis of our administrative expenses for the years/periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>	
Staff related costs	8,323	13,605	29,349	5,899	8,226
Share-based payment expenses	—	—	16,014	12,050	950
Product research and development expenses	10,079	11,546	14,051	4,009	3,046
Depreciation and amortisation	3,390	3,714	6,068	1,911	2,305
Listing expenses	—	5,667	16,716	2,365	1,084
Transportation and travelling expenses .	1,331	1,579	2,901	770	594
Other administrative expenses	7,207	9,619	13,479	3,325	3,297
Total	<u>30,330</u>	<u>45,730</u>	<u>98,578</u>	<u>30,329</u>	<u>19,502</u>

FINANCIAL INFORMATION

The increase in our administrative expenses during the three years ended 31 December 2018 was consistent with our business growth and the increased administrative functions in connection with the operation and expansion of our business and the production facilities. Decrease in our administrative expenses for the three months ended 31 March 2019, as compared to the three months ended 31 March 2018, was mainly due to significant decrease in share-based payments expenses related to independent consultants and the former NCI which were fully charged in 2018. There was also a significant decrease in Listing expenses as a majority of which charged to profit or loss for the three months ended 31 March 2018.

The principal components of our administrative expenses include the following:

Staff related costs. These expenses include the wages and salaries paid to our Directors and administrative staff. Such expenses increased during the Track Record Period as a result of the increase in the scale of our operation.

Share-based payment expenses. See the paragraphs under “Share-based payment expenses” below.

Other administrative expenses. These expenses include miscellaneous expenses incurred by us for general and administrative purposes, such as taxes, operating lease payment, office expenses, electricity, and water expenses.

Product research and development expenses. These expenses represent our depreciation of equipment, materials, and utensils used in the product research and development process. As such expenses are not used for a particular type of products, they are charged to our consolidated profit or loss for the year or period incurred. We currently expect, and the Board will adopt formally by way of resolutions, that around 1.5% of our revenue in each financial year will be used for product research and development activities for that year.

Depreciation and amortisation. Depreciation increased during the Track Record Period was mainly due to the increase in non-production related assets, such as office buildings, staff dormitory, office equipment, and other non-current assets. Amortisation of intangible assets are in connection with trademarks and licences, and relationships with customers.

Listing expenses. These are the expenses incurred by us for the Listing except for certain portion of the expenses paid and payable by us, which will be accounted for as a deduction from equity upon the Listing, see the paragraphs under “Listing expenses” below.

Transportation and travelling expenses. These expenses represent the amount paid and payable by us for travelling purposes other than product delivery and transportation.

FINANCIAL INFORMATION

Share-based payment expenses

Our Controlling Shareholders transferred 2,044 Ordinary Shares to three employees, 364 Ordinary Shares to Mr. SHI Jijin, a former minority shareholder of Shiyanghaiyi, and 728 Ordinary Shares to their consultant on 26 February 2018. The original intention of the transfer of the Ordinary Shares to the Selected Senior Management, a former minority shareholder of Shiyanghaiyi, and a consultant of our Controlling Shareholders, was to reward the employees' future contributions to the business development of our Group as well as the consultancy services rendered to our Controlling Shareholders by the former minority shareholder of Shiyanghaiyi and the consultant. They received the Ordinary Shares for nominal consideration. All of these transferees are Independent Third Parties. For the three employees, the vesting period commences from the issue date and shall end on the date which is the fifth anniversary of the earlier of the Listing Date or 1 January 2019. No vesting period has been agreed for the other transferees.

The total amount of the fair value of the Ordinary Shares transferred to the three employees is expensed over the vesting period. The equity-settled share-based payment expense for employees for the year ended 31 December 2018 amounted to HK\$6,303,000, and the remaining unamortised fair value of the Ordinary Shares previously transferred to the three employees of HK\$13,451,000 will be charged to the consolidated statements of profit or loss in the future. During the three months ended 31 March 2019, the fair value of the Ordinary Shares charged to consolidated statements of profit or loss amounted to HK\$1,330,000. The total amount of the fair value of the Ordinary Shares previously transferred to other transferees amounting to HK\$11,264,000 was expensed in 2018.

FINANCIAL INFORMATION

Finance income and finance costs

During the Track Record Period, our finance income and costs represented the interest income and expenses received and incurred by us for the banking facilities used by us as well as the finance charges in respect of the finance leases and convertible bond. The table below sets forth an analysis of our finance income and costs for the years/periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>	
Finance income					
- Interest income on bank deposits	86	88	45	18	39
	86	88	45	18	39
Finance costs					
Interest and finance charges on bank borrowings	(8,006)	(10,442)	(17,834)	(4,040)	(5,287)
Interest on the Convertible Bond	—	(862)	(9,417)	(1,797)	(1,971)
Finance charges on lease liabilities	(301)	(293)	(379)	(81)	(101)
Net foreign exchange (losses)/gains on financing activities	605	(240)	(1,201)	1,354	639
	(7,702)	(11,837)	(28,831)	(4,564)	(6,720)
Amounts capitalised in qualifying assets	852	4,785	1,485	162	235
	(6,850)	(7,052)	(27,346)	(4,402)	(6,485)
Finance costs-net	(6,764)	(6,964)	(27,301)	(4,384)	(6,446)

During the three years ended 31 December 2018, the increase in interest and finance charges was primarily due to the increase in our bank borrowings which were used for our business expansion. Certain interest and finance charges were capitalised during the three years ended 31 December 2018, and the capitalisation rate used to determine the amount of borrowing costs to be capitalised was the interest rate applicable to our borrowings for the construction-in-progress of the production facilities during the year, and in this case, 6.04%, 6.63%, and 6.69% for the three years ended 31 December 2018, respectively. During the three months ended 31 March 2019, the finance costs - net increased, as compared to the amount incurred for the three months ended 31 March 2018, due to increase in bank borrowings, increase in interest rate charged in respect of Convertible Bonds.

FINANCIAL INFORMATION

Profit before income tax

The profit before income tax is equal to the excess amount of the gross profit less all expenses incurred for our business operations during a particular year. During the three years ended 31 December 2018, our profit before income tax amounted to HK\$71.8 million, HK\$120.4 million, and HK\$129.8 million, respectively. During the three months ended 31 March 2019, our profit before income tax amounted to HK\$23.1 million, as compared to HK\$9.4 million for the three months ended 31 March 2018. Our profit before income tax continued to increase during the Track Record Period with the growth of our revenue.

Income tax expense

During the three years ended 31 December 2018, we incurred income tax of HK\$18.4 million, HK\$27.7 million, and HK\$36.0 million, respectively. During the three months ended 31 March 2019, we incurred income tax of HK\$5.8 million, as compared to HK\$4.2 million for the three months ended 31 March 2018. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we had made all the required tax filings with the relevant tax authorities in Hong Kong and the PRC. We are not aware of any outstanding or potential dispute with such tax authorities. The following sets forth our income tax expense for the years/periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>	
Current income tax	22,983	27,455	36,347	5,110	6,006
Deferred income tax.	(4,560)	224	(350)	(891)	(248)
Total	<u>18,423</u>	<u>27,679</u>	<u>35,997</u>	<u>4,219</u>	<u>5,758</u>

Cayman Islands profits tax

Our Company is an exempted company incorporated in the Cayman Islands and is not liable for taxation in the Cayman Islands on its Cayman Islands or non-Cayman Islands income.

BVI profits tax

Our subsidiaries that are incorporated in the BVI are exempted companies and are not liable for taxation in the BVI on their BVI or non-BVI income.

FINANCIAL INFORMATION

Hong Kong profits tax

Hong Kong profits tax has been provided for at the rate of 16.5% on the estimated assessable profits from 2016 to 2018 with the following concession.

Pursuant to the enactment of two-tiered profit tax rates adopted by the Inland Revenue Department from the year of assessment of 2018/19 onwards, our assessable profits of the first HK\$2.0 million of a member of our Group incorporated in Hong Kong during the year ended 31 December 2018 would be subject to a tax rate of 8.25%. Our assessable profits above the amount of HK\$2.0 million will continue to be subject to the Hong Kong profits tax at the rate of 16.5%.

CIT

Taxation on PRC income has been calculated on the estimated assessable profit for the year/period at the rates of taxation prevailing in the PRC in which we operate. Our subsidiaries incorporated in the PRC are subject to CIT at the rate of 25% for the Track Record Period, except for Lvqi (Fujian), which is subject to CIT at the preferential rate of 15% during the Track Record Period, and Donghaiwan, which is subject to CIT at the preferential rate of 12.5% during the Track Record Period. The current status of Lvqi (Fujian) will expire on 31 December 2020.

Donghaiwan is subject to CIT at the rate of 12.5% as it is an agricultural products enterprise.

PRC withholding income tax

According to the CIT Law, a 10% withholding tax will be levied on the PRC companies' immediate holding companies established out of the PRC. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding companies. During the Track Record Period, our intermediate holding companies are Hong Kong incorporated companies and are subject to a withholding tax rate of five per cent. Our PRC subsidiaries have undistributed earnings of HK\$58.9 million, HK\$147.2 million, and HK\$259.3 million as of 31 December 2016, 2017, and 2018, respectively, which, if paid out as dividends, would be subject to tax in the hands of the recipient. As of 31 March 2019, the undistributed earnings of our PRC subsidiaries amounted to HK\$283.0 million. An assessable temporary difference exists, and no deferred tax income liability has been recognised as the parent entity is able to control the timing of distributions from its subsidiaries and is not expected to distribute these profits in the foreseeable future.

FINANCIAL INFORMATION

Indonesia profits tax

The Indonesia profits tax has been provided for at the rate of 25% on the estimated assessable profits during the Track Record Period.

During the Track Record Period, no Indonesia profits tax was chargeable on Greenfresh (Indonesia) as it had no assessable profits subject to such tax liability.

A reconciliation of the income tax expense applicable to profit before tax at the statutory rate for each jurisdiction in which our Company and our subsidiaries are domiciled to the tax expense at the statutory tax rate and a reconciliation of the applicable rate, i.e., the statutory tax rate, to the effective tax rate, are as follows:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>	
Our profit before income tax	71,818	120,448	129,773	9,385	23,107
Tax calculated at the applicable statutory tax rates in the respective regions	17,733	31,656	37,881	4,745	6,611
Adjustment for tax effect of: . . .					
- Withholding income tax on profits attributable to the holding companies outside PRC	830	—	—	—	—
- Expenses not deductible for tax purpose	998	215	433	146	284
- Underprovision/ (overprovision) of previous year	2,249	(882)	(305)	(473)	(488)
- Impact of preferential income tax	(3,387)	(3,553)	(2,591)	(367)	(833)
- Tax losses for which no deferred income tax asset was recognised	—	243	579	168	184
Tax charge	<u>18,423</u>	<u>27,679</u>	<u>35,997</u>	<u>4,219</u>	<u>5,758</u>

FINANCIAL INFORMATION

During the three years ended 31 December 2018, the effective income tax rate of our Group was 26%, 23%, and 28%, respectively. The high effective income tax rate during the year ended 31 December 2016 was due to the withholding income tax on dividends distributed by members of our Group established in the PRC to their foreign holding companies. The increase in the effective income tax rate for the year ended 31 December 2018 was due to the impact of the Listing expenses and the share-based payment expenses which incurred in the Company with a 0% statutory tax rate. During the three months ended 31 March 2019, the effective income tax rate of our Group was 25%, as compare to 45% during the three months ended 31 March 2018. The amount of tax charged during the three months ended 31 March 2019 amounted to HK\$5.8 million, as compared to HK\$4.2 million during the three months ended 31 March 2018. Lvqi (Fujian) was subject to CIT at the rate of 15% during the Track Record Period because of its accreditation as a “High and New Technology Enterprise” in the PRC. The current tax status of Lvqi (Fujian) will expire on 31 December 2020.

Dividends paid during the Track Record Period

During the Track Record Period, we did not declare and pay any cash dividend to our Shareholders. See the paragraphs under “Dividends and dividend policy” below for further information on our dividend policy following the Listing.

OUR OPERATING RESULTS

The following sets forth detailed discussions on the operating results of our Group during the Track Record Period. Unless otherwise stated, amounts of the average unit selling prices, the average unit purchase cost, and the average unit cost of sales are expressed in thousand Hong Kong dollars.

Three months ended 31 March 2019 compared to three months ended 31 March 2018

Revenue

Our revenue increased by 7.7% from HK\$176.7 million during the three months ended 31 March 2018 to HK\$190.3 million during the three months ended 31 March 2019. The increase was primarily due to the increase in revenue in nearly all business segments except a minor down fall in sales revenue of carrageenan products. The increase was also driven by the strong demand in our major markets, namely the PRC and countries and territories in Europe and Asia. The following is a description of the performance of each business segment.

Sales of agar-agar products. Revenue from the sales of agar-agar products increased by 11.6% from HK\$57.6 million during the three months ended 31 March 2018 to HK\$64.3 million during the three months ended 31 March 2019. The sales volume increased by 133.75 tonnes, representing an increase of 27.3%, and the average unit selling price decreased by 12.3% due to the decrease in seaweed cost during the same period. The demand for agar-agar products continued to increase as we expanded our customer base of agar-agar products including increase in sales mix of quick-dissolve agar-agar.

FINANCIAL INFORMATION

Sales of carrageenan products. Revenue from the sales of carrageenan products decreased slightly by 1.6% from HK\$106.4 million during the three months ended 31 March 2018 to HK\$104.7 million during the three months ended 31 March 2019. The sales volume decreased by 69.30 tonnes, representing an decrease of 5.2%, and the average unit selling price increased slightly by 3.8%. The demand for carrageenan products remained robust. The increase in the average unit selling price would also suggest a reflection of the increase in market prices of cottonii during the period.

Sales of konjac products. Revenue from the sales of konjac products increased significantly by 289.3% from HK\$2.8 million during the three months ended 31 March 2018 to HK\$10.9 million during the three months ended 31 March 2019, and the sales volume increased by 61.43 tonnes, representing an increase of 274.6%. The average unit selling price increased slightly by 5.1%. The increase in revenue was primarily due to the increase in demand for our konjac products and our marketing efforts to promote the sales of konjac gum products during the period. The increase in the average unit selling price was due to the increase in the purchase cost of raw materials.

Sales of blended products. Revenue from the sales of blended products recorded an increase of 4.0% from HK\$10.0 million during the three months ended 31 March 2018 to HK\$10.4 million during the three months ended 31 March 2019. The sales volume increased by 7.53 tonnes, representing an increase of 5.6%, while the average unit selling price decreased by 1.1% from HK\$74.0 to HK\$73.2. The increase in the sales volume was primarily due to the increasing demand for blended product due to its wide spectrum of applications.

Cost of sales

Our cost of sales increased by 7.5% from HK\$130.1 million during the three months ended 31 March 2018 to HK\$139.9 million during the three months ended 31 March 2019. The increase in our cost of sales was generally consistent with the increase in revenue. For our agar-agar products, the cost of sales increased by HK\$2.3 million, or 6.5%, and such increase was primarily due to the increase in the sales volume during the three months ended 31 March 2019. For our carrageenan products, the cost of sales was generally at the same level as compared to the same for the three months ended 31 March 2018. The cost of sales of konjac products increased by HK\$6.7 million, or 288.0%, primarily due to the significant increase in the average unit purchase cost of konjac raw materials and the increased sales volume during the period. The cost of sales of our blended products increased by HK\$0.7 million, or 11.5%, due to the increase in cost of raw materials including carrageenan and konjac.

Gross profit and gross profit margin

Our overall gross profit increased from HK\$46.6 million during the three months ended 31 March 2018 to HK\$50.4 million during the three months ended 31 March 2019, representing an increase of 8.2%. Our overall gross profit margin during the three months ended 31 March 2019 was 26.5% which was slightly better than our overall gross profit margin of 26.4% during the three months ended 31 March 2018.

FINANCIAL INFORMATION

Sales of agar-agar products. The gross profit amounted to HK\$26.4 million during the three months ended 31 March 2019, as compared to HK\$22.0 million during the three months ended 31 March 2018. The gross profit margin increased from 38.2% to 41.0%, representing an increase of 2.8 percentage point. The increase was primarily due to the wider applications of our agar-agar products and the increases in the sales volume of quick-dissolve agar-agar products which commanded a higher gross profit margin coupled with the decrease in average purchase cost of seaweed producing.

Sales of carrageenan products. The gross profit amounted to HK\$18.5 million during the three months ended 31 March 2019, as compared to HK\$20.3 million for the three months ended 31 March 2018. The gross profit margin decreased slightly from 19.1% during the three months ended 31 March 2018 to 17.7% during the three months ended 31 March 2019, representing a slight decrease of 1.4 percentage point. The slight decrease in gross profit margin was due to the increase in purchase cost of seaweed producing carrageenan products.

Sales of konjac products. The gross profit margin increased from 16.0% to 17.1%, representing an increase of 1.1 percentage point. The amount of gross profit increased by 375.0% from HK\$0.4 million to HK\$1.9 million as a result of the sharp increase in sales volume of konjac gum products and average unit selling prices, offset by the increasing average unit purchase cost.

Sales of blended products. The gross profit margin decreased from 38.5% during the three months ended 31 March 2018 to 34.8% during the three months ended 31 March 2019. The amount of gross profit decreased from HK\$3.8 million to HK\$3.6 million, representing a decrease of 5.6% because of the increase in the average unit purchase cost of seaweed producing carrageenan and konjac.

Changes in fair value of biological assets

During the three months ended 31 March 2019, the change in the fair value of biological assets (seaweed) charged to our consolidated statement of profit or loss was nil as compared to a loss of HK\$28,000 during the three months ended 31 March 2018.

Other income

During the three months ended 31 March 2019, the amount of other income mainly represented the government grants recognised during the period of HK\$1.5 million, as compared to HK\$0.9 million during the three months ended 31 March 2018.

Other losses — net

During the three months ended 31 March 2019, we recorded a slight net foreign exchange loss of HK\$11,000 from operating activities due to the stable exchange rate between RMB and Hong Kong dollars during the period, as compared to a gain of HK\$173,000 during the three months ended 31 March 2018.

FINANCIAL INFORMATION

Net impairment (losses)/gains on financial assets

During the three months ended 31 March 2019, the amount of gain credited to our consolidated statement of profit or loss amounted to HK\$1.1 million because of reversal of impairment whilst there was an impairment gain of HK\$0.7 million during the three months ended 31 March 2018.

Selling and distribution expenses

Our selling and distribution expenses decreased by 7.3% from HK\$4.1 million during the three months ended 31 March 2018 to HK\$3.8 million during the three months ended 31 March 2019, mainly due to decrease in transportation, travelling, and port expenses and the decrease in marketing expenses. Our selling and distribution expenses as a percentage of revenue decrease slightly by 0.3% during the three months ended 31 March 2018 to 2.0% the three months ended 31 March 2019.

Administrative expenses

Our administrative expenses significantly decreased by 35.6% from HK\$30.3 million during the three months ended 31 March 2018 to HK\$19.5 million during the three months ended 31 March 2019, primarily due to the significant decrease in share-based payment expenses and decrease in Listing expenses partially offset by the increase in staff-related costs along with the business expansion during the period.

Finance income and finance costs

Our finance income and finance costs, net increased by 45.5% from HK\$4.4 million during the three months ended 31 March 2018 to HK\$6.4 million during the three months ended 31 March 2019, mainly due to the increase in bank borrowings and interest payable on the Convertible Bond. During the three months ended 31 March 2019, the amount of capitalised interest increased by HK\$73,000, as compared to the same period for the three months ended 31 March 2018, mainly related to construction-in-progress of our production facilities.

Income tax expense

Income tax expense increased from HK\$4.2 million during the three months ended 31 March 2018 to HK\$5.8 million during the three months ended 31 March 2019, primarily because of the increase in the amount of the profit before tax, after deducting preferential income tax impact and certain expense items, such as share-based payment and listing expenses, mainly incurred in the Company with a 0% statutory tax rate.

FINANCIAL INFORMATION

Profit for the period

As a result of the foregoing, our profit increased from HK\$5.2 million during the three months ended 31 March 2018 to HK\$17.3 million during the three months ended 31 March 2019. Our net profit margin decreased from 2.9% during the three months ended 31 March 2018 to 9.1% during the three months ended 31 March 2019, primarily due to the impact arising from the increase in gross profit and the significant decrease in share-based payment expenses and the expenses incurred for the Listing.

Year ended 31 December 2018 compared to year ended 31 December 2017

Revenue

Our revenue increased by 50.7% from HK\$661.6 million during the year ended 31 December 2017 to HK\$997.1 million during the year ended 31 December 2018. The increase was primarily due to the increase in revenue in all business segments supported by the increased production capacity starting from the last quarter of 2017. The increase was also driven by the strong demand in our major markets, namely the PRC and countries and territories in Europe and Asia. The following is a description of the performance of each business segment.

Sales of agar-agar products. Revenue from the sales of agar-agar products increased by 14.7% from HK\$302.0 million during the year ended 31 December 2017 to HK\$346.5 million during the year ended 31 December 2018. The sales volume increased by 594.07 tonnes, representing an increase of 21.8%, and the average unit selling price decreased slightly by 5.8%. The demand for agar-agar products continued to increase as we expanded our customer base of agar-agar products.

Sales of carrageenan products. Revenue from the sales of carrageenan products increased by 91.2% from HK\$279.7 million during the year ended 31 December 2017 to HK\$534.8 million during the year ended 31 December 2018. The sales volume increased by 1,830.26 tonnes, representing an increase of 35.1%, and the average unit selling price increased significantly by 41.5%. The demand for carrageenan products continued to increase as a result of the demand from new customers and the use of our carrageenan products. The sharp increase in the average unit selling price was also a reflection of the soared market prices of cottonii during the year.

Sales of konjac products. Revenue from the sales of konjac products increased by 109.7% from HK\$15.5 million during the year ended 31 December 2017 to HK\$32.5 million during the year ended 31 December 2018, and the sales volume increased by 96.11 tonne, representing an increase of 54.5%. The average unit selling price increased significantly by 35.9%. The increase in revenue was primarily due to the increase in demand for our konjac products and our marketing efforts to promote the sales of konjac gum products during the period. The increase in the average unit selling price was due to the increase in the purchase cost of raw materials.

FINANCIAL INFORMATION

Sales of blended products. Revenue from the sales of blended products recorded an increase of 29.4% from HK\$64.3 million during the year ended 31 December 2017 to HK\$83.2 million during the year ended 31 December 2018. The sales volume increased by 51.24 tonnes, representing an increase of 4.6%, while the average unit selling price increased by 23.6% from HK\$58.2 to HK\$71.96. The increase in the sales volume was primarily due to the increasing demand for blended product due to its wide spectrum of applications.

Cost of sales

Our cost of sales increased by 50.4% from HK\$485.6 million during the year ended 31 December 2017 to HK\$730.1 million during the year ended 31 December 2018. The increase in our cost of sales was generally consistent with the increase in revenue. For our agar-agar products, the cost of sales increased by HK\$9.0 million, or 4.4%, and such increase was primarily due to the continuous increase in the sales volume during the year ended 31 December 2018. For our carrageenan products, the cost of sales increased by HK\$209.6 million, or 92.8%, because of the increased sales volume as well as the sharp increase in the average unit purchase cost of cottonii during the year due to yield reduction of eucheuma. The cost of sales of konjac products increased by HK\$14.1 million, or 104.8%, primarily due to the continuous increase in the average unit purchase cost of konjac raw materials and the increased sales volume during the period. The cost of sales of our blended products increased by HK\$11.6 million, or 27.9%, due to the increase in cost of raw materials including carrageenan and konjac.

Gross profit and gross profit margin

Our overall gross profit increased from HK\$175.9 million during the year ended 31 December 2017 to HK\$267.0 million during the year ended 31 December 2018, representing an increase of 51.8%. Our overall gross profit margin during the year ended 31 December 2018 was 26.8% which was slightly better than our overall gross profit margin of 26.6% during the year ended 31 December 2017.

Sales of agar-agar products. The gross profit amounted to HK\$132.9 million during the year ended 31 December 2018, as compared to HK\$97.5 million during the year ended 31 December 2017. The gross profit margin increased from 32.3% to 38.4%, representing an increase of 6.1 percentage point. The increase was primarily due to the wider applications of our agar-agar products and the increases in the sales volume and the average unit selling price of agar-agar products.

Sales of carrageenan products. The gross profit amounted to HK\$99.3 million during the year ended 31 December 2018, as compared to HK\$53.9 million for the year ended 31 December 2017. The gross profit margin decreased slightly from 19.3% during the year ended 31 December 2017 to 18.6% during the year ended 31 December 2018, representing a slight decrease of 0.7 percentage point. Pursuant to the Frost & Sullivan Report, due to the strong demand during the period, producers of carrageenan products, like us, were able to transfer the cost increase to their customers so as to maintain the gross profit margin.

FINANCIAL INFORMATION

Sales of konjac products. The gross profit margin increased from 13.0% to 15.1%, representing an increase of 2.1 percentage point. The amount of gross profit increased by 145.0% from HK\$2.0 million to HK\$4.9 million as a result of the increased sales volume of konjac gum products and high average unit selling prices, offset by the increasing average unit purchase cost.

Sales of blended products. The gross profit margin remained more or less the same from 35.1% to 35.8%. The amount of gross profit increased from HK\$22.6 million to HK\$29.8 million, representing an increase of 31.9% because of the increase in sales volume by 4.6% and the increase in the average unit selling price by 23.6% following the increase in the average unit purchase cost of carrageenan and konjac.

Changes in fair value of biological assets

During the year ended 31 December 2018, the change in the fair value of biological assets (seaweed) charged to our consolidated statement of profit or loss was a loss of HK\$27,000. Such loss was primarily due to the fact that there was no unharvested seaweed as of 31 December 2018. We had a loss of HK\$1.1 million during the year ended 31 December 2017 because we used harvested seaweed as our inventory for production requirement.

Other income

During the year ended 31 December 2018, the amount of other income mainly represented the government grants recognised during the period of HK\$7.3 million, as compared to HK\$7.1 million during the year ended 31 December 2017.

Other losses — net

During the year ended 31 December 2018, we recorded net foreign exchange loss of HK\$1.9 million from operating activities due to the substantial depreciation of RMB against Hong Kong dollars, as compared to a gain of HK\$0.8 million during the year ended 31 December 2017.

Net impairment (losses)/gains on financial assets

During the year ended 31 December 2018, the amount charged to our consolidated statement of profit or loss amounted to HK\$0.7 million because of further provision for impairment whilst there was a net impairment gain of HK\$1.4 million during the year ended 31 December 2017.

Selling and distribution expenses

Our selling and distribution expenses increased by 24.8% from HK\$12.9 million during the year ended 31 December 2017 to HK\$16.1 million during the year ended 31 December 2018, mainly due to the increase in the share-based payment expenses and the increase in the transportation and travel expenses and the staff-related costs as a result of the increase in our revenue and our strengthened direct sales force. Our selling and distribution expenses as a percentage of revenue decreased from 1.9% during the year ended 31 December 2017 to 1.6% (including the share-based payment expenses of HK\$1.55 million) during the year ended 31 December 2018, mainly due to the economies of scale.

FINANCIAL INFORMATION

Administrative expenses

Our administrative expenses significantly increased by 115.8% from HK\$45.7 million during the year ended 31 December 2017 to HK\$98.6 million during the year ended 31 December 2018, mainly due to the increase in staff salaries, share-based payment expenses, research and development expenses, and depreciation and amortisation. We also incurred expense for the Listing of HK\$16.7 million. During the year ended 31 December 2018, our business scale expanded and as such, we incurred increased amount of administrative expenses.

Finance income and finance costs

Our finance income and finance costs, net increased by 290.0% from HK\$7.0 million during the year ended 31 December 2017 to HK\$27.3 million during the year ended 31 December 2018, mainly due to the increase in bank borrowings and the issue of the Convertible Bond. During the year ended 31 December 2018, the amount of capitalised interest decreased, as compared to the same period for the year ended 31 December 2017, mainly because of completion of construction of our production facilities.

Income tax expense

Income tax expense increased from HK\$27.7 million during the year ended 31 December 2017 to HK\$36.0 million during the year ended 31 December 2018, primarily because of the increase in profit before tax, less preferential income tax impact and certain expense items, such as share-based payment, may not be fully deductible for income tax purpose.

Profit for the year

As a result of the foregoing, our profit increased from HK\$92.8 million during the year ended 31 December 2017 to HK\$93.8 million during the year ended 31 December 2018. Our net profit margin decreased from 14.0% during the year ended 31 December 2017 to 9.4% during the year ended 31 December 2018, primarily due to the impact arising from the share-based payment expenses, the expenses incurred for the Listing and the increase in the selling and distribution expenses and administrative expenses as a result of our business expansion. Without considering the impact of the Listing expenses and the share-based payment expenses, our net profit margin during the year ended 31 December 2018 would have been increased to 12.8%.

Year ended 31 December 2017 compared to year ended 31 December 2016

Revenue

Our revenue increased by 23.6% from HK\$535.1 million in 2016 to HK\$661.6 million in 2017, primarily due to the increase in revenue in our three business segments, namely, the sales of agar-agar products, sales of carrageenan products, and the sales of blended products. Such increase was driven by the strong demand from customers in the PRC and the European countries. We also increased sales to international markets, such as South America and North America. The following is a description of the performance of each business segment.

FINANCIAL INFORMATION

Sales of agar-agar products. Revenue from the sales of agar-agar products increased by 15.8% from HK\$260.7 million in 2016 to HK\$302.0 million in 2017. The sales volume increased by 192.49 tonne, or 7.6%. The increase was primarily due to the increase in the overall number of our customers from 109 as of 31 December 2016 to 141 as of 31 December 2017. The average unit selling price only increased by 7.7%. The increase in the sales volume was supported by our new production line at Workshop No.6 of the Greenfresh (Fujian) Production Plant which commenced commercial production in September 2017. Such production line increased the production capacity of agar-agar products by 640 tonnes in 2017, as compared to the production capacity in 2016.

Sales of carrageenan products. Revenue from the sales of carrageenan products increased by 38.5% from HK\$201.9 million in 2016 to HK\$279.7 million in 2017. The sales volume increased by 6.6%, and the average unit selling price significantly increased by 30.1%. The number of our customers also increased from 149 as of 31 December 2016 to 174 as of 31 December 2017. The increase in the average unit selling price was driven by the increase in the average unit purchase cost of cottonii and spinosum.

Sales of konjac products. Revenue from the sales of konjac products, however, decreased sharply by 23.3% from HK\$20.2 million in 2016 to HK\$15.5 million in 2017. The sales volume also decreased by 99.42 tonnes, or 36.1%. The decrease was primarily due to the unexpected under-stocking of the konjac raw materials. The average unit selling price, however, increased by 19.8% from HK\$73.3 in 2016 to HK\$87.8 in 2017 reflecting the increase in the average unit purchase cost.

Sales of blended products. Revenue from the sales of blended products increased by 22.9% from HK\$52.3 million in 2016 to HK\$64.3 million in 2017. The sales volume also increased by 16.4% in 2017. The average unit selling price only increased by 5.6% from HK\$55.1 to HK\$58.2. The increase in sales was primarily due to the increase in the number of our customers for blended products, and the increase in the average unit selling price was due to the increase in the average unit purchase cost of carrageenan.

Cost of sales

Our cost of sales increased by 16.5% from HK\$416.7 million in 2016 to HK\$485.6 million in 2017. For our agar-agar products, the cost of sales increased by 8.2%, which was less than the increase in the amount of revenue. Increase in other production cost (excluding raw materials, work-in-progress, and finished products consumed) was due to the increased staff cost and depreciation charge on our production line, which commenced commercial production in the fourth quarter of 2017. For our carrageenan products, the cost of sales increased by 27.4% from HK\$177.3 million to HK\$225.9 million. The increase was primarily due to the continuous increases in the cost of raw materials, i.e. cottonii, of 58.0%. The average unit cost of sales of konjac powder also increased by 52.1% primarily due to the increase in the average unit purchase cost. For our blended products, the average unit cost of sales increased by 6.15%, primarily due to the increase in the average unit purchase cost.

FINANCIAL INFORMATION

Gross profit and gross profit margin

Our overall gross profit increased from HK\$118.4 million in 2016 to HK\$175.9 million in 2017, representing an increase of 48.6%. Our overall gross profit margin in 2017 was 26.6% which was higher than 22.1% in 2016.

Sales of agar-agar products. Although there was only a slight increase in the average unit selling price by 7.7%, there was a significant increase in the sales volume. As a result, the gross profit margin improved by 4.8 percentage point from 27.5% to 32.3%. Other than the sales to the then existing customers, there was increasing demand from new customers of our agar-agar products.

Sales of carrageenan products. The gross profit margin increased by 7.1 percentage point from 12.2% in 2016 to 19.3% in 2017. The increase in the gross profit margin was primarily driven by the increase in the average unit selling price by 30.0% from HK\$41.2 in 2016 to HK\$53.6 in 2017. The increase in the average unit selling price was partly due to the increase in the average unit purchase cost by 58.0%.

Sales of konjac products. The gross profit margin decreased by 5.2 percentage point from 18.2% in 2016 to 13.0% in 2017. The decrease in the gross profit margin was principally due to the decrease in the sales volume which could not absorb the fixed production costs, albeit that the average unit selling price increased by 19.7% from HK\$73.3 in 2016 to HK\$87.8 in 2017 because of the increase in the average unit purchase cost.

Sales of blended products. The gross profit margin slightly decreased from 35.4% in 2016 to 35.1% in 2017. There was an increase in the average unit selling price, but such increase was off-set by the increase in the average unit purchase cost.

Changes in fair value of biological assets

In 2017, the change in fair value of biological assets (seaweed) charged to our consolidated statement of profit or loss was a net loss of HK\$1.2 million, as compared to a gain of HK\$1.2 million in 2016. The fluctuation was mainly due to the consumption of most of the harvested seaweed in the first half of 2017. There was small quantity of seaweed cultivated by us during the year ended 31 December 2017.

Other income

During the year ended 31 December 2017, the amount of other income was HK\$8.0 million. We recorded government grants recognised during the year of HK\$7.1 million.

Other (losses)/gains — net

In 2017, we recorded other gains — net of HK\$1.9 million as compared to other losses — net of HK\$1.4 million in 2016. We recorded net gain from the sales of seaweed of HK\$1.5 million. We sold surplus inventory of seaweed to our business partners. Such business activities do not form part of our ordinary course of business. The other losses in 2016 included government penalty of HK\$1.3 million, see the section headed “Business — Environment protection” in this prospectus.

FINANCIAL INFORMATION

Net impairment (losses)/gains on financial assets

The amount of net impairment gain in 2017 was HK\$1.4 million, as compared to net impairment loss of HK\$5.1 million in 2016. The difference was primarily due to the reversal of impairment of individual trade receivables and a further impairment reversal according to our accounting policies.

Selling and distribution expenses

Our selling and distribution expenses increased by 46.6% from HK\$8.8 million in 2016 to HK\$12.9 million in 2017, primarily due to the increase in our staff-related costs, transportation and port expenses, and marketing and promotion expenses, and other selling expenses as a result of our continuous efforts to strengthen our sales force. Our selling and distribution expenses as a percentage of revenue increased from 1.6% in 2016 to 2.0% in 2017.

Administrative expenses

Our administrative expenses increased by 50.8% from HK\$30.3 million in 2016 to HK\$45.7 million in 2017, mainly due to the increase in staff salaries from HK\$8.3 million to HK\$13.6 million and the Listing expenses of HK\$5.7 million. All other items of the administrative expenses increased correspondingly with the expansion of our business during the year.

Finance income and finance costs

Our finance income and finance costs, net increased slightly in 2017, as compared with the same in 2016. Although we incurred higher amount of interest and finance charges for bank borrowings which were used to finance the construction of our production facilities, a significant part of which was capitalised because the production facilities had yet to be completed for commercial production.

Income tax expense

Income tax expense increased from HK\$18.4 million in 2016 to HK\$27.7 million in 2017, primarily because of the increase in profit before taxation in 2017 by 67.7% as compared to the profit before income tax in 2016.

Profit for the year

As a result of the foregoing, our profit increased from HK\$53.4 million in 2016 to HK\$92.8 million in 2017. Our net profit margin increased from 10.0% in 2016 to 14.0% in 2017. The increase in our net profit margin was primarily due to the improvement in our gross profit margin for the reasons set forth above. Although there were increases in the selling and distribution expenses and administrative expenses, the impact of such increases was offset by the increase in the amount of our gross profit.

FINANCIAL INFORMATION

SUMMARY OF OUR BUSINESS DEVELOPMENT PRIOR TO THE TRACK RECORD PERIOD

The following sets forth certain information on the performance of our Group during the four years ended 31 December 2015 (the “**Pre-Track Record Period**”) which attribute to and pave the foundation for our significant business growth during the Track Record Period. Information on the history of our Group is also set forth in the section headed “History, Development, and Reorganisation — Business milestones” of this prospectus, which mentioned that our two principal business activities, i.e. production and sales of carrageenan products and agar-agar products, were until December 2012 conducted by Mr. CHAN Shui Yip and Mr. CHAN Kam Chung on the one hand and Mr. GUO Wentong, Mr. GUO Dongxu, Mr. GUO Yuansuo, and Mr. GUO Donghuang on the other hand primarily through Lvbao (Quanzhou), Greenfresh (Fujian), and Lvqi (Fujian) in the PRC. During the initial period subsequent to the business combination, there was no unified corporate structure for these two related business activities. The combination of these two businesses, as described in the section headed “History, Development, and Reorganisation — Business milestones” of this prospectus, was an important corporate development for us, pursuant to which the corporate structure of our Group was gradually established and that resources were allocated to establish different business functions of our Group for the purpose of our business growth and development. These processes could not be completed instantly, and the benefits derived from the business combination are realised throughout the Pre-Track Record Period and the Track Record Period, both in terms of the increasing production capacity and production efficiency as well as the number and the variety of the customers served by us.

In light of the foregoing, our Directors believe that an analysis of the performance of our Group during the Pre-Track Record Period may be divided into two principal stages, namely (a) the period from 2001 to 2012 and (b) the period from 2013 to 2015. The following sets forth the information on the business development in each of these two principal stages:

Business development from 2001 to 2012

Agar-agar products and carrageenan products have traditionally been produced in Europe, US, and Japan, but there was gradual move of the production base to China primarily because of the then low cost of production. In May 2001, Mr. CHAN Kam Chung and Mr. CHAN Shui Yip established Lvbao (Quanzhou) and the first production line for the production of carrageenan products with an annual production capacity of 770 tonnes in Quanzhou, Fujian Province, the PRC, as they realised the development potentials of carrageenan products in a wide range of food applications. Greenfresh (Fujian) subsequently constructed the second and the third production lines of carrageenan products in Zhangzhou, Fujian Province, the PRC, with an annual production capacity of 2,420 tonnes and 1,760 tonnes, respectively.

The production activities of agar-agar products were conducted through Lvqi (Fujian) which was owned by Mr. GUO Wentong, Mr. GUO Dongxu, Mr. GUO Yuansuo, and Mr. GUO Donghuang.

In December 2012, Mr. CHAN Kam Chung and Mr. CHAN Shui Yip agreed with Mr. GUO Wentong, Mr. GUO Dongxu, Mr. GUO Yuansuo, and Mr. GUO Donghuang on the combination of their respective businesses, i.e. Greenfresh (Fujian), Lvbao (Quanzhou), and Lvqi (Fujian), by way of creating a holding company for the production and sales of carrageenan products and agar-agar products. Greenfresh (Fujian) and Lvbao (Quanzhou) continued to focus on the production of

FINANCIAL INFORMATION

carrageenan products, and Lvqi (Fujian) was specialised in the production of agar-agar products. The combination of the respective production expertise and experience has enhanced the product offerings of hydrocolloid products and created synergy for the development and expansion of business. As a result of the business combination, the companies engaging in the business of production and sales of carrageenan products and agar-agar products owned by Mr. CHAN Kam Chung and Mr. CHAN Shui Yip, and Mr. GUO Wentong, Mr. GUO Dongxu, Mr. GUO Yuansuo, and Mr. GUO Donghuang, namely Greenfresh (Fujian), Lvbao (Quanzhou), and Lvqi (Fujian), respectively, have become members of our Group. Nonetheless, these companies were still operated separately under their respective business models and not until 2015, from which the management of our Group has commenced the re-design and revamp of the operation and management of the two businesses, including integrating the business operations and standardising the operational and managerial systems and procedures, for the purpose of achieving better performance and improving the production efficiency of our Group as a whole.

During the year ended 31 December 2012, our Group had four production lines: one adjustable production line that can produce 550 tonnes of agar-agar products and 350 tonnes of carrageenan products and three production lines dedicated for the production of carrageenan products in the aggregate annual design production capacity of 4,950 tonnes. The revenue of our Group during the year ended 31 December 2012 amounted to HK\$217.0 million, and the gross profit margin remained at less than 10% and the net profit margin of less than 2.0% was very thin due to the and the less sophisticated management and control of the two business activities. As of 31 December 2012, we had 121 customers.

Business development from 2013 to 2015

During the three years ended 31 December 2015, we continued to expand our production capacity and increased our marketing efforts to expand our customer base. In addition to seaweed-based hydrocolloid products, we have also developed other colloid products with marketing potential, including konjac products. Konjac has rich dietary fibre. We are confident with the future development trends of health food and the anticipated increase in demand for konjac products. From 2013 to 2015, we continued to explore the konjac product business, including enhancing the cost efficiency in the use of different raw materials in the production process and the development of different kinds of konjac products.

Our positioning of producing high-quality products has been determined primarily based on the business philosophy developed by Mr. CHAN Kam Chung and Mr. CHAN Shui Yip. Our end customers — the food processing companies place strong emphasis on the quality of raw materials, ingredients, and food additives — are prudent in the selection of suppliers given the stringent requirements imposed by food safety regulations. We understand that by supplying high-quality products and maintaining a stable supply, we can attract long-term and premium and reputable customers to drive our business growth and increase our profitability. In this regard, we have invested continuously to enhance our production capacity and product technology, most of which have been patented as of the date of this prospectus.

FINANCIAL INFORMATION

Year ended 31 December 2013

During the year ended 31 December 2013, we had five production lines: one production line dedicated for the production of agar-agar products in the aggregate annual design production capacity of 380 tonnes, one adjustable production line that can produce 1,000 tonnes of agar-agar products and 100 tonnes of carrageenan products, and three production lines dedicated for the production of carrageenan products in the aggregate annual design production capacity of 4,950 tonnes. The revenue of our Group during the year ended 31 December 2013 increased significantly by 62.0%, as compared to the amount of revenue for the year ended 31 December 2012, due to the increase in our production capacity in seaweed-based hydrocolloid products by close to 10.0% during the second half of 2013. The overall utilisation rate of our production facilities increased significantly by close to 20.0%, which resulted in the increase in the sales volume of our agar-agar and carrageenan products by close to 50.0% during the year, as compared to the sales volume during the year ended 31 December 2012. On the other hand, the average purchase cost of dried seaweed and the average selling prices of our products experienced increases by 17.5% and 6.7% respectively, and hence, we did not experience any significant improvement in the gross profit margin and the net profit margin during the year ended 31 December 2013, primarily due to the increased purchase cost of dried seaweed and the increased administrative expenses and finance expenses, which were associated with the business expansion. Our gross profit remained at less than 10% and the net profit margin remained at less than 2.0%.

As of 31 December 2013, we had 146 customers.

Year ended 31 December 2014

During the year ended 31 December 2014, we had seven production lines: one production line dedicated for the production of agar-agar products in the aggregate annual design production capacity of 1,045 tonnes, one adjustable production line that can produce 1,100 tonnes of agar-agar products, and three production lines dedicated for the production of carrageenan products in the aggregate annual design production capacity of 4,950 tonnes. We also have two production lines of konjac products in the aggregate annual design production capacity of 660 tonnes. We continued to experience a significant growth in our revenue by 40.0% during the year ended 31 December 2014, as compared to the amount of revenue for the year ended 31 December 2013. Due to our new production facilities, we had a full year of commercial operation during the year ended 31 December 2014, and our production capacity increased by 10.3% in 2014. The utilisation rate of our production facilities also increased at a similar percentage. These resulted in an increase in the sales volume of our agar-agar products and carrageenan products by 20.0% during the year, as compared to the year ended 31 December 2013. The average purchase cost of dried seaweed and the average selling prices of our products also experienced differential increases by 22.5% and 19.0%, respectively, and as a result, our gross profit margin only increased slightly by 2.2% to more than 10.0% during the year ended 31 December 2014. During the year, we incurred product research and development expenses of HK\$20 million and as a result, our net profit margin decreased to around 1.3%. Our Directors believe that the expenses, which were relating to production process enhancement and product development, were necessary for and incidental to our future business development.

As of 31 December 2014, we had 191 customers.

FINANCIAL INFORMATION

Year ended 31 December 2015

Since 2015, our management systems and procedures have reformed with new management lines and systems (including the establishment of seven management centres, namely procurement, production, marketing, product research and development, finance, quality control, and management) established, and we have also increased our efforts in recruiting professionals in various business functions and improved the workflows, control standards, and the use of KPI (key performance indices) in management appraisal. These measures in turn have improved the production efficiency and the performance of our Group, albeit that the finance cost and administrative cost incurred by us also increased because of the establishment of the standardised production and reporting systems and procedures.

During the year ended 31 December 2015, we had eight production lines: one production line dedicated for the production of agar-agar products in the aggregate annual design production capacity of 1,045 tonnes, two adjustable production lines that can produce 1,320 tonnes of agar-agar products and 280 tonnes of carrageenan products, and three production lines dedicated for the production of carrageenan products in the aggregate annual design production capacity of 4,950 tonnes. We also have two production lines of konjac products in the aggregate annual design production capacity of 660 tonnes. During the year ended 31 December 2015, there was significant decrease in the market prices of dried seaweed due to over-supply. Such price decrease resulted in corresponding decreases in the market prices of our products and as a result, our revenue decreased by 5.0%. Our sales volume increased by 7.0% as a result of the commencement of commercial operation of one production line in the third quarter of 2015. As a corollary of our increased product development efforts in 2014, we had increased our production efficiency, both in terms of extracting colloid contents and reducing the waste materials. Our gross profit margin increased by 5.5% to 16.2% and the net profit margin also increased to more than 6.0%.

As of 31 December 2015, we had 240 customers.

Business development directions

Our Directors believe our continuous business development during the Pre-Track Record Period is attributable to the following key aspects:

- (a) **Industry development.** The increasing scope of applications of seaweed-based hydrocolloid products has proved to provide promising business opportunities to our Group.

FINANCIAL INFORMATION

- (b) **Capacity expansion.** We have expanded the production capacity continuously throughout the Pre-Track Record Period. The increase in our production capacity enabled us to increase our production volume and our sales volume. We have started selling our seaweed-based hydrocolloid products to reputable customers, such as international food processing and dairy brands. The table below sets forth a summary of our growth rates in the production capacity and the production volume of agar-agar products and the carrageenan products:

	Four years ended 31 December 2015	Three years ended 31 December 2018
Compound growth rate of production capacity	9.1%	28.2%
Compound growth rate of production volume	30.7%	22.3%

During the Pre-Track Record Period, the growth of our production volume was faster than the growth of our production capacity and as such, the utilisation of our production facilities was close to the optimal level in 2015.

- (c) **Business combination and sound integration execution.** Both the Agar-agar products and carrageenan products are produced by red seaweed. Although both products have similar production process, the production of both require experience and coordination in the upstream and downstream process in order to increase the production efficiency. The production efficiency, which is generally measured by the number of tonnes of dried seaweed for the production of one tonne of agar-agar products or carrageenan products, has undergone a significant improvement during the Pre-Track Record Period as well as the Track Record Period. See the section headed “Business — Procurement of raw materials and suppliers — Raw materials” in this prospectus for further information.
- (d) **Continuous investment in the research and development of products, including improving product quality and launching new products that address customers’ needs.** Our Directors believe that we can meet our customers’ needs for their evolving changes and improving the products, which in turn help build our brand reputation in the industry and serve as an important milestone for us to continuously increase business volume and attract new customers.

Business development during the Track Record Period

During the year ended 31 December 2016, we had eight production lines: one production line dedicated for the production of agar-agar products in the aggregate annual design production capacity of 1,045 tonnes, two adjustable production lines that can produce 1,960 tonnes of agar-agar products and 240 tonnes of carrageenan products, and three production lines dedicated for the production of carrageenan products in the aggregate annual design production capacity of 5,720 tonnes. We also have two production lines of konjac products in the aggregate annual design production capacity of 660 tonnes. As of 31 December 2016, we had 271 customers.

FINANCIAL INFORMATION

In September and October 2017, two additional production lines with an annual design production capacity of 480 tonnes and 1,215 tonnes of agar-agar products and carrageenan products, respectively, were completed for commercial production.

The sales volume of our products during the year is set forth in the section headed “Business — Sales and customers” in this prospectus.

During the year ended 31 December 2017, we had 10 production lines: two production lines dedicated for the production of agar-agar products in the aggregate annual design production capacity of 1,525 tonnes and two adjustable production lines that can produce 2,120 tonnes of agar-agar products and 80 tonnes of carrageenan products, four production lines dedicated for the production of carrageenan products in the aggregate annual design production capacity of 6,935 tonnes. We also have two production lines of konjac products in the aggregate annual design production capacity of 660 tonnes. As of 31 December 2017, we had 369 customers.

The sales volume of our products during the year is set forth in the section headed “Business — Sales and customers” in this prospectus.

Pursuant to the Frost & Sullivan Report, we ranked first in 2018 amongst the agar-agar producers, both in the PRC and the global market, in terms of both the sales volume and the sales value. Pursuant to the same report, our market share in the PRC agar-agar market in 2018 was 31.6% in terms of sales volume and 33.7% in terms of sales value. Our market share in the global agar-agar market in 2018 was 13.4% in terms of sales volume and 10.3% in terms of sales value. Pursuant to the Frost & Sullivan Report, we ranked in 2018 second amongst the carrageenan producers in the PRC, with the market share of 22.7% in terms of sales volume and 27.7% in terms of sales value. Our market share in the global carrageenan market in 2018 was 9.4% in terms of sales volume and 10.4% in terms of sales value. During the Track Record Period, the average production capacity utilisation rate of the agar-agar products and carrageenan products of our Group was 86.4%, 77.2%, and 78.6%, respectively, which were maintained at high level of use. The expansion of production capacity serves as a fundamental support to the growth of our business and to a large extent, it can help us to strength the bargaining power in the purchase of raw materials, attracting new and reputable customers and improving our gross profit margins.

During the year ended 31 December 2018, we had 10 production lines with two production lines dedicated for the production of agar-agar products in the aggregate annual design production capacity of 2,365 tonnes, two adjustable production lines that can produce 2,200 tonnes of agar-agar products, and four production lines dedicated for the production of carrageenan products in the aggregate annual design production capacity of 10,175 tonnes. We also have two production lines of konjac products in the aggregate annual design production capacity of 660 tonnes. As of 31 December 2018, we had 490 customers.

The sales volume of our products during the year is set forth in the section headed “Business — Sales and customers” in this prospectus.

FINANCIAL INFORMATION

SENSITIVITY AND BREAKEVEN ANALYSES

Sensitivity analyses - average unit selling prices

We set forth below sensitivity analyses on fluctuations in the average unit selling prices, cost of seaweed and konjac, and cost of raw materials. The analyses illustrate the hypothetical impact on our net profit before tax with 5%, 10%, and 15% increase or decrease in the respective items. We also set forth below a breakeven analysis based on the same variables. Due to a number of assumptions applied involved in the calculation, the sensitivity and the breakeven analyses below are for illustration purpose only, and the actual results would differ from the illustrations below:

	Change in net profit for change in the average unit selling prices			
	+/-5%	+/-10%	+/-15%	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
Year ended 31 December 2016	±26,754	±53,509	±80,263	
Year ended 31 December 2017	±33,078	±66,157	±99,235	
Year ended 31 December 2018	±49,853	±99,706	±149,558	
Three months ended 31 March 2019	±9,514	±19,028	±28,543	
	Year ended 31 December			Three months ended
	2016	2017	2018	31 March
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2019</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Increase in the average unit selling price				
Adjustment to the average unit selling prices . < -----105% ----->				
Change in net profit	26,589	33,078	49,852	9,514
Adjustment to the average unit selling prices . < -----110% ----->				
Change in net profit	53,344	66,157	99,705	19,028
Adjustment to the average unit selling prices . < -----115% ----->				
Change in net profit	80,098	99,235	149,558	28,543

FINANCIAL INFORMATION

	Year ended 31 December			Three months ended 31 March 2019
	2016	2017	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Decrease in the average unit selling price				
Adjustment to the average unit selling prices . <-----95%----->				
Change in net profit	(26,589)	(33,078)	(49,852)	(9,514)
Adjustment to the average unit selling prices . <-----90%----->				
Change in net profit	(53,344)	(66,157)	(99,705)	(19,028)
Adjustment to the average unit selling prices . <-----85%----->				
Change in net profit	(80,098)	(99,235)	(149,558)	(28,543)

Sensitivity analysis — cost of dried seaweed and konjac

	Change in net profit for change in cost of dried seaweed and konjac		
	+/-5%	+/-10%	+/-15%
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2016	13,792	27,585	41,378
Year ended 31 December 2017	17,301	34,602	51,904
Year ended 31 December 2018	27,288	54,575	81,863
Three months ended 31 March 2019	4,223	8,445	12,668

	Year ended 31 December			Three months ended 31 March 2019
	2016	2017	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Increase in cost of dried seaweed and konjac				
Adjustment to the cost of dried seaweed and konjac <-----105%----->				
Change in net profit	(13,792)	(17,301)	(27,288)	(4,223)
Adjustment to the cost of dried seaweed and konjac <-----110%----->				
Change in net profit	(27,585)	(34,602)	(54,575)	(8,445)
Adjustment to the cost of dried seaweed and konjac <-----115%----->				
Change in net profit	(41,378)	(51,904)	(81,863)	(12,668)

FINANCIAL INFORMATION

	Year ended 31 December			Three months ended 31 March 2019
	2016	2017	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Decrease in cost of dried seaweed and konjac				
Adjustment to the cost of dried seaweed and konjac	<-----95%----->			
Change in net profit	13,792	17,301	27,288	4,223
Adjustment to the cost of dried seaweed and konjac	<-----90%----->			
Change in net profit	27,585	34,602	54,575	8,445
Adjustment to the cost of dried seaweed and konjac	<-----85%----->			
Change in net profit	41,378	51,904	81,863	12,668

Sensitivity analysis — cost of raw materials

	Change in net profit for change in cost of raw materials		
	+/-5%	+/-10%	+/-15%
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2016	17,742	34,945	52,417
Year ended 31 December 2017	20,445	40,889	61,334
Year ended 31 December 2018	30,618	61,235	91,852
Three months ended 31 March 2019	5,630	11,259	16,889

	Year ended 31 December			Three months ended 31 March 2019
	2016	2017	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Adjustment to the cost of raw materials	<-----105%----->			
Change in net profit	(17,497)	(21,835)	(30,618)	(5,630)
Adjustment to the cost of raw materials	<-----110%----->			
Change in net profit	(34,994)	(43,670)	(61,235)	(11,259)
Adjustment to the cost of raw materials	<-----115%----->			
Change in net profit	(52,492)	(65,504)	(91,852)	(16,889)

FINANCIAL INFORMATION

	Year ended 31 December			Three months ended 31 March 2019
	2016	2017	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Adjustment to the cost of raw materials	<-----95%----->			
Change in net profit	17,497	21,835	30,618	5,630
Adjustment to the cost of raw materials	<-----90%----->			
Change in net profit	34,994	43,670	61,235	11,259
Adjustment to the cost of raw materials	<-----85%----->			
Change in net profit	52,492	65,504	91,852	16,899

Breakeven analysis

The table below sets forth a breakeven analysis which illustrates the extent of increases/decreases in the average unit selling prices or cost of sales or cost of dried seaweed that would result in breakeven in the amount of gross profit in the relevant years/periods indicated (excluding the expenses for Listing):

	Year ended 31 December			Three months ended 31 March 2019
	2016	2017	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	%	%	%	%
Decrease in the average unit selling price of our products/tonnes	9.98	14.02	9.40	9.12
Increase in the cost of dried seaweed and konjac	19.35	26.81	17.18	20.55
Increase in the cost of raw materials	15.28	22.69	15.32	15.41

LIQUIDITY AND FINANCIAL RESOURCES

Overview

Our liquidity requirements primarily relate to working capital needs, business expansion, upgrade of production facilities, and repayment of bank loans. Our principal sources of liquidity are cash inflows from our operations, bank loans, and other financing activities. In November 2017, our Company issued the Convertible Bond in the principal amount of HK\$60.0 million. As of 31 December 2018, we had cash and bank balances of HK\$55.8 million. As of 31 March 2019, we had cash and bank balances of HK\$60.9 million.

FINANCIAL INFORMATION

As of 31 December 2018, our short-term interest-bearing bank borrowings (being classified as our current liabilities) amounted to HK\$253.4 million, and such balance has been increased to HK\$277.7 million due to increase in bank borrowings to finance operation. As of 31 December 2018 and 31 March 2019, our current assets exceeded our current liabilities by HK\$71.6 million and HK\$82.8 million, respectively, and our long-term interest-bearing borrowing amounted to HK\$63.6 million and HK\$63.9 million, respectively, and the outstanding balance of the Convertible Bond was HK\$52.6 million and HK\$53.3 million.

As of 31 March 2019, we had used banking facilities of HK\$341.6 million and had unused banking facilities of HK\$127.4 million. The bank borrowings are currently secured by our land use rights and buildings and the personal guarantees from certain Controlling Shareholders, subsidiaries of our Company, and related parties. The personal guarantees provided by our Controlling Shareholders and related parties will be released upon Listing.

See the paragraphs under “Principal components of our current assets and current liabilities” below for further information on our net current liabilities as of 31 December 2016, 2017, and 2018, and 31 March 2019.

The following sets forth consolidated statements of cash flows for the years/periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>				
Net cash generated from operating activities	106,578	110,427	39,105	18,060	11,816
Net cash used in investing activities . .	(81,763)	(149,395)	(58,247)	(21,633)	(17,760)
Net cash generated from/(used in) financing activities	49,020	(25,912)	42,759	4,501	9,823
Net increase/(decrease) in cash and cash equivalents	73,835	(64,880)	23,617	928	3,879
Cash and cash equivalents at beginning of year/period	22,587	92,690	33,123	33,123	55,855
Effect of foreign exchange rates changes	(3,732)	5,313	(885)	1,803	1,164
Cash and cash equivalents at end of the year/period	<u>92,690</u>	<u>33,123</u>	<u>55,855</u>	<u>35,854</u>	<u>60,898</u>

FINANCIAL INFORMATION

Cash flows generated from operating activities

The following sets forth further information on our cash flows generated from operating activities during the years/periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>	
Profit before income tax	71,818	120,448	129,773	9,385	23,107
Adjustments for					
— Amortisation of land use rights	579	787	1,148	268	440
— Depreciation of property, plant and equipment	16,081	20,613	32,848	8,481	8,305
— Amortisation of intangible assets	1,354	1,470	5,735	1,364	1,725
— Provision/(reversal) of provision of loss allowance	5,104	(1,382)	668	(695)	(1,113)
— Equity settled share-based payment expense	—	—	17,567	12,340	1,330
— Finance expenses—net	7,929	4,315	14,729	17,829	13,436
— Deferred income	17,534	—	—	—	—
— Amortisation of deferred income	(3,038)	(3,457)	(3,553)	(922)	(871)
— Foreign exchange losses/(gains) on operating activities	(20,257)	6,589	(4,350)	(2,663)	1,628
— Losses on disposal of property, plant and equipment	—	371	36	27	—
Changes in working capital:					
— Restricted cash	(2,418)	5,581	—	—	—
— Inventories	5,550	(35,503)	(34,556)	(25,197)	(92,538)
— Trade and other receivables	4,494	(30,322)	(64,946)	53,880	38,530
— Trade and other payables, excluding amounts due to related parties	18,074	40,843	(21,244)	(52,852)	31,942
Net cash generated from operating activities	122,804	130,353	73,855	21,245	25,921

Our cash from operations was mainly generated from receipts of payments for the sales of our products. Our cash used in operations mainly comprised payment for our purchase of raw materials, employee benefit expenses, taxes and other operating expenses.

Our operating cash flow has been maintaining at good level during the three years ended 31 December 2018 which was mainly attributable to the continuing increase in profitability of our Group and tightened control over the collection of trade receivables and payment to trade payables during the period.

FINANCIAL INFORMATION

Due to effect of time the operating cash inflow for the three months ended 31 March 2019 reflected only part of the yearly inflow level, but a stronger inflow was noted as compared to the three months ended 31 March 2018 due to our stronger profit level during the three months ended 31 March 2019.

During the year ended 31 December 2018, net cash generated from our operating activities was HK\$39.1 million, which was mainly attributable to the cash generated from operations of HK\$73.9 million, partially offset by income tax paid of HK\$34.7 million. Our operating cash flows before working capital changes was HK\$194.6 million which was primarily attributable to profit before tax of HK\$129.8 million after adjustment for non-cash or non-operating activities related items, which principally included (a) depreciation of properties, plant, and equipment of HK\$32.8 million; (b) equity-settled share-based payment expenses of HK\$17.6 million; and (c) finance expenses of HK\$14.7 million. Our change in working capital was attributable to a cash outflow of HK\$120.7 million, which was primarily due to the increase in inventories of HK\$34.5 million, the increase in trade and other receivables of HK\$64.9 million and the decrease in trade and other payables of HK\$21.2 million.

During the year ended 31 December 2017, net cash generated from our operating activities was HK\$110.4 million, which was mainly attributable to the cash generated from operations of HK\$130.4 million, partially offset by income tax paid of HK\$ 19.9 million. Our operating cash flows before working capital changes was HK\$149.8 million, which was primarily attributable to profit before tax of HK\$120.4 million after adjustment for non-cash or non-operating activities related items, which principally included (a) depreciation of properties, plant, and equipment of HK\$20.6 million; (b) foreign exchange losses of HK\$6.6 million; and (c) finance expenses of HK\$4.3 million. Our change in working capital was attributable to a cash outflow of HK\$19.4 million, which was primarily due the increase in inventories of HK\$35.5 million and the increase in trade and other receivables of HK\$30.3 million, partially offset by the increase in trade and other payables of HK\$40.8 million.

During the year ended 31 December 2016, net cash generated from our operating activities was HK\$106.6 million, which was mainly attributable to the cash generated from operations of HK\$ 122.8 million, partially offset by income tax paid of HK\$16.2 million. Our operating cash flows before working capital changes was HK\$97.1 million, which was primarily attributable to profit before tax of HK\$71.8 million after adjustment for non-cash or non-operating activities related items, which principally included (a) depreciation of properties, plant, and equipment of HK\$ 16.1 million; (b) deferred income of HK\$17.5 million, (c) foreign exchange gains of HK\$20.3 million; and (d) finance expenses of HK\$7.9 million. Our change in working capital was attributable to a cash inflow of HK\$ 25.7 million, which was primarily due to the decrease in inventories of HK\$5.6 million, the decrease in trade and other receivables of HK\$4.5 million and the increase in trade and other payables of HK\$18.1 million.

Our operating cash flow has been improving during the Track Record Period which was mainly attributable to the continuing increase in our profitability and tightened control over the collection of trade receivables and payment to trade payables during the Track Record Period.

FINANCIAL INFORMATION

Cash flows used in investing activities

The following sets forth further information on our cash flows used in investing activities during the years/periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>	
Purchases of property, plant, and equipment	(54,497)	(121,837)	(56,487)	(21,340)	(17,584)
Purchases of land use rights	(10,040)	(20,447)	(1,078)	—	—
Purchases of intangible assets	(17,226)	(5,942)	(682)	(293)	(176)
Acquisition of subsidiaries, net of cash acquired.	—	(1,190)	—	—	—
Proceeds from sale of property, plant, and equipment	—	21	—	—	—
Net cash used in investing activities	<u>(81,763)</u>	<u>(149,395)</u>	<u>(58,247)</u>	<u>(21,633)</u>	<u>(17,760)</u>

During the Track Record Period, we derived cash outflow used in investing activities mainly attributable to purchases of properties, plant, and equipment, purchase of land use rights and purchase of intangible assets.

During the three months ended 31 March 2019, our cash used in investing activities was HK\$17.8 million, which was primarily due to purchase of properties, plant, and equipment of HK\$17.6 million.

During the three months ended 31 March 2018, our cash used in investment activities was HK\$21.6 million, which was primarily due to purchase of properties, plants, and equipment of HK\$21.3 million.

During the year ended 31 December 2018, our net cash used in investing activities was HK\$58.2 million, which was primarily due to purchase of properties, plant, and equipment of HK\$56.4 million.

During the year ended 31 December 2017, our net cash used in investing activities was HK\$149.4 million, which was primarily due to purchase of properties, plant, and equipment of HK\$121.8 million, purchase of land use rights of HK\$ 20.4 million, and purchase of intangible assets of HK\$5.9 million.

During the year ended 31 December 2016, our net cash used in investing activities was HK\$81.8 million, which was primarily due to purchase of properties, plant, and equipment of HK\$54.5 million, purchase of land use rights of HK\$10.0 million, and purchase of intangible assets of HK\$17.2 million.

FINANCIAL INFORMATION

Cash flows generated from/(used in) financing activities

The following sets forth further information on our cash flows generated from/(used in) financing activities during the years/periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>	
Proceeds from borrowings	276,827	262,144	509,811	104,149	129,296
Amounts received from related parties . .	45,872	68,586	480	283	—
Proceeds from the Convertible Bond . . .	—	60,000	—	—	—
Repayments of borrowings	(145,883)	(266,336)	(429,551)	(81,026)	(111,311)
Amounts repaid to related parties.	(119,422)	(140,973)	(12,963)	(12,540)	—
Interest paid.	(7,154)	(5,451)	(19,147)	(4,597)	(6,413)
Settlement of lease liabilities.	(1,220)	(2,349)	(2,360)	(584)	(617)
Listing expenses	—	(1,533)	(3,516)	(1,184)	(1,132)
Share allotment to our Controlling Shareholders	—	—	5	—	—
Net cash generated from financing activities	<u>49,020</u>	<u>25,912</u>	<u>42,759</u>	<u>4,501</u>	<u>9,823</u>

During the Track Record Period, our cash inflow from financing activities was primarily attributable to proceeds from bank and other borrowings. Our cash outflow from financing activities was mainly attributable to repayments of bank borrowings, repayments of balances due to related parties, interest paid, Listing expenses, and dividends paid.

During the three months ended 31 March 2019, our net cash generated from financing activities was HK\$9.8 million. The net cash generated from financing activities was primarily due to proceeds from bank borrowings of HK\$129.3 million, partially offset by repayment of bank borrowings of HK\$111.3 million, interest paid of HK\$6.4 million, and payment of the Listing expenses of HK\$1.1 million.

During the three months ended 31 March 2018, our net cash generated from financing activities was HK\$4.5 million. The net cash generated from financing activities was primarily due to proceeds from bank borrowings of HK\$104.1 million, partially offset by repayment of bank borrowings of HK\$81.0 million, amount repaid to certain connected persons of HK\$12.5 million, interest paid of HK\$4.6 million, and payment of the Listing expenses of HK\$1.2 million.

FINANCIAL INFORMATION

During the year ended 31 December 2018, our net cash generated from financing activities was HK\$42.8 million. The net cash generated from financing activities was primarily due to proceeds from bank borrowings of HK\$509.8 million, partially offset by repayment of bank borrowings of HK\$429.6 million, amounts repaid to related parties of HK\$13.0 million, interest paid of HK\$19.1 million and payment of the Listing expenses of HK\$3.5 million.

During the year ended 31 December 2017, net cash used in our financing activities was HK\$25.9 million. The net cash used in financing activities was primarily due to proceeds from bank borrowings of HK\$262.1 million, amounts received from related parties of HK\$68.6 million and proceeds from convertible bond of HK\$60.0 million, offset by repayments of bank borrowings of HK\$266.3 million, amounts repaid to related parties of HK\$141.0 million and interest paid of HK\$5.5 million.

During the year ended 31 December 2016, net cash generated from our financing activities was HK\$49.0 million. The net cash generated from financing activities was primarily due to proceeds from bank borrowings of HK\$276.8 million and amounts received from related parties of HK\$45.9 million, partially offset by repayments of bank borrowings of HK\$145.9 million, amounts repaid to related parties of HK\$119.4 million and interest paid of HK\$7.2 million.

WORKING CAPITAL

We believe that we will be able to settle our commitments and repay our borrowings by using funds from a combination of sources, including internally generated operating cash flows, being revenue generated from the sales of our products, net proceeds from the Share Offer, and available banking facilities.

As of 31 December 2016, 2017, and 2018, and 31 March 2019, our aggregate cash and cash equivalents amounted to HK\$92.7 million, HK\$33.1 million, HK\$55.8 million, and HK\$60.9 million, respectively. The decrease in the amount of cash and cash equivalents as of 31 December 2017 was primarily due to the investment cost incurred by us on our production facilities, which were partially supported by the proceeds of the Convertible Bond. As of 31 December 2018 and 31 March 2019, our aggregate cash and cash equivalents amounted to HK\$55.8 million, and HK\$60.9 million, respectively, and the increase was primarily due to decrease in payment for fixed assets investment and increase in net borrowing during the year.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any undue difficulty in obtaining banking facilities or withdrawal of banking facilities from banks or any default in payment of bank loans or other borrowings or breach of any covenants.

Taking into consideration the estimated amount of net proceeds from the Share Offer, the available banking facilities, cash inflows generated from our operating activities, as well as the full repayment (comprising principal and interest) of the amount due under the Convertible Bonds, our Directors are of the opinion that we have sufficient working capital for our present requirement and for the next 12 months from the date of this prospectus. Based on the financial resources available to us, the Sole Sponsor concurs with the view of our Directors.

FINANCIAL INFORMATION

PRINCIPAL COMPONENTS OF OUR CURRENT ASSETS AND CURRENT LIABILITIES

Our net current (liabilities)/assets represent the differences between our current assets and our current liabilities. As of 31 December 2016 and 2017, we had net current liabilities of HK\$82.2 million and HK\$33.3 million, respectively. As of 31 December 2018, we had net current assets of HK\$71.6 million. As of 31 July 2019, we had net current assets of HK\$50.9 million. The table below sets forth the composition of our current assets and current liabilities as of the dates indicated:

	As of 31 December			As of 31 March	As of 31 July
	2016	2017	2018	2019	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
					<i>(Unaudited)</i>
Inventories	123,105	158,608	193,212	285,750	311,897
Biological assets	1,780	48	—	—	—
Trade and other receivables	82,119	116,337	193,098	155,682	161,167
Cash and bank balances	98,271	33,123	55,855	60,898	41,325
	<u>305,275</u>	<u>308,116</u>	<u>442,165</u>	<u>502,330</u>	<u>514,389</u>
Trade and other payables	196,899	124,327	93,790	123,859	98,450
Current income tax liabilities . . .	13,908	21,492	21,565	16,162	7,923
Borrowings	175,737	193,898	253,370	277,666	300,639
Lease liabilities	887	1,654	1,848	1,893	1,841
Convertible bonds-host debt component	—	—	—	—	54,579
	<u>387,431</u>	<u>341,371</u>	<u>370,573</u>	<u>419,580</u>	<u>463,432</u>
Net current (liabilities)/assets	<u>(82,156)</u>	<u>(33,255)</u>	<u>71,592</u>	<u>82,750</u>	<u>50,957</u>

Net current liabilities as of 31 December 2016 and 2017 and net current assets as of 31 December 2018 and 31 March 2019

The net current liabilities position as of a particular date could be interpreted that we were insolvent in the short-term. Nevertheless, our Directors consider that we had no insolvency issue as of the respective dates as the net current liabilities position was primarily due to the fact that we used short-term bank borrowings, which are generally available in the PRC, to finance our business expansion plans, i.e. construction of factory buildings and purchase of plants and machinery, which are treated as non-current assets.

As of 31 December 2016 and 2017, we used short-term bank borrowings denominated in RMB and obtained from banks in the PRC as working capital and also to finance the construction of our production plants including the purchase of production machinery. As a result, we recorded net current liabilities as of 31 December 2016 and 2017.

FINANCIAL INFORMATION

We have also improved the net current liabilities position during the Track Record Period by improving the cash flow position through improved sales and restructuring our borrowings by obtaining more long-term loans and the Convertible Bond. As a result, we started recording net current assets as of 31 December 2018. The gearing ratio decreased during the Track Record Period mainly due to the increase in equity as a result of the profits derived during the Track Record Period which increased our retained earnings.

As of 31 March 2019, we had net current assets of HK\$82.8 million, and such amount was primarily due to the increases in our inventories and cash and bank balances. The current portion of the bank borrowings continued to increase as of the date, but such increase was less than the increase in items in current assets.

In addition, our Directors confirm that we have not received any default notice from our creditors or banks to request for early repayment or cancellation of the bank facilities because of our net current liabilities position. Our Directors are mindful on maintaining our Group in a financial healthy position and hence our Company may re-finance the short-term borrowings by long-term borrowings following the Listing. With the net proceeds from the Share Offer, we would not need to finance our business expansion primarily by way of bank borrowings, which would help to reduce the amount of our current liabilities in the future.

Net current assets as of 31 July 2019

As of 31 July 2019, our unaudited net current assets amounted to HK\$50.9 million, as compared to HK\$82.8 million as of 31 March 2019. The decrease was mainly due to the reclassification of convertible bonds-host debt component from long-term liabilities to short-term liabilities as its maturity day falls on 15 July 2020. The figure demonstrated that the Group has maintained a healthy financial position in meeting its short-term obligations.

Inventories

Our inventories consist of raw materials, work-in-progress, and finished products. The table below sets forth an analysis of the balance of our inventories as of the dates indicated:

	As of 31 December			As of 31 March
	2016	2017	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	57,383	84,289	58,344	120,465
Work-in-progress	2,467	—	—	4,683
Finished products	63,255	74,319	134,868	160,602
Total	<u>123,105</u>	<u>158,608</u>	<u>193,212</u>	<u>285,750</u>

The costs of individual items of inventories are determined using weighted average costs at each month end.

FINANCIAL INFORMATION

As of 31 December 2017 and 31 December 2018, our production activities were temporarily suspended due to stocktake and hence, we did not have any work-in-progress recorded on these two days. During the three years ended 31 December 2018 and the three months ended 31 March 2018 and 2019, the cost of inventories recognised as expense and included in ‘cost of sales’, ‘selling and distribution expenses’ and ‘administrative expenses’ amounted to HK\$355.9 million, HK\$415.6 million, HK\$618.8 million, HK\$104.6 million and HK\$114.0 million, respectively.

Movements of our inventories

The table below sets forth the movement of our inventory of principal raw materials for the years/periods indicated:

	<u>Year ended 31 December</u>			Three months ended
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>31 March 2019</u>
	<i>(tonnes)</i>	<i>(tonnes)</i>	<i>(tonnes)</i>	<i>(tonnes)</i>
Balance brought forward on 1 January	7,991	8,329	7,631	5,844
Purchase of raw materials during the year/period	<u>42,097</u>	<u>44,515</u>	<u>56,164</u>	<u>14,158</u>
	50,088	52,844	63,795	20,002
Less: Inventory of raw materials used for production				
Dried seaweed	(41,233)	(40,560)	(57,528)	(11,062)
Other raw materials	<u>(526)</u>	<u>(650)</u>	<u>(423)</u>	<u>(169)</u>
	(41,759)	(41,210)	(57,951)	(11,231)
Less: Inventory sold	<u>—</u>	<u>(4,003)</u>	<u>—</u>	<u>—</u>
Balance carried forward on 31 December/31 March	<u><u>8,329</u></u>	<u><u>7,631</u></u>	<u><u>5,844</u></u>	<u><u>8,771</u></u>
Represented by:				
Dried seaweed				
Gracilaria	2,713	4,267	3,239	3,775
Cottonii	4,882	2,954	2,438	4,205
Spinosum	<u>673</u>	<u>264</u>	<u>89</u>	<u>445</u>
	8,268	7,485	5,766	8,425
Konjac crude powder	8	146	78	346
Konjac flakes	<u>53</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total	<u><u>8,329</u></u>	<u><u>7,631</u></u>	<u><u>5,844</u></u>	<u><u>8,771</u></u>

FINANCIAL INFORMATION

During the Track Record Period, the levels of our inventory of raw materials were in the range between 5,844 tonnes to 8,771 tonnes. The increase in the amount of inventory of raw materials during the Track Record Period was primarily due to the fluctuations in the purchase price of the inventory. The costs of the inventories are determined using weighted average costs at each month end.

The table below sets forth the movement of our inventory of finished products for the year/period indicated:

	Year ended 31 December			Three months ended
	2016	2017	2018	31 March 2019
	<i>(tonnes)</i>	<i>(tonnes)</i>	<i>(tonnes)</i>	<i>(tonnes)</i>
Balance brought forward on 1 January	1,223	1,190	1,191	2,090
Addition of finished products produced during the year/period				
Agar-agar products and carrageenan products	7,747	8,232	11,592	2,157
Konjac products and blended products	1,336	1,450	1,541	290
	9,083	9,682	13,133	2,447
Other additions ⁽¹⁾	—	70	195	43
Sales of finished products	(8,653)	(9,224)	(11,797)	(2,104)
Withdrawal of finished products for blended products and other usage	(463)	(527)	(632)	(143)
Balance carried forward on 31 December/31 March	<u>1,190</u>	<u>1,191</u>	<u>2,090</u>	<u>2,333</u>
Represented by:				
Agar-agar products and carrageenan products	1,107	1,060	2,025	2,239
Konjac products and blended products	83	131	65	94
Total	<u>1,190</u>	<u>1,191</u>	<u>2,090</u>	<u>2,333</u>

Note:

(1) Other additions were related to purchase of auxiliary products for experimental and manufacturing purposes.

During the Track Record Period, the levels of our inventory of finished products were in a narrow range between 1,190 tonnes and 2,090 tonnes. Our inventory of finished products increased to 2,090 tonnes as of 31 December 2018 primarily due to the commencement of commercial production of Workshop Nos. 5 and 6 of Greenfresh (Fujian) Production Plant in September and October 2017, respectively. Our inventory of finished products was 2,333 tonnes as of 31 March 2019 and was produced for the forthcoming business season of higher demand.

FINANCIAL INFORMATION

During the three years ended 31 December 2018, our production efficiency has been improved significantly and as such, the production volume increased by 44.6% (from 9,083 tonnes to 13,133 tonnes), whereas the purchase of raw materials for production purpose only increased by 38.8% (from 41,759 tonnes to 57,951 tonnes). During the three months ended 31 March 2019, our production volume was 2,447 tonnes and increased by 3.2%, but the purchase of raw materials increased more significantly by 58.7% due to additional stock-up of raw materials inventory management purpose.

Our production yield has been improving during the three years ended 31 December 2018 and keep a stable level during the three months ended 31 March 2019, our Director confirm that the improvement was primarily due to the following factors:

- (1) Improvement in the quality of seaweed — We sent four purchase staff to Indonesia from time to time to carry out onsite inspection of the seaweed purchased. This could ensure the quality of dried seaweed purchased by us with no excessive foreign ingredients.
- (2) Improvement in the production process — Throughout the years, we have improved the production process, such as alkali treatment and cleaning and synaeresis, so that we can extract more colloid contents from the dried seaweed, and this enables us to produce more hydrocolloid products out of the same tonnes of dried seaweed. As of the Latest Practicable Date, we have obtained 7 patents in the PRC on the production process and we were applying for another 23 patents which are all relating to our production process.
- (3) Improvement in the production facilities — We have commenced the commercial production of new production facilities in Greenfresh (Fujian) Production Plant which has increased the utilisation of raw materials and reduced the raw materials lost in transit.
- (4) Increase in automated production process — We have advanced the automation in our newly established production facilities which contributed further to the enhancement of production efficiency as a whole.

Aging analysis

The table below sets forth an aging analysis of inventories as of the dates indicated:

	As of 31 December			As of
	2016	2017	2018	31 March 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Up to 30 days	82,423	136,447	161,836	189,699
31 to 90 days	35,601	20,944	25,888	75,450
91 to 180 days	3,274	779	5,374	18,161
181 to 360 days	989	335	113	2,440
Over one year	818	103	1	—
Total	<u>123,105</u>	<u>158,608</u>	<u>193,212</u>	<u>285,750</u>

FINANCIAL INFORMATION

Our inventory provision was made on specific basis by comparing the costs and net realisable values of the inventories. No inventory provision has been made during the Track Record Period. For inventories that are aged over one year were chemical raw materials which are normally with long quality guarantee period. For other raw material inventories, they were within the quality guarantee period. Hence, no provision has been made for raw material inventories. Regarding the inventory of our products for sale, the net realisable values were higher than the costs of our inventories. Thus, no inventory provision has been provided throughout the Track Record Period.

Turnover days and subsequent usage

The table below sets forth our inventory turnover days for the years/periods indicated:

	Year ended 31 December			Three months ended
	2016	2017	2018	31 March 2019
Inventory turnover days ⁽¹⁾	110	106	88	154

Note:

- (1) The inventory turnover days are derived by dividing the average of the beginning and ending inventory (before any write-down of inventories) by cost of sales for that year and multiplied by 365 days for 2016, 2017 and 2018. For the three months ended 31 March 2019, the number of the turnover days is based on 90 days.

Our inventory turnover days decreased from 110 days in 2016 to 106 days in 2017, and was primarily due to our enhanced inventory control policies to reduce our stock and raw material purchases. Our inventory turnover days further decreased in the year ended 31 December 2018 to 88 days, primarily because of the strong growth in sales during the period that exceeded our production output. During the three months ended 31 March 2019, the inventory turnover days increased by 66 days. Our Directors consider that the increase in the number of inventory turnover primarily due to holiday effect that certain sales deliveries are deferred and the additional stock-up of raw material for the forthcoming season for inventory management purpose.

As of 30 June 2019, HK\$261 million, or 91.3% of inventory comprising raw materials and finished products as of 31 March 2019, was used and consumed for our production requirement or sold to our customers.

FINANCIAL INFORMATION

Biological assets

Our biological assets comprise growing seaweed in the sea area as part of the ordinary course of business of Donghaiwan. During the Track Record Period, seaweed cultivated by us were solely used as raw material for our production purpose. The table below sets forth the movements of our biological assets for the years/period indicated:

	Year ended 31 December			Three months ended 31 March 2019
	2016	2017	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As of 1 January	—	1,780	48	—
Increase due to purchase	3,688	3,417	328	334
Farming costs	875	843	559	303
Change in fair value due to biological transformation	8,791	5,041	624	686
Transfer of harvested seaweed to inventory	(11,493)	(11,092)	(1,544)	(1,322)
Currency translation differences	(81)	59	(15)	(1)
As of 31 December/31 March	<u>1,780</u>	<u>48</u>	<u>—</u>	<u>—</u>
Current assets:				
- Unharvested seaweed	<u>1,780</u>	<u>48</u>	<u>—</u>	<u>—</u>
Weight of seaweed plantation (tonne)	<u>272</u>	<u>6</u>	<u>—</u>	<u>—</u>

Seaweed are measured at fair value less cost to sell, based on the market prices of similar breed and genetic merit with adjustments, where necessary, to reflect the differences. Market prices are obtained from domestic market in the PRC, which is considered to be the principal market for the purpose of the valuation.

Our biological assets are for our own use as raw materials for the production of finished products. Hence, the realised fair value gain due to biological transformation that has been transferred to costs of goods sold amounted to HK\$7.6 million, HK\$6.2 million, and HK\$0.7 million for the three years ended 31 December 2018, respectively. The unrealised fair value gains/losses on biological assets, being the change in fair value of biological assets during the three years ended 31 December 2018 amounted to gain of HK\$1.2 million, loss of HK\$1.2 million, and loss of HK\$27,000, respectively. Our net profit excluding the unrealised fair value gains/losses on biological assets would amount to HK\$52.2 million, HK\$93.9 million, and HK\$93.8 million for the three years ended 31 December 2018, respectively.

FINANCIAL INFORMATION

During the three months ended 31 March 2019, the realised fair value gain due to biological transformation that has been transferred to costs of goods sold amounted to HK\$0.69 million. The unreleased fair value loss on biological assets amounted to nil. Our net profit excluding the unrealized fair value loss on biological assets would amount to HK\$17.3 million.

During the three months ended 31 March 2018, the realised fair value gain due to biological transformation that has been transferred to costs of goods sold amounted to HK\$1.2 million. The unreleased fair value loss on biological assets amounted to HK\$28,000. Our net profit excluding the unrealized fair value loss on biological assets would amount to HK\$5.2 million.

Our Directors have engaged an independent valuer with extensive experience in valuation of biological assets, JLL, on the determination of the fair value of seaweed. The experience of the JLL team members who conducted the valuation of biological assets is set forth below:

For the purposes of valuing our biological assets as at each valuation date, the key valuer of the JLL team comprised Mr. Simon Chan.

Mr. Simon Chan, Executive Director at JLL, is a Fellow of the Hong Kong Institute of Certified Public Accountants (HKICPA) and a Fellow of CPA Australia. He is also a Certified Valuation Analyst (CVA) and a member of The International Association of Consultants, Valuers and Analysts (IACVA). Simon oversees the business valuation services of JLL and has over 20 years of accounting, auditing, corporate advisory and valuation experiences. He has provided a wide range of valuation services to numerous listed and listing companies of different industries in China, Hong Kong, Singapore and the United States.

Based on market reputation and relevant background research, our Directors and the Sole Sponsors are satisfied that JLL is independent from us and is competent in conducting a valuation on our biological assets.

The methodology relied on by JLL was the market approach in determining the fair value of seaweeds. The fair value of the Seaweeds was derived by computing the market data of the Seaweeds with their corresponding quantities and the expected costs to sell and complete.

As confirmed by JLL, they have conducted our valuation in accordance with Financial Reporting Standards 13 (“IFRS 13”) & International Accounting Standard 41 (“IAS 41”), issued by the Accounting Standards Council and the International Valuation Standards issued by the International Valuation Standards Council. JLL had planned and performed their valuation so as to obtain all the information and explanations that they considered necessary in order to provide themselves with sufficient evidence to express their opinion on the subject asset. JLL is of the opinion that the valuation procedures employed provide a reasonable basis for their opinion. Our Directors confirmed, and the Sole Sponsor concurred, that the inputs used by JLL in the valuation process are consistent with market factors and assumptions used in the measurement. Our Directors are satisfied with the valuation work performed by JLL for the measurement of the seaweed in its historical financial information for the purpose of the preparation of the accountant’s report as referred to in Appendix I to this prospectus, and the Sole Sponsor concurs with our Directors’ view, having considered the unqualified opinion on the historical financial information of our Group as a whole issued by the

FINANCIAL INFORMATION

reporting accountant included in Appendix I to this prospectus and discussed with the reporting accountant in relation to the valuation work performed by JLL during the Track Record Period for the measurement of the seaweed. The Reporting Accountant's opinion on the historical financial information of the Group for the Track Record Period is set out in Appendix I to this prospectus.

The valuation adopted the market approach given the availability of local market data and the major valuation inputs included:

- Selling price of seedlings per tonne
- Selling price of fresh seaweed per tonne

Major valuation inputs used in the calculation of the fair values of the seaweed as of the dates indicated are set forth below:

	As of 31 December			As of
	2016	2017	2018	31 March
	HK\$'000	HK\$'000	HK\$'000	2019
Seedlings (HK\$ per tonne)	3,740	N/A	N/A	N/A
Fresh seaweed (HK\$ per tonne)	2,740	2,510	N/A	N/A

The fair value of biological assets of seaweed as of 31 December 2016 and 2017 amounted to HK\$1,780,000 and HK\$48,000, representing 1.17% and 0.02% of our net asset value as of 31 December 2016 and 2017, respectively, which were not material to our net asset value. We did not have any inventory of biological assets as of 31 December 2018 and 31 March 2019.

Fair value change of biological assets and sensitivity analysis

The following table indicates the instantaneous change in the value of our biological assets that would arise if the key inputs for valuation as of 31 December 2016 and 31 December 2017 had changed at that date, assuming all other risk variables remained constant.

As of the valuation date of 31 December 2016, the fair value of biological assets of the seaweed is amounted to HK\$1,780,000.

Price change	-5%	-3%	3%	5%
Fair Value	1,686,000	1,723,000	1,836,000	1,873,000
Fair Value Change	-94,000	-57,000	56,000	93,000
Fair Value Change Percentage	-5.6%	-3.3%	3.1%	5.0%

FINANCIAL INFORMATION

As of the valuation date of 31 December 2017, the fair value of biological assets of the seaweed is amounted to HK\$48,000.

Price change	-5%	-3%	3%	5%
Fair Value	45,000	46,000	49,000	50,000
Fair Value Change	-3,000	-2,000	1,000	2,000
Fair Value Change Percentage	-6.7%	-4.3%	2.0%	4.0%

Our biological assets are seaweed. We use fixed off-bottom line approach in our seaweed cultivation where wooden stakes are driven to the sea bottom with the tying of ropes to the stakes. Seaweed are tied to the ropes attached to the stakes.

Our stock-take is carried out by full counting of the number of thick rope tied to the wooden stakes and sample counting the number of small ropes in each thick rope where seaweed seedlings are attached to. We further sample check the weight of seaweed on each small rope and estimate the weight of all seaweed at time of the stock-take. For internal control purpose, we would compare the total weight of the seaweed with their theoretical weight according to the days of cultivation and note for any unreasonable discrepancy.

Our staff also perform regular patrol around the sea area used in seaweed cultivation for any loosely-tied ropes or damage made by fish or other sea creatures in order to preserve the best cultivation condition for the seaweed.

Trade and other receivables

The table below sets forth our trade and other receivables as of the dates indicated:

	As of 31 December			As of
	2016	2017	2018	31 March
	HK\$'000	HK\$'000	HK\$'000	2019
Trade receivables	59,819	97,217	173,917	127,054
Provision for impairment	(4,929)	(3,796)	(1,616)	(508)
	54,890	93,421	172,301	126,546
Deposits receivable	2,542	5,777	292	272
Other receivables	209	535	795	642
	2,751	6,312	1,087	914
Deductible VAT	6,145	8,343	4,978	15,328
Prepayments for purchase of raw materials . . .	17,945	5,821	6,320	2,914
Deferred Listing expenses	—	1,371	7,168	7,966
Export tax rebate receivable	388	1,069	1,244	2,014
	24,478	16,604	19,710	28,222
Total	82,119	116,337	193,098	155,682

FINANCIAL INFORMATION

Impairment of trade and other receivables

Other financial assets at amortised cost include deposits receivable, finance lease deposit receivable and other receivables.

All of these financial assets are considered to have a low risk of default and each of the counterparties has a strong capacity to meet its contractual cash flow obligations in the near term, hence we considered them to have low credit risk, and thus the impairment provision recognised is limited to 12 months expected losses.

We have assessed that the expected credit losses for these financial assets are not material under the 12 months expected losses method. Thus, no loss allowance provision was recognised during the Track Record Period. We do not hold any collateral in relation to these receivables.

Due to the short-term nature of the trade and other receivables, their carrying amount is considered to be the same as their fair value.

The carrying amounts of our trade and other receivables (including prepayments) are denominated in the following currencies:

	As of 31 December			As of
	2016	2017	2018	31 March
	HK\$'000	HK\$'000	HK\$'000	2019
US\$	6,009	24,292	48,961	25,295
RMB	76,110	90,867	143,093	122,578
HK\$	—	1,178	—	6,781
Other currencies	—	—	1,044	1,028
Total	82,119	116,337	193,098	155,682

Ageing analysis of trade receivables

The table below sets forth an ageing analysis of our trade and other receivables, based on the relevant invoice dates, as of the dates indicated:

	As of 31 December			As of
	2016	2017	2018	31 March
	HK\$'000	HK\$'000	HK\$'000	2019
Up to 30 days	36,795	60,643	105,588	53,231
31 to 90 days	14,006	21,431	50,437	27,602
91 to 180 days	5,331	9,887	16,236	45,893
180 to 360 days	3,528	471	1,348	31
Over 1 year	159	4,785	308	297
Total	59,819	97,217	173,917	127,054

FINANCIAL INFORMATION

Turnover days and settlement

The table below sets forth our trade receivable turnover days for the years/periods indicated:

	Year ended 31 December			Three months ended
	2016	2017	2018	31 March
	2016	2017	2018	2019
Trade receivable turnover days ⁽¹⁾	36	43	50	71

Note:

(1) The trade receivable turnover days are derived by dividing the average of the beginning and ending trade receivable balance (before any allowance for doubtful debts) by revenue for that year or period and multiplied by 365 days for 2016, 2017, and 2018. For the three months ended 31 March 2019, the number of the turnover days is based on 90 days.

Our trade receivable turnover days increased from 36 days in 2016 to 43 days in 2017 and further to 50 days in 2018. There were no material changes in the trade receivable turnover days during the three years ended 31 December 2018, and the differences represented the time difference in the time required for our customers to process payments without changing the terms of credit given to our customers. The number of our trade receivable turnover days increased to 71 days during the three months ended 31 March 2019, the increase was primarily due to extended payment schedule of customers caused by holiday reason during the period.

As of 30 June 2019, HK\$107.7 million, or 84.7%, of our trade and other receivables as of 31 March 2019 had been subsequently settled.

Loss allowance

Individual receivables which are uncollectible would be written off by reducing the carrying amount of such receivables. Receivables for which an impairment provision was recognised are written off against the provision when there is no reasonable expectation of recovering additional cash. Impairment losses are recognised in profit or loss as part of our expenses.

FINANCIAL INFORMATION

As of 31 December 2016, 2017, and 2018, the amounts of trade receivables impaired were HK\$4.9 million, HK\$3.8 million, and HK\$1.6 million, respectively. The individually impaired receivables mainly related to customers which were in unexpectedly difficult economic situations. The loss allowance provision of trade receivables as at 31 December 2016, 2017, and 2018, and 31 March 2019 are as follows:

	Settled in 3 months	Settled in 4-6 months	Settled in 7-9 months	Settled in 10-12 months	Settled over one year	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As of 31 December 2016						
Expected loss rate	0.35%	0.93%	56.30%	73.28%	100.00%	
Gross carrying amount excluding individually impaired receivables and notes receivables.	50,801	3,742	829	741	159	56,272
Loss allowance provision.	178	35	467	543	159	1,382
Individually impaired receivables.						3,547
Total provision.						<u>4,929</u>
As of 31 December 2017						
Expected loss rate	0.12%	0.32%	36.27%	51.99%	63.76%	
Gross carrying amount excluding individually impaired receivables and notes receivables.	80,422	9,887	425	46	1,079	91,859
Loss allowance provision.	97	32	154	24	688	995
Individually impaired receivables.						2,801
Total provision.						<u>3,796</u>
As of 31 December 2018						
Expected loss rate	0.21%	0.54%	65.28%	100.00%	100.00%	
Gross carrying amount excluding individually impaired receivables and notes receivables.	154,029	16,236	1,302	46	17	171,630
Loss allowance provision.	323	88	850	46	17	1,324
Individually impaired receivables.						292
Total provision.						<u>1,616</u>
As of 31 March 2019						
Expected loss rate	0.10%	0.26%	25.82%	40.86%	52.00%	
Gross carrying amount excluding individually impaired receivables and notes receivables.	79,172	45,893	—	31	—	125,096
Loss allowance provision.	79	119	—	13	—	211
Individually impaired receivables.						297
Total provision.						<u>508</u>

FINANCIAL INFORMATION

Movements in the provision for impairment of trade receivables that are assessed for impairment for the years/period indicated are as follows:

	Year ended 31 December			Three months ended 31 March 2019
	2016	2017	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As of 1 January	(195)	(4,929)	(3,796)	(1,616)
Reversal/(increase) in loss allowance				
recognised in profit or loss for the period . .	(5,104)	1,382	(668)	1,113
Written-off of uncollectible receivables	199	—	2,874	—
Currency translation differences	171	(249)	(26)	(5)
As of 31 December/31 March	<u>(4,929)</u>	<u>(3,796)</u>	<u>(1,616)</u>	<u>(508)</u>

During the Track Record Period, the following losses were recognised in profit or loss in relation to impaired receivables.

	As of 31 December			As of 31 March 2019
	2016	2017	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Impairment losses				
- individually impaired receivables	(3,917)	995	(339)	—
- (Provision)/reversal of provision for impairment according to the expected credit losses matrix	(1,187)	387	(329)	1,113
Total	<u>(5,104)</u>	<u>1,382</u>	<u>(668)</u>	<u>1,113</u>

Cash and bank balances

As of 31 December 2016, 2017, and 2018, the balance of our cash and bank balances amounted to HK\$98.3 million, HK\$33.1 million, and HK\$55.8 million, respectively. As of 31 March 2019, we had cash and bank balances of HK\$60.9 million. Our Directors confirm that balance of our cash and cash equivalents was maintained at a prudent level for the purpose of satisfying the requirements for our daily business operations.

FINANCIAL INFORMATION

Trade and other payables

Our trade and other payables primarily consist of the amount due to our suppliers for our purchase of raw materials and amounts due to related parties, which is unsecured and non-interest bearing. As of 31 December 2016, 2017, and 2018, and 31 March 2019, our trade and other payables were HK\$196.9 million, HK\$124.3 million, HK\$93.8 million, and HK\$123.9 million respectively. The payment arrangements with our suppliers are either cash payment upon delivery or we are granted a credit limit within which a credit term of up to 90 days from the invoice date would be granted by our suppliers. The table below sets forth further information on our trade and other payables as of the dates indicated:

	As of 31 December			As of
	2016	2017	2018	31 March
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2019</i> <i>HK\$'000</i>
Trade payables				
- to third parties	32,127	72,872	60,128	97,790
Employee benefit payables	9,824	13,751	12,604	12,604
Payable for construction projects and production machineries	6,626	12,256	6,837	6,112
Other taxes payable	1,394	1,541	3,058	804
Advances from customers	7,891	8,746	1,436	420
Payable for Listing expenses	—	382	7,768	4,406
Amounts due to related parties.	121,609	12,273	102	104
Amounts due to third parties.	15,742	1,462	—	—
Others	1,686	1,044	1,857	1,619
Total	196,899	124,327	93,790	123,859

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

The carrying amounts of our trade and other payables are denominated in the following currencies:

	As of 31 December			As of
	2016	2017	2018	31 March
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2019</i> <i>HK\$'000</i>
RMB	117,788	44,004	43,712	46,696
US dollar.	63,355	79,444	49,818	74,662
HK dollar	15,756	879	260	2,501
Total	196,899	124,327	93,790	123,859

FINANCIAL INFORMATION

Ageing analysis of trade payables

Trade payables are usually paid within 90 days of recognition.

The table below sets forth an ageing analysis of our trade payables, based on the relevant invoice dates, as of the dates indicated:

	As of 31 December			As of 31 March
	2016	2017	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0-90 days	31,975	71,529	59,343	97,454
91-180 days	152	624	781	336
181-360 days	—	719	4	—
Total	32,127	72,872	60,128	97,790

As of 30 June 2019, HK\$96.3 million, or 98.49%, of our trade payables as of 31 March 2019 had been subsequently settled.

Turnover days and settlement

The table below sets forth our trade payable turnover days for the years/periods indicated:

	Year ended 31 December			Three months ended 31 March
	2016	2017	2018	2019
	Trade payable turnover days ⁽¹⁾	23	39	33

Note:

(1) The trade payable turnover days are derived by dividing the average of the beginning and ending trade payable balance by cost of sales for that year or period and multiplied by 365 days for 2016, 2017, and 2018. For the three months ended 31 March 2019, the number of the turnover days is based on 90 days.

Our trade payable turnover days increased from 23 days in 2016 to 39 days in 2017 and down to 33 days in 2018. The trade payable turnover days were generally stable during the three years ended 31 December 2018 except for the turnover days in 2016 in which we settled the amount due earlier out of our available financial resources. The number of our trade payable turnover days increased to 51 days during the three months ended 31 March 2019, the increase was primarily due to the extended payment schedule caused by the holiday reason during the period.

FINANCIAL INFORMATION

Amounts due to third parties

The amounts due to third parties as of the dates indicated below are as follows:

	As of 31 December			As of
	2016	2017	2018	31 March
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	2019
Xiamen DSC Import and Export Co, Ltd. ("Xiamen DSC")	4,787	—	—	—
Quanzhou Ming Xi Trade Co., Ltd. ("Quanzhou Ming Xi")	10,955	1,196	—	—
Mr. WU Hongtan	—	266	—	—
Total	<u>15,742</u>	<u>1,462</u>	<u>—</u>	<u>—</u>

The amounts due to third parties are unsecured, interest free, and repayable on demand. The amounts due to Xiamen DSC and Quanzhou Ming Xi represented the prepayments received for their purchase of our hydrocolloid products and become amounts due to third parties after the cancellation of the relevant purchase.

Current income tax liabilities

The table below sets forth the movements of the balance of the current income tax liabilities for the years/period indicated:

	Year ended 31 December			Three
	2016	2017	2018	months
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	ended
Balance as of 1 January	(7,205)	(13,908)	(21,492)	31 March
Current income tax expense accrued during the year/period	(22,983)	(27,455)	(36,347)	2019
Income tax paid during the year/period	16,226	19,926	34,750	<i>HK\$'000</i>
Currency translation difference	54	(55)	1,524	
Balance as of 31 December/31 March	<u>(13,908)</u>	<u>(21,492)</u>	<u>(21,565)</u>	

FINANCIAL INFORMATION

Convertible Bonds, borrowings, and lease liabilities

The table below sets forth further information on the Convertible Bond, our borrowings, and finance lease liabilities as of the dates indicated:

	As of 31 December			As of 31 March		
	2017			2019		
	Current	Total	HK\$'000 Non-current	Current	Total	HK\$'000 Non-current
Convertible Bond, unsecured						
- host debt component	—	—	50,080	—	50,080	53,254
- derivative component — financial liability at fair value through profit or loss	—	—	10,437	—	—	—
Balance under the Convertible Bond	—	—	60,517	—	52,644	53,254
Secured bank loans	93,011	93,011	53,834	86,739	149,282	63,886
Unsecured bank loans	82,726	144,211	—	166,631	167,668	—
Total bank borrowings	175,737	237,222	53,834	253,370	316,950	63,886
Lease liabilities (c)						
- secured	302	593	—	—	—	—
- unsecured	585	2,245	4,250	1,848	5,996	3,684
Total borrowings	887	2,838	4,250	1,848	5,996	3,684
Total borrowings	176,624	240,060	118,601	255,218	375,590	120,824
Total secured borrowings	93,313	93,604	53,834	86,739	149,283	63,886
Total unsecured borrowings	83,311	146,456	64,767	168,479	226,307	56,938
Total borrowings	176,624	240,060	118,601	255,218	375,590	120,824

FINANCIAL INFORMATION

Convertible Bond

Our Company issued the Convertible Bond for HK\$60.0 million on 20 November 2017. See the section headed “Pre-IPO Investor” in this prospectus for further information on the Convertible Bond. Pursuant to the terms and conditions of the Convertible Bond, it can be convertible into Shares for a maximum of 2% shareholding of our Company at the conversion price as agreed, at the option of the holder, and the remaining balance will be repayable by us on 20 November 2019. The conversion price is calculated based on the unaudited consolidated net tangible asset of our Company as of 30 June 2017 divided by the number of total issued shares as of the date of the Convertible Bond Subscription Agreement or such later date as agreed by both parties.

On 28 February 2018, the Pre-IPO Investor converted a portion of the Convertible Bond in the total amount of HK\$4,821,320 for 1,120 Ordinary Shares representing 2% shareholding of our Company as of the date of conversion. Following this conversion, the Pre-IPO Investor ceases to have any right to convert the outstanding balance of the Convertible Bond into Shares. The outstanding par value of the Convertible Bond of HK\$55,178,680 as of the Latest Practicable Date, together with the interest accrued thereon, will be repayable by us in cash on 15 July 2020.

The movements of the Convertible Bond for the years/period indicated:

	Year ended 31 December			Three months ended
	2016	2017	2018	31 March 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Host debt component:</i>				
As of 1 January	—	—	50,080	52,644
Issuance of the convertible bond	—	49,563	—	—
Conversion of the convertible bond	—	—	(4,055)	—
Interest expense	—	862	9,417	1,971
Interest payment	—	(345)	(2,798)	(1,361)
As of 31 December/31 March	<u>—</u>	<u>50,080</u>	<u>52,644</u>	<u>53,254</u>
<i>Derivative component:</i>				
As of 1 January	—	—	10,437	—
Issuance of the convertible bond	—	10,437	—	—
Conversion of the convertible bond	—	—	(10,437)	—
As of 31 December/31 March	<u>—</u>	<u>10,437</u>	<u>—</u>	<u>—</u>

FINANCIAL INFORMATION

The table below illustrates the sensitivity of the significant inputs when they are changed to reasonably possible alternative inputs:

Description	Fair value as of 31 December 2017	Valuation techniques	Significant inputs	Range of inputs	Favourable/ (unfavourable) changes in profit or loss for the year ended 31 December 2017
	<i>(HK\$'000)</i>				<i>(HK\$'000)</i>
Derivative	10,437	Discount cash flow method	Weighted-average cost of capital	+0.5%	644
portion of the Convertible Bond				-0.5%	(691)
			Revenue	+5%	(676)
				-5%	658

Bank borrowings

Our current bank borrowings comprised one-year short term bank borrowings which are secured by the land use rights and buildings owned by us and/or supported by guarantees from subsidiaries of our Company, our Controlling Shareholders, and related parties.

Our non-current bank borrowings comprised two three-year bank borrowings which are supported by guarantees from subsidiaries of our Company, our Controlling Shareholders, and related parties and/or secured by the land use rights and buildings owned by us.

The carrying amounts of assets pledged as security for bank borrowings as of the dates indicated are:

	As of 31 December			As of 31 March
	2016	2017	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Buildings	62,243	62,786	55,985	55,889
Land use rights	17,247	38,116	42,502	38,135
Total	<u>79,490</u>	<u>100,902</u>	<u>98,487</u>	<u>94,024</u>

FINANCIAL INFORMATION

For years ended 31 December 2016, 2017, and 2018, the weighted average effective interest rates on bank borrowings were 5.97%, 5.26%, and 5.41%, respectively. During the three months ended 31 March 2019, the weighted average effective interest rate was 5.75%, as compared to 5.32% for the three months ended 31 March 2018.

Our bank borrowings amounting to HK\$237.2 million, HK\$247.7 million, HK\$81.4 million, and HK\$79.8 million as of 31 December, 2016, 2017, 2018, and 31 March 2019, respectively, were also secured by the personal guarantees of our Controlling Shareholders and related parties. See the paragraphs under “Related party transactions — Transactions with related parties” below. These personal guarantees will be released upon Listing.

The carrying amounts of our bank borrowings were denominated in the following currencies:

	As of 31 December			As of
	2016	2017	2018	31 March
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	2019
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
US\$	19,679	34,910	76,304	75,742
RMB	217,543	212,822	235,564	261,722
HK\$	—	—	5,082	4,088
Total	<u>237,222</u>	<u>247,732</u>	<u>316,950</u>	<u>341,552</u>

Lease liabilities

The table below sets forth further information on our lease liabilities as of the dates indicated:

	As of 31 December			As of
	2016	2017	2018	31 March
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Minimum lease payments				
Within one year	1,050	1,943	2,069	1,969
Later than one year and no later than				
five years	1,362	3,983	4,295	3,751
Over five years	1,062	853	551	692
	<u>3,474</u>	<u>6,779</u>	<u>6,915</u>	<u>6,412</u>
Future finance charges	(636)	(875)	(919)	(835)
Total lease liabilities	<u>2,838</u>	<u>5,904</u>	<u>5,996</u>	<u>5,577</u>
Within one year	887	1,654	1,848	1,893
Over one year	1,951	4,250	4,148	3,684
Total lease liabilities	<u>2,838</u>	<u>5,904</u>	<u>5,996</u>	<u>5,577</u>

FINANCIAL INFORMATION

PRINCIPAL COMPONENTS OF OUR NON-CURRENT ASSETS AND NON-CURRENT LIABILITIES

The table below sets forth the principal components of our non-current assets and liabilities as of the dates indicated:

	As of 31 December			As of
	2016	2017	2018	31 March
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2019</i>
				<i>HK\$'000</i>
Non-current assets				
Land use rights	29,219	50,475	53,972	54,678
Property, plant, and equipment	216,141	350,696	354,298	371,739
Intangible assets	44,850	51,136	60,030	59,758
Prepayment for non-current assets	38,789	36,232	11,608	10,766
Deferred income tax assets.	11,063	11,328	11,177	11,495
	<u>340,062</u>	<u>499,867</u>	<u>491,085</u>	<u>508,436</u>
Non-current liabilities				
Convertible Bond	—	60,517	52,644	53,254
Borrowings	61,485	53,834	63,580	63,886
Lease liabilities	1,951	4,250	4,148	3,684
Deferred income	38,888	38,030	32,861	32,693
Deferred income tax liabilities	3,018	3,157	2,406	2,424
	<u>105,342</u>	<u>159,788</u>	<u>155,639</u>	<u>155,941</u>

Land use rights

Our interests in land use rights represent prepaid operating lease payments and their movements in net book values during the years/period indicated are analysed as follows:

	Year ended 31 December			Three
	2016	2017	2018	months
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	ended
				31 March
				2019
				<i>HK\$'000</i>
As of 1 January	23,916	29,219	50,475	53,972
Additions	7,709	19,307	6,927	—
Amortisation	(579)	(787)	(1,148)	(440)
Currency translation differences	(1,827)	2,736	(2,282)	1,146
As of 31 December/31 March	<u>29,219</u>	<u>50,475</u>	<u>53,972</u>	<u>54,678</u>

FINANCIAL INFORMATION

The land use rights are held under medium-term leases with lease term of 30 to 50 years and the land lots are situated in Quanzhou, and Zhangzhou in Fujian province and Shiyan in Hubei province in the PRC and Klatakan Regency of Situbondo Province of East Java, Indonesia.

As of 31 December 2016, 2017, and 2018, our land use rights with net book value of HK\$17.2 million, HK\$38.1 million, and HK\$42.5 million, respectively, were pledged to secure our bank borrowings. As of 31 March 2019, our land use rights with net book value of HK\$38.1 were pledged to secure our bank borrowings. As of the Latest Practicable Date, these pledges were valid and had not been discharged.

Property, plant, and equipment

The table below sets forth a summary of the property, plant, and equipment as of the dates indicated:

	As of 31 December			As of 31 March
	2016	2017	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment (excluding right-of-use assets)	214,078	344,752	348,376	366,235
Right-of-use assets	2,063	5,944	5,922	5,504
Total	216,141	350,696	354,298	371,739

FINANCIAL INFORMATION

The table below sets forth the movements of property, plant, and equipment during the Track Record Period:

Property, plant and equipment

	Buildings	Production machineries	Factory plant and equipment	Vehicles and office furniture and fixtures	Construction in progress	Leasehold improvement	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2016							
Opening net book amount . . .	114,653	57,915	7,645	3,207	5,364	—	188,784
Currency translation differences	(7,041)	(3,869)	(471)	(186)	(2,104)	—	(13,671)
Additions	42	2,811	1,751	483	49,683	—	54,770
Transferred from construction in progress	888	8,324	49	—	(9,261)	—	—
Depreciation charge.	(6,233)	(6,620)	(2,103)	(849)	—	—	(15,805)
Closing net book amount	<u>102,309</u>	<u>58,561</u>	<u>6,871</u>	<u>2,655</u>	<u>43,682</u>	<u>—</u>	<u>214,078</u>
As of 31 December 2016							
Cost	125,873	80,391	14,023	5,903	43,682	—	269,872
Accumulated depreciation . . .	(23,564)	(21,830)	(7,152)	(3,248)	—	—	(55,794)
Net book amount	<u>102,309</u>	<u>58,561</u>	<u>6,871</u>	<u>2,655</u>	<u>43,682</u>	<u>—</u>	<u>214,078</u>
Year ended 31 December 2017							
Opening net book amount . . .	102,309	58,561	6,871	2,655	43,682	—	214,078
Currency translation differences	10,046	6,506	714	232	1,641	15	19,154
Acquisition of subsidiary . . .	—	374	92	793	—	234	1,493
Additions	61	2,492	1,811	895	124,400	226	129,885
Transferred from construction in progress	84,099	71,202	6,883	558	(162,742)	—	—
Disposals	(194)	(181)	(75)	(14)	—	—	(464)
Depreciation charge	(6,617)	(9,226)	(2,457)	(1,039)	—	(55)	(19,394)
Closing net book amount	<u>189,704</u>	<u>129,728</u>	<u>13,839</u>	<u>4,080</u>	<u>6,981</u>	<u>420</u>	<u>344,752</u>
As of 31 December 2017							
Cost	221,749	162,343	23,618	8,433	6,981	477	423,601
Accumulated depreciation . . .	(32,045)	(32,615)	(9,779)	(4,353)	—	(57)	(78,849)
Net book amount	<u>189,704</u>	<u>129,728</u>	<u>13,839</u>	<u>4,080</u>	<u>6,981</u>	<u>420</u>	<u>344,752</u>
Year ended 31 December 2018							
Opening net book amount . . .	189,704	129,728	13,839	4,080	6,981	420	344,752
Currently translation differences	(8,627)	(5,798)	(282)	(450)	(1,487)	(9)	(16,653)
Additions	865	3,846	1,327	345	44,922	—	51,305
Transferred from construction in progress.	6,170	7,168	212	45	(13,595)	—	—
Disposals	—	(91)	(49)	(150)	—	—	(290)
Depreciation charge	(10,728)	(15,428)	(3,469)	(1,004)	—	(109)	(30,738)
Closing net book amount	<u>177,384</u>	<u>119,425</u>	<u>11,578</u>	<u>2,866</u>	<u>36,821</u>	<u>302</u>	<u>348,376</u>

FINANCIAL INFORMATION

	Buildings	Production machineries	Factory plant and equipment	Vehicles and office furniture and fixtures	Construction in progress	Leasehold improvement	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At of 31 December 2018							
Cost	218,327	165,411	23,934	8,217	36,821	464	453,174
Accumulated depreciation . . .	(40,943)	(45,986)	(12,356)	(5,351)	—	(162)	(104,798)
Net book amount	<u>177,384</u>	<u>119,425</u>	<u>11,578</u>	<u>2,866</u>	<u>36,821</u>	<u>302</u>	<u>348,376</u>
Three months ended 31 March 2019							
Opening net book amount . . .	177,384	119,425	11,578	2,866	36,821	302	348,376
Currency translation differences	3,818	2,557	246	73	828	4	7,526
Additions	—	1,409	92	32	16,591	—	18,124
Transferred from construction in progress	—	—	—	—	—	—	—
Disposals	—	—	—	—	—	—	—
Depreciation charge	(2,670)	(3,906)	(804)	(384)	—	(27)	(7,791)
Closing net book amount . .	<u>178,532</u>	<u>119,485</u>	<u>11,112</u>	<u>2,587</u>	<u>54,240</u>	<u>279</u>	<u>366,235</u>
As of 31 March 2019							
Cost	223,014	170,373	24,538	8,425	54,240	469	481,059
Accumulated depreciation . . .	(44,482)	(50,888)	(13,426)	(5,838)	—	(190)	(114,824)
Net book amount	<u>178,532</u>	<u>119,485</u>	<u>11,112</u>	<u>2,587</u>	<u>54,240</u>	<u>279</u>	<u>366,235</u>

FINANCIAL INFORMATION

Right-of-use assets

	Buildings	Production machineries	Vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As of 1 January 2016				
Cost	2,104	1,242	768	4,114
Accumulated depreciation	(196)	(828)	(21)	(1,045)
Net book amount	<u>1,908</u>	<u>414</u>	<u>747</u>	<u>3,069</u>
Year ended 31 December 2016				
Opening net book amount	1,908	414	747	3,069
Currency translation differences	(113)	(9)	(36)	(158)
Depreciation charge	(192)	(405)	(251)	(848)
Closing net book amount	<u>1,603</u>	<u>—</u>	<u>460</u>	<u>2,063</u>
As of 31 December 2016				
Cost	1,970	1,163	720	3,853
Accumulated depreciation	(367)	(1,163)	(260)	(1,790)
Net book amount	<u>1,603</u>	<u>—</u>	<u>460</u>	<u>2,063</u>
Year ended 31 December 2017				
Opening net book amount	1,603	—	460	2,063
Currency translation differences	172	—	22	194
Additions	4,906	—	—	4,906
Depreciation charge	(972)	—	(247)	(1,219)
Closing net book amount	<u>5,709</u>	<u>—</u>	<u>235</u>	<u>5,944</u>
As of 31 December 2017				
Cost	7,092	—	769	7,861
Accumulated depreciation	(1,383)	—	(534)	(1,917)
Net book amount	<u>5,709</u>	<u>—</u>	<u>235</u>	<u>5,944</u>
Year ended 31 December 2018				
Opening net book amount	5,709	—	235	5,944
Currency translation differences	(205)	—	(2)	(207)
Additions	2,295	—	—	2,295
Depreciation charge	(1,877)	—	(233)	(2,110)
Closing net book amount	<u>5,922</u>	<u>—</u>	<u>—</u>	<u>5,922</u>
As of 31 December 2018				
Cost	9,105	—	734	9,839
Accumulated depreciation	(3,183)	—	(734)	(3,917)
Net book amount	<u>5,922</u>	<u>—</u>	<u>—</u>	<u>5,922</u>

FINANCIAL INFORMATION

	Production			Total
	Buildings	machineries	Vehicles	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Three months ended 31 March 2019				
Opening net book amount	5,922	—	—	5,922
Currency translation differences	96	—	—	96
Additions	—	—	—	—
Depreciation charge	(514)	—	—	(514)
Closing net book amount	5,504	—	—	5,504
As of 31 March 2019				
Cost	9,240	—	—	9,240
Accumulated depreciation	(3,736)	—	—	(3,736)
Net book amount	<u>5,504</u>	<u>—</u>	<u>—</u>	<u>5,504</u>

During the Track Record Period, the amounts of depreciation expense charged to cost of sales, selling and distribution expenses and administrative expenses are as follows:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>(unaudited)</i>					
Depreciation of property, plant and equipment (including right-of-use assets)					
- Cost of sales	12,799	16,072	26,517	6,862	6,626
- Selling and distribution expenses	8	39	21	1,152	1,160
- Administrative expenses	3,846	4,502	6,310	467	519
	<u>16,653</u>	<u>20,613</u>	<u>32,848</u>	<u>8,481</u>	<u>8,305</u>
Less: Amortisation of deferred income	(572)	—	—	—	—
Net amount of depreciation charged to profit or loss	<u>16,081</u>	<u>20,613</u>	<u>32,848</u>	<u>8,481</u>	<u>8,305</u>

FINANCIAL INFORMATION

Intangible assets

The table below sets forth the movements of intangible assets during the Track Record Period:

	Trademarks and licences	Patents	Relationships with customers	Sea use rights	Goodwill	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As of 1 January 2016						
Cost	285	8,878	15,327	136	28,034	52,660
Accumulated amortisation	(41)	(1,369)	(2,363)	(48)	—	(3,821)
Net book amount	<u>244</u>	<u>7,509</u>	<u>12,964</u>	<u>88</u>	<u>28,034</u>	<u>48,839</u>
Year ended 31 December 2016						
Opening net book amount	244	7,509	12,964	88	28,034	48,839
Currency translation differences	(17)	(457)	(790)	(16)	(1,778)	(3,058)
Additions	155	—	—	268	—	423
Amortisation charge	(129)	(435)	(750)	(40)	—	(1,354)
Closing net book amount	<u>253</u>	<u>6,617</u>	<u>11,424</u>	<u>300</u>	<u>26,256</u>	<u>44,850</u>
As of 31 December 2016						
Cost	417	8,315	14,355	383	26,256	49,726
Accumulated amortisation	(164)	(1,698)	(2,931)	(83)	—	(4,876)
Net book amount	<u>253</u>	<u>6,617</u>	<u>11,424</u>	<u>300</u>	<u>26,256</u>	<u>44,850</u>
Year ended 31 December 2017						
Opening net book amount	253	6,617	11,424	300	26,256	44,850
Currency translation differences	33	589	774	20	1,839	3,255
Additions	674	3,807	—	20	—	4,501
Amortisation charge	(220)	(429)	(741)	(80)	—	(1,470)
Closing net book amount	<u>740</u>	<u>10,584</u>	<u>11,457</u>	<u>260</u>	<u>28,095</u>	<u>51,136</u>
As of 31 December 2017						
Cost	1,124	12,711	15,129	423	28,095	57,482
Accumulated amortisation	(384)	(2,127)	(3,672)	(163)	—	(6,346)
Net book amount	<u>740</u>	<u>10,584</u>	<u>11,457</u>	<u>260</u>	<u>28,095</u>	<u>51,136</u>

FINANCIAL INFORMATION

	Trademarks and licences	Patents	Relationships with customers	Sea use rights	Goodwill	Discharge rights	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2018							
Opening net book amount	740	10,584	11,457	260	28,095	—	51,136
Currency translation differences	(30)	(598)	(759)	(29)	(1,289)	(528)	(3,233)
Additions	104	—	—	—	—	17,758	17,862
Amortisation charge	(281)	(1,060)	(761)	(81)	—	(3,552)	(5,735)
Closing net book amount	<u>533</u>	<u>8,926</u>	<u>9,937</u>	<u>150</u>	<u>26,806</u>	<u>13,678</u>	<u>60,030</u>
As of 31 December 2018							
Cost	1,142	12,255	14,655	411	26,806	17,098	72,367
Accumulated amortisation	(609)	(3,329)	(4,718)	(261)	—	(3,420)	(12,337)
Net book amount	<u>533</u>	<u>8,926</u>	<u>9,937</u>	<u>150</u>	<u>26,806</u>	<u>13,678</u>	<u>60,030</u>
Three months ended 31 March 2019							
Opening net book amount	533	8,926	9,937	150	26,806	13,678	60,030
Currency translation differences	11	249	314	12	575	292	1,453
Amortisation charge (note 8)	(55)	(480)	(291)	(28)	—	(871)	(1,725)
Closing net book amount	<u>489</u>	<u>8,695</u>	<u>9,960</u>	<u>134</u>	<u>27,381</u>	<u>13,099</u>	<u>59,758</u>
As of 31 March 2019							
Cost	1,167	12,518	14,970	267	27,381	17,465	73,768
Accumulated amortisation	(678)	(3,823)	(5,010)	(133)	—	(4,366)	(14,010)
Net book amount	<u>489</u>	<u>8,695</u>	<u>9,960</u>	<u>134</u>	<u>27,381</u>	<u>13,099</u>	<u>59,758</u>

Patents and relationships with customers and goodwill were the intangible assets arisen from the acquisition of Lvqi (Fujian) in November 2012. Patents refer to the self-developed ultrasonic technology used in the production of a type of high gelling strength agar-agar product which was successfully applied as a patented technology on 8 October 2012. The relationships with customers represent the long-term stable cooperative relationship with certain major customers, most of which are in the food producing and processing industry, that are expected to generate economic benefits to us in future. Goodwill represented the difference between the consideration payable and the net identifiable assets and liabilities recognised in relation to the acquisition of Lvqi (Fujian).

Patents

The income approach, specifically the Relief from Royalty (“**RfR**”) method, was utilised for analysing the identifiable intangible asset related to the patent, which is based on the assumption that, in lieu of ownership, a firm would be willing to pay a royalty in order to exploit the related benefits of this asset class.

FINANCIAL INFORMATION

Relationships with customers

The fair value of the intangible asset related to relationships with customers was determined based on the income approach, specifically the Multi-Period Excess Earnings method. It captures the value of an intangible asset by discounting to present value of the earnings generated by the asset that remains after a deduction for a return on other contributory assets.

Goodwill

We test annually whether goodwill have suffered any impairment in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

Impairment test for goodwill

Goodwill was derived from the acquisition of Lvqi (Fujian) in November 2012.

Our Directors have performed an impairment review of the carrying amount of goodwill as of 31 December 2016, 2017, and 2018, and 31 March 2019, and have concluded that no provision for impairment is required.

For the purposes of impairment testing, goodwill acquired has been allocated to the lowest level of cost-generating-units identified, which is Lvqi (Fujian) in the segment of manufacturing and sales of agar-agar. The recoverable amount of the cost-generating-unit is determined based on value-in-use calculations. The calculation of recoverable amount of the cost-generating-unit uses cash flow projections based on the financial estimates made by our Directors, with reference to the prevailing market conditions, covering a period of five years and based on the result of the goodwill impairment testing, the estimated recoverable amount of the cost-generating-unit exceeded its carrying amount by RMB137.8 million, RMB174.1 million, RMB171.8 million, and RMB169.5 million as of 31 December 2016, 2017, and 2018, and 31 March 2019, respectively. Based on our assessment results, there was no impairment of goodwill as of 31 December 2016, 2017, and 2018, and 31 March 2019, and any reasonable change to the key assumptions below would not lead to an impairment.

	As of 31 December			As of 31
	2016	2017	2018	March 2019
Revenue annual growth rate				
- actual for the year	11%	11%	-21%	42%
- average of the forecast period	4%	5%	11%	11%
Average gross profit margins	25%	28%	29%	32%
Annual average capex expenditure (HK\$ million)	8	7	32	8
Long term annual growth rate	3%	3%	3%	3%
Pre-tax discount rate	20%	20%	20%	20%

FINANCIAL INFORMATION

The decrease in revenue of Lvqi (Fujian), being a cash generating unit (the “CGU”), in 2018 was primarily due to the decrease in the average unit selling prices of agar-agar products of Lvqi (Fujian) and a temporary decrease in the sales volume of Lvqi (Fujian) as a results of transferring the production and sales of certain agar-agar products to Greenfresh (Fujian) during the year.

The same pre-tax discount rate has been adopted throughout the Track Record Period after taking into consideration (a) the underlying CGU has been engaged in the agar-agar products manufacturing and sales business for a long history; (b) the business model and financial position of the CGU remains stable; (c) as of each reporting date, there is no significant change in the business plan and key assumptions of financial projections adopted in the value-in-use analysis, and (d) as of each reporting date, there is no significant change in the risk profile and market competition pattern of the industry in which the CGU operates, as such similar risk factors have been considered when determine appropriate discount rate by independent valuer.

The sensitivity analysis for each of the major assumptions is set forth below. It shows when each of the assumptions changes to the breakeven point with other assumptions remain unchanged at each year or period end, the estimated recoverable amount of the CGU will equal to its carrying amount.

Breakeven point of each assumption for carrying amount to equal to recoverable amount

	As of 31 December			As of
	2016	2017	2018	31 March 2019
Revenue annual growth rate				
- average of the forecast period	-9.3%	-10.5%	-1.5%	-0.6%
Average gross profit margin	22.7%	25.1%	26.3%	29.2%
Annual average capital expenditure				
(HK\$ million)	44.4	55.7	53.5	54.6
Long term annual growth rate	-34.7%	-59.0%	-54.0%	-37.4%
Pre-tax discount rate	<u>33.9%</u>	<u>36.7%</u>	<u>35.2%</u>	<u>30.2%</u>

FINANCIAL INFORMATION

Prepayment for non-current assets

	As of 31 December			As of
	2016	2017	2018	31 March
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2019</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Prepayment for land use rights.	10,990	12,130	5,941	6,069
Prepayment for property, plant, and equipment	10,996	6,180	5,667	4,521
Prepayment for discharge rights	16,803	17,922	—	—
Prepayment for trademarks and licences	—	—	—	176
Total	38,789	36,232	11,608	10,766

We made prepayments for the purchase of land use rights, property, plant and equipment and discharge rights. The prepayments will be transferred to the relevant assets when the relevant title documents are obtained or when the assets are in use, whichever is the earlier.

Sea use rights

We acquired the rights to use certain sea area. The sea use rights are stated at historical cost less accumulated amortisation. See the section headed “Business — Seaweed cultivation” in this prospectus for further information.

Discharge rights

We acquired the rights to discharge pollutants within authorised amounts. The discharge rights are stated at historical cost less accumulated amortisation. See the section headed “Business — Environmental protection” in this prospectus for further information.

FINANCIAL INFORMATION

Deferred income

The table below sets forth the deferred income as of the dates indicated:

	As of 31 December			As of 31 March
	2016	2017	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred income on government grants	38,888	38,030	32,861	32,693

The government grants were received from the local government as subsidies to our purchase of property, plant and equipment. They are amortised to the profit or loss on a straight-line basis over the expected useful lives of the related assets.

The movements of the deferred income during the years/periods indicated are as follows:

	Year ended 31 December			Three months ended 31 March
	2016	2017	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As of 1 January	26,720	38,888	38,030	32,861
Additions	17,534	—	—	—
Released to other income	(2,466)	(3,457)	(3,553)	(871)
Released to depreciation expense	(572)	—	—	—
Currency translation differences	(2,328)	2,599	(1,616)	703
As of 31 December/31 March	38,888	38,030	32,861	32,693

FINANCIAL INFORMATION

Deferred income tax assets and liabilities

Deferred income tax

The table below sets forth further information on our deferred income tax assets and liabilities as of the dates indicated:

	As of 31 December			As of 31 March
	2016	2017	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred income tax assets.....	11,063	11,328	11,177	11,495
Deferred income tax liabilities.....	(3,018)	(3,157)	(2,406)	(2,424)
Total	<u>8,045</u>	<u>8,171</u>	<u>8,771</u>	<u>9,071</u>

Deferred income tax assets

The table below sets forth an analysis of our deferred income tax assets as of the dates indicated:

	As of 31 December			As of 31 March
	2016	2017	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
The balance comprises temporary differences attributable to:				
Deferred income.....	7,935	7,758	6,700	6,664
Accrued employee benefits.....	1,396	1,744	1,384	1,258
Unrealised profit of intra-group sales.....	499	875	928	1,096
Provision of loss allowance.....	1,233	951	978	1,052
Share-based payment expenses.....	—	—	1,187	1,425
Total	<u>11,063</u>	<u>11,328</u>	<u>11,177</u>	<u>11,495</u>

FINANCIAL INFORMATION

The movements in deferred income tax assets for the years/period indicated are as follows:

	Deferred income	Accrued employee benefits	Unrealised profit	Provision of loss allowance	Tax losses	Share-based payment expenses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As of 1 January							
2016	5,389	1,250	285	46	387	—	7,357
Credited/(charged) to the statement of profit or loss	3,025	235	242	1,240	(379)	—	4,363
Currency translation differences	(479)	(89)	(28)	(53)	(8)	—	(657)
As of 31 December							
2016	7,935	1,396	499	1,233	—	—	11,063
Credited/(charged) to the statement of profit or loss	(709)	242	329	(356)	—	—	(494)
Currency translation differences	532	106	47	74	—	—	759
As of 31 December							
2017	7,758	1,744	875	951	—	—	11,328
Credited/(charged) to the statement of profit or loss	(728)	(291)	(166)	76	—	1,187	78
Currency translation differences	(330)	(69)	219	(49)	—	—	(229)
As of 31 December							
2018	6,700	1,384	928	978	—	1,187	11,177
Credited/(charged) to the statement of profit or loss	(179)	(155)	168	53	—	238	125
Currency translation differences	143	29	—	21	—	—	193
As of 31 March							
2019	6,664	1,258	1,096	1,052	—	1,425	11,495

FINANCIAL INFORMATION

Deferred income tax liabilities

The table below sets forth an analysis of our deferred income tax liabilities as of the dates indicated:

	As of 31 December			As of
	2016	2017	2018	31 March
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
The balance comprises temporary differences attributable to:				
Property, plant and equipment.	(233)	(360)	(226)	(219)
Intangible assets	(2,706)	(2,714)	(2,109)	(2,132)
Land use rights.	(79)	(83)	(71)	(73)
Total	<u>(3,018)</u>	<u>(3,157)</u>	<u>(2,406)</u>	<u>(2,424)</u>

The movements in deferred income tax liabilities for the years/period indicated are as follows:

	Property, plant, and equipment	Intangible assets	Land use rights	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As of 1 January 2016	(266)	(3,071)	(87)	(3,424)
Credited to the statement of profit or loss . . .	18	177	2	197
Currency translation differences	15	188	6	209
As of 31 December 2016	(233)	(2,706)	(79)	(3,018)
Credited to the statement of profit or loss . . .	92	176	2	270
Acquisition of subsidiary	(200)	—	—	(200)
Currency translation differences	(19)	(184)	(6)	(209)
As of 31 December 2017	(360)	(2,714)	(83)	(3,157)
Credited to the statement of profit or loss . . .	90	180	2	272
Currency translation differences	44	424	11	479
As of 31 December 2018	(226)	(2,109)	(71)	(2,406)
Credited to the statement of profit or loss . . .	22	101	—	123
Currency translation differences	(15)	(124)	(2)	(141)
As of 31 March 2019	<u>(219)</u>	<u>(2,132)</u>	<u>(73)</u>	<u>(2,424)</u>

FINANCIAL INFORMATION

Convertible Bond

Further information on the terms and conditions of the Convertible Bond is set forth in the section headed “Pre-IPO Investment” and discussion on the financial impact of the Convertible Bond as of 31 December 2016, 2017, 2018, and 31 March 2019 is set forth in the paragraphs under “Principal components of our current assets and current liabilities — Convertible Bond, borrowings, and lease liabilities” above.

Lease liabilities

Discussion and analysis of the lease liabilities as of 31 December 2016, 2017, 2018, and 31 March 2019, is set forth in the paragraphs under “Principal components of our current assets and current liabilities — Convertible Bond, borrowings, and lease liabilities” above

NON-CANCELLABLE OPERATING LEASES

As of 31 December 2016, 2017, 2018, and 31 March 2019, we had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	<u>As at 31 December</u>			<u>As at</u>
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>31 March</u>
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<u>2019</u>
				<i>HKD'000</i>
Minimum lease payments				
Within one year	1,050	1,943	2,069	1,969
Later than 1 year and no later than 5 years	1,362	3,983	4,295	3,751
Over 5 years	1,062	853	551	692
	<u>3,474</u>	<u>6,779</u>	<u>6,915</u>	<u>6,412</u>
Future finance charges	(636)	(875)	(919)	(835)
Total lease liabilities	<u>2,838</u>	<u>5,904</u>	<u>5,996</u>	<u>5,577</u>
Within one year	887	1,654	1,848	1,893
Over one year	1,951	4,250	4,148	3,684
Total lease liabilities	<u>2,838</u>	<u>5,904</u>	<u>5,996</u>	<u>5,577</u>

FINANCIAL INFORMATION

CAPITAL EXPENDITURE AND CAPITAL COMMITMENT

Historical

Our capital expenditure primarily relates to the purchase of plant and machinery. The table below sets forth our capital expenditure for the years/periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(Unaudited)</i>	
Purchase of property, plant, and machinery	54,497	121,837	56,487	21,340	17,584
Purchase of land use rights	10,040	20,447	1,078	—	—
Total	64,537	142,284	57,565	21,340	17,584

We have funded our historical capital expenditure through cash flows generated from operating activities, advances from our Controlling Shareholders, and borrowings. As of 31 December 2016, 2017, and 2018, and 31 March 2019, the amount of contracted capital expenditure, but not recognised as liabilities, amounted to HK\$56.2 million, HK\$2.9 million, HK\$23.2 million, and HK\$18.6 million, respectively.

Planned

Our capital expenditure is principally used in the construction of factory buildings and purchase of plant and machinery. We intend to fund our planned capital expenditure through the proceeds from the Convertible Bond and the Share Offer as well as the cash inflows generated from our business activities.

FINANCIAL INFORMATION

RELATED PARTY TRANSACTIONS

Our ultimate controlling parties are the Concert Parties who are collectively our Controlling Shareholders. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions.

Related parties of our Company and our Group

Name of related parties	Relationship
Gold Field Enterprise (Hong Kong) Co., Ltd (“ Gold Field ”)	Controlled by Mr. CHAN Kam Chung, an executive Director
Huasheng (Quanzhou) Chemical Co., Ltd (“ Huasheng ”)	Controlled by the son of Mr. CHAN Shui Yip, an executive Director
Zhangzhou Xindecheng Investment Consulting Company Limited (“ Xindecheng ”)	Controlled by Mr. GUO Dongxu, an executive Director

In addition to the above, we also had transactions with relatives of our Controlling Shareholders.

The following is a summary of the significant transactions carried out with our related parties in the ordinary course of business during the Track Record Period, and balances arising from related party transactions for the years/periods indicated.

Transactions with related parties

(i) Rental expenses

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Mr. GUO Dongxu	—	652	423	110	104

(unaudited)

On 31 December 2016, our Group’s subsidiaries in the PRC entered into lease agreements to lease office premises from Mr. GUO Dongxu during the period from 1 January 2017 to 31 December 2017.

On 15 December 2017, our Group’s subsidiaries in the PRC entered into two lease agreements to lease two office premises from Mr. GUO Dongxu during the period from 1 January 2018 to 31 December 2020.

FINANCIAL INFORMATION

(ii) Amounts received from and repaid to related parties

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>	
Received from:					
-Mr. CHAN Kam Chung.	23,507	17,087	457	262	—
-Mr. CHAN Shui Yip	16,739	6,990	—	—	—
-Mr. GUO Yuansuo	4,442	4,206	—	—	—
-Mr. GUO Dongxu	1,184	1,103	23	21	—
Total	45,872	29,386	480	283	—
Repaid to:					
-Mr. CHAN Kam Chung.	4,696	58,313	8,807	8,554	—
-Mr. CHAN Shui Yip	65,783	40,096	2,779	2,779	—
-Mr. GUO Yuansuo	35,009	26,094	—	—	—
-Mr. GUO Wentong	—	9,876	—	—	—
-Mr. GUO Dongxu	4,500	6,238	1,377	1,207	104
-Huasheng	—	356	—	—	—
-Zhangzhou Faith	9,434	—	—	—	—
Total	119,422	140,973	12,963	12,540	104
Net received/(repaid).	(73,550)	(111,587)	(12,483)	(12,257)	(104)

(iii) Guarantees provided by related parties to our bank borrowings

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>	
-Mr. CHAN Kam Chung.	272,645	322,112	140,082	180,280	189,788
-Mr. GUO Dongxu	252,645	287,112	—	137,280	—
-Mr. CHAN Shui Yip	243,579	238,371	72,082	180,280	126,788
-Mr. GUO Yuansuo	223,580	287,112	—	137,280	—
-Mr. GUO Wentong	223,580	203,371	—	137,280	—
-Mr. GUO Donghuang	223,580	203,371	—	137,280	—
-Mr. SHE Xiaoying	223,580	203,371	—	137,280	—
-Gold Field	5,000	—	—	—	—

FINANCIAL INFORMATION

Our bank loans amounting to HK\$237.2 million, HK\$247.7 million, HK\$81.4 million, and HK\$79.8 million as of 31 December 2016, 2017, and 2018, and 31 March 2019, respectively, were covered by guarantees provided by the above related parties. These personal guarantees and security interests will be released upon Listing.

(iv) Key management compensation

Key management includes directors (executive and non-executive), executive officers, and the company secretary. The compensation paid or payable to key management for employee services is as follows:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>	
Salaries and bonus	1,455	2,935	7,914	1,930	2,222
Other benefits	65	93	211	33	38
Share-base payment expense .	—	—	6,303	1,076	1,330
Total	1,520	3,028	14,428	3,039	3,590

Balances with related parties

	As of 31 December			As of 31 March
	2016	2017	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts due to related parties:				
- Mr. CHAN Kam Chung	49,505	8,350	—	—
- Mr. CHAN Shui Yip	34,861	2,779	—	—
- Mr. GUO Dongxu	6,114	1,144	102	104
- Mr. GUO Yuansuo	21,213	—	—	—
- Mr. GUO Wentong	9,571	—	—	—
- Huasheng	345	—	—	—
- Zhangzhou Faith	—	—	—	—
Total	121,609	12,273	102	104

The amounts due to related parties were unsecured, non-interest bearing and repayable on demand and have been settled as of the date of this prospectus.

FINANCIAL INFORMATION

INDEBTEDNESS

The following sets forth an analysis of our outstanding loans and borrowings as of the dates indicated:

	As of 31 December			As of 31 March	As of 31 July
	2016	2017	2018	2019	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
					<i>(unaudited)</i>
Current					
Bank loans	175,737	193,898	253,370	277,666	300,639
Lease liabilities	887	1,654	1,848	1,893	1,841
Amounts due to related parties . .	121,609	12,273	102	104	—
Convertible Bond — host debt component	—	—	—	—	54,579
	<u>298,233</u>	<u>207,825</u>	<u>255,320</u>	<u>279,663</u>	<u>357,059</u>
Non-current					
Bank loans	61,485	53,834	63,580	63,886	62,968
Lease liabilities	1,951	4,250	4,148	3,684	3,169
Convertible Bond — host debt component	—	50,080	52,644	53,254	—
Convertible Bond — derivative component — financial liability at fair value through profit or loss	—	10,437	—	—	—
	<u>63,436</u>	<u>118,601</u>	<u>120,372</u>	<u>120,824</u>	<u>66,137</u>
Total	<u><u>361,669</u></u>	<u><u>326,426</u></u>	<u><u>375,692</u></u>	<u><u>400,487</u></u>	<u><u>423,196</u></u>

Our bank loans during the Track Record Period were denominated in HK\$, RMB, and US\$. As of 31 December 2016, 2017, and 2018, 31 March 2019, and 31 July 2019 the outstanding bank borrowings amounted to HK\$237.2 million, HK\$247.7 million, HK\$316.9 million, HK\$341.6 million, and HK\$363.6 million, respectively.

FINANCIAL INFORMATION

We had the following unutilised borrowing facilities:

	As of 31 December			As of 31 March	As of 31 July
	2016	2017	2018	2019	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
					<i>(unaudited)</i>
Bank borrowings, at floating rates					
- Expiring within one year . . .	31,855	90	75,816	127,445	92,055
- Expiring beyond one year . . .	11,936	17,945	—	—	—
Total	<u>43,791</u>	<u>18,035</u>	<u>75,816</u>	<u>127,445</u>	<u>92,055</u>

Certain bank borrowings were secured by our land use rights and buildings with an aggregate carrying amount of HK\$162.5 million as of 31 March 2019 and HK\$153.7 million as of 31 July 2019. Our bank loans amounting to HK\$237.2 million, HK\$247.7 million, HK\$81.4 million, HK\$79.8 million, and HK\$113.4 million as of 31 December, 2016, 2017, and 2018, 31 March 2019, and 31 July 2019, respectively, were also secured by personal guarantees and/or other securities of our Controlling Shareholders, an executive Director and a related person. These personal guarantees and security interests will be released upon Listing.

The following sets forth the effective interest rates of bank loans and other borrowings for the years/periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	%	%	%	%	%
					<i>(unaudited)</i>
Effective interest rates	<u>5.97</u>	<u>5.26</u>	<u>5.41</u>	<u>5.32</u>	<u>5.75</u>

The outstanding par value of the Convertible Bond as of 31 March 2019 was HK\$55.2 million and as of 31 July 2019 was HK\$55.2 million. The conversion option of the Convertible Bond has been fully exercised.

FINANCIAL INFORMATION

During the Track Record Period, our borrowings, lease liabilities, and convertible bond were repayable as follows:

	Year ended 31 December			Three months ended
	2016	2017	2018	31 March 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net debt				
Borrowings — repayable within one year	(175,737)	(193,898)	(253,370)	(277,666)
Borrowings — repayable after one year	(61,485)	(53,834)	(63,580)	(63,886)
Lease liabilities — repayable within one year .	(887)	(1,654)	(1,848)	(1,893)
Lease liabilities — repayable after one year . .	(1,951)	(4,250)	(4,148)	(3,684)
Convertible Bond	—	(60,517)	(52,644)	(53,254)
Amounts due to related parties	<u>(121,609)</u>	<u>(12,273)</u>	<u>(102)</u>	<u>(104)</u>
Total debt	(361,669)	(326,426)	(375,692)	(400,487)
Cash and bank balances	<u>98,271</u>	<u>33,123</u>	<u>55,855</u>	<u>60,898</u>
Net debt	<u>(263,398)</u>	<u>(293,303)</u>	<u>(319,837)</u>	<u>(339,589)</u>
Gross debt — fixed interest rates	(116,976)	(77,682)	(63,061)	(58,038)
Gross debt — variable interest rates	(123,084)	(175,954)	(259,885)	(289,091)
Convertible Bond	—	(60,517)	(52,644)	(53,254)
Amounts due to related parties	<u>(121,609)</u>	<u>(12,273)</u>	<u>(102)</u>	<u>(104)</u>
Total debt	(361,669)	(326,426)	(375,692)	(400,487)
Cash and bank balances	<u>98,271</u>	<u>33,123</u>	<u>55,855</u>	<u>60,898</u>
Net debt	<u>(263,398)</u>	<u>(293,303)</u>	<u>(319,837)</u>	<u>(339,589)</u>

We expect to seek and to be able to obtain bank loans and other borrowings on terms similar to the bank loans and other borrowings that we secured and utilised during the Track Record Period. We expect such cash generated from financing activities to be used primarily for general working capital, purchase of raw materials as well as repay the existing bank loans and other borrowings. The secured bank loans of HK\$162.5 million as of 31 March 2019 were acquired for the use of our working capital. In addition, we expect to generate cash from our operating activities to repay such bank loans and other borrowings.

We confirm that there had been no material change in our indebtedness position since 31 July 2019, being the date for determining our indebtedness, and that we do not have any plan to raise significant amount of external debt financing following the Listing.

FINANCIAL INFORMATION

Contingent liabilities

Except as disclosed in above and other than intra-group liabilities disclosed in the prospectus, we did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, debentures, mortgage, charges, finance leases, liabilities under acceptance credits (other than normal trade-related bills), hire purchase commitment, guarantees or other material contingent liabilities as of the Latest Practicable Date. As of the same date, we had not guaranteed the indebtedness or any Independent Third Parties.

PROPERTY VALUATION

Jones Lang LaSalle Corporate Appraisal and Advisory Limited has valued the properties held by us as of 30 June 2019. The particulars of our owned properties and valuation certificates issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited are set forth in Appendix III to this prospectus.

A reconciliation of the net book value of our properties as of 31 March 2019 as set forth in Accountants' Report in Appendix I to their fair value as of 30 June 2019 as stated in the property valuation report in Appendix III is set forth below:

	<u>Amount</u>
	<i>HK\$'000</i>
Net book value of our property interests as of 31 March 2019:	
Buildings and construction-in-progress of buildings included in property, plant, and equipment ⁽¹⁾	213,621
Land use rights	54,678
Additions for the three months ended 30 June 2019:	
Building and construction-in-progress of buildings included in property, plant and equipment	3,799
Land use rights	9,093
Less: Depreciation and amortization for the three months ended 30 June 2019	<u>(3,449)</u>
	277,742
Valuation surplus	18,307
Valuation as of 30 June 2019 as set forth in Appendix III to this prospectus	<u>296,049</u>

Note:

- (1) The net book value of "buildings and construction-in-progress of buildings included in property, plant, and equipment" is comprised of the net book amount of HK\$178,532,000 under the "Buildings" category and HK\$35,089,000 under the "Construction in progress" category, which together with the HKD19,151,000 machinery and equipment related sum forming the total net book amount of HK\$54,240,000 under the "Construction-in-progress" category.

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we did not have any material off-balance sheet arrangements or contingencies except as disclosed in the paragraphs under "Capital expenditure and capital commitment" and "Indebtedness" above.

FINANCIAL INFORMATION

KEY FINANCIAL RATIOS

		Year-to-Year/Period-to-Period comparison					
		Numerator	Denominator	(2016/2015)	(2017/2016)	(2018/2017)	(2019/2018)
Revenue growth ⁽¹⁾	(%)			13.1%	23.6%	50.7%	7.7%
Net profit growth ⁽³⁾	(%)			78.4%	73.7%	1.1%	235.8%
		Year ended 31 December			Three months ended 31 March 2019		
		2016			2017	2018	(annualised)
Gross profit margin ⁽²⁾	(%)			22.1%	26.6%	26.8%	26.5%
Net profit margin ⁽⁴⁾	(%)			10.0%	14.0%	9.4%	9.1%
Return on equity ⁽⁵⁾	(%)	Profit after tax	Equity	35.0%	30.2%	23.0%	15.9%
Return on total assets ⁽⁶⁾	(%)	Profit after tax	Total Assets	8.3%	11.5%	10.0%	6.9%
Gearing ratio ⁽⁷⁾	(%)	Total liabilities	Equity	323.0%	163.3%	129.3%	132.2%
Current ratio ⁽⁸⁾	Times	Current assets	Current liabilities	0.79	0.90	1.19	1.2
Quick ratio ⁽⁹⁾	Times	Current assets-Inventories - Biological assets	Current liabilities	0.47	0.44	0.67	0.52
Net debt to equity ratio ⁽¹⁰⁾	Times	Bank borrowings net of cash and cash equivalents and restricted cash	Equity	0.91	0.7	0.64	0.64

Notes:

- (1) Revenue growth is calculated based on the difference in our revenue of each reporting year/period from our revenue of the previous reporting year/period divided by our revenue of previous year/period and multiplied by 100%.
- (2) Gross profit margin is calculated based on the gross profit for each reporting year/period divided by total revenue for each reporting year/period and multiplied by 100%.
- (3) Net profit growth is calculated based on the difference in our net profit of each reporting year/period from the net profit of the previous reporting year/period divided by the profit of previous year/period and multiplied by 100%.
- (4) Net profit margin is calculated based on the net profit for each reporting year/period divided by the total revenue for each reporting year/period and multiplied by 100%.
- (5) Return on equity is calculated based on our net profit for each reporting year/period divided by the total equity as of the end of each reporting year/period and multiplied by 100%.
- (6) Return on total assets is calculated based on our net profit for each reporting year/period divided by total assets of each reporting year/period and multiplied by 100%.
- (7) Gearing ratio is calculated based on our total liability divided by our total equity as of the end of each reporting year/period and multiplied by 100%.
- (8) Current ratio is calculated based on total current assets divided by the total current liabilities as of the end of each reporting year/period.
- (9) Quick ratio is calculated based on our total current assets excluding inventories and biological assets divided by the total current liabilities as of the end of each reporting year/period.
- (10) Net debt to equity ratio is calculated by dividing our net debt, being our total bank borrowings net of cash and cash equivalents and restricted cash, by total equity as of the end of each reporting year/period and multiplied by 100%.
- (11) Calculation of return on equity and return on total assets is on a full-year basis.

FINANCIAL INFORMATION

See the paragraphs under “Our operating results” above for further information on our revenue growth, net profit growth, gross profit margin, net profit margin during the Track Record Period.

Return on equity

Our return on equity for the three years ended 31 December 2018 was 35%, 30.2%, and 23%, respectively. Our return on equity for the three months ended 31 March 2019 was 15.9%. Return on equity increased during the two years ended 31 December 2017 mainly due to the growth in net profit during the same period. During the year ended 31 December 2018, the return on equity decreased due to the effect of the increase in share-based payment expenses and the Listing expenses charged during the period. During the three months ended 31 March 2019, the return on equity decreased due to the decrease in annualised return of 2019 as compared to the actual yearly return of 2018.

Return on total assets

The return on total assets during the three years ended 31 December 2018 was 8.3%, 11.5%, and 10.0%, respectively. Our return on total assets for the three months ended 31 March 2019 was 6.9%. Return on total assets increased during the two years ended 31 December 2017 and was consistent with the growth in net profit during the same period. Return on total assets decreased significantly during the year ended 31 December 2018 was mainly due to the effect of the increase in share-based payment expenses and the Listing expenses charged during the year/period. During the three months ended 31 March 2019, the return on total assets decreased due to the decrease in annualised return of 2019 as compared to the actual yearly return of 2018.

Gearing ratio

As of 31 December 2016, 2017, and 2018, and 31 March 2019, the gearing ratio was 323.0%, 163.3%, 129.3%, and 132.2%, respectively. The general decreases in the gearing ratio during the three years ended 31 December 2018 was due to the decrease in using bank borrowings to finance our business expansion and investment in production facilities as of 31 December 2016 and 2017 and increase in equity as a result of profit retained for the year as of 31 December 2018. Gearing ratio for the three months ended 31 March 2019 increased slightly by 2.9%, as compared to that of 2018, due to the increase in bank borrowings for working capital purpose during the period.

Current ratio

As of 31 December 2016, 2017, and 2018, and 31 March 2019, the current ratio was 0.79, 0.90, 1.19, and 1.20, respectively.

Current ratio of our Company continued to improve during the Track Record Period, and such improvement was consistent with business growth of our Group in terms of profitability and cash inflows.

Quick ratio

As of 31 December 2016, 2017, and 2018, and 31 March 2019, the quick ratio was 0.47, 0.44, 0.67, and 0.52, respectively.

FINANCIAL INFORMATION

A significant portion of our Company's current assets is the balance of inventories which are composed of finished products, work-in-progress, and raw materials. The quick ratio remained stable throughout the Track Record Period because of the improved performance of our Group which resulted in cash and bank balances and trade receivables.

Net debt to equity ratio

As of 31 December 2016, 2017, and 2018, and 31 March 2019, net debt to equity ratio was 0.91, 0.70, 0.64, and 0.64, respectively.

The net debt to equity ratio decreased as of 31 December 2017 to 31 December 2018 and then remained at 0.64 as of 31 March 2019, due to the increase in borrowings balanced by further increase in retained earnings from operations.

QUANTITATIVE AND QUALITATIVE ANALYSIS OF MARKET RISKS

Our business activities expose us to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk, and liquidity risk. Our overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on our financial performance.

Foreign exchange risk

We mainly operate in the PRC and Hong Kong and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollars. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. We do not hedge against any fluctuation in foreign currency.

As of 31 December 2016, 2017, and 2018, and 31 March 2019, if US dollar had weakened/strengthened by 10% against the RMB with all other variables held constant, post-tax profit for the year/period would have been HK\$5.3 million lower/higher, HK\$2.1 million lower/higher, HK\$4.1 million lower/higher, and HK\$1.9 million lower/higher mainly as a result of foreign exchange losses/gains on translation of US dollar-denominated trade and other payables borrowings, trade receivables, and cash and cash equivalents.

Cash flow and fair value interest rate risk

Our interest rate risk arises from borrowings. Borrowings obtained at variable rates expose our Group to cash flow interest rate risk. Borrowings and the Convertible Bond obtained at fixed rates expose us to fair value interest rate risk. We do not hedge its cash flow and fair value interest rate risk.

During the three years ended 31 December 2018, if interest rate on borrowings had been higher by 100 basis points of current interest rate, with other variables held constant, post — tax profit for the same years would have been HK\$0.1 million lower, HK\$0.4 million lower, and HK\$0.4 million lower, respectively. During the three months ended 31 March 2019, the effect could be HK\$0.5 million lower.

FINANCIAL INFORMATION

Credit risk

Credit risk arises from cash and cash equivalents and trade and other receivables. The carrying amounts or the undiscounted nominal amounts, where applicable, of each class of these financial assets represent our maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage the risk with respect to cash and cash equivalents, bank deposits are placed with highly reputable financial institutions.

For trade receivables, we apply the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

For other receivables, as they have a low risk of default and the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term, we considered them to have low credit risk, and thus the impairment provision recognised is limited to 12 months expected losses.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Our objective is to maintain adequate committed credit lines to ensure sufficient and flexible funding is available to us. We also consider converting short-term borrowings into long-term borrowings to improve our liquidity.

The table below analyses our non-derivative 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.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As of 31 December 2016					
Borrowings	175,737	11,179	50,306	—	237,222
Interest payable on borrowings . .	9,029	1,760	1,429	—	12,218
Lease liabilities	1,050	589	773	1,062	3,474
Trade and other payables	175,548	2,241	—	—	177,789
	<u>361,364</u>	<u>15,769</u>	<u>52,508</u>	<u>1,062</u>	<u>430,703</u>

FINANCIAL INFORMATION

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As of 31 December 2017					
Borrowings	193,898	53,834	—	—	247,732
Interest payable on borrowings . .	9,975	1,525	—	—	11,500
Convertible bond	—	60,000	—	—	60,000
Interest payable on convertible bond	3,000	2,750	—	—	5,750
Lease liabilities	1,943	1,675	2,308	853	6,779
Trade and other payables	100,299	—	—	—	100,299
	<u>309,115</u>	<u>119,784</u>	<u>2,308</u>	<u>853</u>	<u>432,060</u>
As of 31 December 2018					
Borrowings	253,370	6,058	57,522	—	316,950
Interest payable on borrowings . .	15,089	4,379	3,750	—	23,218
Convertible bond	—	55,179	—	—	55,179
Interest payable on convertible bond	5,704	3,872	—	—	9,576
Lease liabilities	2,069	1,618	2,677	551	6,915
Trade and other payables	76,692	—	—	—	76,692
	<u>352,924</u>	<u>71,106</u>	<u>63,949</u>	<u>551</u>	<u>488,530</u>
As of 31 March 2019					
Borrowings	277,666	5,130	58,756	—	341,552
Interest payable on borrowings . .	21,079	4,225	2,608	—	27,912
Convertible bond	—	55,179	—	—	55,179
Interest payable on convertible bond	6,131	2,103	—	—	8,234
Lease liabilities	1,969	1,399	2,352	692	6,412
Trade and other payables	109,086	945	—	—	110,031
	<u>415,931</u>	<u>68,981</u>	<u>63,716</u>	<u>692</u>	<u>549,320</u>

Capital management

In order to maintain or adjust the capital structure, we may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

We monitor capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, finance lease liabilities and convertible bond (including 'current and non-current borrowings and finance lease liabilities' as shown in the consolidated balance sheets) less cash and cash equivalents and restricted cash. Total capital is calculated as 'equity' as shown in the consolidated balance sheets plus net debt.

FINANCIAL INFORMATION

The gearing ratios as of 31 December 2016, 2017, and 2018, and 31 March 2019 were as follows:

	As of 31 December			As of
	2016	2017	2018	31 March
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total borrowings, lease liabilities and convertible bond	240,060	314,153	375,590	400,383
Amounts due to related parties	121,609	12,273	102	104
Less: Cash and cash equivalents	(92,690)	(33,123)	(55,855)	(60,898)
Restricted cash	(5,581)	—	—	—
Net debt	263,398	293,303	319,837	339,589
Total equity	152,564	306,824	407,038	435,245
Total capital	415,962	600,127	726,875	774,834
Gearing ratio	63%	49%	44%	44%

Our gearing ratios as of 31 December 2016, 2017, and 2018, and 31 March 2019 continued to decrease from 63% to 44%. Such decreases was a result of the decrease in the amount due to related parties and the increases in reserves and retained earnings, primarily due to the increase in our profitability throughout the Track Record Period.

LISTING EXPENSES

Assuming that the Over-allotment Option is not exercised, the Listing expenses (including underwriting commission) are estimated to be HK\$50.0 million (based on the mid-point of the indicative range of the Offer Price of HK\$1.45), of which an amount of HK\$5.7 million and HK\$16.7 million were charged to the consolidated statements of profit or loss for the two years ended 31 December 2018, respectively. During the three months ended 31 March 2019, an amount of HK\$1.1 million was charged to the consolidated statements of profit or loss. An additional amount of HK\$7.1 million will be charged to the consolidated statements of profit or loss for the nine months ending 31 December 2019, and an amount of HK\$19.4 million will be accounted for as a deduction from equity upon Listing.

DIVIDENDS AND DIVIDEND POLICY

During the Track Record Period, we did not declare and pay any dividend to our Shareholders.

Following the Listing, our Board may determine to pay dividends at its own discretion in the future after considering our profits, cash flows, business opportunities and capital requirements (including the capital injection to our subsidiaries for their future expansion), general financial condition, regulatory limitations on our PRC and other subsidiaries' ability to distribute dividends to us and any other factors that our Board considers relevant.

FINANCIAL INFORMATION

We currently intend to adopt, after our Listing, a general annual dividend policy of declaring and paying dividends on an annual basis of no less than 20% of our distributable net profit attributable to our equity shareholders in the future but subject to, among others, our operation needs, earnings, financial condition, working capital requirements and future business expansion plans as our Board may deem relevant at such time.

DISTRIBUTABLE RESERVE

Our reserves available for distribution to Shareholders consist of share premium and retained earnings. Under the Cayman Companies Law and subject to compliance with the Articles, the share premium account may be applied by our Company for paying distributions of dividends to our Shareholders if immediately following the date on which the distribution or dividend is proposed to be paid, we will be able to pay off our debts as they fall due in the ordinary course of business. As of 31 March 2019, our Company had distributable reserves amounting to HK\$149.9 million which is available for distribution to our Shareholders.

UNAUDITED PRO FORMA NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set forth below to illustrate the effect of the Share Offer on the consolidated net tangible assets of our Group attributable to the equity holders of our Company as of 31 March 2019 as if the Share Offer had taken place on 31 March 2019.

The unaudited pro forma adjusted net tangible assets have 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 our Group had the Share Offer been completed as of 31 March 2019 or at any future dates.

	Audited consolidated net tangible assets of our Group attributable to the equity holders of our Company as of 31 March 2019⁽¹⁾	Estimated net proceeds from the Share Offer⁽²⁾	Unaudited pro forma adjusted net tangible assets of our Group attributable to the equity holders of our Company	Unaudited pro forma adjusted net tangible assets per Share⁽³⁾
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Based on an Offer Price of HK\$1.16 per Share	375,280	207,211	582,491	0.73
Based on an Offer Price of HK\$1.74 per Share	375,280	319,723	695,003	0.87

FINANCIAL INFORMATION

Notes:

- (1) The audited consolidated net tangible assets information of our Group attributable to the equity holders of our Company as of 31 March 2019 is extracted from the accountant's report set forth in Appendix I to this prospectus, which is based on the audited consolidated net assets of our Group attributable to the equity holders of our Company as of 31 March 2019 of HK\$435,038,000 with an adjustment for the intangible assets as of 31 March 2019 of HK\$59,758,000.
- (2) The estimated net proceeds to be received by our Company from the Share Offer are based on the indicative range of the Offer Price of HK\$1.16 and HK\$1.74 per Share, respectively, after deduction of the underwriting fees and other related expenses borne by our Company (excluding listing expenses of HK\$23,467,000 which has been accounted for prior to 31 March 2019) and takes no consideration any Shares which may fall to be issued upon the exercise of the Over-allotment Option, any Shares which may be issued upon the exercise of any options which may be granted under the Pre-IPO Share Option Scheme, and the Post-IPO Share Option Scheme, or any Shares which may be issued or repurchased by our Company pursuant to the General Mandate and the Buy-Back Mandate.
- (3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 800,000,000 Shares were in issue assuming that the Share Offer and Capitalisation Issue have been completed on 31 March 2019 but takes no consideration any Shares which may fall to be issued upon the exercise of the Over-allotment Option, any Shares which may be issued upon the exercise of any options which may be granted under the Pre-IPO Share Option Scheme, and the Post-IPO Share Option Scheme, or any Shares which may be granted and issued or repurchased by our Company pursuant to the General Mandate and the Buy-back Mandate.
- (4) No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to 31 March 2019.

NO ADDITIONAL DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, there were no circumstances which would have given rise to any disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules had our Shares been listed on the Stock Exchange on that date.

REASONS FOR THE LISTING, FUTURE PLANS, AND PROPOSED USE OF NET PROCEEDS FROM THE SHARE OFFER

REASONS FOR THE LISTING

Our business objective is to further strengthen our position as the leading producer of seaweed-based and plant-based hydrocolloid products in the PRC. Our Directors believe that the Listing will facilitate the implementation of our strategies as stated in the section headed “Business — Our strategies” in this prospectus and will expand our market share in the industry. Our Directors further believe that the Listing is beneficial to our Company and our Shareholders as a whole because of the following reasons:

- A listing status on the Stock Exchange can enhance our corporate profile and business reputation, and would be beneficial for us to explore the overseas markets and compete against our competitors which are more sizeable than us in terms of business scale and geographical footprints. We will have the required funding to support our business growth and expedite the development of new agar-agar and carrageenan products.
- Most of the cash generated from our business operation were used on financing our business operations. With the business strategy of construction of new production plants, we will need substantial amount of financial resources to support our business growth and our purchase of the required plant and machinery.
- Throughout the preparation for the Listing, we have strengthened our internal control, corporate governance, and other quality assurance systems. These are important to us to maintain our position as the leading producer of hydrocolloid products and will facilitate the healthy development of our Group in the industry environment.
- Our Directors have also considered other means of financing, but believe that those other means should not be used to support our long-term business growth. A high gearing ratio would not be entirely favourable to our business growth.
- Our Company could establish an efficient and sustainable fund-raising platform through the Listing, thereby enabling us to gain direct access to the capital market to fund our existing operations and future expansion.
- A listing status on the Stock Exchange allows us to retain and attract experienced and qualified employees. Following the Listing, we may offer our employees share options under the Post-IPO Share Option Scheme as incentives. With the continuous growth of our business, trading prices of our Shares are expected to reflect the intrinsic value of our Company and benefit the grantees under the Pre-IPO Share Option Scheme.

FUTURE PLANS

See the section headed “Business — Our strategies” in this prospectus.

**REASONS FOR THE LISTING, FUTURE PLANS, AND
PROPOSED USE OF NET PROCEEDS FROM THE SHARE OFFER**

PROPOSED USE OF NET PROCEEDS FROM THE SHARE OFFER

Based on the mid-point of the indicative range of the Offer Price of HK\$1.45, the net proceeds from the Share Offer (after deducting underwriting fees and estimated expenses in connection with the Share Offer and assuming that the Over-allotment Option is not exercised) will be HK\$240.0 million. The table below sets forth the estimated amount of net proceeds from the Share Offer:

	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full
Assuming that the Offer Price would be HK\$1.74 (being the high-end of the indicative range of the Offer Price)	HK\$296.3 million	HK\$346.9 million
Assuming that the Offer Price would be HK\$1.45 (being the mid-point of the indicative range of the Offer Price)	HK\$240.0 million	HK\$282.2 million
Assuming that the Offer Price would be HK\$1.16 (being the low-end of the indicative range of the Offer Price)	HK\$183.7 million	HK\$217.5 million

Assuming that the Offer Price would be HK\$1.45, being the mid-point of the indicative range of the Offer Price, we intend to use the net proceeds from the Share Offer for the following purposes:

- HK\$26.4 million, or 11.0% of the total net proceeds from the Share Offer, will be used for partial financing of the construction cost for the new production plant adjacent to the location of Lvqi (Fujian) Production Plant, which will have a total site area of 37,680 sq.m. and a total gross floor area of 8,266.21 sq.m. The following sets forth further information on the usage;
 - HK\$18.9 million will be used for the payment for the construction cost of two factory buildings and one warehouse with ancillary equipment;
 - HK\$1.4 million will be used for the purchase of plant and machinery for the production line of refined iota carrageenan products with an annual design production capacity of 180 tonnes;
 - HK\$5.7 million will be used for the purchase of plant and machinery for the production line of konjac gum products with an annual design production capacity of 1,500 tonnes; and
 - HK\$0.4 million will be used for the payment of the remaining balance of the purchase price of the plant and machinery for the production line of quick-dissolve agar-agar products with an annual design production capacity of 1,500 tonnes.

REASONS FOR THE LISTING, FUTURE PLANS, AND PROPOSED USE OF NET PROCEEDS FROM THE SHARE OFFER

- HK\$81.2 million, or 33.8% of the total net proceeds from the Share Offer, will be used for the construction of a new production plant in Longhai City, Zhangzhou City, Fujian Province with an annual design production capacity of 50 tonnes of agarose, 10 tonnes of agar microspheres, and 200 tonnes of agarophyte. The estimated total investment amount is around HK\$90.0 million, of which we have settled RMB7.2 million (equivalent to HK\$8.8 million) for the acquisition of the relevant land parcel. The following sets forth further information on such usage:
 - HK\$34.2 million will be used for the construction of three senior staff dormitory;
 - HK\$29.9 million will be used for the construction of two factory buildings and one ancillary warehouse; and
 - HK\$17.1 million will be used for the purchase of plant and machinery for the production purpose;
- HK\$27.6 million, or 11.5% of the total net proceeds from the Share Offer, will be used for the construction of a new production plant in Indonesia with an annual design production capacity of 3,000 tonnes of semi-refined carrageenan. The total sum of the investment is HK\$38.4 million;
- HK\$82.1 million, or 34.2% of the total net proceeds from the Share Offer, will be used for the construction of a new production plant of agar-agar products in Zhangzhou City, Fujian Province, the PRC with an annual design production capacity of 1,000 tonnes. The followings set forth further information on the usage:
 - HK\$75.3 million will be used for the construction of the factory buildings and purchase of plant and machinery for the agar-agar production line; and
 - HK\$6.8 million will be used for the purchase of a parcel of land of 30 mu⁽¹⁾; and

As of the Latest Practicable Date, we have received an acknowledgement from the municipal government of Zini City, Fujian Province, the PRC on land parcel requested by us for the construction of relevant production plant. We expect the location of the land parcel can be confirmed by the end of the first quarter of 2020.
- HK\$22.7 million, or 9.5% of the net proceeds from the Share Offer, will be used for our general working capital purpose.

If the Offer Price is finally determined to be HK\$1.74 (being the high-end of the indicative range of the Offer Price), the additional net proceeds from the Share Offer of HK\$56.3 million will be used for re-financing of our bank borrowings. If the Offer Price is finally determined to be of HK\$1.16, the above allocation of the net proceeds from the Share Offer will decrease on a pro rata basis.

Note:

- (1) We have yet to identify the location of the land parcel, but expect that the land will be in Zhangzhou City, Fujian Province, the PRC. We also expect that we would complete the land acquisition procedures by the end of 2019.

**REASONS FOR THE LISTING, FUTURE PLANS, AND
PROPOSED USE OF NET PROCEEDS FROM THE SHARE OFFER**

If the Offer Price is determined at HK\$1.74 (being the high-end of the indicative range of the Offer Price) and assuming that the Over-allotment Option is exercised in full, the additional net proceeds from the Share Offer would increase by HK\$108.5 million, which will be used for re-financing our bank borrowings.

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately upon completion of the Share Offer and the Capitalisation Issue (without taking into consideration any Shares which may be issued upon the exercise of the Over-allotment Option, the Pre-IPO Share Options, and any option that may be granted under the Post-IPO Share Option Scheme), our Controlling Shareholders will beneficially own an aggregate of 73.5% of our Shares in issue. The table below sets forth information on our Controlling Shareholders.

Name of our Controlling Shareholders	Nature of interest and capacity	Immediately upon completion of the Share Offer and the Capitalisation Issue⁽¹⁾	
		Number of Shares held	Percentage of Shareholding
COS Kreation	Beneficial owner	161,700,000	19.48
Mr. CHAN Kam Chung . . .	Interest in controlled corporation ⁽²⁾⁽³⁾	161,700,000	19.48
	Interest under the Concert Party Agreement ⁽²⁾	588,000,000	73.5
Epoch	Beneficial owner	161,700,000	19.48
Mr. CHAN Shui Yip	Interest in controlled corporation ⁽⁴⁾	161,700,000	19.48
	Interest under the Concert Party Agreement ⁽²⁾	588,000,000	73.5
Green Forest	Beneficial owner	92,603,571	11.58
Mr. GUO Songsen	Interest in controlled corporation ⁽⁵⁾	92,603,571	11.58
	Interest under the Concert Party Agreement ⁽²⁾	588,000,000	73.5
Strong Achievement	Beneficial owner	66,150,000	8.27
Mr. GUO Dongxu	Interest in controlled corporation ⁽⁶⁾	66,150,000	8.27
	Interest under the Concert Party Agreement ⁽²⁾	588,000,000	73.5
Winning Path	Beneficial owner	66,150,000	8.27

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

Name of our Controlling Shareholders	Nature of interest and capacity	Immediately upon completion of the Share Offer and the Capitalisation Issue ⁽¹⁾	
		Number of Shares held	Percentage of Shareholding
Mr. GUO Yuansuo	Interest in controlled corporation ⁽⁷⁾	66,150,000	8.27
	Interest under the Concert Party Agreement ⁽²⁾	588,000,000	73.5
East Prosperity	Beneficial owner	39,696,429	4.96
Mr. GUO Donghuang	Interest in controlled corporation ⁽⁸⁾	39,696,429	4.96
	Interest under the Concert Party Agreement ⁽²⁾	588,000,000	73.5

Notes:

1. Assuming the Over-allotment Option, the Pre-IPO Share Options, and any option that may be granted under the Post-IPO Share Option Scheme are not exercised.
2. All Controlling Shareholders are Concert Parties.
3. Mr. CHAN Kam Chung held all issued shares in COS Kreation. Therefore, Mr. CHAN Kam Chung is deemed to be interested in all the Shares held by COS Kreation for the purpose of the SFO. Mr. CHAN Kam Chung is the sole director of COS Kreation.
4. Mr. CHAN Shui Yip held all issued shares in Epoch. Therefore, Mr. CHAN Shui Yip is deemed to be interested in all the Shares held by Epoch for the purpose of the SFO. Mr. CHAN Shui Yip is the sole director of Epoch.
5. Mr. GUO Songsen held all issued shares in Green Forest. Therefore, Mr. GUO Songsen is deemed to be interested in all the Shares held by Green Forest for the purpose of the SFO. Mr. GUO Songsen is the sole director of Green Forest.
6. Mr. GUO Dongxu held all issued shares in Strong Achievement. Therefore, Mr. GUO Dongxu is deemed to be interested in all the Shares held by Strong Achievement for the purpose of the SFO. Mr. GUO Dongxu is the sole director of Strong Achievement.
7. Mr. GUO Yuansuo held all issued shares in Winning Path. Therefore, Mr. GUO Yuansuo is deemed to be interested in all the Shares held by Winning Path for the purpose of the SFO. Mr. GUO Yuansuo is the sole director of Winning Path.
8. Mr. GUO Donghuang held all issued shares in East Prosperity. Therefore, Mr. GUO Donghuang is deemed to be interested in all the Shares held by East Prosperity for the purpose of the SFO. Mr. GUO Donghuang is the sole director of East Prosperity.

For the purpose of the Listing Rules, our Controlling Shareholders are a group of Controlling Shareholders. They have acted consistently since December 2012 and will, pursuant to the Concert Party Agreement, act as a group of Controlling Shareholders upon the Listing. Further information is set forth in the paragraphs under “Summary of terms of the Concert Party Agreement” below.

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

OUR SUBSTANTIAL SHAREHOLDERS

Save as disclosed in this section, our Company will not have any other substantial shareholder (as such term is defined under the Listing Rules) without taking into consideration any Shares which may be taken up under the Share Offer or may be issued upon the exercise of the Over-allotment Option, the Pre-IPO Share Options, and any option that may be granted under the Post-IPO Share Option Scheme.

SUMMARY OF TERMS OF THE CONCERT PARTY AGREEMENT

For the purpose of the Listing, our Controlling Shareholders, namely Mr. CHAN Kam Chung, Mr. CHAN Shui Yip, Mr. GUO Songsen, Mr. GUO Dongxu, Mr. GUO Yuansuo, and Mr. GUO Donghuang and their respective holding companies, i.e. COS Kreation, Epoch, Green Forest, Strong Achievement, Winning Path, and East Prosperity, have entered into the Concert Party Agreement, pursuant to which they have confirmed the existence of their acting-in-concert arrangements since December 2012 and that they have agreed to constitute as a group of Shareholders acting in concert (as such term is defined under the Takeovers Codes). The Concert Parties confirm that they will be acting together in the control of our Company at meetings of our Board (to the extent that they are Directors) and at general meetings. Further information on the terms and conditions of the Concert Party Agreement is set forth below:

Confirmation of historical acting-in-concert arrangements and undertaking

The Concert Parties confirm in the Concert Party Agreement that they have voted in accordance with the instructions of Mr. CHAN Kam Chung and Mr. CHAN Shui Yip and consistently with COS Kreation, which is beneficially owned by Mr. CHAN Kam Chung, and Epoch, which is beneficially owned by Mr. CHAN Shui Yip, in relation to matters of our Group as a whole. The Concert Parties undertake to continue with the acting-in-concert arrangements unless and until the Concert Party Agreement was terminated.

Voting at general meetings of our Shareholders

- (a) All Concert Parties (except for COS Kreation and Epoch) have agreed to vote according to the instructions from Mr. CHAN Kam Chung and Mr. CHAN Shui Yip and consistently with the vote of COS Kreation and Epoch at general meetings of our Company.
- (b) Any Concert Party who is not able to attend any general meeting in person shall authorise and appoint Mr. CHAN Kam Chung or Mr. CHAN Shui Yip to exercise the voting right at general meetings as its or his proxy.

Voting at meetings of the Board

Any Concert Party or its beneficial owner who is a Director but is not able to attend any Board meeting in person shall authorise and appoint Mr. CHAN Kam Chung or Mr. CHAN Shui Yip to exercise the voting right at the relevant Board meeting as an alternate Director to him.

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

Restrictions on Share transfers

If following the Listing and after the lock-up period to be applied to our Controlling Shareholders under the Listing Rules and the Underwriting Agreements, any Concert Party (a “**Selling Concert Party**”) who would like to dispose of any Shares (the “**Sale Shares**”) shall give all the other Concert Parties a notice in writing indicating its intention to sell such number of Sale Shares. Within three business days from the receipt of the written notice from the Selling Concert Party, the other Concert Parties shall have the right to purchase all or any of the Sale Shares at the price equal to the average closing price for Share quoted on the Stock Exchange for the seven consecutive business days immediately preceding the date of the written notice (the “**Average Closing Price**”) or a price to be determined by the Selling Concert Party and the Concert Party who is interested in purchasing such Shares (a “**Purchasing Concert Party**”), which shall not be less than 95% of the Average Closing Price (the “**Agreed Price**”).

If there is more than one Purchasing Concert Parties, the Purchasing Concert Parties shall purchase the Sale Shares proportional to their Shareholdings at the time of Listing at the Agreed Price.

If there is no Concert Party interested in purchasing the Sale Shares, the Selling Concert Party may sell all or any of the Sale Shares to any third parties at a price not less than the Agreed Price within 15 business days after the expiry of the said three-business-day period. If the Selling Concert Party fails to sell the Sale Shares within the said period of 15 business days, the Selling Concert Party is required to re-issue a written notice to all other Concert Parties indicating its intention to dispose of any Shares.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Our Controlling Shareholders are Mr. CHAN Kam Chung, Mr. CHAN Shui Yip, Mr. GUO Songsen, Mr. GUO Dongxu, Mr. GUO Yuansuo, Mr. GUO Donghuang, and their controlled corporations, namely COS Kreation, Epoch, Green Forest, Strong Achievement, Winning Path, and East Prosperity, and they are a group of Controlling Shareholders for the purpose of the Listing Rules. They have acted consistently since December 2012 and, pursuant to the Concert Party Agreement, will act as a group of our Controlling Shareholders following the Listing. Our Directors consider that our Group is and will be able to operate independently from our Controlling Shareholders because of the following reasons:

Management independence

Although our Controlling Shareholders will retain controlling interest in our Company following the Listing, the day-to-day management and operation of our business will be the responsibility of our executive Directors and senior management. Our Board has eight Directors comprising four executive Directors, one non-executive Director and three independent non-executive Directors. With three independent non-executive Directors out of a total of eight Directors in our Board, there will be sufficient independent voice and checks and balances within our Board to safeguard the interests of our Shareholders other than our Controlling Shareholders.

Each of our Directors is aware of his fiduciary duties as a Director which require, among other things, that he (i) acts for the benefit of and in the best interests of our Shareholders and our Company as a whole and (ii) does not allow any conflict between his duties as a Director and his personal interests. 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 meetings of our Board in respect of such transaction and will not be counted towards the quorum.

Having considered the above factors, our Directors are satisfied that our Board as a whole, and together with our senior management, is capable of managing our business independently from our Controlling Shareholders.

Financial independence

We have an independent financial system and our business and financial decisions are determined according to our own business needs. During the Track Record Period, our Controlling Shareholders or their close associates have provided certain guarantees to secure certain banking facilities granted to our Group. See the section headed “Financial Information — Related party transactions” in this prospectus for further information on the guarantees. The relevant banks have agreed that they will release the relevant personal guarantee upon the Listing. Other than the personal guarantee provided by our Controlling Shareholders, our source of funding was independent from our Controlling Shareholders and none of our Controlling Shareholders, or their respective associates has provided any finance to our operations during the Track Record Period.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

As such, upon the Listing, our Group will have independent access to third party financing without relying on any guarantee from our Controlling Shareholders or their respective associates. Our Directors are of the view that we are able to obtain external financing on market terms and conditions for our business operations as and when required and is not financially dependent on our Controlling Shareholders or any of their respective associates in the operation of our business.

Operational independence

We have established our own organisational structure which is made up of individual departments, each with specific areas of responsibilities. We have sufficient operational resources, such as sales and marketing and general administrative resources to operate our business independently. We have also established a set of internal control measures to facilitate the effective operation of our business. We are the holders of all relevant licences and qualifications material to our business.

Save for the two lease agreements entered between our Group and Mr. GUO Dongxu, we do not have any current intention to enter into any other transactions with our Controlling Shareholders and/or their close associates and, if such event happens in the future, the connected transactions or continuing connected transactions will be conducted in compliance with the Listing Rules. All such connected transactions will be conducted in the ordinary and usual course of business of our Group on terms which are fair and reasonable and in the interests of our Company and our Shareholders as a whole. Following the Listing, we will continue to lease two office premises located at Unit 105 of Zone A and Portion of Unit 604, Jinhaiwan Fortune Centre, Nos. 998 and 1000 Anling Road, Huli District, Fujian Province, the PRC with an aggregate area of 268.70 sq.m. and 302.60 sq.m. from Mr. GUO Dongxu, one of our executive Directors, a connected person of our Company, both for a period of three years commenced from 1 January 2018 for annual rental of RMB167,668.80 and RMB188,822.40, respectively, pursuant to two lease agreements both dated 15 December 2017. The lease agreements were determined by Mr. GUO Dongxu and us on arm's length basis with reference to the prevailing market rates. The lease agreement is renewable on expiry date at the option of our Group. Our Directors confirm that the above transactions fall within the scope of *de minimis* transactions under Rule 14A.76 of the Listing Rules. Our Directors are of the view that alternative premises are available, if necessary. Accordingly, our Directors do not consider that there is any reliance by our Group on our Controlling Shareholders or their respective associates.

Deed of Non-Competition

Neither of our Controlling Shareholders, our Directors nor their respective associates has any interest in any business, apart from the business operated by members of our Group, which competes or is likely to compete, directly and indirectly, with our business and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

Each of our Controlling Shareholders and executive Directors (collectively, the “Covenantors”) has entered into the Deed of Non-Competition in favour of our Company, pursuant to which each of the Covenantors has jointly and severally, irrevocably, and unconditionally undertaken with our Company (for itself and for the benefit of its subsidiaries) that with effect from the Listing Date and for so long as our Shares remain so listed on the Stock Exchange and the Covenantors, individually

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

or collectively with their respective associates, are, directly or indirectly, interested in not less than 30% of our Shares in issue or otherwise regarded as controlling shareholders (as defined in the Listing Rules) of our Company, the Covenantors shall not, and shall procure that none of their associates (except any members of our Group) or affiliates (named in this prospectus) shall:

- (a) directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of any member of our Group or be in competition with any member of our Group in any business activities which any member of our Group may undertake in the future save for the holding of not more than five per cent shareholding interests (individually or any of the Covenantors with their associates collectively) in any listed company in Hong Kong; and
- (b) take any direct or indirect action which constitutes an interference with or a disruption to the business activities of any member of our Group including, but not limited to, solicitation of the customers, suppliers or personnel of any member of our Group.

In addition, each of the Covenantors has jointly and severally, irrevocably, and unconditionally undertaken to our Group that:

- (a) if any new business opportunity relating to any of the products and/or services of our Group (the “**Business Opportunity**”) is made available to any of the Covenantors or their respective associates (other than members of our Group), it shall direct or procure the relevant associate to direct such Business Opportunity to us with such required information to enable our Company to evaluate the merits of the Business Opportunity.
- (b) in connection with the Business Opportunity, the relevant Covenantor shall provide or procure the relevant associate to provide all such reasonable assistance to us to enable us to secure the Business Opportunity.

For the avoidance of doubt, none of the Covenantors and their respective associates (other than members of our Group) shall pursue the Business Opportunity even though we decide not to pursue the Business Opportunity because of commercial reasons. Any decision of our Company shall have been approved by our independent non-executive Directors.

The Concert Parties, who are all our Controlling Shareholders, entered into the Concert Party Agreement, pursuant to which each of them has agreed not to directly or indirectly carry on, operate or invest in any business which is in competition with the business of our Company or similar business and not to disclose any unpublished commercial information of our Company for a period of three years after it or he disposed of all shareholdings in our Company.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CORPORATE GOVERNANCE MEASURES

We will adopt the following measures to avoid any conflict of interests arising from competing business and to safeguard the interests of our Shareholders:

- (a) our independent non-executive Directors will review, on an annual basis, the compliance with the undertaking given by our Controlling Shareholders and our executive Directors under the Deed of Non-Competition;
- (b) our Controlling Shareholders and our executive Directors undertake to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-Competition;
- (c) our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the non-competition undertaking of our Controlling Shareholders and our executive Directors in the annual reports of our Company; and
- (d) our Controlling Shareholders and our executive Directors will make annual declarations on compliance with their undertaking under the Deed of Non-Competition in the annual report of our Company.

UNDERWRITING

UNDERWRITERS

Sole Bookrunner and Sole Lead Manager

Essence International Securities (Hong Kong) Limited

Co-lead Managers

Global Group Securities Limited
Solomon JFZ (Asia) Holdings Limited

Hong Kong Underwriter

Essence International Securities (Hong Kong) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company has agreed to offer the Hong Kong Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions set forth in this prospectus and the Application Forms. Subject to, among other conditions, the granting of the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus by the Listing Committee and such listing and permission not subsequently being revoked and certain other conditions set forth in the Hong Kong Underwriting Agreement, the Hong Kong Underwriter has agreed to subscribe or procure subscribers for the Hong Kong Offer Shares now being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions set forth in this prospectus, the Application Forms, and the Hong Kong Underwriting Agreement. If, for any reason, the Offer Price is not agreed between our Company and the Sole Bookrunner and Sole Lead Manager (for itself and on behalf of the Hong Kong Underwriter) by or before Wednesday, 16 October 2019, the Share Offer will not proceed and will lapse. The Hong Kong Underwriting Agreement is conditional upon and subject to, among others, the International Underwriting Agreement having been signed and becoming unconditional.

Grounds for termination

The obligations of the Hong Kong Underwriter under the Hong Kong Underwriting Agreement are subject to the termination by the Sole Bookrunner and Sole Lead Manager (for itself and on behalf of the Hong Kong Underwriter), at its sole and absolute discretion, with immediate effect by giving notice in writing to our Company if any of the following events occurs at or prior to 8:00 a.m. on the Listing Date:

- (a) there has come to the notice of the Sole Bookrunner and Sole Lead Manager:
 - (i) that any statement contained in this prospectus, the Application Forms, the formal notice and/or the Hong Kong underwriting documents and/or the international underwriting documents and/or any notices, announcements, advertisements, communications or any

UNDERWRITING

other documents issued or used by or on behalf of our Company in connection with the Share Offer (including any supplement or amendment thereto) (collectively the “**Relevant Documents**”) was, when it was issued, or has become untrue, incorrect, misleading or deceptive in any respect or that any forecast, estimate, expression of opinion, intention or expectation expressed in any of the Relevant Documents is not, in the sole and absolute opinion of the Sole Bookrunner and Sole Lead Manager (for itself and on behalf of the other Underwriters), fair and honest and based on reasonable assumptions; or

- (ii) that any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the respective dates of the publication of the Relevant Documents, constitute an omission therefrom; or
- (iii) any breach of any of the obligations imposed or to be imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (in each case, other than on the part of any of the Underwriters); or
- (iv) any event, act or omission which gives or is likely to give rise to any liability of any of our Company and our executive Directors and our Controlling Shareholders (collectively, the “**Warrantors**”) pursuant to provisions under the indemnity clause in the Hong Kong Underwriting Agreement or under the International Underwriting Agreement; or
- (v) any change or development involving a prospective adverse change in the assets, liabilities, general affairs, management, business prospects, shareholders’ equity, profits, losses, results of operations, position or conditions (financial, trading or otherwise) or performance of our Group as a whole; or
- (vi) any breach of, or any event or circumstance rendering untrue or incorrect in any respect, any of the representations, warranties, agreements and undertakings to be given by any of the Warrantors pursuant to the terms of the Hong Kong Underwriting Agreement (the “**Warranties**”); or
- (vii) the approval by the Listing Committee of the listing of, and permission to deal in, the Shares (including any additional Shares that may be issued upon the exercise of the Over-allotment Option) is refused or not granted, or is qualified (other than subject to customary conditions), on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (viii) our Company withdraws any of the Relevant Documents or the Share Offer; or
- (ix) any person (other than the Hong Kong Underwriter) has withdrawn or sought to withdraw its consent to being named in any of this prospectus, the Application Forms, the formal notice and/or the international underwriting documents or to the issue of any of such documents; or

UNDERWRITING

- (x) that a petition or an order is presented for the winding up or liquidation of any member of our Group or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding up of any member of our Group or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or
 - (xi) any governmental or regulatory authority in any relevant jurisdiction has commenced any investigation or other action against any of the executive Directors; or
 - (xii) a significant portion of the purchase orders of our Offer Shares confirmed in the book building process have been withdrawn, terminated or cancelled at the time when the International Underwriting Agreement is entered into, and the Sole Bookrunner and Sole Lead Manager, in its sole and absolute discretion, concludes that it is impracticable to proceed with the Share Offer; or
 - (xiii) any loss or damage has been sustained by any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person) which is considered by the Sole Bookrunner and Sole Lead Manager (for itself and on behalf of the Hong Kong Underwriter) in its sole and absolute discretion has an adverse effect on our Group; or
- (b) there shall develop, occur, exist or come into effect:
- (i) any local, national, regional, international event or circumstance, or series of events or circumstances, beyond the reasonable control of the Underwriters (including, without limitation, any acts of government or orders of any courts, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, civil commotion, acts of war, any local, national, regional or international outbreak or escalation of hostilities (whether or not war is declared), acts of God, acts of terrorism, declaration of a local, regional, national or international emergency, riot, public disorder, economic sanctions, outbreaks of diseases, pandemics or epidemics (including, without limitation, Severe Acute Respiratory Syndrome, avian influenza A (H5N1), Swine Flu (H1N1), Middle East Respiratory Syndrome or such related or mutated forms) or accidents, interruption or delay in transportation), in or to the extent affecting any of Hong Kong, the PRC, Indonesia, Japan, Singapore, the United States, the Cayman Islands, the BVI, the United Kingdom, the European Union (or any member thereof) or any other jurisdictions relevant to any Group Company or the Share Offer (the “**Specific Jurisdictions**”); or
 - (ii) any change or development involving a prospective change, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change, in any local, regional, national, international, financial, economic, political, military, industrial, fiscal, legal, regulatory, currency, credit, exchange control, stock market, financial market or other market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets); or

UNDERWRITING

- (iii) any moratorium, suspension or restriction on trading in securities generally (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) on the Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the American Stock Exchange, the Nasdaq National Market, the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the Tokyo Stock Exchange; or
- (iv) any new law(s), rule(s), statute(s), ordinance(s), regulation(s), guideline(s), opinion(s), notice(s), circular(s), order(s), judgement(s), decree(s) or ruling(s) of any governmental authority (“**Law(s)**”), or any change or development involving a prospective change in existing Laws, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change in the interpretation or application of existing Laws by any court or other competent authority, in each case, in or affecting any of the Specific Jurisdictions; or
- (v) any general moratorium on commercial banking activities, or any disruption in commercial banking activities, foreign exchange trading or securities settlement or clearance services or procedures or matters, in or affecting any of the Specific Jurisdictions; or
- (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by or for any of the Specific Jurisdictions; or
- (vii) a change or development involving a prospective change in or affecting taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment Laws (including, without limitation, any 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 material fluctuation in the exchange rate of the Hong Kong dollar or the Renminbi against any foreign currency), in or affecting any of the Specific Jurisdictions or affecting an investment in the Shares; or
- (viii) any change in the general fund raising environment in the Specific Jurisdictions; or
- (ix) any change or development involving a prospective change, or a materialisation of, any of the risks set forth in the section headed “Risk Factors” in this prospectus; or
- (x) any litigation or claim of any third party being threatened or instigated against any member of our Group or any of the Warrantors; or
- (xi) any of the executive Directors 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) the commencement by any governmental or regulatory authority of any action against an executive Director in his capacity as such; or

UNDERWRITING

- (xiv) a contravention by any member of our Group or any Director of the Listing Rules, the Companies Ordinance or any other Laws applicable to the Share Offer; or
- (xv) a prohibition on our Company for whatever reason from allotting, issuing or selling the Offer Shares and/or the Over-allotment Shares pursuant to the terms of the Share Offer; or
- (xvi) non-compliance of this prospectus and the other Relevant Documents or any aspect of the Share Offer with the Listing Rules or any other Laws applicable to the Share Offer; or
- (xvii) the issue or requirement to issue by our Company of a supplement or amendment to this prospectus and/or any other documents in connection with the Share Offer pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (xviii) a valid demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity; or

which in each case individually or in aggregate in the sole and absolute opinion of the Sole Bookrunner and Sole Lead Manager (for itself and on behalf of the Hong Kong Underwriter):

- (i) has or is or will have an adverse effect on the assets, liabilities, business, general affairs, management, shareholders' equity, profits, losses, operating results, financial, trading or other condition or prospects or risks of our Company or our Group taken as a whole or on any present or prospective shareholder of our Company in his, her or its capacity as such; or
- (ii) has or will have an adverse effect on the success, marketability or pricing of the Share Offer or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or
- (iii) makes or will make it impracticable for any part of the Hong Kong Underwriting Agreement or the Share Offer to be performed or implemented or proceeded with as envisaged or to market the Share Offer or shall otherwise result in an interruption to or delay thereof; or
- (iv) has or will have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Share Offer or pursuant to the underwriting thereof.

UNDERWRITING

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by our Company

We have undertaken to the Stock Exchange that at any time during the period commencing on the date of this prospectus and ending on the expiry of the six-month period after the Listing Date, we shall not, without the prior consent of the Stock Exchange and unless in compliance with the requirements of the Listing Rules, allot and issue or agree to allot or issue any Shares or other securities convertible into our equity securities of our Company whether or not of a class already listed or enter into any agreement to issue any Shares or securities within six months from the Listing Date, except under certain circumstances prescribed by Rule 10.08 of the Listing Rules.

Undertakings by our Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has undertaken to us and to the Stock Exchange that except pursuant to the Share Offer, the Over-allotment Option or the Stock Borrowing Agreement, it shall not and shall procure that the registered holders controlled by each of our Controlling Shareholders shall not:

- (a) during the period commencing on the date by reference (the “**Reference Date**”) to which disclosure of the shareholdings in our Company is made in this prospectus in relation to the Share Offer and ending on the date (the “**End Date**”) which is six months from the Listing Date on which dealings in the shares of our Company commence on the Stock Exchange, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our securities that it is shown to be beneficially owned by the Controlling Shareholders in this prospectus (the “**Relevant Securities**”); or
- (b) during the period of six months commencing from the End Date, dispose of, or enter into any agreement to dispose of, or otherwise create any options, rights, interests or encumbrances in respect of the Relevant Securities if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or it will cease to be a controlling shareholder (as defined in the Listing Rules) of our Company.

Each of our Controlling Shareholders has further undertaken to us and the Stock Exchange that, during the period commencing on the Reference Date and ending on the date which is 12 months from the Listing Date, he/it will:

- (a) when he/it pledges or charges any securities in our Company beneficially owned by him/it in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong), immediately inform us in writing of such pledge or charge together with the number of our securities so pledged or charged; and

UNDERWRITING

- (b) when he/it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged securities beneficially owned by him/it will be disposed of, immediately inform us in writing of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the matters mentioned in the paragraphs (a) and (b) above by any of our Controlling Shareholders and subject to the requirements of the Listing Rules disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

Undertakings to the Hong Kong Underwriter

Undertakings by our Company

Except pursuant to the Share Offer (including any Shares which may be issued pursuant to the Capitalisation Issue and the exercise of the Over-allotment Option, and any option that may be granted under the Share Option Schemes), during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Six-Month Period**”), our Company undertakes to each of the Sole Sponsor, the Sole Bookrunner and Sole Lead Manager, and the Hong Kong Underwriter not to, and to procure each member of our Group not to, without the prior written consent of the Sole Sponsor, the Sole Bookrunner and Sole Lead Manager (for itself and on behalf of the Hong Kong Underwriter) and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create a pledge, charge, lien, mortgage, option, restriction, right of first refusal, security interest, claim, pre-emption rights, equity interest, third party rights or interests or rights of the same nature as that of the foregoing or other encumbrances or security interest of any kind or another type of preferential arrangement (including without limitation, retention arrangement) having similar effect (“**Encumbrance**”) over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any other warrants or other rights to purchase, any Shares or any shares of such other member of our Group, as applicable), or deposit any Shares or other securities of our Company or any shares or other securities of such other member of our Group, as applicable, with a depository in connection with the issue of depository receipts or repurchase any Shares or other securities of our Company or any shares or other securities of such other member of our Group, as applicable; or

UNDERWRITING

- (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 Shares or other securities of our Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company or any shares or other securities of such other member of our Group, as applicable); or
- (c) enter into any transaction with the same economic effect as any transactions specified in (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above,

in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or other securities of our Company or shares or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-Month Period).

We have also undertaken that we will not, and will procure each other member of our Group not to, enter into any of the transactions specified in (a), (b) or (c) above or offer to or agree to or announce any intention to effect any such transaction, such that any of the Controlling Shareholders would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company during the period of six months immediately following the expiry of the First Six-Month Period (the “**Second Six-Month Period**”).

For the avoidance of doubt, the above undertakings shall not be applicable to any increase in or allotment of the share capital of any member of our Group (other than our Company) so long as such increase or allotment would not result in any decrease in the percentage of equity holdings held by our Company.

In the event that, during the Second Six-Month Period, our Company enters into any of the transactions specified in (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in any Shares or other securities of our Company.

UNDERWRITING

Undertakings by our Controlling Shareholders

Each of the Controlling Shareholders hereby jointly and severally undertakes to each of our Company, the Stock Exchange, the Sole Sponsor, the Sole Bookrunner and Sole Lead Manager, and the Hong Kong Underwriter that, except pursuant to the Stock Borrowing Agreement and in compliance with the requirements under Rule 10.07(3) of the Listing Rules, without the prior written consent of the Sole Sponsor, the Sole Bookrunner and Sole Lead Manager (for itself and on behalf of the Hong Kong Underwriter):

- (a) at any time during the First Six-Month Period, he/ it shall not, and shall procure that the relevant registered holder(s), any nominee or trustee holding on trust for him/ it and the companies controlled by him/ it (together, the “**Controlled Entities**”) shall not:
- (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, (other than any pledge or charge of our Company’s issued share capital after the consummation of the Share Offer (assuming the Over-allotment Option is not exercised) 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 in compliance with Rule 10.07 of the Listing Rules), hypothecate, lend, grant or sell any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares) beneficially owned by him/it directly or indirectly through Controlled Entities (the “**Relevant Securities**”), or deposit any Relevant Securities with a depositary in connection with the issue of depositary receipts; or
 - (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, directly or indirectly, any of the economic consequences of ownership of the Relevant Securities;
 - (iii) enter into or effect any transaction with the same economic effect as any of the transactions referred to in sub-paragraphs (i) or (ii) above; or
 - (iv) offer to or agree to or announce any intention to enter into or effect any of the transactions referred to in sub-paragraphs (i), (ii) or (iii) above,

which any of the foregoing transactions referred to in sub-paragraphs (i), (ii), (iii) or (iv) is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period);

UNDERWRITING

- (b) at any time during the Second Six-Month Period, he/it shall not, and shall procure that the Controlled Entities shall not, enter into any of the transactions referred to in (a)(i), (a)(ii) or (a)(iii) above or offer to or agree to or announce any intention to enter into any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or Encumbrance pursuant to such transaction, he/it would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company or would together with the other Controlling Shareholders cease to be controlling shareholders (as defined in the Listing Rules) of our Company;
- (c) in the event that he/it enters into any of the transactions specified in (a)(i), (a)(ii) or (a)(iii) above or offer to or agrees to or announce any intention to effect any such transaction within the Second Six-Month Period, he/it shall take all reasonable steps to ensure that he/it will not create a disorderly or false market for any Shares or other securities of our Company; and
- (d) he/it shall, and shall procure that the relevant registered holder(s) and other Controlled Entities shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by him/it or by the registered holder(s) and/or other Controlled Entities of any Shares or other securities of our Company.

Each of the Controlling Shareholders further undertakes to each of our Company, the Stock Exchange, the Sole Sponsor, the Sole Bookrunner and Sole Lead Manager, and the Hong Kong Underwriter that, within the period from the date by reference to which disclosure of their shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, he/it will:

- (a) when he/it pledges or charges any securities or interests in the Relevant Securities in favour of an authorised institution pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company and the Sole Sponsor in writing of such pledges or charges together with the number of securities and nature of interest so pledged or charged; and
- (b) when he/it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company and the Sole Sponsor in writing of such indications.

Underwriters' interests in our Group

Save for their respective obligations under the Hong Kong Underwriting Agreement and the International Underwriting Agreement or as otherwise disclosed in this prospectus, as at the Latest Practicable Date, none of the Underwriters was interested directly or indirectly in any of our Shares or securities or any shares or securities of any other member of our Group or had any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any of our Shares or securities or any shares or securities of any other member of our Group.

Following completion of the Share Offer, the Underwriters and their affiliated companies may hold a certain portion of our Shares as a result of fulfilling their respective obligations under the Hong Kong Underwriting Agreement and International Underwriting Agreement.

UNDERWRITING

The Sole Sponsor's independence

The Sole Sponsor satisfies the independence criteria applicable to sponsors set forth in Rule 3A.07 of the Listing Rules.

The International Offering

In connection with the International Offering, we expect to enter into the International Underwriting Agreement on the Price Determination Date with, among others, the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions, severally and not jointly, agree to purchase the International Offer Shares or procure purchasers for the International Offer Shares initially being offered pursuant to the International Offering. See the section headed "Structure and Conditions of the Share Offer — International Offering" in this prospectus.

Under the International Underwriting Agreement, we intend to grant to the International Underwriters the Over-allotment Option, exercisable in whole or in part at one or more times, at the sole and absolute discretion of the Sole Bookrunner and Sole Lead Manager on behalf of the International Underwriters at any time from the date of the International Underwriting Agreement until 30 days from the last day for the lodging of applications under the Hong Kong Public Offering to require us to issue and allot up to an aggregate of 30,000,000 additional Offer Shares, representing 15% of the Offer Shares initially available under the Share Offer and at the Offer Price, to cover any over-allocations in the International Offering, if any.

Total commission and expenses

We will pay the Sole Bookrunner and Sole Lead Manager (for itself and on behalf of the Hong Kong Underwriter) an underwriting commission of 3.0% on the aggregate Offer Price of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering, out of which the Underwriters will pay all sub-underwriting commission, if any.

Assuming the Over-allotment Option is not exercised and based on an Offer Price of HK\$1.45 per Offer Share (being the mid-point of the indicative range of the Offer Price), the aggregate commissions and fees, together with the Stock Exchange listing fee, the SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees, printing, and other fees and expenses relating to the Share Offer, are estimated to amount to HK\$43.8 million in total payable by us.

UNDERWRITING

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 Sole Bookrunner and Sole Lead Manager and the Hong Kong Underwriter (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.

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. We will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules is made within seven days of the expiration of the stabilising period.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

THE SHARE OFFER

This prospectus is published in connection with the Hong Kong Public Offering as part of the Share Offer. The Share Offer comprises:

- the Hong Kong Public Offering of 20,000,000 Shares, subject to re-allocation as mentioned below, in Hong Kong as described below under “Hong Kong Public Offering”; and
- the International Offering of 180,000,000 Shares, subject to re-allocation and the Over-allotment Option as mentioned below outside the United States (including to professional and institutional investors with Hong Kong) in offshore transactions in reliance on Regulation S below under “International Offering”.

Investors may apply for our Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for our International Offer Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of our International Offer Shares to institutional and professional investors and other investors in such jurisdictions as permitted under the applicable laws and regulations. The International Underwriters are soliciting from prospective investors indications of interest in acquiring our International Offer Shares in the International Offering. Prospective investors will be required to specify the number of International Offer Shares they would be prepared to acquire either at different prices or at a particular price.

Our Shares will be traded in board lots of 2,000 each.

The number of Offer Shares to be offered under the Share Offer respectively may be subject to re-allocation as set forth in the paragraphs under “Pricing and allocation” below. References in this prospectus to applications, Application Forms, application or subscription monies or the procedure for application relate only to the Hong Kong Public Offering.

PRICING AND ALLOCATION

The Offer Price is expected to be fixed by agreement between the Sole Bookrunner and Sole Lead Manager (for itself and on behalf of the Underwriters) and us on the Price Determination Date, when market demand for our Offer Shares will be determined. The Price Determination Date is expected to be on or around Thursday, 10 October 2019 and in any event, no later than Wednesday, 16 October 2019.

The Offer Price will not be more than HK\$1.74 per Offer Share and is expected to be not less than HK\$1.16 per Offer Share, unless otherwise announced not 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 indicative range of the Offer Price stated in this prospectus.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

If, based on the level of interest expressed by prospective institutional and professional investors and other investors during the book-building process, the Sole Bookrunner and Sole Lead Manager (for itself and on behalf of the Underwriters) consider the number of our Offer Shares being offered under the Share Offer and/or the indicative range of the Offer Price to be inappropriate, the Sole Bookrunner and Sole Lead Manager (for itself and on behalf of the Underwriters) may reduce the initial number of our Offer Shares and/or the indicative range of the Offer Price below that stated in this prospectus at any time on or before 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 on Wednesday, 9 October 2019, cause to publish on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.greenfreshfood.com a notice of the reduction. Such notice will also include confirmation or revision, as appropriate, of the Share Offer statistics as currently set forth in the section headed “Summary and Highlights” in this prospectus and any other financial information which may change as a result of such reduction. As soon as practicable of such reduction of the number of Offer Shares and/or the indicative Offer Price range, we will also issue a supplemental prospectus updating investors of such reduction together with an update of all financial and other information in connection with such change and, where appropriate, extend the period under which the Hong Kong Public Offering was open for acceptance, and give potential investors who had applied for the Offer Shares the right to withdraw their applications. In the absence of any such notice and supplemental prospectus so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon between our Company and the Sole Bookrunner and Sole Lead Manager (for itself and on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range stated in this prospectus.

Before submitting applications for Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the initial number of our Offer Shares and/or the indicative range of the Offer Price may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Upon issue of such reduction notice, the revised range of the Offer Price will be final and conclusive and the Offer Price, if agreed upon, will be fixed within such revised range of the Offer Price. In the absence of any notice being published of a reduction in the initial number of our Offer Shares and/or the indicative range of the Offer Price stated in this prospectus on or before the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, if agreed upon, will under no circumstances be set forth below the indicative range of the Offer Price as stated in this prospectus.

Our Shares to be offered in the Share Offer may, in certain circumstances, be reallocated as between the Hong Kong Public Offering and International Offering at the discretion of the Sole Bookrunner and Sole Lead Manager. Allocation of our International Offer Shares will be determined by the Sole Bookrunner and Sole Lead Manager 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. Such allocation may be made to professional, institutional or corporate investors and is intended to result in a distribution of our Shares on a basis which would lead to the establishment of a solid Shareholder base to the benefit of our Company and our Shareholders as a whole.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Allocation of Hong Kong Offer Shares to applicants 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 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 Offering, 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.

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for our Hong Kong Offer Shares under the Hong Kong Public Offering will be conditional on, inter alia:

- (a) the granting of approval by the Listing Committee for the listing of, and permission to deal in, our Shares in issue, our Offer Shares to be issued pursuant to the Share Offer (including any Shares which may be issued under the exercise of the Over-allotment Option, the Pre-IPO Share Option and any option which may be granted under the Post-IPO Share Option Scheme) and Shares to be issued under the Capitalisation Issue, and such listing and permission not having been revoked prior to the commencement of dealings in our Offer Shares on the Stock Exchange;
- (b) the Offer Price having been determined on or around the Price Determination Date;
- (c) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date;
- (d) the obligations of the Underwriters under the Underwriting Agreements having become unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the 30th day after the date of this prospectus.

If, for any reason, the Offer Price is not agreed by Wednesday, 16 October 2019 between the Sole Bookrunner and Sole Lead Manager (for itself and on behalf of the Underwriters) and us, the Share Offer will not proceed and will lapse.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

If the above conditions are not fulfilled or waived before the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.greenfreshfood.com on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set forth in the section headed “How to Apply for our Hong Kong Offer Shares” in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving bank(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for our Offer Shares are expected to be issued on Wednesday, 16 October 2019 but will only become valid certificates of title at 8:00 a.m. on the Listing Date, provided that (a) the Share Offer has become unconditional in all respects and (b) neither of the Underwriting Agreements has been terminated in accordance with its terms.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

HONG KONG PUBLIC OFFERING

Number of Hong Kong Offer Shares

We are initially offering 20,000,000 Shares at the Offer Price, representing 10% of the initial number of the Offer Shares, for subscription by members of the public in Hong Kong. Subject to the re-allocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the number of Hong Kong Offer Shares will represent 2.5% of the enlarged number of our Shares in issue immediately after completion of the Share Offer and the Capitalisation Issue, assuming that the Over-allotment Option, the Pre-IPO Share Options, and any option that may be granted under the Post-IPO Share Option Scheme are not exercised.

Allocation

For allocation purposes only, the initial number of our Hong Kong Offer Shares (after taking into account any adjustment in the number of Offer Shares allocated between the International Offering and the Hong Kong Public Offering) will be divided equally into two pools:

- **Pool A:** The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate subscription price of HK\$5 million or less (excluding brokerage, SFC transaction levy and Stock Exchange trading fee payable); and
- **Pool B:** The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate subscription price of more than HK\$5 million and up to the value of pool B (excluding brokerage, SFC transaction levy and Stock Exchange trading fee payable).

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

For the purpose of this paragraph only, the “subscription price” for our Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined).

Investors 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. Applicants can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B but not from both pools and may only apply for Hong Kong Offer Shares in either Pool A or Pool B. In addition, multiple or suspected multiple applications within either pool or in both pools will be rejected. No application will be accepted from applicants for more than 10,000,000 Hong Kong Offer Shares (being 50% of the initial number of Hong Kong Offer Shares).

Re-allocation and clawback

The allocation of Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation on the following basis:

- (a) if both the Hong Kong Offer Shares and the International Offer Shares are undersubscribed, the Share Offer shall not proceed unless the Underwriters would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Share Offer on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements;
- (b) if the Hong Kong Offer Shares are undersubscribed and the International Offer Shares are oversubscribed, the Sole Bookrunner and Sole Lead Manager has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Sole Bookrunner and Sole Lead Manager deems appropriate;
- (c) the International Offer Shares are fully subscribed or oversubscribed, and:
 - (i) 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 the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 40,000,000 Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 60,000,000 Offer Shares, representing 30% of the number of the Offer Shares initially available under the Share Offer;
 - (ii) 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 the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 60,000,000 Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the number of the Offer Shares available under the Hong Kong Public Offering will be increased to 80,000,000 Offer Shares, representing 40% of the number of the Offer Shares initially available under the Share Offer; and

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

- (iii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 80,000,000 Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the number of the Offer Shares available under the Hong Kong Public Offering will be increased to 100,000,000 Offer Shares, representing 50% of the number of the Offer Shares initially available under the Share Offer,

in each case the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between Pool A and Pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Sole Bookrunner and Sole Lead Manager deems appropriate.

- (d) pursuant to the Stock Exchange's Guidance Letter HKEX-GL91-18:
 - (i) if the International Offer Shares are undersubscribed and if the Hong Kong Offer Shares are oversubscribed, irrespective of the number of times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering in such circumstances; or
 - (ii) if the International Offer Shares are fully subscribed or oversubscribed, and if the Hong Kong Offer Shares are fully subscribed or oversubscribed but the number of Shares validly applied for under the Hong Kong Public Offering represents less than 15 times of the initial number of the Hong Kong Offer Shares,

then, provided that the final Offer Price is fixed at the low-end of the indicative Offer Price range (i.e. HK\$1.16 per Offer Share) stated in this prospectus, in accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, up to 20,000,000 Offer Shares may be reallocated from the International Offering to satisfy valid applications in Pool A and Pool B under the Hong Kong Public Offering, so that the total number of Offer Shares available for subscription under the Hong Kong Public Offering will be increased up to 40,000,000 Shares, and such limit represents 20% of the number of the Offer Shares initially available under the Share Offer.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

Applications

The Sole Bookrunner and Sole Lead Manager (for itself and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Sole Bookrunner and Sole Lead Manager so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Hong Kong Offer Shares under the Hong Kong Public Offering.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person for whose benefit he 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 Offer Shares under the International Offering, 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 it has been or will be placed or allocated International Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$1.74 per Offer Share plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%. If the Offer Price, as finally determined on the Price Determination Date, is lower than HK\$1.74, being the maximum Offer Price, we will refund the respective difference (including brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) to successful applicants, without interest. See the section headed "How to Apply for our Hong Kong Offer Shares" in this prospectus.

INTERNATIONAL OFFERING

Number of International Offer Shares

The number of Offer Shares to be initially offered for subscription under the International Offering will be 180,000,000 Offer Shares (subject to re-allocation and the Over-allotment Option), representing 90% of our Offer Shares under the Share Offer and 22.5% of the enlarged number of Shares in issue immediately after completion of the Share Offer and the Capitalisation Issue assuming that the Over-allotment Option, the Pre-IPO Share Options, and any option which may be granted under the Post-IPO Share Option Scheme are not exercised. The International Offering is subject to the Hong Kong Public Offering becoming unconditional.

Allocation

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Allocation of the International Offer Shares under the International Offering will be effected in accordance with the "book-building" process described in the paragraph headed "Pricing and allocation" in this section and based on a number of factors, including the level and timing of demand, 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 Shares, and/or hold or sell its Shares, after the Listing. Such allocation is intended to result in a distribution of our Shares on a basis which would lead to the establishment of a solid professional and institutional Shareholder base for the benefit of our Company and our Shareholders as a whole.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, our Shares in issue and our Offer Shares (including the additional Offer Shares which may be made available under the exercise of the Over-allotment Option, the Pre-IPO Share Options, any option which may be granted under the Post-IPO Share Option Scheme) and our Shares to be issued under the Capitalisation Issue.

No part of our Share is listed 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.

OVER-ALLOTMENT OPTION

We expect to grant the Over-allotment Option to the International Underwriters, exercisable by the Sole Bookrunner and Sole Lead Manager on behalf of the International Underwriters at any time on or prior to the date which is the 30th day after the last day for the lodging of applications under the Hong Kong Public Offer. Under the Over-allotment Option, the Sole Bookrunner and Sole Lead Manager will have the right to require us to allot and issue up to an aggregate of 30,000,000 additional new Shares, representing in aggregate of 15% of our Offer Shares initially available under the Share Offer to, cover over-allocations in the International Offering, if any or the obligation under the Stock Borrowing Agreement. These Shares will be issued at the Offer Price. An announcement will be made if the Over-allotment Option is exercised.

STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over allocations in connection with the Share Offer, the Stabilizing Manager may choose to borrow, whether on its own or through its affiliates, up to 30,000,000 Shares, representing 15% of our Offer Shares, from COS Kreation to cover over allocation under the stock borrowing arrangement (being the maximum number of Offer Shares which may be issued upon exercise of the Over-allotment Option), or acquire Shares from other sources, including exercising the Over-allotment Option.

If such stock borrowing arrangement with COS Kreation is entered into, it will only be effected by the Stabilizing Manager or its agent for settlement of over allocation in the International Offering and such arrangement is not subject to the restrictions of Rule 10.07(1) of the Listing Rules provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are complied with.

STABILIZATION

Stabilization 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 retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong, activity aimed at reducing the market price is prohibited and the price at which stabilisation is effected is not permitted to exceed the offer price.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

In connection with the Share Offer, the Stabilizing Manager, its affiliates or any person acting for it, as stabilizing manager for itself and on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect 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 up to the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager, its affiliates or any person acting for it, to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Stabilizing Manager, its affiliates or any person acting for it, and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. 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 30,000,000 Shares, which is 15% of the initial number of our Offer Shares.

Stabilizing actions permitted in Hong Kong under the Securities and Futures (Price Stabilizing) Rules, as amended, include: (a) over-allocation for the purpose of preventing or minimising any reduction in the market price of our Shares; (b) selling or agreeing to sell our Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of our Shares; (c) purchasing or subscribing for, or agreeing to purchase or subscribe for, our Shares under 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 our Shares for the sole purpose of preventing or minimising any reduction in the market price of our Shares; (e) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (f) offering or attempting to do anything described in (b), (c), (d) or (e) above.

Specifically, prospective applications for and investors in our Shares should note that:-

- the Stabilizing Manager, its affiliates or any person acting for it, may, in connection with the stabilizing action, maintain a long position in our Shares;
- there is no certainty regarding the extent to which and the time period for which the Stabilizing Manager, its affiliates or any person acting for it, will maintain such a position;
- liquidation of any such long position by the Stabilizing Manager, its affiliates or any person acting for it, may have an adverse impact on the market price of our Shares;
- no stabilizing action can be taken to support the price of our Shares for longer than the stabilizing period which will begin on the Listing Date, and is expected to expire on Friday, 8 November 2019, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken, demand for our Shares, and therefore the price of our Shares, could fall;

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

- the price of our Shares cannot be assured to stay at or above the Offer Price either during or after the stabilizing period by the taking of any stabilizing action; and
- stabilizing bids or transactions effected in the course of the stabilizing action must be made at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, our Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules, as amended, will be made within seven days of the expiration of the stabilization period.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, 17 October 2019, it is expected that dealings in Shares on the Stock Exchange will commence at 9:00 a.m. on Thursday, 17 October 2019.

UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriter under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between the Sole Bookrunner and Sole Lead Manager (for itself and on behalf of the Underwriters) and us on the Price Determination Date.

We expect that we will, on or about Thursday, 10 October 2019, shortly after determination of the Offer Price, enter into the International Underwriting Agreement relating to the International Offering.

The terms of the underwriting arrangements are summarised in the section headed “Underwriting” in this prospectus.

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at www.eipo.com.hk;
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our company, the Sole Bookrunner and Sole Lead Manager, **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, our Company and the Sole Bookrunner and Sole Lead Manager may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for our Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our company and/or any of its subsidiaries;
- a Director or chief executive officer of our company and/or any of its subsidiaries;
- 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 Share Offer;
- an associate (as defined in the Listing Rules) of any of the above; and
- have been allocated or have applied for or indicated an interest in any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR OUR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.eipo.com.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 30 September 2019 until 12:00 noon on Wednesday, 9 October 2019 from:-

- (i) the following address of the Hong Kong Underwriter:

Essence International Securities (Hong Kong) Limited
39th Floor, One Exchange Square
Central
Hong Kong

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

(ii) any of the following branches of Bank of China (Hong Kong) Limited:

<u>District</u>	<u>Branch name</u>	<u>Address</u>
Hong Kong Island	Lee Chung Street Branch .	29-31 Lee Chung Street Chai Wan, Hong Kong
Kowloon	Tsim Sha Tsui Branch . . .	24-28 Carnarvon Road Tsim Sha Tsui Kowloon
	Olympian City Branch . . .	Shop 133, 1/F, Olympian City 2 18 Hoi Ting Road, Kowloon
New Territories	Kwai Cheong Road Branch	40 Kwai Cheong 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, 30 September 2019 until 12:00 noon on Wednesday, 9 October 2019 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

The period during which an application for our Hong Kong Offer Shares can be lodged pursuant to the terms of this prospectus and the Application Forms will expire on Wednesday, 9 October 2019. Such period is longer than the time period usually adopted in other initial public offering transactions in Hong Kong. See the section headed “How to apply for our Hong Kong Offer Shares” in this prospectus for the channels that you may use for subscribing for our Hong Kong Offer Shares.

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 — GF HYDROCOLLOID 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, 30 September 2019 — 9:00 a.m. to 5:00 p.m.
Wednesday, 2 October 2019 — 9:00 a.m. to 5:00 p.m.
Thursday, 3 October 2019 — 9:00 a.m. to 5:00 p.m.
Friday, 4 October 2019 — 9:00 a.m. to 5:00 p.m.
Saturday, 5 October 2019 — 9:00 a.m. to 1:00 p.m.
Tuesday, 8 October 2019 — 9:00 a.m. to 5:00 p.m.
Wednesday, 9 October 2019 — 9:00 a.m. to 12:00 noon

The Application Lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, 9 October 2019, the last application day or such later time as set forth in “— 10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

HOW TO APPLY FOR OUR 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 completing and submitting an Application Form or applying through White Form eIPO service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Bookrunner and Sole Lead Manager (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 Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Articles;
- (iii) confirm that you have read the terms and conditions and application procedures set forth in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Share Offer in this prospectus;
- (vi) agree that none of our Company, the Sole Sponsor, the Sole Bookrunner and Sole Lead Manager, the Hong Kong Underwriter, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to our Company, our Hong Kong Share Registrar, receiving bank, the Sole Sponsor, the Sole Bookrunner and Sole Lead Manager, the Hong Kong Underwriter, 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 Sole Bookrunner and Sole Lead Manager, and the Hong Kong Underwriter 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;

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

- (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 (a) you understand that our Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (b) you and any person for whose benefit you are applying for our Hong Kong Offer Shares are outside the United States (as defined in Regulation S under the U.S. Securities Act);
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept our 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 any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in paragraphs under "— Collection in person" below to collect Share certificate(s) and/or refund cheques in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company, our Directors, and the Sole Bookrunner and Sole Lead Manager will rely on your declarations and representations in deciding whether or not to make any allotment of any of our Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** service provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (a) 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 (b) 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.

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

5. APPLYING THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in the paragraphs under “— 2. Who can apply” above, may apply through the **White Form eIPO** service for our Offer Shares to be allotted and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

Time for Submitting Applications under the White Form eIPO Service

You may submit your application to **White Form eIPO** service at www.eipo.com.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Monday, 30 September 2019 until 11:30 a.m. on Wednesday, 9 October 2019 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, 9 October 2019 or such later time under the “— 10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you apply by means of **White Form eIPO** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

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 (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

Commitment to sustainability

The obvious advantage of **White Form eIPO** service is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 for each “GREEN FUTURE FOOD HYDROCOLLOID MARINE SCIENCE COMPANY LIMITED” **White Form eIPO** application submitted via www.eipo.com.hk to support sustainability.

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for our Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Centre
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 our 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 Sole Bookrunner and Sole Lead Manager and our Hong Kong Share Registrar.

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

Where you have given **electronic application instructions** to apply for our 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 our 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 our Hong Kong Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
 - (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 Sole Bookrunner and Sole Lead Manager will rely on your declarations and representations in deciding whether or not to make any allotment of any of our 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 our 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 forth 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 forth in any supplement to this prospectus;
 - agree that none of our Company, the Sole Bookrunner and Sole Lead Manager, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

- agree to disclose your personal data to our Company, our Hong Kong Share Registrar, Receiving Bank, the Sole Bookrunner and Sole 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 (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your electronic application instructions can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving electronic application instructions to apply for Hong Kong Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Articles; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

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 our 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 2,000 Hong Kong Offer Shares. Instructions for more than 2,000 Hong Kong Offer Shares must be in one of the numbers set forth 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⁽¹⁾

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- Monday, 30 September 2019 — 9:00 a.m. to 8:30 p.m.
- Wednesday, 2 October 2019 — 8:00 a.m. to 8:30 p.m.
- Thursday, 3 October 2019 — 8:00 a.m. to 8:30 p.m.
- Friday, 4 October 2019 — 8:00 a.m. to 8:30 p.m.
- Saturday, 5 October 2019 — 8:00 a.m. to 1:00 p.m.
- Tuesday, 8 October 2019 — 8:00 a.m. to 8:30 p.m.
- Wednesday, 9 October 2019 — 8:00 a.m. to 12:00 noon

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, 30 September 2019 until 12:00 noon on Wednesday, 9 October 2019 (24 hours daily, except on the last application day).

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Wednesday, 9 October 2019, the last application day or such later time as set forth in the paragraph headed “— 10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

- (1) The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

No multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of 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 our 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 (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal data

The section headed “— Personal Data” in the Application Forms applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving bankers, the Sole Bookrunner and Sole Lead Manager, 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 our Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Sole Bookrunner and Sole Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

Internet System for submission of electronic application instructions, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon on Wednesday, 9 October 2019.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for our 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 White Form eIPO service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE OUR HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set forth in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through **White Form eIPO** service in respect of a minimum of 2,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers set forth in the table in the Application Form, or as otherwise specified on the designated website at www.eipo.com.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

See the section headed “Structure and Conditions of the Share Offer — Pricing and Allocation” in this prospectus for further information on the Offer Price.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The Application Lists will not open and close if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 9 October 2019. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the Application Lists do not open and close on Wednesday, 9 October 2019 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable” in this prospectus, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of our Hong Kong Offer Shares on Wednesday, 16 October 2019 on our company’s website at www.greenfreshfood.com and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

- in the announcement to be posted on our Company’s website at www.greenfreshfood.com and the Stock Exchange’s website at www.hkexnews.hk by no later than 9:00 a.m. on Wednesday, 16 October 2019;
- from the designated results of allocations website at www.iporeresults.com.hk (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Wednesday, 16 October 2019 to 12:00 midnight on Tuesday, 22 October 2019;
- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Wednesday, 16 October 2019 to Saturday, 19 October 2019; and
- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, 16 October 2019 to Friday, 18 October 2019 at all 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 our Hong Kong Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. See the section headed “Structure and Conditions of the Share Offer” in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which our 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 to the **White Form eIPO** 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 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

HOW TO APPLY FOR OUR 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 its agents exercise their discretion to reject your application:

Our Company, the Sole Bookrunner and Sole Lead Managers, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list our Shares either:

- within three weeks from the closing date of the Application Lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the Application Lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your electronic application instructions through **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole Bookrunner and Sole Lead Manager believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of our Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

HOW TO APPLY FOR OUR 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\$1.74 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 “Structure and Conditions of the Share Offer —Conditions of the Hong Kong Public Offering” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on or before Wednesday, 16 October 2019.

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 our Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to collection in person 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 for all our Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and
- refund cheque 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 our 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. Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque.

Subject to arrangement on despatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or before Wednesday, 16 October 2019. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

Share certificates will only become valid at 8:00 a.m. on Thursday, 17 October 2019 provided that the Share Offer has become unconditional and the right of termination described in the “Underwriting” section in this prospectus has not been exercised. **Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.**

Collection in Person

(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 and/or Share certificate from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 16 October 2019 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for collection in person, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for collection in person, 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 Share Registrar.

If you do not collect your refund cheque and/or Share certificate in person 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 or before Wednesday, 16 October 2019, by ordinary post and at your own risk.

(ii) If you apply using a **YELLOW Application Form**

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above for collecting refund cheque. 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 or before Wednesday, 16 October 2019, 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 will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant’s stock account as stated in your Application Form on Wednesday, 16 October 2019, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR OUR 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 apply as a CCASS investor participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above.

You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 16 October 2019 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of our Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) **If you apply through the White Form eIPO service**

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 16 October 2019, or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate in person 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 Wednesday, 16 October 2019 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

(iv) **If you apply via Electronic Application Instructions to HKSCC**

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, 16 October 2019, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Wednesday, 16 October 2019. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 16 October 2019 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 Wednesday, 16 October 2019. Immediately following the credit of our 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 Wednesday, 16 October 2019.

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

15. ADMISSION OF OUR SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our Shares and we comply 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 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 our Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-3, 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 GREEN FUTURE FOOD HYDROCOLLOID MARINE SCIENCE COMPANY LIMITED AND ESSENCE CORPORATE FINANCE (HONG KONG) LIMITED

Introduction

We report on the historical financial information of Green Future Food Hydrocolloid Marine Science Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-102, which comprises the consolidated balance sheets as at 31 December 2016, 2017 and 2018 and 31 March 2019, the Company's balance sheets as at 31 December 2016, 2017 and 2018 and 31 March 2019, and the consolidated statements of profit or loss, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the periods then ended (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-102 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 30 September 2019 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

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.

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 Group'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 Group'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 December 2016, 2017 and 2018 and 31 March 2019 and the consolidated financial position of the Group as at 31 December 2016, 2017 and 2018 and 31 March 2019 and of the Group's consolidated financial performance and 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.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the three months ended 31 March 2018 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and

other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, 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-4 have been made.

Dividends

No dividends have been 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

30 September 2019

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 Zhong Tian LLP 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 ("HKD") and all values are rounded to the nearest thousand (HKD'000) except when otherwise indicated.

A. Consolidated statements of profit or loss

	Note	Year ended 31 December			Three months ended 31 March	
		2016	2017	2018	2018	2019
		HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
						<i>(Unaudited)</i>
Revenue	5	535,086	661,568	997,056	176,736	190,284
Cost of sales	5,8	(416,718)	(485,621)	(730,081)	(130,158)	(139,922)
Gross profit		118,368	175,947	266,975	46,578	50,362
Change in fair value of biological assets	20	1,198	(1,156)	(27)	(28)	—
Other income	6	4,677	7,963	7,649	977	1,475
Other (losses)/gains — net	7	(1,436)	1,907	(2,151)	(62)	(108)
Net impairment (losses)/gains on financial assets	21	(5,104)	1,382	(668)	695	1,113
Selling and distribution expenses	8	(8,791)	(12,901)	(16,126)	(4,062)	(3,787)
Administrative expenses	8	(30,330)	(45,730)	(98,578)	(30,329)	(19,502)
Operating profit		78,582	127,412	157,074	13,769	29,553
Finance income	10	86	88	45	18	39
Finance costs	10	(6,850)	(7,052)	(27,346)	(4,402)	(6,485)
Finance costs — net	10	(6,764)	(6,964)	(27,301)	(4,384)	(6,446)

	Note	Year ended 31 December			Three months ended 31 March	
		2016	2017	2018	2018	2019
		HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
<i>(Unaudited)</i>						
Profit before income tax		71,818	120,448	129,773	9,385	23,107
Income tax expense	11	(18,423)	(27,679)	(35,997)	(4,219)	(5,758)
Profit for the year/period		<u>53,395</u>	<u>92,769</u>	<u>93,776</u>	<u>5,166</u>	<u>17,349</u>
Profit is attributable to:						
Owners of the Company		53,395	92,769	93,597	5,180	17,312
Non-controlling interests		—	—	179	(14)	37
		<u>53,395</u>	<u>92,769</u>	<u>93,776</u>	<u>5,166</u>	<u>17,349</u>
Earnings per share for profit attributable to owners of the Company						
Basic earnings per share (HKD)	12	97	169	168	9	31
Diluted earnings per share (HKD)	12	<u>97</u>	<u>169</u>	<u>167</u>	<u>9</u>	<u>31</u>

Note:

The earnings per share presented above has not taken into account the proposed capitalisation issue pursuant to the written resolutions passed by the shareholders on 25 September 2019 because the proposed capitalisation issue has not become effective as at the date of this report.

B. Consolidated statements of comprehensive income

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
				<i>(Unaudited)</i>	
Profit for the year/period	53,395	92,769	93,776	5,166	17,349
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
- Currency translation differences	(13,002)	22,486	(25,626)	15,007	9,528
Total comprehensive income for the year/period	<u>40,393</u>	<u>115,255</u>	<u>68,150</u>	<u>20,173</u>	<u>26,877</u>
Total comprehensive income for the year/period is attributable to:					
Owners of the Company	40,393	115,255	67,971	20,187	26,840
Non-controlling interests	—	—	179	(14)	37
	<u>40,393</u>	<u>115,255</u>	<u>68,150</u>	<u>20,173</u>	<u>26,877</u>

C. Consolidated balance sheets

	Note	As at 31 December			As at
		2016	2017	2018	31 March
		HKD'000	HKD'000	HKD'000	2019
				HKD'000	
Assets					
Non-current assets					
Land use rights	14	29,219	50,475	53,972	54,678
Property, plant and equipment	15	216,141	350,696	354,298	371,739
Intangible assets	16	44,850	51,136	60,030	59,758
Prepayment for non-current assets	17	38,789	36,232	11,608	10,766
Deferred income tax assets	29	11,063	11,328	11,177	11,495
		<u>340,062</u>	<u>499,867</u>	<u>491,085</u>	<u>508,436</u>
Current assets					
Inventories	19	123,105	158,608	193,212	285,750
Biological assets	20	1,780	48	—	—
Trade and other receivables	21	82,119	116,337	193,098	155,682
Cash and bank balances	22	98,271	33,123	55,855	60,898
		<u>305,275</u>	<u>308,116</u>	<u>442,165</u>	<u>502,330</u>
Total assets		<u><u>645,337</u></u>	<u><u>807,983</u></u>	<u><u>933,250</u></u>	<u><u>1,010,766</u></u>
Equity					
Equity attributable to owners of the Company					
Share capital	23	—	—	6	6
Other reserves	25	77,547	147,254	162,386	174,739
Retained earnings		<u>75,017</u>	<u>159,570</u>	<u>244,467</u>	<u>260,293</u>
		<u>152,564</u>	<u>306,824</u>	<u>406,859</u>	<u>435,038</u>
Non-controlling interests		<u>—</u>	<u>—</u>	<u>179</u>	<u>207</u>
Total equity		<u><u>152,564</u></u>	<u><u>306,824</u></u>	<u><u>407,038</u></u>	<u><u>435,245</u></u>

	Note	As at 31 December			As at
		2016	2017	2018	31 March
		HKD'000	HKD'000	HKD'000	2019
				HKD'000	
Liabilities					
Non-current liabilities					
Convertible bond	27	—	60,517	52,644	53,254
Borrowings	27	61,485	53,834	63,580	63,886
Lease liabilities	27	1,951	4,250	4,148	3,684
Deferred income	28	38,888	38,030	32,861	32,693
Deferred income tax liabilities	29	3,018	3,157	2,406	2,424
		<u>105,342</u>	<u>159,788</u>	<u>155,639</u>	<u>155,941</u>
Current liabilities					
Trade and other payables	26	196,899	124,327	93,790	123,859
Current income tax liabilities		13,908	21,492	21,565	16,162
Borrowings	27	175,737	193,898	253,370	277,666
Lease liabilities	27	887	1,654	1,848	1,893
		<u>387,431</u>	<u>341,371</u>	<u>370,573</u>	<u>419,580</u>
Total liabilities		<u>492,773</u>	<u>501,159</u>	<u>526,212</u>	<u>575,521</u>
Total equity and liabilities		<u>645,337</u>	<u>807,983</u>	<u>933,250</u>	<u>1,010,766</u>
Net current (liabilities)/assets		<u>(82,156)</u>	<u>(33,255)</u>	<u>71,592</u>	<u>82,750</u>
Total assets less current liabilities . .		<u>257,906</u>	<u>466,612</u>	<u>562,677</u>	<u>591,186</u>

D. Balance sheets of the Company

	Note	As at 31 December			As at
		2016	2017	2018	31 March
		HKD'000	HKD'000	HKD'000	2019
				HKD'000	
Assets					
Non-current assets					
Investment in subsidiaries	36	115,539	115,539	120,858	122,188
Current assets					
Amounts due from subsidiaries	21	—	94,024	81,987	77,677
Other receivables	21	—	1,029	5,181	5,653
Cash and bank balances	22	—	3	39	71
		—	95,056	87,207	83,401
Total assets		115,539	210,595	208,065	205,589
Equity					
Share capital	23	—	—	6	6
Other reserves	25	115,539	154,739	185,813	187,143
Accumulated losses		(126)	(4,661)	(35,753)	(37,293)
Total equity		115,413	150,078	150,066	149,856
Liabilities					
Non-current liabilities					
Convertible bond	27	—	60,517	52,644	53,254
Current liabilities					
Amounts due to subsidiaries	26	126	—	—	—
Other payables	26	—	—	5,355	2,479
		126	—	5,355	2,479
Total liabilities		126	60,517	57,999	55,733
Total equity and liabilities		115,539	210,595	208,065	205,589

E. Consolidated statements of changes in equity

	Note	Equity attributable to owners of the Company					Non-controlling interests	Total equity
		Share capital	Other reserves	Retained earnings	Total			
		HKD'000	HKD'000	HKD'000	HKD'000	HKD'000		
Balance at 1 January 2016		—	84,984	27,187	112,171	—	112,171	
Comprehensive income								
Profit for the year		—	—	53,395	53,395	—	53,395	
Currency translation differences		—	(13,002)	—	(13,002)	—	(13,002)	
Total comprehensive income		—	(13,002)	53,395	40,393	—	40,393	
Transactions with owners								
Profit appropriation to statutory reserves		—	5,565	(5,565)	—	—	—	
Total transactions with owners		—	5,565	(5,565)	—	—	—	
Balance at 31 December 2016		—	77,547	75,017	152,564	—	152,564	
Balance at 1 January 2017		—	77,547	75,017	152,564	—	152,564	
Comprehensive income								
Profit for the year		—	—	92,769	92,769	—	92,769	
Currency translation differences		—	22,486	—	22,486	—	22,486	
Total comprehensive income		—	22,486	92,769	115,255	—	115,255	
Transactions with owners								
Waiver of amounts due to the Controlling Shareholders	25	—	39,200	—	39,200	—	39,200	
Acquisition of a new subsidiary		—	(195)	—	(195)	—	(195)	
Profit appropriation to statutory reserves		—	8,216	(8,216)	—	—	—	
Total transactions with owners		—	47,221	(8,216)	39,005	—	39,005	
Balance at 31 December 2017		—	147,254	159,570	306,824	—	306,824	
Balance at 1 January 2018		—	147,254	159,570	306,824	—	306,824	
Comprehensive income								
Profit for the year		—	—	93,597	93,597	179	93,776	
Currency translation differences		—	(25,626)	—	(25,626)	—	(25,626)	
Total comprehensive income		—	(25,626)	93,597	67,971	179	68,150	
Transactions with owners								
Equity-settled share-based payment	25	—	17,567	—	17,567	—	17,567	
Share allotment to Controlling Shareholders		5	—	—	5	—	5	
Conversion of the convertible bond	27(a)	1	14,491	—	14,492	—	14,492	
Profit appropriation to statutory reserves		—	8,700	(8,700)	—	—	—	
Total transactions with owners		6	40,758	(8,700)	32,064	—	32,064	

<u>Equity attributable to owners of the Company</u>						
Note	Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Balance at 31 December 2018	<u>6</u>	<u>162,386</u>	<u>244,467</u>	<u>406,859</u>	<u>179</u>	<u>407,038</u>
Balance at 1 January 2019	<u>6</u>	<u>162,386</u>	<u>244,467</u>	<u>406,859</u>	<u>179</u>	<u>407,038</u>
Comprehensive income						
Profit for the period	—	—	17,312	17,312	37	17,349
Currency translation differences	—	9,528	—	9,528	—	9,528
Total comprehensive income	<u>—</u>	<u>9,528</u>	<u>17,312</u>	<u>26,840</u>	<u>37</u>	<u>26,877</u>
Transactions with owners						
Equity-settled share-based payment 24	—	1,330	—	1,330	—	1,330
Profit appropriation to statutory reserves	—	1,495	(1,486)	9	(9)	—
Total transactions with owners	<u>—</u>	<u>2,825</u>	<u>(1,486)</u>	<u>1,339</u>	<u>(9)</u>	<u>1,330</u>
Balance at 31 March 2019	<u>6</u>	<u>174,739</u>	<u>260,293</u>	<u>435,038</u>	<u>207</u>	<u>435,245</u>
(Unaudited)						
Balance at 1 January 2018	<u>—</u>	<u>147,254</u>	<u>159,570</u>	<u>306,824</u>	<u>—</u>	<u>306,824</u>
Comprehensive income						
Profit for the period	—	—	5,180	5,180	(14)	5,166
Currency translation differences	—	15,007	—	15,007	—	15,007
Total comprehensive income	<u>—</u>	<u>15,007</u>	<u>5,180</u>	<u>20,187</u>	<u>(14)</u>	<u>20,173</u>
Transactions with owners						
Share allotment to Controlling Shareholders	5	—	—	5	—	5
Equity-settled share-based payment 25	—	12,340	—	12,340	—	12,340
Conversion of the convertible bond 27(a)	1	14,491	—	14,492	—	14,492
Profit appropriation to statutory reserves	—	1,502	(1,502)	—	—	—
Total transactions with owners	<u>6</u>	<u>28,333</u>	<u>(1,502)</u>	<u>26,837</u>	<u>—</u>	<u>26,837</u>
Balance at 31 March 2018	<u>6</u>	<u>190,594</u>	<u>163,248</u>	<u>353,848</u>	<u>(14)</u>	<u>353,834</u>

F. Consolidated statements of cash flows

	Note	Year ended 31 December			Three months ended 31 March	
		2016	2017	2018	2018	2019
		<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
						<i>(Unaudited)</i>
Cash flows from operating activities						
Cash generated from operations	30	122,804	130,353	73,855	21,245	25,921
Income tax paid		(16,226)	(19,926)	(34,750)	(3,185)	(14,105)
Net cash generated from operating activities . . .		<u>106,578</u>	<u>110,427</u>	<u>39,105</u>	<u>18,060</u>	<u>11,816</u>
Cash flows from investing activities						
Purchases of property, plant and equipment		(54,497)	(121,837)	(56,487)	(21,340)	(17,584)
Purchases of land use rights		(10,040)	(20,447)	(1,078)	—	—
Purchases of intangible assets		(17,226)	(5,942)	(682)	(293)	(176)
Acquisition of subsidiaries, net of cash acquired (note 35)		—	(1,190)	—	—	—
Proceeds from sale of property, plant and equipment		<u>—</u>	<u>21</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net cash used in investing activities . . .		<u>(81,763)</u>	<u>(149,395)</u>	<u>(58,247)</u>	<u>(21,633)</u>	<u>(17,760)</u>
Cash flows from financing activities						
Proceeds from borrowings		276,827	262,144	509,811	104,149	129,296
Amounts received from related parties		45,872	68,586	480	283	—
Proceeds from convertible bond		—	60,000	—	—	—
Repayments of borrowings		(145,883)	(266,336)	(429,551)	(81,026)	(111,311)

	Note	Year ended 31 December			Three months ended 31 March	
		2016	2017	2018	2018	2019
		<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
						<i>(Unaudited)</i>
Amounts repaid to related parties		(119,422)	(140,973)	(12,963)	(12,540)	—
Interest paid		(7,154)	(5,451)	(19,147)	(4,597)	(6,413)
Settlements of lease liabilities		(1,220)	(2,349)	(2,360)	(584)	(617)
Initial public offering costs		—	(1,533)	(3,516)	(1,184)	(1,132)
Share allotment to Controlling Shareholders		—	—	5	—	—
Net cash generated from/(used in) financing activities . . .		49,020	(25,912)	42,759	4,501	9,823
Net increase/(decrease) in cash and cash equivalents		73,835	(64,880)	23,617	928	3,879
Cash and cash equivalents at beginning of year/period		22,587	92,690	33,123	33,123	55,855
Effect of foreign exchange rates changes		(3,732)	5,313	(885)	1,803	1,164
Cash and cash equivalents at end of year/period	22	<u>92,690</u>	<u>33,123</u>	<u>55,855</u>	<u>35,854</u>	<u>60,898</u>

II NOTES TO THE FINANCIAL STATEMENTS

1 General information of the Group, reorganisation and basis of presentation

1.1 General information

Green Future Food Hydrocolloid Marine Science Company Limited (the “Company”) was incorporated on 3 July 2015 in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap. 22 of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the “Group”) listed in note 35 below are in the business of manufacturing and sales of food manufacturing hydrocolloid products including carrageenan products, agar-agar products, blended products and konjac products (the “Listing Business”) in the People’s Republic of China (“PRC”) and overseas.

The ultimate controlling parties of the Group are Mr. Chan Kam Chung, Mr. Chan Shui Yip, Mr. Guo Songsen, Mr. Guo Dongxu, Mr. Guo Yuansuo and Mr. Guo Donghuang who act in concert under a contractual agreement (the “Controlling Shareholders”).

1.2 History of the Group and the reorganisations

History of the Group

Prior to the incorporation of the Company and the completion of the Reorganisation as described below, the Listing Business was operated through:

- Green Fresh (Fujian) Foodstuff Co., Ltd (“Green Fresh (Fujian)”) and its subsidiary Shiyanghaiyi Konjac Products Company Ltd. (“Shiyanghaiyi”) and Lvbao (Quanzhou) Biochemistry Company Ltd. (“Lvbao (Quanzhou)”), which were wholly owned (except for Shiyanghaiyi which was 60% owned at that time) by Mr. Chan Kam Chung and Mr. Chan Shui Yip (collectively the “Chan Brothers”), through Greenwich (China) Technology Development Limited (“Greenwich (China)”) and a company controlled by the Chan Brothers. Green Fresh (Fujian) and Lvbao (Quanzhou) are in the business of manufacturing and sale of carrageenan and related products, and Shiyanghaiyi is in the business of manufacturing and sale of konjac products; and
- Fujian Province Lvqi Food Colloid Company Limited (“Lvqi (Fujian)”), which was wholly owned by Mr. Guo Wentong (father of Mr. Guo Songsen), Mr. Guo Dongxu, Mr. Guo Yuansuo and Mr. Guo Donghuang (collectively, the “Original Guo Parties”). Lvqi (Fujian) is in the business of manufacturing and sale of agar-agar and related products.

In November 2012, the Chan Brothers and the Original Guo Parties reached an agreement on a series of equity interest transfers to combine their respective companies in the Listing Business into one group so as to create synergy for future business expansion. The equity transfers included the followings:

- On 26 November 2012, Green Fresh (Fujian) acquired 100% equity interest of Lvqi (Fujian) from the Original Guo Parties. Lvqi (Fujian) became a wholly owned subsidiary of Green Fresh (Fujian) thereafter;
- On 21 December 2012, 45% of the equity interest of Green Fresh (Fujian) was transferred to Zhangzhou Xindecheng Investment Consulting Company Limited (“Xindecheng”), an investment holding company wholly owned by the Original Guo Parties, for cash consideration of RMB 16,221,000. Thereafter, Green Fresh (Fujian) and its subsidiary, Lvqi (Fujian), were 55% owned by the Chan Brothers and 45% owned by the Original Guo Parties; and
- On 20 October 2016, the 100% equity interest in Lvbao (Quanzhou) was transferred from the Chan Brothers to a subsidiary of the Group.

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, in 2015, the Group underwent a reorganisation (the “Reorganisation”) which is set out below:

- a) On 3 July 2015, the Company was incorporated in the Cayman Islands with an initial authorised share capital of HKD390,000 divided into 3,900,000 shares of HKD 0.10 each. On the date of incorporation, 1 share was issued at par value to Mr. Chan Kam Chung.
- b) On 20 July 2015, Xindecheng transferred 45% equity interest in Green Fresh (Fujian) to Greenwich (China) for cash consideration of USD 2,331,000.
- c) On 28 July 2015, the Company set up three subsidiaries in the British Virgin Islands (“BVI”), Green Source Limited, Wealth Creation Limited and Keen Field Limited.
- d) On 17 December 2015, Mr. Chan Kam Chung transferred his 1 share in the Company to his individually owned company. On the same date, 109 shares, 110 shares, 63 shares, 27 shares, 45 shares and 45 shares of the Company were allotted and issued at par value to the companies individually owned by Mr. Chan Kam Chung, Mr. Chan Shui Yip, Mr. Guo Songsen, Mr. Guo Donghuang, Mr. Guo Dongxu and Mr. Guo Yuansuo, (the latter four collectively referred the “Guo Parties”), respectively. After the share allotment on 17 December 2015, the issued share capital of the Company became HKD40 divided into 400 shares of HKD 0.10 each, and the Chan Brothers and Guo Parties own 55% and 45% shareholding of the Company, respectively.

- e) On 30 December 2016, the entire equity interest of Greenwich (China) was transferred to Green Source Limited from Chan Brothers. In consideration of the equity transfers, Green Source Limited allotted and issued two shares of USD 1.0 each to the Company.

Upon completion of the Reorganisation on 30 December 2016, the Company became the holding company of the companies comprising the Group. The Chan Brothers and Guo Parties own 55% and 45% shareholding of the Company, respectively.

1.3 Basis of presentation

The Reorganisation that was completed on 30 December 2016 involved the transfers of equity interests of companies engaged in the Listing Business to the BVI subsidiaries of the Company. The Company and its BVI subsidiaries had not been involved in any business prior to the Reorganisation and did not meet the definition of a business. The Reorganisation was merely a reorganization of the Listing Business with no change in management of such business and the ultimate owners of the Listing Business remain the same before and after the Reorganisation. Accordingly, the Group resulting from the Reorganization was regarded as a continuation of the Listing Business and, for the purpose of this report, the Historical Financial Information has been prepared and presented as a continuation of the consolidated financial statements of the Listing Business, with the assets and liabilities of the Group recognized and measured at the carrying amounts of the Listing Business under the consolidated financial statements of the entities in the Listing Business for all the years/periods presented.

The Historical Financial Information has been prepared by including the historical financial information of the companies engaged in the Listing Business and now comprising the Group as if the current group structure had been in existence throughout the periods presented, or since the date when the combining companies first came under the collective control of the Controlling Shareholders, whichever is a shorter period.

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/periods presented, unless otherwise stated.

2.1 Basis of preparation

The principal accounting policies applied in the preparation of the Historical Financial Information which are in accordance with the Hong Kong Financial Reporting Standards (“HKFRS”) issued by the HKICPA are set out below. The Historical Financial Information has been prepared on a historical cost basis, except for certain biological assets which are measured at fair value less cost to sell and embedded derivatives of convertible bond which are carried at fair value.

The preparation of the Historical Financial Information in conformity with HKFRS 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.

2.1.1 Changes in accounting policies

All effective standards, amendments to standards and interpretations, including HKFRS 16 “Leases”, which are mandatory for the financial year beginning on 1 January 2019, are consistently applied to the Group for the Track Record Period.

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 the Group. The Group’s assessment of the impact of these new standards and interpretations is set out below.

Standards and amendments	Effective for annual periods beginning on or after
HKFRS 10 (Amendment) and HKAS 28 (Amendment) ‘Sale or contribution of assets between an investor and its associate or joint venture’	To be determined
Amendment to HKAS 1 and HKAS 8 regarding the definition of material	1 January 2020
Conceptual framework for financial reporting 2018 (the Framework)	1 January 2020
Amendments to HKFRS 3 Business combinations	1 January 2020
HKFRS 17 Insurance contracts	1 January 2021

Management is currently assessing the effects of applying these new standards and amendments on the Group’s consolidated financial information. None of these is expected to have a significant effect on the consolidated financial information of the Group. The Group does not expect to adopt these new standards and amendments until their effective dates.

2.2 Principles of consolidation

(i) *Subsidiaries*

Subsidiaries are all entities (including structured entities) 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group except for those business combinations under common control (note 2.3).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, comprehensive income and changes in equity, and consolidated balance sheets respectively.

(ii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

2.3 Business combinations

(i) Business combinations under common control

The Group applies the predecessor values accounting to account for business combination of entities or businesses under common control. The consolidated financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the contribution of the controlling party's interest. All differences between the cost of acquisition (fair value of consideration paid) and the amounts at which the assets and liabilities are recorded have been recognised directly in equity as part of the capital reserve. Transaction-related costs are expensed as incurred.

(ii) Business combinations under non-common control

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and

- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

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 remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2.4 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.

2.5 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 of the Company assesses the financial performance and position of the Group, and makes strategic decisions. The chief operating decision maker of the Group consists of the executive directors, the chief executive officer, the chief financial officer and the manager for corporate planning.

2.6 Foreign currency translation

(i) *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'). Majority of the subsidiaries of the Group are operating in the PRC and their functional currency is Renminbi ("RMB"). The consolidated financial statements are presented in HKD, which is the Company's functional and the Group's presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

(iii) *Group companies*

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet

- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this 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 dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

2.7 Land use rights

All land in the PRC is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the rights to use certain land. The premiums paid for such right are treated as right-of-use assets (note 2.27) and recorded as land use rights, which are amortised over the lease periods of 30 to 50 years using the straight-line method. The land use rights are stated at historical cost less accumulated amortisation and impairment.

2.8 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives as follows:

Buildings	20 years
Production machineries	10 years
Factory device and equipment	3-5 years
Vehicle, office furniture and fixtures	5 years
Leasehold improvement	Shorter of estimated useful lives and remaining lease terms

The right-of-use assets (note 2.27), other than land use rights are presented under the property, plant and equipment. The right-of-use assets are depreciated over the shorter of the assets' useful lives and the lease terms on a straight-line basis.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.10).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Construction-in-progress represents properties under construction and is stated at cost less accumulated impairment losses. This includes cost of construction and other direct costs. Construction-in-progress is not depreciated until such time as the assets are completed and are ready for operational use.

2.9 Intangible assets

(i) Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments (note 5).

Impairment testing of goodwill is described in note 2.10.

(ii) Trademarks, licences, patents and relationship with customers

Separately acquired trademarks and licences are shown at historical cost. Trademarks, licences, patents and relationship with customers acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.

(iii) Sea use rights

The Group acquired the rights to use certain sea area. The sea use rights are stated at historical cost less accumulated amortisation.

(iv) Discharge rights

The Group acquired the rights to discharge pollutions within authorised amounts. The discharge rights are stated at historical cost less accumulated amortisation.

(v) Amortisation methods and periods

The Group amortises intangible assets with limited useful lives using the straight-line method over the following periods:

Trademarks and licences	2 years
Patents	10 years
Relationship with customers	15 years
Sea use rights	5 years
Discharge rights	5 years

For the patents, under PRC Patent Law, the lawful right period of patents under Patent Law of 10 years and 20 years for utility model patent and invention patent, respectively. Most of the patents acquired during the acquisition are utility model patent and thus, the Group elected 10 years as the useful life of those patents.

For the relationship with customers, given the industry practice that food manufacturing companies would maintain a long-term relationship with its supplier to stabilise its quality control and the management referred to several comparable companies of the same industry, the useful lives of relationship with customers of these comparable companies varies from 10-20 years. The management of the Group has over 15 years' experience in the industry and the Group's customer relationships have already been used for a period of over 6 years since the acquisition of Lvqi (Fujian) in 2012. Some of the customers of the Group have a relationship of over 10 years as of 31 March 2019. Accordingly, taking into account of all relevant and available external and internal information including but not limited to (i) the past experience of the supplier retention inside the food manufacturing industry; (ii) no significant adverse changes in the market, economic or legal environments; and (iii) no significant changes in our competitive landscape; the management has assessed and considered that the useful lives of 15 years for the Group's customer relationships are reasonable.

(vi) Research and development expenditure

An intangible asset arising from development shall be recognised if, and only if, the Group can demonstrate all of the following:

- (1) the technical feasibility of completing the intangible asset so that it will be available for use or sale.
- (2) its intention to complete the intangible asset and use or sell it.
- (3) its ability to use or sell the intangible asset.
- (4) how the intangible asset will generate probable future economic benefits.
- (5) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- (6) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Research expenditure and development expenditure that do not meet the criteria for capitalisation are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

2.10 Impairment of non-financial assets

Goodwill is not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.11 Financial assets

(i) *Classification*

The Group classifies its financial assets as at amortised cost only if both of the following criteria are met:

- a) The asset is held within a business model whose objective is to collect the contractual cash flows; and
- b) The contractual terms give rise to cash flows that are solely payments of principal and interest.

Management determines the classification of its financial assets at initial recognition. The Group reclassifies debt investments when and only when its business model for managing those assets changes.

If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. The Company's and the Group's financial assets comprise of trade and other receivables, amounts due from subsidiaries and cash and bank balances.

(ii) *Recognition and derecognition*

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) *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 costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has 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 or bankruptcy of the relevant company or the counterparty.

2.13 Impairment of financial assets

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Impairment of trade receivables is described in note 21.

2.14 Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.15 Biological assets

Biological assets are measured at fair value less cost to sell, see note 20 below for further information on determining the fair value.

Costs to sell include the incremental selling costs, including estimated costs of transport to the market but excludes finance costs and income taxes.

Seaweeds planted in the sea are classified as immature until they are ready for harvest. Seaweeds are classified as current assets if they are to be sold within one year. Until the point of harvest, harvested seaweeds are transferred to inventory at fair value less costs to sell when harvested.

Changes in fair value of unharvested seaweeds are recognised in the statement of profit or loss.

Farming costs such as material costs, labour costs and sea area maintenance are capitalised as part of biological assets.

2.16 Trade receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. Trade receivables are generally due for settlement within 30 to 180 days and therefore are all classified as current.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See note 2.13 for a description of the Group's impairment policies.

2.17 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand and deposits held at call with financial institutions.

2.18 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.19 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of reporting period which are unpaid. The amounts are unsecured and are usually paid within 90 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.20 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss 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 prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.21 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

2.22 Compound financial instruments

Compound financial instruments issued by the Group comprise convertible bond that can be converted to share capital at the option of the holder, and the number of shares to be issued may vary. Therefore, the components of the convertible bond are accounted for separately as host liability component and compound embedded derivatives component. The host liability component and compound embedded derivatives component are initially recognised at fair value.

Subsequent to initial recognition, the host liability component is measured at amortised cost using the effective interest method while the compound embedded derivatives component is carried at fair value, with changes in fair value recognized in profit or loss in the period in which they arise.

Liability component of a convertible instrument is classified as current unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

If the convertible bond is converted, the conversion option derivative component, together with the carrying amount of the liability component being converted at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued.

A substantial modification of the terms of the bond should be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the present value of the cash flows discounted using the original effective interest rate under the new terms, including any fees paid net of any fees received is at least 10 percent different from the present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, the original financial liability is derecognised and any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the present value of the revised cash flows discounted at the original effective interest rate. Any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

2.23 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period 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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also 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 substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, 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.

2.24 Employee benefits

(i) *Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

(ii) *Post-employment obligations*

The Group operates post-employment schemes via defined contribution pension plans.

For defined contribution plans, the Group pays contributions to publicly administered pension insurance plans on a mandatory or voluntary basis in the PRC and Hong Kong. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

(iii) *Share-based compensation*

The Group operates an equity-settled share-based payment plan (note 24). The fair value of the employee services received in exchange for the transfer of shares from controlling shareholders of the Company is recognised as an expense with a corresponding increase in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares transferred, excluding the impact of any non-market vesting conditions (e.g. profitability and sales growth targets).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

A grant of equity instruments, that is cancelled or settled during the vesting period, is treated as an acceleration of vesting. The Group recognises immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period.

2.25 Revenue recognition

Timing of recognition: The Group manufactures and sells carrageenan, agar-agar, konjac products and blended products. Sales are recognised when control of the products has transferred, being when the products are delivered to the customers, the customer has full discretion over channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer 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. A contract liability is recorded as advances from customers for the cash received from the customers before the delivery of goods.

Measurement of revenue: Revenue from sales is based on the price specified in the sales contracts and is shown net of value-added tax and after eliminating sales within the Group. No element of financing is deemed present as the sales are made with a credit term up to 180 days. A 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.

2.26 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see note 10 below. Any other interest income is included in other income.

2.27 Leases

The Group leases various land, properties, equipment and vehicles. Rental contracts for properties, equipment and vehicles are typically made for fixed periods of 1 to 10 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date which the 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. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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 lessee's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Extension and termination options are included in a number of property leases across the Group. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

The right-of-use assets are presented under land use rights in note 14 and property, plant and equipment in note 15. The lease liabilities are presented separately on the consolidated balance sheets.

2.28 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.29 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.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency 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 unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in mainland China and Hong Kong and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollars. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. The Group does not hedge against any fluctuation in foreign currency.

At 31 December 2016, 2017 and 2018 and 31 March 2019, if US dollar had weakened/strengthened by 10% against the RMB with all other variables held constant, post-tax profit for the year would have been HKD 5,285,000, HKD 2,143,000, HKD 4,111,000 and HKD 1,918,000, lower/higher mainly as a result of foreign exchange losses/gains on translation of US dollar-denominated trade and other payables, borrowings, trade receivables, and cash and cash equivalents.

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings and the convertible bond obtained at fixed rates expose the Group to fair value interest rate risk. The Group does not hedge its cash flow and fair value interest rate risk.

During the years ended 31 December 2016, 2017 and 2018, and three months ended 31 March 2019, if interest rate on borrowings had been higher by 100 basis points of current interest rate, with other variables held constant, post-tax profit for the years would have been approximately HKD 102,000, HKD 389,000, HKD 442,000 and HKD 526,000, lower, respectively.

(b) Credit risk

Credit risk arises from cash and cash equivalents and trade and other receivables. The carrying amounts or the undiscounted nominal amounts, where applicable, of each class of these financial assets represent the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage the risk with respect to cash and cash equivalents, bank deposits are placed with highly reputable financial institutions.

For trade receivables, the Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. See note 21 for further information about the Group's credit risk analysis for trade receivables.

For other receivables, as they have a low risk of default and the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term, the Group considered them to have low credit risk, and thus the impairment provision recognised is limited to 12 months expected losses.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group's objective is to maintain adequate committed credit lines to ensure sufficient and flexible funding is available to the Group. The Group also considers converting short-term borrowings into long-term borrowings to improve the Group's liquidity.

The table below analyses the Group's non-derivative 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.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
At 31 December 2016					
Borrowings	175,737	11,179	50,306	—	237,222
Interest payable on borrowings	9,029	1,760	1,429	—	12,218
Lease liabilities	1,050	589	773	1,062	3,474
Trade and other payables . . .	175,548	2,241	—	—	177,789
	<u>361,364</u>	<u>15,769</u>	<u>52,508</u>	<u>1,062</u>	<u>430,703</u>

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
At 31 December 2017					
Borrowings	193,898	53,834	—	—	247,732
Interest payable on borrowings	9,975	1,525	—	—	11,500
Convertible bond	—	60,000	—	—	60,000
Interest payable on convertible bond	3,000	2,750	—	—	5,750
Lease liabilities	1,943	1,675	2,308	853	6,779
Trade and other payables . . .	100,299	—	—	—	100,299
	<u>309,115</u>	<u>119,784</u>	<u>2,308</u>	<u>853</u>	<u>432,060</u>
At 31 December 2018					
Borrowings	253,370	6,058	57,522	—	316,950
Interest payable on borrowings	15,089	4,379	3,750	—	23,218
Convertible bond	—	55,179	—	—	55,179
Interest payable on convertible bond	5,704	3,872	—	—	9,576
Lease liabilities	2,069	1,618	2,677	551	6,915
Trade and other payables . . .	76,692	—	—	—	76,692
	<u>352,924</u>	<u>71,106</u>	<u>63,949</u>	<u>551</u>	<u>488,530</u>
At 31 March 2019					
Borrowings	277,666	5,130	58,756	—	341,552
Interest payable on borrowings	21,079	4,225	2,608	—	27,912
Convertible bond	—	55,179	—	—	55,179
Interest payable on convertible bond	6,131	2,103	—	—	8,234
Lease liabilities	1,969	1,399	2,352	692	6,412
Trade and other payables . . .	109,086	945	—	—	110,031
	<u>415,931</u>	<u>68,981</u>	<u>63,716</u>	<u>692</u>	<u>549,320</u>

3.2 Capital management

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, lease liabilities and convertible bond (including 'current and non-current borrowings and lease liabilities' as shown in the consolidated balance sheets) less cash and cash equivalents and restricted cash. Total capital is calculated as 'equity' as shown in the consolidated balance sheets plus net debt.

The gearing ratios as at 31 December 2016, 2017 and 2018 and 31 March 2019 were as follows:

	As at 31 December		As at 31 March	
	2016	2017	2018	2019
	HKD'000	HKD'000	HKD'000	HKD'000
Total borrowings, lease liabilities and convertible bond (note 27)	240,060	314,153	375,590	400,383
Amounts due to related parties (note 26)	121,609	12,273	102	104
Less: Cash and cash equivalents (note 22)	(92,690)	(33,123)	(55,855)	(60,898)
Restricted cash (note 22)	(5,581)	—	—	—
Net debt	263,398	293,303	319,837	339,589
Total equity	152,564	306,824	407,038	435,245
Total capital	415,962	600,127	726,875	774,834
Gearing ratio	<u>63%</u>	<u>49%</u>	<u>44%</u>	<u>44%</u>

The decreases of gearing ratio from 2016 to 2017 is resulted from the decrease in amounts due to related parties and increases in reserves and retained earnings. The decreases of gearing ratio from 2017 to 2018 is resulted from the increase in cash and cash equivalents, the decrease in amounts due to related parties and increases in reserves and retained earnings.

3.3 Fair value estimation

The Group adopts the amendment to HKFRS 13 for financial instruments that are measured in the consolidated balance sheets at fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Except for the embedded derivative portion of the convertible bond, as at each balance sheet dates, the Group had no financial instruments that are measured in the consolidated balance sheets at fair value.

The embedded derivative portion of the convertible bond are classified within Level 3. The fair value was determined using the income approach — expected cash flow discount method with the following key assumptions:

20 November 2017

Revenue growth rate	3%
Weighted-average cost of capital	18%

As described, the fair values of the embedded derivative portion of the convertible bond that is classified in level 3 of the fair value hierarchy is determined using valuation techniques that make use of significant inputs that are not based on observable market data. The fair value could be sensitive to changes in the assumptions used to derive the inputs. The table below illustrates the sensitivity of the significant inputs when they are changed to reasonably possible alternative inputs:

<u>Description</u>	<u>Fair value at 31 December 2017</u>	<u>Valuation techniques</u>	<u>Significant inputs</u>	<u>Range of inputs</u>	<u>Favourable/ (unfavourable) changes in profit or loss for the year ended 31 December 2017</u>
	<i>(HKD'000)</i>				<i>(HKD'000)</i>
Derivative portion of convertible bonds	10,437	Discount cash flow method	Weighted-average cost of capital	+0.5% -0.5%	644 (691)
			Revenue	+5% -5%	(676) 658

As the convertible bond holder has converted the bond to ordinary shares on 28 February 2018, no sensitivity test has been carried out for the periods ended 31 March 2018, 31 December 2018 and 31 March 2019.

4 Critical accounting estimates and assumptions

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Estimated useful lives and residual values of property, plant and equipment

The Group's management determines the estimated useful lives and residual values and consequently the related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitors action in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or nonstrategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives, and actual residual values. Periodic reviews could result in a change in depreciable lives and residual values and therefore changes in depreciation expenses in the future periods.

(b) Impairment of trade and other receivables

The impairment provisions for financial assets disclosed in note 21 are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see note 21 below.

(c) Estimated impairment of goodwill with indefinite useful life

The Group tests annually whether goodwill and intangible assets with indefinite useful life have suffered any impairment, in accordance with the accounting policy stated in note 2.10. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 16).

(d) Income taxes

The Group is subject to income taxes in a few jurisdictions. Judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation in the periods in which such estimate is changed. Deferred income tax assets and liabilities are determined using tax rates that are expected to apply when the related deferred income tax assets are realised or the deferred income tax liabilities are settled. The expected applicable tax rate is determined based on the enacted tax laws and regulations and the actual situation of the Group. The management of the Group will revise the expectation where the intending tax rate is different from the original expectation.

5 Segment information

The Company's chief operating decision maker examines the Group's performance from a product perspective and has identified four operating segments of its business as follows:

- (i) Manufacturing and sales of agar-agar;
- (ii) Manufacturing and sales of carrageenan;
- (iii) Manufacturing and sales of konjac products;
- (iv) Manufacturing and sales of blended products.

The amounts provided to the chief operating decision maker with respect to total assets, total liabilities and capital expenditure are measured in a manner consistent with that of consolidated financial statements. The chief operating decision maker reviews the total assets, total liabilities and capital expenditure at Group level, therefore no segment information of total assets, total liabilities and capital expenditure information was presented.

The segment information of the Group during the Track Record Period is set out as follows:

Revenue-recognised at a point-in-time	Year ended 31 December 2016				
	Sales of agar-agar	Sales of carrageenan	Sales of konjac products	Sales of blended products	Total
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Sales to customers . . .	260,723	201,888	20,218	52,257	535,086
Cost of sales	(189,127)	(177,279)	(16,532)	(33,780)	(416,718)
Segment results	<u>71,596</u>	<u>24,609</u>	<u>3,686</u>	<u>18,477</u>	<u>118,368</u>

A reconciliation of results of reportable segments to profit for the year is as follows:

Results of reportable segments	118,368
Change in fair value of biological assets	1,198
Other income	4,677
Other losses — net	(1,436)
Net impairment losses on financial assets	(5,104)
Selling and distribution expenses	(8,791)
Administrative expenses	(30,330)
Finance income	86
Finance expenses	<u>(6,850)</u>
Profit before income tax	71,818
Income tax expense	<u>(18,423)</u>
Profit for the year	<u><u>53,395</u></u>

Year ended 31 December 2017

Revenue-recognised at a point-in-time	Sales of agar-agar	Sales of carrageenan	Sales of konjac products	Sales of blended products	Total
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Sales to customers	302,044	279,734	15,477	64,313	661,568
Cost of sales	<u>(204,550)</u>	<u>(225,853)</u>	<u>(13,472)</u>	<u>(41,746)</u>	<u>(485,621)</u>
Segment results	<u><u>97,494</u></u>	<u><u>53,881</u></u>	<u><u>2,005</u></u>	<u><u>22,567</u></u>	<u><u>175,947</u></u>

A reconciliation of results of reportable segments to profit for the year is as follows:

Results of reportable segments	175,947
Change in fair value of biological assets	(1,156)
Other income	7,963
Other gains — net	1,907
Net impairment gains on financial assets	1,382
Selling and distribution expenses	(12,901)
Administrative expenses	(45,730)
Finance income	88
Finance expenses	<u>(7,052)</u>
Profit before income tax	120,448
Income tax expense	<u>(27,679)</u>
Profit for the year	<u><u>92,769</u></u>

Year ended 31 December 2018

Revenue- recognised at a point-in-time	Sales of agar-agar	Sales of carrageenan	Sales of konjac products	Sales of blended products	Total
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Sales to customers . . .	346,493	534,851	32,506	83,206	997,056
Cost of sales	<u>(213,590)</u>	<u>(435,508)</u>	<u>(27,590)</u>	<u>(53,393)</u>	<u>(730,081)</u>
Segment results	<u>132,903</u>	<u>99,343</u>	<u>4,916</u>	<u>29,813</u>	<u>266,975</u>

A reconciliation of results of reportable segments to profit for the year is as follows:

Results of reportable segments	266,975
Change in fair value of biological assets	(27)
Other income	7,649
Other losses — net	(2,151)
Net impairment losses on financial assets	(668)
Selling and distribution expenses	(16,126)
Administrative expenses	(98,578)
Finance income	45
Finance expenses	<u>(27,346)</u>
Profit before income tax	129,773
Income tax expense	<u>(35,997)</u>
Profit for the year	<u>93,776</u>

Three months ended 31 March 2019

Revenue-recognised at a point-in-time	Sales of agar-agar	Sales of carrageenan	Sales of konjac products	Sales of blended products	Total
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Sales to customers . . .	64,260	104,663	10,925	10,436	190,284
Cost of sales	<u>(37,900)</u>	<u>(86,169)</u>	<u>(9,052)</u>	<u>(6,801)</u>	<u>(139,922)</u>
Segment results	<u>26,360</u>	<u>18,494</u>	<u>1,873</u>	<u>3,635</u>	<u>50,362</u>

A reconciliation of results of reportable segments to profit for the period is as follows:

Results of reportable segments	50,362
Change in fair value of biological assets	—
Other income	1,475
Other losses — net	(108)
Net impairment gains on financial assets	1,113
Selling and distribution expenses	(3,787)
Administrative expenses	(19,502)
Finance income	39
Finance expenses	(6,485)
Profit before income tax	23,107
Income tax expense	(5,758)
Profit for the period	<u>17,349</u>

Three months ended 31 March 2018 (Unaudited)

Revenue-recognised at a point-in-time	Sales of agar-agar	Sales of carrageenan	Sales of konjac products	Sales of blended products	Total
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Sales to customers	57,606	106,365	2,776	9,989	176,736
Cost of sales	(35,581)	(86,100)	(2,333)	(6,144)	(130,158)
Segment results	<u>22,025</u>	<u>20,265</u>	<u>443</u>	<u>3,845</u>	<u>46,578</u>

A reconciliation of results of reportable segments to profit for the period is as follows:

Results of reportable segments	46,578
Change in fair value of biological assets	(28)
Other income	977
Other losses — net	(62)
Net impairment gains on financial assets	695
Selling and distribution expenses	(4,062)
Administrative expenses	(30,329)
Finance income	18
Finance expenses	(4,402)
Profit before income tax	9,385
Income tax expense	(4,219)
Profit for the period	<u>5,166</u>

Revenue from external customers by country/region, based on the destination of the shipment, is as follows:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
				<i>(Unaudited)</i>	
China	332,977	336,197	475,838	75,111	79,664
Europe.	110,917	195,803	345,986	70,353	69,354
Asia (excluding China)	47,122	57,410	107,947	17,114	26,370
South America.	21,224	35,393	26,981	2,061	5,682
North America.	13,134	24,965	33,500	9,618	7,868
Africa	9,712	11,800	6,804	2,479	1,346
Total	<u>535,086</u>	<u>661,568</u>	<u>997,056</u>	<u>176,736</u>	<u>190,284</u>

Information about major customers

External customers that have contributed over 10% of total revenue of the Group for any of the years ended 31 December 2016, 2017 and 2018 and three months ended 31 March 2018 and 2019 are as follows:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
				<i>(Unaudited)</i>	
Company A	110,812	73,495	58,861	—	4,813
Company B	42,685	31,065	65,128	22,954	9,296
Company C	52,250	86,206	158,468	35,383	24,549
	<u>205,747</u>	<u>190,766</u>	<u>282,457</u>	<u>58,337</u>	<u>38,658</u>

Information about non-current assets located in different countries

Non-current assets, other than financial assets and deferred income tax assets, by country/region is as follows:

	As at 31 December			As at
	2016	2017	2018	31 March
	HKD'000	HKD'000	HKD'000	2019
- China	322,457	481,015	472,803	488,733
- Hong Kong	17	288	178	1,324
- Indonesia	6,525	7,236	6,927	6,884
Total	<u>328,999</u>	<u>488,539</u>	<u>479,908</u>	<u>496,941</u>

6 Other income

	Year ended 31 December			Three months ended	
	2016	2017	2018	2018	2019
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
				<i>(Unaudited)</i>	
Government grants					
- Received and recognised during the year	2,002	3,677	3,773	25	583
- Recognised from deferred income (note 28)	2,466	3,457	3,553	922	871
Others	209	829	323	30	21
	<u>4,677</u>	<u>7,963</u>	<u>7,649</u>	<u>977</u>	<u>1,475</u>

7 Other (losses)/gains — net

	Year ended 31 December			Three months ended	
	2016	2017	2018	2018	2019
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
				<i>(Unaudited)</i>	
Net foreign exchange gains/(losses) from operating activities	144	753	(1,883)	173	(11)
Losses on disposal of property, plant and equipment - net	—	(371)	(36)	(27)	—
Gains from sales of raw materials	—	1,540	—	—	—
Others	(1,580)	(15)	(232)	(208)	(97)
	<u>(1,436)</u>	<u>1,907</u>	<u>(2,151)</u>	<u>(62)</u>	<u>(108)</u>

8 Expenses by nature

The expenses charged to cost of sales, selling and distribution expenses and administrative expenses are analysed below:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Raw materials and consumables used	363,119	424,974	684,855	145,012	144,765
Changes in inventories of finished goods and work in progress	(7,178)	(9,408)	(66,018)	(40,378)	(30,737)
Employee benefit expense (note 9)	40,303	53,960	93,347	19,505	22,539
Equity-settled share-based payment expense for non-employees (note 24)	—	—	11,264	11,264	—
Electricity and water expenses	22,651	23,290	33,266	6,928	6,534
Net amount of depreciation charge (note 15)	16,081	20,613	32,848	8,481	8,305
Amortisation expense (notes 14 & 16)	1,933	2,257	6,883	1,632	2,165
Listing expenses	—	5,667	16,716	2,365	1,084
Transportation costs	3,973	4,533	6,025	1,628	1,233
Other taxes and levies	3,418	4,136	4,859	1,519	1,537
Travelling expenses	1,364	1,566	2,484	606	464
Office expenses	1,168	2,341	2,478	355	484
Advertising and exhibition expenses	1,440	1,970	1,896	735	313
Consultation fees	878	407	1,772	485	361
Repair and maintenance	238	238	1,719	461	447
Handling and commission fees	1,127	1,704	1,523	354	614
Entertainment	919	1,159	1,407	319	468
Auditor's remuneration -audit services	57	117	204	16	75
Others	4,348	4,728	7,257	3,262	2,560
Total	<u>455,839</u>	<u>544,252</u>	<u>844,785</u>	<u>164,549</u>	<u>163,211</u>

Research and development expenses incurred during the Track Record Period as follows:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
				<i>(Unaudited)</i>	
Employee benefit expense . .	2,921	4,359	5,961	1,374	1,509
Raw materials and consumables used	5,862	5,411	5,021	1,575	1,047
Net amount of depreciation charge	866	1,035	1,050	284	265
Others	430	741	2,019	776	225
	<u>10,079</u>	<u>11,546</u>	<u>14,051</u>	<u>4,009</u>	<u>3,046</u>

9 Employee benefit expense

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
				<i>(Unaudited)</i>	
Salaries, wages and bonuses	37,545	50,274	79,661	16,998	19,221
Pension, housing fund, medical insurance and other social insurance . . .	2,680	3,575	7,083	1,357	1,960
Equity-settled share-based payment expense (note 24)	—	—	6,303	1,076	1,330
Others	78	111	300	74	28
Total employee benefit expense	<u>40,303</u>	<u>53,960</u>	<u>93,347</u>	<u>19,505</u>	<u>22,539</u>

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2016, 2017 and 2018 and three months ended 31 March 2018 and 2019 include two, nil, one, one and one director respectively, whose emoluments are disclosed in the note 34, The emoluments payable to the remaining three, five, four, four and four individuals during the respective years and periods are as follows:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
				<i>(Unaudited)</i>	
Salaries and bonus	990	2,552	3,902	1,022	1,191
Pension, housing fund, medical insurance and other benefits	27	58	52	8	15
Share-based payment expense	—	—	6,303	1,076	1,330
	<u>1,017</u>	<u>2,610</u>	<u>10,257</u>	<u>2,106</u>	<u>2,536</u>

The emoluments of the non-director highest paid employees fell within the following bands:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
				<i>(Unaudited)</i>	
Within HKD 1,000,000	3	4	—	4	4
HKD 1,000,000 - HKD 2,000,000	—	1	2	—	—
HKD 3,000,000 - HKD 4,000,000	—	—	2	—	—
	<u>3</u>	<u>5</u>	<u>4</u>	<u>4</u>	<u>4</u>

10 Finance costs — net

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
				<i>(Unaudited)</i>	
Finance income					
- Interest income on bank deposits	86	88	45	18	39
	<u>86</u>	<u>88</u>	<u>45</u>	<u>18</u>	<u>39</u>
Finance costs					
Interest and finance charges on bank borrowings	(8,006)	(10,442)	(17,834)	(4,040)	(5,287)
Interest on convertible bond	—	(862)	(9,417)	(1,797)	(1,971)
Finance charges on lease liabilities	(301)	(293)	(379)	(81)	(101)
Net foreign exchange gains/(losses) on financing activities	605	(240)	(1,201)	1,354	639
	<u>(7,702)</u>	<u>(11,837)</u>	<u>(28,831)</u>	<u>(4,564)</u>	<u>(6,720)</u>
Amounts capitalised in qualifying assets (note 15)	852	4,785	1,485	162	235
	<u>(6,850)</u>	<u>(7,052)</u>	<u>(27,346)</u>	<u>(4,402)</u>	<u>(6,485)</u>
Finance costs - net	<u><u>(6,764)</u></u>	<u><u>(6,964)</u></u>	<u><u>(27,301)</u></u>	<u><u>(4,384)</u></u>	<u><u>(6,446)</u></u>

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the interest rate applicable to the Group's borrowings for construction in process during the year/period, in this case, 6.04%, 6.63%, 6.69%, 6.69% and 6.73% for the years ended 31 December 2016 and 2017 and 2018 and for the three months ended 31 March 2018 and 2019, respectively.

11 Income tax expense

This note provides an analysis of the Group's income tax expense, shows how the income tax expense is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the Group's tax position.

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
				<i>(Unaudited)</i>	
Current income tax	22,983	27,455	36,347	5,110	6,006
Deferred income tax (note 29)	<u>(4,560)</u>	<u>224</u>	<u>(350)</u>	<u>(891)</u>	<u>(248)</u>
Income tax expense	<u>18,423</u>	<u>27,679</u>	<u>35,997</u>	<u>4,219</u>	<u>5,758</u>

(i) Cayman Islands profits tax

The Company is an exempted company incorporated in the Cayman Islands and is not liable for taxation in the Cayman Islands on its Cayman Islands or non-Cayman Islands income.

(ii) BVI profits tax

The Group's subsidiaries that are incorporated in the BVI are exempted companies and are not liable for taxation in the BVI on their BVI or non-BVI income.

(iii) Hong Kong profits tax

Hong Kong profits tax has been provided for at the rate of 16.5% on the estimated assessable profits from 1 January 2016 to 31 March 2019 with the following concession.

Pursuant to the enactment of two-tiered profit tax rates by the Inland Revenue Department from the year of assessment 2018/19 onwards, the first HKD 2 million of assessable profits of one of the Group's companies incorporated in Hong Kong under Hong Kong profits tax during the year ended 31 December 2018 and the three months ended March 2019 is subject to a tax rate of 8.25%. The Group's remaining assessable profits above HKD 2 million will continue to be subject to a tax rate of 16.5%.

(iv) PRC corporate income tax ('CIT')

Taxation on PRC income has been calculated on the estimated assessable profit for the year/period at the rates of taxation prevailing in the PRC in which the Group operates. The Company's subsidiaries incorporated in the PRC are subject to CIT at the rate of 25% for the Track Record Period, except for Lvqi (Fujian) which is subject to CIT at the preferential rate of 15%, and Longhai City Donghaiwan Seaweed Breeding Comprehensive Development Company Limited ("Donghaiwan") which is subject to CIT at the preferential rate of 12.5% throughout the Track Record Period.

Lvqi (Fujian) obtained the qualification of certified high and new technology enterprises in 2015 and registered in the local tax bureau to apply the preferential CIT rate of 15% from 2016 to 2018 and the three months ended 31 March 2019.

Donghaiwan is subject to a CIT reduction of 50% granted by the local tax bureau, and the CIT rate is 12.5%, as Donghaiwan is qualified as an agricultural products enterprise during the Track Record Period.

(v) PRC withholding income tax

According to the CIT Law, a 10% withholding tax on dividends received/receivable will be levied on the PRC companies' immediate holding companies established out of the PRC. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding companies. During the Track Record Period, the direct holding companies of the Group's subsidiaries in the PRC are Hong Kong incorporated companies and therefore are subject to a withholding tax rate of 5%.

The Group has undistributed earnings of HKD 58,865,000, HKD 147,202,000, HKD 259,320,000 and HKD 283,000,000 as at 31 December 2016 and 2017 and 2018 and 31 March 2019, respectively, which, if paid out as dividends, would be subject to tax in the hands of the recipient. An assessable temporary difference exists, but no deferred tax liability has been recognised as the parent entities are able to control the timing of distributions from their subsidiaries and are not expected to distribute these profits in the foreseeable future.

(vi) Indonesia profits tax

The Indonesia profits tax has been provided for at the rate of 25% on the estimated assessable profits during the Track Record Period.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate applicable to profits of the consolidated entities as follows:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Profit before income tax . . .	<u>71,818</u>	<u>120,448</u>	<u>129,773</u>	<u>9,385</u>	<u>23,107</u>
Tax calculated at the applicable statutory tax rates in the respective regions	17,733	31,656	37,881	4,745	6,611
Adjustment for tax effect of:					
- Withholding income tax on profits attributable to the holding companies outside PRC.	830	—	—	—	—
- Expenses not deductible for tax purpose	998	215	433	146	284
- Underprovision/ (overprovision) of previous year	2,249	(882)	(305)	(473)	(488)
- Impact of preferential income tax	(3,387)	(3,553)	(2,591)	(367)	(833)
- Tax losses for which no deferred income tax asset was recognised . . .	<u>—</u>	<u>243</u>	<u>579</u>	<u>168</u>	<u>184</u>
Tax charge	<u>18,423</u>	<u>27,679</u>	<u>35,997</u>	<u>4,219</u>	<u>5,758</u>

For each of the years ended 31 December 2016, 2017 and 2018 and three months ended 31 March 2018 and 2019, the weighted average applicable statutory tax rate was 25%, 26%, 29%, 51% and 29%, respectively.

For each of the years ended 31 December 2016 and 2017 and 2018 and three months ended 31 March 2018 and 2019, the effective tax rate was 26%, 23%, 28%, 45% and 25%, respectively.

The increase of the weighted average applicable tax rate and the effective income tax rate in the three months ended 31 March 2018 and the year ended 31 December 2018 is due to the significant expenses incurred during the period in the Company which has a statutory tax rate of 0% in the Cayman Islands.

Cumulative deductible losses that are not recognised as deferred income tax assets will expire as follows:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
				<i>(Unaudited)</i>	
2022	—	973	973	973	973
2023	—	—	2,809	914	2,809
2024	—	—	—	—	1,030
	—	973	3,782	1,887	4,812

12 Earnings per share

(a) Basic 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 outstanding during the financial period. However, it has not taken into account the capitalisation issue of 599,440,000 shares pursuant to the written resolutions passed by the shareholders on 25 September 2019 as the capitalisation issue has not become effective as at the date of this report.

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
				<i>(Unaudited)</i>	
Basic earnings per share attributable to the ordinary equity holders of the Company	97	169	168	9	31

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
				<i>(Unaudited)</i>	
Diluted earnings per share attributable to the ordinary equity holders of the Company	97	169	167	9	31

(c) Reconciliations of earnings used in calculating earnings per share

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
				<i>(Unaudited)</i>	
<i>Basic earnings per share</i>					
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	53,395	92,769	93,597	5,180	17,312
<i>Diluted earnings per share</i>					
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	53,395	92,769	93,597	5,180	17,312
Add: interest savings on convertible bond	—	69	101	101	—
Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	53,395	92,838	93,698	5,281	17,312

(d) Weighted average number of shares used as the denominator

	Years ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
				<i>(Unaudited)</i>	
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (i) & (ii)	548,800	548,800	558,133	552,533	560,000
Adjustments for calculation of diluted earnings per share:					
Convertible bond	—	930	3,730	3,730	—
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	<u>548,800</u>	<u>549,730</u>	<u>561,863</u>	<u>556,263</u>	<u>560,000</u>

- (i) The weighted average number of ordinary shares has been retrospectively adjusted for the effects of the issue of shares in connection with the Reorganisation completed on 30 December 2016 and the bonus element in the share allotments to Controlling Shareholders on 26 February 2018.
- (ii) Pursuant to the resolutions passed by the shareholders on 5 August 2018, the issued ordinary shares were sub-divided from 56,000 shares to 560,000 shares. Accordingly, the calculations of the basic and diluted earnings per share were adjusted retrospectively as if the sub-division has taken place with effect from 1 January 2016.

(e) Information concerning the classification of securities

Convertible bond issued during the year ended 31 December 2017 is considered to be potential ordinary shares and have been included in the determination of diluted earnings per share from their date of issue. For the year ended 31 December 2017, convertible bond has not been included in the determination of basic earnings per share.

The conversion option of the convertible bond was exercised on 28 February 2018. For the year ended 31 December 2018 and the three months ended 31 March 2018, the convertible bond has been included in the determination of diluted earnings per share from the beginning of the period to the date of conversion. From the date of conversion, the resulting ordinary shares are included in both basic and diluted earnings per share. Details relating to the bonds are set out in note 27.

13 Dividends

No dividends had been declared or paid by the Company during the Track Record Period.

14 Land use rights

The Group's interests in land use rights represent prepaid operating lease payments and their movements in net book values are analysed as follows:

	Year ended 31 December			Three months ended
				31 March
	2016	2017	2018	2019
	HKD'000	HKD'000	HKD'000	HKD'000
At 1 January	23,916	29,219	50,475	53,972
Additions	7,709	19,307	6,927	—
Amortisation	(579)	(787)	(1,148)	(440)
Currency translation differences	(1,827)	2,736	(2,282)	1,146
At 31 December/31 March	<u>29,219</u>	<u>50,475</u>	<u>53,972</u>	<u>54,678</u>

The land use rights are held under medium-term leases with lease term of 30 to 50 years. The land lots are situated in Quanzhou and Zhangzhou in Fujian Province and Shiyan in Hubei Province, the PRC, and Klatakan Regency of Situbondo Province of East Java, Indonesia.

As at 31 December 2016 and 2017, 2018 and 31 March 2019, land use rights of the Group with a total net book value of HKD 17,247,000 and HKD 38,116,000 and HKD 42,502,000 and HKD 38,135,000, respectively, were pledged to secure borrowings of the Group as disclosed in notes 27 and 32.

15 Property, plant and equipment

	As at 31 December			As at
				31 March
	2016	2017	2018	2019
	HKD'000	HKD'000	HKD'000	HKD'000
Property, plant and equipment (excluding right-of-use assets)	214,078	344,752	348,376	366,235
Right-of-use assets	2,063	5,944	5,922	5,504
	<u>216,141</u>	<u>350,696</u>	<u>354,298</u>	<u>371,739</u>

(a) *Property, plant and equipment (excluding right-of-use assets)*

	Buildings	Production machineries	Factory device and equipment	Vehicles and office furniture and fixtures	Construction in progress	Total
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
At 1 January 2016						
Cost	133,447	74,463	13,134	5,810	5,364	232,218
Accumulated depreciation	(18,794)	(16,548)	(5,489)	(2,603)	—	(43,434)
Net book amount	<u>114,653</u>	<u>57,915</u>	<u>7,645</u>	<u>3,207</u>	<u>5,364</u>	<u>188,784</u>
Year ended 31 December 2016						
Opening net book amount	114,653	57,915	7,645	3,207	5,364	188,784
Currency translation differences	(7,041)	(3,869)	(471)	(186)	(2,104)	(13,671)
Additions	42	2,811	1,751	483	49,683	54,770
Transferred from construction in progress	888	8,324	49	—	(9,261)	—
Depreciation charge	(6,233)	(6,620)	(2,103)	(849)	—	(15,805)
Closing net book amount	<u>102,309</u>	<u>58,561</u>	<u>6,871</u>	<u>2,655</u>	<u>43,682</u>	<u>214,078</u>
At 31 December 2016						
Cost	125,873	80,391	14,023	5,903	43,682	269,872
Accumulated depreciation	(23,564)	(21,830)	(7,152)	(3,248)	—	(55,794)
Net book amount	<u>102,309</u>	<u>58,561</u>	<u>6,871</u>	<u>2,655</u>	<u>43,682</u>	<u>214,078</u>

	Buildings	Production machineries	Factory device and equipment	Vehicles and office furniture and fixtures	Construction in progress	Leasehold improvement	Total
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Year ended 31 December 2017							
Opening net book amount	102,309	58,561	6,871	2,655	43,682	—	214,078
Currency translation differences	10,046	6,506	714	232	1,641	15	19,154
Acquisition of subsidiary (note 35)	—	374	92	793	—	234	1,493
Additions	61	2,492	1,811	895	124,400	226	129,885
Transferred from construction in progress	84,099	71,202	6,883	558	(162,742)	—	—
Disposals	(194)	(181)	(75)	(14)	—	—	(464)
Depreciation charge	(6,617)	(9,226)	(2,457)	(1,039)	—	(55)	(19,394)
Closing net book amount	<u>189,704</u>	<u>129,728</u>	<u>13,839</u>	<u>4,080</u>	<u>6,981</u>	<u>420</u>	<u>344,752</u>
At 31 December 2017							
Cost	221,749	162,343	23,618	8,433	6,981	477	423,601
Accumulated depreciation	(32,045)	(32,615)	(9,779)	(4,353)	—	(57)	(78,849)
Net book amount	<u>189,704</u>	<u>129,728</u>	<u>13,839</u>	<u>4,080</u>	<u>6,981</u>	<u>420</u>	<u>344,752</u>

	Buildings	Production machineries	Factory device and equipment	Vehicles and office furniture and fixtures	Construction in progress	Leasehold improvement	Total
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Year ended 31 December 2018							
Opening net book amount . . .	189,704	129,728	13,839	4,080	6,981	420	344,752
Currency translation differences	(8,627)	(5,798)	(282)	(450)	(1,487)	(9)	(16,653)
Additions	865	3,846	1,327	345	44,922	—	51,305
Transferred from construction in progress . .	6,170	7,168	212	45	(13,595)	—	—
Disposals	—	(91)	(49)	(150)	—	—	(290)
Depreciation charge	(10,728)	(15,428)	(3,469)	(1,004)	—	(109)	(30,738)
Closing net book amount . .	177,384	119,425	11,578	2,866	36,821	302	348,376
At 31 December 2018							
Cost	218,327	165,411	23,934	8,217	36,821	464	453,174
Accumulated depreciation . .	(40,943)	(45,986)	(12,356)	(5,351)	—	(162)	(104,798)
Net book amount	177,384	119,425	11,578	2,866	36,821	302	348,376

	Buildings	Production machineries	Factory device and equipment	Vehicles and office furniture and fixtures	Construction in progress	Leasehold improvement	Total
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Three months ended 31 March 2019							
Opening net book amount . . .	177,384	119,425	11,578	2,866	36,821	302	348,376
Currency translation differences	3,818	2,557	246	73	828	4	7,526
Additions	—	1,409	92	32	16,591	—	18,124
Transferred from construction in progress . .	—	—	—	—	—	—	—
Disposals	—	—	—	—	—	—	—
Depreciation charge	(2,670)	(3,906)	(804)	(384)	—	(27)	(7,791)
Closing net book amount . .	178,532	119,485	11,112	2,587	54,240	279	366,235
At 31 March 2019							
Cost	223,014	170,373	24,538	8,425	54,240	469	481,059
Accumulated depreciation . .	(44,482)	(50,888)	(13,426)	(5,838)	—	(190)	(114,824)
Net book amount	178,532	119,485	11,112	2,587	54,240	279	366,235

(b) Right-of-use assets

	Buildings	Production machineries	Vehicles	Total
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
At 1 January 2016				
Cost	2,104	1,242	768	4,114
Accumulated depreciation	(196)	(828)	(21)	(1,045)
Net book amount.....	<u>1,908</u>	<u>414</u>	<u>747</u>	<u>3,069</u>
Year ended 31 December 2016				
Opening net book amount	1,908	414	747	3,069
Currency translation differences	(113)	(9)	(36)	(158)
Depreciation charge	(192)	(405)	(251)	(848)
Closing net book amount.....	<u>1,603</u>	<u>—</u>	<u>460</u>	<u>2,063</u>
At 31 December 2016				
Cost	1,970	1,163	720	3,853
Accumulated depreciation	(367)	(1,163)	(260)	(1,790)
Net book amount.....	<u>1,603</u>	<u>—</u>	<u>460</u>	<u>2,063</u>
Year ended 31 December 2017				
Opening net book amount	1,603	—	460	2,063
Currency translation differences	172	—	22	194
Additions.....	4,906	—	—	4,906
Depreciation charge	(972)	—	(247)	(1,219)
Closing net book amount.....	<u>5,709</u>	<u>—</u>	<u>235</u>	<u>5,944</u>
At 31 December 2017				
Cost	7,092	—	769	7,861
Accumulated depreciation	(1,383)	—	(534)	(1,917)
Net book amount.....	<u>5,709</u>	<u>—</u>	<u>235</u>	<u>5,944</u>
Year ended 31 December 2018				
Opening net book amount	5,709	—	235	5,944
Currency translation differences	(205)	—	(2)	(207)
Additions.....	2,295	—	—	2,295
Depreciation charge	(1,877)	—	(233)	(2,110)
Closing net book amount.....	<u>5,922</u>	<u>—</u>	<u>—</u>	<u>5,922</u>
At 31 December 2018				
Cost	9,105	—	734	9,839
Accumulated depreciation	(3,183)	—	(734)	(3,917)
Net book amount.....	<u>5,922</u>	<u>—</u>	<u>—</u>	<u>5,922</u>

	Buildings	Production machineries	Vehicles	Total
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Three months ended 31 March 2019				
Opening net book amount	5,922	—	—	5,922
Currency translation differences	96	—	—	96
Additions	—	—	—	—
Depreciation charge	(514)	—	—	(514)
Closing net book amount	<u>5,504</u>	<u>—</u>	<u>—</u>	<u>5,504</u>
At 31 March 2019				
Cost	9,240	—	—	9,240
Accumulated depreciation	(3,736)	—	—	(3,736)
Net book amount	<u>5,504</u>	<u>—</u>	<u>—</u>	<u>5,504</u>

(c) Other disclosures

- (i) As at 31 December 2016 and 2017 and 2018 and 31 March 2019, property, plant and machinery of the Group, including those held under leases (note 27), with a total net book value of HKD 62,243,000, HKD 62,786,000, HKD 55,985,000 and HKD 55,889,000, respectively, were pledged as security for borrowings of the Group as disclosed in notes 27 and 32.

- (ii) During the Track Record Period, the amounts of depreciation expense charged to cost of sales, selling and distribution expenses and administrative expenses are as follows:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
	<i>(Unaudited)</i>				
Depreciation of property, plant and equipment (including right-of-use assets)					
- Cost of sales	12,799	16,072	26,517	6,862	6,626
- Selling and distribution expenses	8	39	21	1,152	1,160
- Administrative expenses	3,846	4,502	6,310	467	519
	<u>16,653</u>	<u>20,613</u>	<u>32,848</u>	<u>8,481</u>	<u>8,305</u>
Less: Amortisation of deferred income (note 28)	(572)	—	—	—	—
Net amount of depreciation charged to profit or loss (note 8) . .	<u>16,081</u>	<u>20,613</u>	<u>32,848</u>	<u>8,481</u>	<u>8,305</u>

- (iii) During the years ended 31 December 2016 and 2017 and 2018 and the three months ended 31 March 2018 and 2019, the Group capitalised interest on borrowings amounting to approximately HKD 852,000, HKD4,785,000, HKD 1,485,000, HKD 162,000 and HKD 235,000 on qualifying assets, respectively (note 10). Borrowing costs were capitalised at the weighted average rate of 6.04%, 6.63%, 6.69%, 6.69% and 6.73% per annum for the years ended 31 December 2016 and 2017 and 2018 and the three months ended 31 March 2018 and 2019, respectively.

16 Intangible assets

	Trademarks and licences	Patent	Relationship with customers	Sea use rights	Goodwill	Discharge rights	Total
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
As at 1 January 2016							
Cost	285	8,878	15,327	136	28,034	—	52,660
Accumulated amortisation . . .	(41)	(1,369)	(2,363)	(48)	—	—	(3,821)
Net book amount	244	7,509	12,964	88	28,034	—	48,839
Year ended 31 December 2016							
Opening net book amount . . .	244	7,509	12,964	88	28,034	—	48,839
Currency translation differences	(17)	(457)	(790)	(16)	(1,778)	—	(3,058)
Additions	155	—	—	268	—	—	423
Amortisation charge (note 8) .	(129)	(435)	(750)	(40)	—	—	(1,354)
Closing net book amount	253	6,617	11,424	300	26,256	—	44,850
As at 31 December 2016							
Cost	417	8,315	14,355	383	26,256	—	49,726
Accumulated amortisation . . .	(164)	(1,698)	(2,931)	(83)	—	—	(4,876)
Net book amount	253	6,617	11,424	300	26,256	—	44,850
Year ended 31 December 2017							
Opening net book amount . . .	253	6,617	11,424	300	26,256	—	44,850
Currency translation differences	33	589	774	20	1,839	—	3,255
Additions	674	3,807	—	20	—	—	4,501
Amortisation charge (note 8) .	(220)	(429)	(741)	(80)	—	—	(1,470)
Closing net book amount	740	10,584	11,457	260	28,095	—	51,136
As at 31 December 2017							
Cost	1,124	12,711	15,129	423	28,095	—	57,482
Accumulated amortisation . . .	(384)	(2,127)	(3,672)	(163)	—	—	(6,346)
Net book amount	740	10,584	11,457	260	28,095	—	51,136
Year ended 31 December 2018							
Opening net book amount . . .	740	10,584	11,457	260	28,095	—	51,136
Currency translation differences	(30)	(598)	(759)	(29)	(1,289)	(528)	(3,233)
Additions (note 17)	104	—	—	—	—	17,758	17,862
Amortisation charge (note 8) .	(281)	(1,060)	(761)	(81)	—	(3,552)	(5,735)
Closing net book amount	533	8,926	9,937	150	26,806	13,678	60,030
As at 31 December 2018							
Cost	1,142	12,255	14,655	411	26,806	17,098	72,367
Accumulated amortisation . . .	(609)	(3,329)	(4,718)	(261)	—	(3,420)	(12,337)
Net book amount	533	8,926	9,937	150	26,806	13,678	60,030

	Trademarks and licences	Patent	Relationship with customers	Sea use rights	Goodwill	Discharge rights	Total
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Three months ended 31 March 2019							
Opening net book amount . . .	533	8,926	9,937	150	26,806	13,678	60,030
Currency translation differences	11	249	314	12	575	292	1,453
Amortisation charge (note 8)	(55)	(480)	(291)	(28)	—	(871)	(1,725)
Closing net book amount	489	8,695	9,960	134	27,381	13,099	59,758
As at 31 March 2019							
Cost	1,167	12,518	14,970	267	27,381	17,465	73,768
Accumulated amortisation	(678)	(3,823)	(5,010)	(133)	—	(4,366)	(14,010)
Net book amount	489	8,695	9,960	134	27,381	13,099	59,758

During the Track Record Period, the amounts of amortisation expenses charged to cost of sales and administrative expenses are as follows:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Amortisation of intangible assets					
- Cost of sales	435	482	3,286	1,051	1,268
- Administrative expenses	919	988	2,449	313	457
	1,354	1,470	5,735	1,364	1,725

(Unaudited)

(i) *Trademark and licences, patent and relationship with customers*

The trademark and licences, technology and relationship with customers intangible assets were recognised upon the acquisition of Lvqi (Fujian) as part of the business combination of the Controlling Shareholders back in November 2012 (note 1.2). The intangible assets were recognised at their fair value at the date of acquisition and are subsequently amortised on a straight-line basis over the respective useful lives of the assets.

(ii) Impairment test for goodwill

Goodwill was derived from the acquisition of Lvqi (Fujian) in November 2012 (note 1.2).

The Directors have performed an impairment review of the carrying amount of goodwill as at 31 December 2016 and 2017 and 2018 and 31 March 2019, and have concluded that no provision for impairment is required.

For the purposes of impairment testing, goodwill acquired has been allocated to the lowest level of CGUs identified, which is Lvqi (Fujian) in the segment of manufacturing and sales of agar-agar. The recoverable amount of the CGU is determined based on value-in-use calculations. The calculation of recoverable amount of the CGU uses cash flow projections based on the financial estimates made by the Directors, with reference to the prevailing market conditions, covering a period of five years and based on the following key assumptions. Based on the result of the goodwill impairment testing, the estimated recoverable amount of the CGU exceeded its carrying amount by RMB 137,762,000, RMB 174,081,000, RMB 171,797,000 and RMB 169,538,000 as at 31 December 2016, 2017 and 2018 and 31 March 2019, respectively. Based on management's assessment results, there was no impairment of goodwill as at 31 December 2016 and 2017 and 2018 and 31 March 2019, and any reasonable change to the key assumptions below would not lead to an impairment.

	As at 31 December			As at
	2016	2017	2018	31 March 2019
Revenue annual growth rate				
- actual for the year/period	11%	11%	-21%	42%
- average of the forecast period	4%	5%	11%	11%
Average gross profit margins	25%	28%	29%	32%
Annual average capex expenditure				
(HKD'M)	8	7	32	8
Long term annual growth rate	3%	3%	3%	3%
Pre-tax discount rate	20%	20%	20%	20%

The decrease in revenue of the CGU in 2018 was primarily due to the decrease in average unit selling price of agar-agar products Lvqi (Fujian) by 5.8% and a temporary decrease in the sales volume of Lvqi (Fujian) as a result of transferring the production and sales of certain agar-agar products to Green Fresh (Fujian) during the year.

The same pre-tax discount rate has been adopted throughout the Track Record Period, after taking into consideration the followings: i) the underlying CGU has been engaged in the agar-agar products manufacturing and sales business for a long history; ii) the business model and financial position of the CGU remains stable; iii) as at each financial reporting date, there is no significant change in the business plan and key assumptions of financial projections adopted in the value-in-use analysis, and iv) as at each financial reporting date, there is no significant change in the risk profile and market competition pattern of the industry in which the CGU operates, as such similar risk factors have been considered when determine appropriate discount rate by independent valuer.

The sensitivity analysis for each of the major assumptions is set out below. It shows when each of the assumptions changes to the breakeven point, as set out below, with other assumptions remain the same at each period end, the estimated recoverable amount of the CGU will equal to its carrying amount.

	Breakeven point of each assumption for carrying amount to equal to recoverable amount			
	As at 31 December			As at 31 March
	2016	2017	2018	2019
Revenue annual growth rate				
- average of the forecast period	-9.3%	-10.5%	-1.5%	-0.6%
Average gross profit margin	22.7%	25.1%	26.3%	29.2%
Annual average capex expenditure (HKD'M)	44.4	55.7	53.5	54.6
Long term annual growth rate	-34.7%	-59.0%	-54.0%	-37.4%
Pre-tax discount rate	<u>33.9%</u>	<u>36.7%</u>	<u>35.2%</u>	<u>30.2%</u>

17 Prepayment for non-current assets

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Prepayment for land use rights	10,990	12,130	5,941	6,069
Prepayment for property, plant and equipment	10,996	6,180	5,667	4,521
Prepayment for discharge rights	16,803	17,922	—	—
Prepayment for trademarks and licences .	—	—	—	176
	<u>38,789</u>	<u>36,232</u>	<u>11,608</u>	<u>10,766</u>

The Group made prepayments for purchase of land use rights, property, plant and equipment and intangible assets. The prepayments will be transferred to the relevant assets when the relevant title documents are obtained or when the assets are in use, whichever is the earlier.

18 Financial instruments by category

The Group holds the following financial instruments:

	As at 31 December			As at
	2016	2017	2018	31 March
	HKD'000	HKD'000	HKD'000	2019
				HKD'000
(i) Financial assets at amortised cost				
Cash and bank balances (note 22) . .	98,271	33,123	55,855	60,898
Trade and other receivables excluding prepayments, deferred listing expenses, deductible value-added tax and export tax rebate receivable (note 21)	<u>57,641</u>	<u>99,733</u>	<u>173,388</u>	<u>127,460</u>
	<u>155,912</u>	<u>132,856</u>	<u>229,243</u>	<u>188,358</u>
	As at 31 December			As at
	2016	2017	2018	31 March
	HKD'000	HKD'000	HKD'000	2019
				HKD'000
(ii) Financial liabilities at amortised cost				
Borrowings (note 27(b))	237,222	247,732	316,950	341,552
Lease liabilities (note 27(c))	2,838	5,904	5,996	5,577
Convertible bond - host debt component (note 27(a))	—	50,080	52,644	53,254
Trade and other payables excluding non-financial liabilities (note 26) .	<u>177,790</u>	<u>100,289</u>	<u>76,692</u>	<u>110,031</u>
	<u>417,850</u>	<u>404,005</u>	<u>452,282</u>	<u>510,414</u>

	As at 31 December			As at
	2016	2017	2018	31 March
	HKD'000	HKD'000	HKD'000	2019
				HKD'000
<i>(iii) Financial liabilities at fair value through profit or loss</i>				
Convertible bond - derivative component (note 27(a))	—	10,437	—	—

19 Inventories

	As at 31 December			As at
	2016	2017	2018	31 March
	HKD'000	HKD'000	HKD'000	2019
				HKD'000
Raw materials	57,383	84,289	58,344	120,465
Work-in-progress	2,467	—	—	4,683
Finished goods	63,255	74,319	134,868	160,602
	<u>123,105</u>	<u>158,608</u>	<u>193,212</u>	<u>285,750</u>

The costs of individual items of inventories are determined using weighted average costs at the end of the month. See note 2.14 for the Group's accounting policies for inventories.

During the years ended 31 December 2016 and 2017 and 2018 and the three months ended 31 March 2018 and 2019, the cost of inventories recognised as expense and included in 'cost of sales', 'selling and distribution expenses' and 'administrative expenses' amounted to HKD 355,941,000, HKD 415,566,000, HKD 618,837,000, HKD 104,634,000 and HKD 114,028,000, respectively.

20 Biological assets

Biological assets comprise seaweeds growing in the sea. The seaweeds become raw materials for the Group's own production. Movements during the years/period are as follows:

	Year ended 31 December			Three months ended
	2016	2017	2018	31 March
	HKD'000	HKD'000	HKD'000	2019 HKD'000
At 1 January	—	1,780	48	—
Increase due to purchase	3,688	3,417	328	334
Farming costs	875	843	559	303
Change in fair value due to biological transformation	8,791	5,041	624	686
Transfer of harvested seaweeds to inventory	(11,493)	(11,092)	(1,544)	(1,322)
Currency translation differences	(81)	59	(15)	(1)
At 31 December/31 March.	<u>1,780</u>	<u>48</u>	<u>—</u>	<u>—</u>
Current assets:				
- Unharvested seaweeds.	<u>1,780</u>	<u>48</u>	<u>—</u>	<u>—</u>
Weight of seaweeds plantation (ton)	<u>272</u>	<u>6</u>	<u>—</u>	<u>—</u>

The fair value gain due to biological transformation that has been transferred to costs of goods sold amounted to HKD 7,593,000, HKD 6,197,000, HKD 651,000, HKD 1,203,000 and HKD 686,000 for the years ended 31 December 2016 and 2017 and 2018 and the three months ended 31 March 2018 and 2019, respectively.

Seaweeds are measured at fair value less cost to sell, based on market prices of similar breed and genetic merit with adjustments, where necessary, to reflect the differences. Market prices are obtained from local market, which is considered the principal market for the purpose of the valuation.

Seaweeds have therefore been classified as level 3 in the fair value hierarchy (note 3.3).

The management has engaged an independent valuer to help on the determination of the fair value of seaweeds. Major valuation inputs used in the calculation of the fair values of the seaweeds are as below:

	As at 31 December			As at 31 March
	2016	2017	2018	2019
Seedlings (HKD per ton)	3,740	N/A	N/A	N/A
Fresh seaweeds (HKD per ton)	<u>2,740</u>	<u>2,510</u>	<u>N/A</u>	<u>N/A</u>

21 Trade and other receivables

The Group

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Trade receivables	59,819	97,217	173,917	127,054
Provision for impairment	<u>(4,929)</u>	<u>(3,796)</u>	<u>(1,616)</u>	<u>(508)</u>
	<u>54,890</u>	<u>93,421</u>	<u>172,301</u>	<u>126,546</u>
Deposits receivable	2,542	5,777	292	272
Other receivables	<u>209</u>	<u>535</u>	<u>795</u>	<u>642</u>
	<u>2,751</u>	<u>6,312</u>	<u>1,087</u>	<u>914</u>
Deductible value-added tax ('VAT')	6,145	8,343	4,978	15,328
Prepayments	17,945	5,821	6,320	2,914
Deferred listing expenses	—	1,371	7,168	7,966
Export tax rebate receivable	<u>388</u>	<u>1,069</u>	<u>1,244</u>	<u>2,014</u>
	<u>24,478</u>	<u>16,604</u>	<u>19,710</u>	<u>28,222</u>
Total trade and other receivables	<u>82,119</u>	<u>116,337</u>	<u>193,098</u>	<u>155,682</u>

(i) Ageing analysis of trade receivables

The ageing analysis of the trade receivables as at the balance sheet dates based on invoice date was as follows:

	As at 31 December			As at
				31 March
	2016	2017	2018	2019
	HKD'000	HKD'000	HKD'000	HKD'000
Up to 30 days	36,795	60,643	105,588	53,231
31 to 90 days	14,006	21,431	50,437	27,602
91 to 180 days	5,331	9,887	16,236	45,893
181 to 360 days	3,528	471	1,348	31
Over one year	159	4,785	308	297
	<u>59,819</u>	<u>97,217</u>	<u>173,917</u>	<u>127,054</u>

(ii) Impairment of trade receivables

For trade receivables, the Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before balance sheet date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the consumer price index of China in which it sells its goods and services to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in this factor.

The loss allowance provision of trade receivables as at 31 December 2016 and 2017 and 2018 and 31 March 2019 are as follows:

	Settled in 3 months	Settled in 4-6 months	Settled in 7-9 months	Settled in 10-12 months	Settled over 1 year	Total
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
At 31 December 2016						
Expected loss rate	0.35%	0.93%	56.30%	73.28%	100.00%	
Gross carrying amount excluding individually impaired receivables and notes receivables	50,801	3,742	829	741	159	56,272
Loss allowance provision	178	35	467	543	159	1,382
Individually impaired receivables.						3,547
Total provision						<u>4,929</u>
At 31 December 2017						
Expected loss rate	0.12%	0.32%	36.27%	51.99%	63.76%	
Gross carrying amount excluding individually impaired receivables and notes receivables	80,422	9,887	425	46	1,079	91,859
Loss allowance provision	97	32	154	24	688	995
Individually impaired receivables.						2,801
Total provision						<u>3,796</u>
At 31 December 2018						
Expected loss rate	0.21%	0.54%	65.28%	100.00%	100.00%	
Gross carrying amount excluding individually impaired receivables and notes receivables	154,029	16,236	1,302	46	17	171,630
Loss allowance provision	323	88	850	46	17	1,324
Individually impaired receivables.						292
Total provision						<u>1,616</u>
At 31 March 2019						
Expected loss rate	0.10%	0.26%	25.82%	40.86%	52.00%	
Gross carrying amount excluding individually impaired receivables and notes receivables	79,172	45,893	—	31	—	125,096
Loss allowance provision	79	119	—	13	—	211
Individually impaired receivables.						297
Total provision						<u>508</u>

Impairment losses are recognised in profit or loss within net impairment (losses)/gains on financial assets. Receivables for which an impairment provision was recognised are written off against the provision when there is no reasonable expectation of recovering additional cash. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 36 months.

As at 31 December 2016 and 2017 and 2018 and 31 March 2019, the loss allowance provision for trade receivables are reconciled to the opening loss allowance for that provision as follows:

	As at 31 December			As at
				31 March
	2016	2017	2018	2019
	HKD'000	HKD'000	HKD'000	HKD'000
At 1 January	(195)	(4,929)	(3,796)	(1,616)
(Increase in)/reversal of loss allowance recognised in profit or loss during the year/period.	(5,104)	1,382	(668)	1,113
Written-off of uncollectible receivables . .	199	—	2,874	—
Currency translation differences	171	(249)	(26)	(5)
At 31 December/31 March.	<u>(4,929)</u>	<u>(3,796)</u>	<u>(1,616)</u>	<u>(508)</u>

During the years/period, the following losses were recognised in profit or loss in relation to impaired receivables.

	Year ended 31 December			Three months ended	
				31 March	
	2016	2017	2018	2018	2019
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Impairment losses					
- Individually impaired receivables.	(3,917)	995	(339)	—	—
- (Provision)/ reversal of provision for impairment according to the expected credit losses matrix . . .	(1,187)	387	(329)	695	1,113
	<u>(5,104)</u>	<u>1,382</u>	<u>(668)</u>	<u>695</u>	<u>1,113</u>

(Unaudited)

(iii) Impairment of other financial assets at amortised cost

Other financial assets at amortised cost include deposits receivable and other receivables.

All of these financial assets are considered to have a low risk of default and each of the counterparties has a strong capacity to meet its contractual cash flow obligations in the near term, hence the Group considered them to have low credit risk, and thus the impairment provision recognised is limited to 12 months expected losses.

The Group has assessed that the expected credit losses for these financial assets are not material under the 12 months expected losses method. Thus, no loss allowance provision was recognised during the Track Record Period. The Group does not hold any collateral in relation to these receivables.

(iv) Fair values of trade and other receivables

Due to the short-term nature of the trade and other receivables, their carrying amount is considered to be the same as their fair value.

The carrying amounts of the Group's trade and other receivables (including prepayments) are denominated in the following currencies:

	As at 31 December			As at
	2016	2017	2018	31 March
	HKD'000	HKD'000	HKD'000	2019
USD	6,009	24,292	48,961	25,295
RMB	76,110	90,867	143,093	122,578
HKD	—	1,178	—	6,781
Other currencies	—	—	1,044	1,028
	<u>82,119</u>	<u>116,337</u>	<u>193,098</u>	<u>155,682</u>

The Company

	As at 31 December			As at
	2016	2017	2018	31 March
	HKD'000	HKD'000	HKD'000	2019
Amounts due from subsidiaries	—	94,024	81,987	77,677
Other receivables — deferred listing				
expenses	—	1,029	5,142	5,653
Prepayments	—	—	39	—
	<u>—</u>	<u>95,053</u>	<u>87,168</u>	<u>83,330</u>

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand. The carrying amounts of the amounts due from subsidiaries approximate their fair values and are denominated in HKD. The Company assessed that the subsidiaries have sufficient accessible highly liquid assets to repay the loan if demanded at the reporting date, hence the expected credit losses are not material. Thus no loss allowance provision was recognised during the Track Record Period.

22 Cash and bank balances

The Group

	As at 31 December			As at
	2016	2017	2018	31 March
	HKD'000	HKD'000	HKD'000	2019
				HKD'000
Cash and cash equivalents				
- Cash on hand	212	112	133	242
- Cash in banks	92,478	33,011	55,722	60,656
	92,690	33,123	55,855	60,898
Restricted cash - Cash in banks	5,581	—	—	—
Total of cash and bank balances	98,271	33,123	55,855	60,898

The restricted cash are deposits held at bank as deposit and pledged for issue of notes payable of the Group.

The cash and cash equivalents are denominated in the following currencies:

	As at 31 December			As at
	2016	2017	2018	31 March
	HKD'000	HKD'000	HKD'000	2019
				HKD'000
RMB	76,073	16,418	20,975	29,490
USD	16,349	14,666	33,448	30,582
HKD	—	1,194	1,428	751
EUR and others	268	845	4	75
	92,690	33,123	55,855	60,898

The restricted cash are deposits denominated in RMB.

The Company

	As at 31 December			As at
	2016	2017	2018	31 March
	HKD'000	HKD'000	HKD'000	2019
Cash and cash equivalents				HKD'000
- Cash in banks	—	3	39	71

23 Share capital

	Number of shares	Share capital
		HKD'000
Authorised:		
From 3 July 2015 (date of incorporation) to 31 December 2017 -		
Ordinary shares of HKD 0.10 par value each	3,900,000	390
Share split on 5 August 2018.	<u>35,100,000</u>	—
At 31 December 2018 and 31 March 2019 - Ordinary shares of		
HKD 0.01 par value each.	<u>39,000,000</u>	<u>390</u>
Issued:		
At 3 July 2015 (date of incorporation)	1	—
Issue during the year.	<u>399</u>	—
At 31 December 2015 to 31 December 2017	400	—
Issue during the year.	55,600	6
Share split on 5 August 2018.	<u>504,000</u>	—
At 31 December 2018 and 31 March 2019.	<u>560,000</u>	<u>6</u>

The Company was incorporated on 3 July 2015 in the Cayman Islands with an initial authorised share capital of HKD 390,000 divided into 3,900,000 shares of HKD 0.10 each. On the date of incorporation, 1 share was issued at par value to Mr. Chan Kam Chung. On 17 December 2015, Mr. Chan Kam Chung transferred his 1 share in the Company to his individually owned company. On the same date, 109 shares, 110 shares, 63 shares, 27 shares, 45 shares and 45 shares of the Company were allotted and issued at par value to Mr. Chan Kam Chung, Mr. Chan Shui Yip, Mr. Guo Songsen, Mr. Guo Donghuang, Mr. Guo Dongxu, and Mr. Guo Yuansuo. After the share allotment on 17 December 2015, the share capital of the Company became HKD 40 divided into 400 shares of HKD 0.10 each, and the Chan Brothers and Guo Parties each own 55% and 45% shareholding of the Company, respectively.

On 26 February 2018, the Company allotted and issued an aggregate of 54,480 shares at par value to Controlling Shareholders.

On 28 February 2018, the convertible bond holder converted a portion of the bond to ordinary shares of 1,120 shares at par value of HKD 0.10 each.

On 5 August 2018, each share of the Company was divided into 10 shares and the par value became HKD0.01.

Pursuant to the written resolutions passed by the shareholders on 25 September 2019, the authorised capital of the Company has been increased to HKD 500,000,000 divided into 50,000,000,000 shares of HKD 0.01 par value each, and conditional upon listing and subject to the share premium account of the Company having sufficient balance or otherwise being credited as a result of the issue of the offer shares by the Company pursuant to the global offering in relation to the listing, the Company would capitalise an amount of HKD 5,994,000 standing to the credit of the share premium account of the Company by applying such sum to pay up in full at par a total of 599,440,000 shares for allotment and issue to the persons whose names appear on the register of members of the Company on 25 September 2019 in proportion to their then shareholdings.

24 Equity-settled share-based payment

The Controlling Shareholders of the Company transferred in total 2,044 shares of their shares to three employees of the Group, 364 shares of their shares to a former non-controlling shareholder of a subsidiary of the Group (the “former NCI”) and 728 shares of their shares to their consultant (the “consultant”) on 26 February 2018 (the “issuance date”). For the three employees, the vesting period begins from the issuance date and ends five years from the earlier of the listing date or 1 January 2019. No vesting period was required for shares transferred to the former NCI and the consultant.

On 4 August 2018, the three employees, the former NCI, and the consultant transferred all the 3,136 shares that were granted to them on 26 February 2018 back to the Controlling Shareholders for the purpose of participating in a pre-IPO share option scheme.

On 5 August 2018, the then sole Director of the Company approved a pre-IPO share option scheme. On 9 August 2018, the Company granted pre-IPO share options to the three employees, the former NCI and the consultant. The total percentage of shareholding entitled by the share options granted remained the same as the total shareholding of the shares transferred by the Controlling Shareholders to the three employees, the former NCI and the consultant on 26 February 2018 (the “February Share Transfers”), except that the shareholding granted to one employee and the former NCI had minor decrease. The vesting period requirements for the pre-IPO share options remain fairly the same as those for the February Share Transfers, with the vesting period for employees begins with the listing date and lasts for 5 years which is not materially different from the vesting period of the February Share Transfer. The grant of these pre-IPO share options is considered to be a modification of the February Share Transfers and there was no material changes in fair value of the options granted and the fair value of the February Share Transfer.

The total amount of the fair value of shares transferred, and subsequently the share options granted, to the three employees is expensed over the vesting period. The equity-settled share-based payment expense for the year ended 31 December 2018 and the three months ended 31 March 2018 and 2019 amounted to HKD 6,303,000, HKD 1,076,000 and HKD 1,330,000, respectively (note 9), and the remaining unamortised fair value of shares transferred to the three employees of

approximately HKD 13,451,000 will be charged to the consolidated statement of profit or loss in the future. The total amount of the fair value of shares transferred to the former NCI and the consultant amounting to HKD 11,264,000 was expensed during the three months ended 31 March 2018 and the year ended 31 December 2018 as incurred (note 8).

The following assumptions were used to calculate the fair values of the shares transferred by using income approach — expected cash flow discount method:

26 February 2018

Long term annual growth rate	3%
Weighted-average cost of capital	18%

Weighted-average cost of capital is determined with reference to a set of comparable companies in the industry.

25 Other reserves

The Group

	<u>Share premium</u>	<u>Merger reserve</u>	<u>Capital reserve</u>	<u>Statutory reserves</u>	<u>Currency translation differences</u>	<u>Total</u>
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
At 1 January 2016	—	—	76,030	4,806	4,148	84,984
Currency translation differences	—	—	—	—	(13,002)	(13,002)
Issue of shares during the Reorganisation	115,539	(39,509)	(76,030)	—	—	—
Profit appropriation to statutory reserves	—	—	—	5,565	—	5,565
At 31 December 2016	<u>115,539</u>	<u>(39,509)</u>	<u>—</u>	<u>10,371</u>	<u>(8,854)</u>	<u>77,547</u>
At 1 January 2017	115,539	(39,509)	—	10,371	(8,854)	77,547
Currency translation differences	—	—	—	—	22,486	22,486
Waiver of amounts due to the Controlling Shareholders	—	—	39,200	—	—	39,200
Acquisition of a new subsidiary	—	—	(195)	—	—	(195)
Profit appropriation to statutory reserves	—	—	—	8,216	—	8,216
At 31 December 2017	<u>115,539</u>	<u>(39,509)</u>	<u>39,005</u>	<u>18,587</u>	<u>13,632</u>	<u>147,254</u>

	Share premium	Merger reserve	Capital reserve	Statutory reserves	Currency translation differences	Total
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
At 1 January 2018	115,539	(39,509)	39,005	18,587	13,632	147,254
Currency translation differences	—	—	—	—	(25,626)	(25,626)
Conversion of the convertible bond (note 27(a))	14,491	—	—	—	—	14,491
Equity-settled share-based payment	—	—	17,567	—	—	17,567
Profit appropriation to statutory reserves	—	—	—	8,700	—	8,700
At 31 December 2018	<u>130,030</u>	<u>(39,509)</u>	<u>56,572</u>	<u>27,287</u>	<u>(11,994)</u>	<u>162,386</u>
At 1 January 2019	130,030	(39,509)	56,572	27,287	(11,994)	162,386
Currency translation differences	—	—	—	—	9,528	9,528
Equity-settled share-based payment	—	—	1,330	—	—	1,330
Profit appropriation to statutory reserves	—	—	—	1,495	—	1,495
At 31 March 2019	<u>130,030</u>	<u>(39,509)</u>	<u>57,902</u>	<u>28,782</u>	<u>(2,466)</u>	<u>174,739</u>
(Unaudited)						
At 1 January 2018	115,539	(39,509)	39,005	18,587	13,632	147,254
Currency translation differences	—	—	—	—	15,007	15,007
Conversion of the convertible bond	14,491	—	—	—	—	14,491
Equity-settled share-based payment	—	—	12,340	—	—	12,340
Profit appropriation to statutory reserves	—	—	—	1,502	—	1,502
At 31 March 2018	<u>130,030</u>	<u>(39,509)</u>	<u>51,345</u>	<u>20,089</u>	<u>28,639</u>	<u>190,594</u>

Statutory reserves

Pursuant to the Company Law of the PRC and the articles of association of PRC subsidiaries, the subsidiaries in the PRC are required to appropriate 10% of each year's net profit (after offsetting previous years' losses) to statutory surplus reserve until the fund aggregates to 50% of their respective registered capital; after the appropriation to statutory surplus reserve, the subsidiaries in the PRC can appropriate profit, subject to respective equity holders' approval, to discretionary surplus reserve.

The appropriation to statutory and discretionary surplus reserves must be made before distribution of dividends to equity holders. These reserves shall only be used to make up for previous years' losses, to expand production operations, or to increase the capital of the respective company. The entities in the PRC may transfer their respective statutory surplus reserves into paid-in capital, provided that the balance of the statutory surplus reserve after such transfer is not less than 25% of the registered capital.

The Company

	<u>Share premium</u>	<u>Merger reserve</u>	<u>Capital reserve</u>	<u>Total</u>
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
At 3 July 2015 (incorporation date) and 31 December 2015	—	—	—	—
Issue of shares during the				
Reorganisation	—	115,539	—	115,539
At 31 December 2016	—	115,539	—	115,539
Waiver of amounts due to the				
Controlling Shareholders	—	—	39,200	39,200
At 31 December 2017	—	115,539	39,200	154,739
Conversion of the convertible bond	14,491	—	—	14,491
Equity-settled share-based payment	—	—	16,583	16,583
At 31 December 2018	<u>14,491</u>	<u>115,539</u>	<u>55,783</u>	<u>185,813</u>
Equity-settled share-based payment	—	—	1,330	1,330
At 31 March 2019	<u>14,491</u>	<u>115,539</u>	<u>57,113</u>	<u>187,143</u>
(Unaudited)				
At 1 January 2018	—	115,539	39,200	154,739
Conversion of the convertible bond	14,491	—	—	14,491
Equity-settled share-based payment	—	—	12,340	12,340
At 31 March 2018	<u>14,491</u>	<u>115,539</u>	<u>51,540</u>	<u>181,570</u>

26 Trade and other payables

The Group

	As at 31 December			As at
				31 March
	2016	2017	2018	2019
	HKD'000	HKD'000	HKD'000	HKD'000
Trade payables	32,127	72,872	60,128	97,790
Amounts due to related parties (note 33)	121,609	12,273	102	104
Amounts due to third parties	15,742	1,462	—	—
Employee benefit payables	9,824	13,751	12,604	12,604
Advances from customers	7,891	8,746	1,436	420
Payable for construction projects and production machineries	6,626	12,256	6,837	6,112
Other taxes payable	1,394	1,541	3,058	804
Payable for listing expenses	—	382	7,768	4,406
Others	1,686	1,044	1,857	1,619
	<u>196,899</u>	<u>124,327</u>	<u>93,790</u>	<u>123,859</u>

Trade payables are usually paid within 90 days of recognition.

The ageing analysis of trade payables as at 31 December 2016, 2017, and 2018 and 31 March 2019 based on invoice date was follows:

	As at 31 December			As at
				31 March
	2016	2017	2018	2019
	HKD'000	HKD'000	HKD'000	HKD'000
0-90 days	31,975	71,529	59,343	97,454
91-180 days	152	624	781	336
181-360 days	—	719	4	—
	<u>32,127</u>	<u>72,872</u>	<u>60,128</u>	<u>97,790</u>

The amounts due to third parties were unsecured, interest free and repayable on demand. They had been fully repaid before 31 March 2019.

The carrying amounts of trade and other payables are considered to be the same as their fair values due to their short-term nature.

Revenue recognised in relation to advances from customers during the Track Record Period was as below:

Year ended 31 December			Three months ended 31 March	
2016	2017	2018	2018	2019
HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
<i>(Unaudited)</i>				

Revenue recognised that was included in the advances from customers at the beginning of the period	8,095	7,891	8,746	8,746	1,436
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The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	HKD'000	HKD'000	HKD'000	HKD'000
RMB	117,788	44,004	43,712	46,696
US dollar	63,355	79,444	49,818	74,662
HK dollar	15,756	879	260	2,501
	<u>196,899</u>	<u>124,327</u>	<u>93,790</u>	<u>123,859</u>

The Company

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	HKD'000	HKD'000	HKD'000	HKD'000
Amounts due to subsidiaries	126	—	—	—
Other payables	—	—	5,355	2,479
	<u>126</u>	<u>—</u>	<u>5,355</u>	<u>2,479</u>

The amounts due to subsidiaries are unsecured, interest-free and repayable on demand. The carrying amounts of amounts due to subsidiaries and other payables approximate their fair values and are denominated in HKD.

27 Convertible bond, borrowings and lease liabilities

The Group

	As at 31 December			As at 31 March		
	2016	2017	2018	2019	2019	2019
	(HKD'000)	(HKD'000)	(HKD'000)	(HKD'000)	(HKD'000)	(HKD'000)
	Current	Non-current	Total	Current	Non-current	Total
Convertible bond, unsecured (a)						
- host debt component	—	50,080	50,080	—	52,644	52,644
- derivative component — financial liability at fair value through profit or loss	—	—	—	—	—	—
	—	60,517	60,517	—	52,644	52,644
Bank loans (b)						
- secured	93,011	53,834	156,477	86,739	62,543	149,282
- unsecured	82,726	—	91,255	166,631	1,037	167,668
	175,737	53,834	247,732	253,370	63,580	316,950
Lease liabilities (c)						
- secured	302	—	311	—	—	—
- unsecured	585	4,250	5,593	1,848	4,148	5,996
	887	4,250	5,904	1,848	4,148	5,996
Total borrowings	176,624	118,601	314,153	255,218	120,372	375,590
Total secured borrowings	93,313	291	93,604	102,954	53,834	156,788
Total unsecured borrowings	83,311	63,145	146,456	92,598	64,767	157,365
Total borrowings	176,624	118,601	314,153	195,552	118,601	314,153
				277,666	63,886	341,552
				98,627	63,886	162,513
				179,039	—	179,039
				279,559	120,824	400,383
				1,893	3,684	5,577
				1,893	3,684	5,577
				279,559	120,824	400,383
				98,627	63,886	162,513
				180,932	56,938	237,870
				279,559	120,824	400,383

(a) Convertible bond - the Group and the Company

The Company issued 5% convertible bond for HKD 60 million on 20 November 2017. The bond is convertible into ordinary shares of the Company for a maximum of 2% shareholding of the Company at the conversion price as agreed, at the option of the holder, and the remaining balance will be repayable on 20 November 2019. The conversion price shall be calculated based on the unaudited consolidated net tangible assets of the Company as at 30 June 2017, divided by the number of total issued shares as at the date of the subscription or such other date as agreed by the Company and the convertible bond holder. At 28 February 2018, the convertible bondholder converted a portion of the bond amounting to HKD 4,821,000 for 1,120 ordinary shares of the Company at par value of HKD 0.10, representing 2% shareholding of the Company at the date of conversion. The conversion option had been fully exercised and the remaining balance of the convertible bond will be repayable in cash on 20 November 2019.

On 28 December 2018, the Company signed an amendment agreement with the convertible bondholder to extend the expiry date of the bond to 15 July 2020 and the interest rate has been agreed at 13% for the period from 21 November 2019 to 15 July 2020.

The movements of the convertible bond for the years/period are set out below:

	Year ended 31 December			Three months ended 31 March
	2016	2017	2018	2019
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
<i>Host debt component:</i>				
At 1 January	—	—	50,080	52,644
Issuance of the convertible bond	—	49,563	—	—
Conversion of the convertible bond	—	—	(4,055)	—
Interest expense	—	862	9,417	1,971
Interest payment	—	(345)	(2,798)	(1,361)
At 31 December/31 March	—	50,080	52,644	53,254
<i>Derivative component:</i>				
At 1 January	—	—	10,437	—
Issuance of the convertible bond	—	10,437	—	—
Conversion of the convertible bond	—	—	(10,437)	—
At 31 December/31 March	—	10,437	—	—

(b) Bank loans

The current bank loans of the Group comprised one-year short term bank loans which are secured by land use rights and buildings of the Group (note 32) and/or supported by guarantees from shareholders, subsidiaries of the Group and related parties (note 33).

The non-current bank loans of the Group comprised bank loans of 2-5 years which are secured by land use rights and buildings of the Group (note 32) and/or supported by guarantees from shareholders, subsidiaries of the Group and related parties (note 33).

Details of the assets pledged to secure the bank loans are set out in note 32.

For years ended 31 December 2016, and 2017 and 2018 and three months ended 31 March 2018 and 2019, the weighted average effective interest rates on bank borrowings were 5.97% and 5.26% and 5.41%, 5.32% and 5.75%, respectively.

The carrying amounts of the Group's bank loans were denominated in the following currencies:

	As at 31 December			As at
	2016	2017	2018	31 March
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
USD	19,679	34,910	76,304	75,742
RMB	217,543	212,822	235,564	261,722
HKD	—	—	5,082	4,088
	<u>237,222</u>	<u>247,732</u>	<u>316,950</u>	<u>341,552</u>

(c) Lease liabilities

	As at 31 December			As at
	2016	2017	2018	31 March
	HKD'000	HKD'000	HKD'000	2019
				HKD'000
Minimum lease payments				
Within one year	1,050	1,943	2,069	1,969
Later than 1 year and no later than				
5 years	1,362	3,983	4,295	3,751
Over 5 years	1,062	853	551	692
	<u>3,474</u>	<u>6,779</u>	<u>6,915</u>	<u>6,412</u>
Future finance charges	(636)	(875)	(919)	(835)
Total lease liabilities	<u>2,838</u>	<u>5,904</u>	<u>5,996</u>	<u>5,577</u>
Within one year	887	1,654	1,848	1,893
Over one year	1,951	4,250	4,148	3,684
Total lease liabilities	<u>2,838</u>	<u>5,904</u>	<u>5,996</u>	<u>5,577</u>

*(d) Other disclosures**(i) Fair value*

For the majority of the borrowings, the fair values are not materially different to their carrying amounts, since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature. The fair value of the host debt portion of the convertible bond approximated its carrying amount as at 31 December 2018 and 31 March 2019.

(ii) Risk exposures

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in note 3.1.

(iii) Repayment periods

At 31 December 2016 and 2017 and 2018 and 31 March 2019, the Group's borrowings, lease liabilities and convertible bond were repayable as follows:

	As at 31 December			As at
	2016	2017	2018	31 March
	HKD'000	HKD'000	HKD'000	2019
Within 1 year	176,624	195,552	255,218	279,559
Between 1 and 2 years	11,661	115,815	60,063	59,544
Between 2 and 5 years	50,840	2,012	59,796	60,891
Over 5 years	935	774	513	389
	<u>240,060</u>	<u>314,153</u>	<u>375,590</u>	<u>400,383</u>

(iv) Borrowing facilities

The Group had the following undrawn borrowing facilities:

	As at 31 December			As at
	2016	2017	2018	31 March
	HKD'000	HKD'000	HKD'000	2019
Bank borrowings, at floating rates				
- Expiring within one year	31,855	90	75,816	127,445
- Expiring beyond one year	11,936	17,945	—	—
	<u>43,791</u>	<u>18,035</u>	<u>75,816</u>	<u>127,445</u>

28 Deferred income

	As at 31 December			As at
	2016	2017	2018	31 March
	HKD'000	HKD'000	HKD'000	2019
Deferred income on government grants . .	<u>38,888</u>	<u>38,030</u>	<u>32,861</u>	<u>32,693</u>

The government grants were received from the local government as subsidies to the Group's purchase of property, plant and equipment. They are amortised to the profit or loss on a straight-line basis over the expected useful lives of the related assets.

The movements of the above deferred income during the Track Record Period were as follows:

	Year ended 31 December			Three months ended
				31 March
	2016	2017	2018	2019
	HKD'000	HKD'000	HKD'000	HKD'000
At 1 January	26,720	38,888	38,030	32,861
Additions	17,534	—	—	—
Released to other income (note 6)	(2,466)	(3,457)	(3,553)	(871)
Released to depreciation expense (note 15)	(572)	—	—	—
Currency translation differences	(2,328)	2,599	(1,616)	703
At 31 December/31 March	<u>38,888</u>	<u>38,030</u>	<u>32,861</u>	<u>32,693</u>

29 Deferred income tax

	As at 31 December			As at
				31 March
	2016	2017	2018	2019
	HKD'000	HKD'000	HKD'000	HKD'000
Deferred income tax assets	11,063	11,328	11,177	11,495
Deferred income tax liabilities	(3,018)	(3,157)	(2,406)	(2,424)
	<u>8,045</u>	<u>8,171</u>	<u>8,771</u>	<u>9,071</u>

(a) Deferred income tax assets

	As at 31 December			As at
				31 March
	2016	2017	2018	2019
	HKD'000	HKD'000	HKD'000	HKD'000
The balance comprises temporary differences attributable to:				
Deferred income (note 28)	7,935	7,758	6,700	6,664
Accrued employee benefits	1,396	1,744	1,384	1,258
Unrealised profit of intra-group sales	499	875	928	1,096
Provision of loss allowance (note 21)	1,233	951	978	1,052
Share-based payment expenses	—	—	1,187	1,425
	<u>11,063</u>	<u>11,328</u>	<u>11,177</u>	<u>11,495</u>

The movements in deferred income tax assets are as follows:

	Deferred income	Accrued employee benefits	Unrealised profit	Provision of loss allowance	Tax losses	Share-based payment expenses	Total
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
At 1 January 2016.	5,389	1,250	285	46	387	—	7,357
Credited/(charged) to the statement of profit or loss.	3,025	235	242	1,240	(379)	—	4,363
Currency translation differences . . .	(479)	(89)	(28)	(53)	(8)	—	(657)
At 31 December 2016.	7,935	1,396	499	1,233	—	—	11,063
Credited/(charged) to the statement of profit or loss.	(709)	242	329	(356)	—	—	(494)
Currency translation differences . . .	532	106	47	74	—	—	759
At 31 December 2017.	7,758	1,744	875	951	—	—	11,328
Credited/(charged) to the statement of profit or loss.	(728)	(291)	(166)	76	—	1,187	78
Currency translation differences . . .	(330)	(69)	219	(49)	—	—	(229)
At 31 December 2018.	6,700	1,384	928	978	—	1,187	11,177
Credited/(charged) to the statement of profit or loss.	(179)	(155)	168	53	—	238	125
Currency translation differences . . .	143	29	—	21	—	—	193
At 31 March 2019.	<u>6,664</u>	<u>1,258</u>	<u>1,096</u>	<u>1,052</u>	<u>—</u>	<u>1,425</u>	<u>11,495</u>

(b) *Deferred income tax liabilities*

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Property, plant and equipment	(233)	(360)	(226)	(219)
Intangible assets	(2,706)	(2,714)	(2,109)	(2,132)
Land use rights	(79)	(83)	(71)	(73)
	<u>(3,018)</u>	<u>(3,157)</u>	<u>(2,406)</u>	<u>(2,424)</u>

The balance comprises temporary differences attributable to:

Property, plant and equipment	(233)	(360)	(226)	(219)
Intangible assets	(2,706)	(2,714)	(2,109)	(2,132)
Land use rights	(79)	(83)	(71)	(73)
	<u>(3,018)</u>	<u>(3,157)</u>	<u>(2,406)</u>	<u>(2,424)</u>

The movements in deferred income tax liabilities are as follows:

	Property, plant and equipment	Intangible assets	Land use rights	Total
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
At 1 January 2016	(266)	(3,071)	(87)	(3,424)
Credited to the statement of profit or loss	18	177	2	197
Currency translation differences	15	188	6	209
At 31 December 2016	(233)	(2,706)	(79)	(3,018)
Credited to the statement of profit or loss	92	176	2	270
Acquisition of a subsidiary	(200)	—	—	(200)
Currency translation differences	(19)	(184)	(6)	(209)
At 31 December 2017	(360)	(2,714)	(83)	(3,157)
Credited to the statement of profit or loss	90	180	2	272
Currency translation differences	44	424	11	479
At 31 December 2018	(226)	(2,109)	(71)	(2,406)
Credited to the statement of profit or loss	22	101	—	123
Currency translation differences	(15)	(124)	(2)	(141)
At 31 March 2019	<u>(219)</u>	<u>(2,132)</u>	<u>(73)</u>	<u>(2,424)</u>

30 Cash flow information

(a) Cash generated from operations

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Profit before income tax	71,818	120,448	129,773	9,385	23,107
Adjustments for					
- Amortisation of land use rights (note 14).	579	787	1,148	268	440
- Depreciation of property, plant and equipment (note 15)	16,081	20,613	32,848	8,481	8,305
- Amortisation of intangible assets (note 16).	1,354	1,470	5,735	1,364	1,725
- Provision/(reversal of provision) of loss allowance (note 21)	5,104	(1,382)	668	(695)	(1,113)
- Equity-settled share-based payment expense (note 8 and 9).	—	—	17,567	12,340	1,330
- Finance costs—net.	7,929	4,315	14,729	17,829	13,436
- Deferred income	17,534	—	—	—	—
- Amortisation of deferred income	(3,038)	(3,457)	(3,553)	(922)	(871)
- Foreign exchange losses/(gains) on operating activities	(20,257)	6,589	(4,350)	(2,663)	1,628
- Losses on disposal of property, plant and equipment	—	371	36	27	—
Changes in working capital:					
- Restricted cash	(2,418)	5,581	—	—	—
- Inventories	5,550	(35,503)	(34,556)	(25,197)	(92,538)
- Trade and other receivables . .	4,494	(30,322)	(64,946)	53,880	38,530
- Trade and other payables, excluding amounts due to related parties	18,074	40,843	(21,244)	(52,852)	31,942
Net cash generated from operating activities	<u>122,804</u>	<u>130,353</u>	<u>73,855</u>	<u>21,245</u>	<u>25,921</u>

(b) Non-cash financing activities

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Waiver of amounts due to the Controlling Shareholders	—	39,200	—	—	—
Conversion of the convertible bond	—	—	14,492	14,492	—
	<u>—</u>	<u>—</u>	<u>14,492</u>	<u>14,492</u>	<u>—</u>

*(Unaudited)**(c) Total debt reconciliation*

This section sets out an analysis of net debt and the movements in net debt for each of the Track Record Period presented.

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	HKD'000	HKD'000	HKD'000	HKD'000
Net debt				
Borrowings — repayable within one year	(175,737)	(193,898)	(253,370)	(277,666)
Borrowings — repayable after one year . .	(61,485)	(53,834)	(63,580)	(63,886)
Lease liabilities — repayable within one year	(887)	(1,654)	(1,848)	(1,893)
Lease liabilities — repayable after one year	(1,951)	(4,250)	(4,148)	(3,684)
Convertible bond	—	(60,517)	(52,644)	(53,254)
Amounts due to related parties	(121,609)	(12,273)	(102)	(104)
Total debt	(361,669)	(326,426)	(375,692)	(400,487)
Cash and bank balances	98,271	33,123	55,855	60,898
Net debt	<u>(263,398)</u>	<u>(293,303)</u>	<u>(319,837)</u>	<u>(339,589)</u>
Gross debt — fixed interest rates	(116,976)	(77,682)	(63,061)	(58,038)
Gross debt — variable interest rates	(123,084)	(175,954)	(259,885)	(289,091)
Convertible bond	—	(60,517)	(52,644)	(53,254)
Amounts due to related parties	(121,609)	(12,273)	(102)	(104)
Total debt	(361,669)	(326,426)	(375,692)	(400,487)
Cash and bank balances	98,271	33,123	55,855	60,898
Net debt	<u>(263,398)</u>	<u>(293,303)</u>	<u>(319,837)</u>	<u>(339,589)</u>

Liabilities from financing activities

	Lease liabilities due within 1 year	Lease liabilities due after 1 year	Borrowings due within 1 year	Borrowings due after 1 year	Convertible bond due after 1 year	Amounts due to related parties	Total
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Total debt as at 1 January 2016	(4,723)	(2,737)	(118,940)	—	—	(201,821)	(328,221)
Cash flows - principal	1,220	—	(60,810)	(70,134)	—	73,550	(56,174)
Foreign exchange adjustments	67	145	9,858	2,804	—	6,662	19,536
Other non-cash movements	2,549	641	(5,845)	5,845	—	—	3,190
Total debt as at 31 December 2016	(887)	(1,951)	(175,737)	(61,485)	—	(121,609)	(361,669)
Cash flows - principal	2,349	—	4,192	—	(60,000)	72,387	18,928
Cash flows - interest	—	—	—	—	345	—	345
Foreign exchange adjustments	(54)	(163)	(10,818)	(3,884)	—	(2,251)	(17,170)
Other non-cash movements	(3,062)	(2,136)	(11,535)	11,535	(862)	39,200	33,140
Total debt as at 31 December 2017	(1,654)	(4,250)	(193,898)	(53,834)	(60,517)	(12,273)	(326,426)
Cash flows - principal	2,360	—	(5,002)	(75,258)	—	12,483	(65,417)
Cash flows - interest	—	—	—	—	2,798	—	2,798
Foreign exchange adjustments	33	167	9,083	1,959	—	111	11,353
Other non-cash movements	(2,587)	(65)	(63,553)	63,553	5,075	(423)	2,000
Total debt as at 31 December 2018	(1,848)	(4,148)	(253,370)	(63,580)	(52,644)	(102)	(375,692)
Cash flows - principal	617	—	(17,985)	—	—	104	(17,264)
Cash flows - interest	—	—	—	—	1,361	—	1,361
Foreign exchange adjustments	(19)	(78)	(6,311)	(306)	—	(2)	(6,716)
Other non-cash movements	(643)	542	—	—	(1,971)	(104)	(2,176)
Total debt as at 31 March 2019	(1,893)	(3,684)	(277,666)	(63,886)	(53,254)	(104)	(400,487)
(Unaudited)							
Net debt as at 1 January 2018	(1,654)	(4,250)	(193,898)	(53,834)	(60,517)	(12,273)	(326,426)
Cash flows - principal	584	—	(15,123)	(8,000)	—	—	(22,539)
Cash flows - interest	—	—	—	—	719	12,257	12,976
Foreign exchange adjustments	(45)	(272)	(9,794)	(2,327)	—	(145)	(12,583)
Other non-cash movements	(1,100)	(1,320)	(3,923)	3,923	12,695	—	10,275
Total debt as at 31 March 2018	(2,215)	(5,842)	(222,738)	(60,238)	(47,103)	(161)	(338,297)

31 Commitments*(a) Capital commitments*

Significant capital expenditure commitments are set out below:

	As at 31 December			As at
	2016	2017	2018	31 March
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Contracted but not recognised as liabilities:				
Property, plant and equipment	<u>56,220</u>	<u>2,857</u>	<u>23,226</u>	<u>18,562</u>

32 Assets pledged as security

The carrying amounts of assets pledged as security for borrowings are:

	As at 31 December			As at
	2016	2017	2018	31 March
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Buildings (note 15)	62,243	62,786	55,985	55,889
Land use rights (note 14)	<u>17,247</u>	<u>38,116</u>	<u>42,502</u>	<u>38,135</u>
Total non-current assets pledged as security . .	<u>79,490</u>	<u>100,902</u>	<u>98,487</u>	<u>94,024</u>

The borrowings of the Group are also supported by guarantees from shareholders, intercompany and related parties (note 33).

33 Related party transactions

The ultimate controlling parties of the Group include Mr. Chan Kam Chung, Mr. Chan Shui Yip, Mr. Guo Songsen, Mr. Guo Dongxu, Mr. Guo Yuansuo, and Mr. Guo Donghuang who are collectively the Controlling Shareholders of the Group (note 1).

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions.

(a) Related parties of the Company and the Group during the Track Record Period

Name of related parties	Relationship
Zhangzhou Xindecheng Investment Consulting Company Limited ('Xindecheng')	Controlled by Mr. Guo Dongxu
Huasheng (Quanzhou) Chemical Co., Ltd ('Huasheng')	Controlled by the son of Mr. Chan Shui Yip
Gold Field Enterprise (Hong Kong) Co., Ltd ('Gold Field')	Controlled by Mr. Chan Kam Chung

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the Track Record Period, and significant balances arising from related party transactions as at the respective balance sheet dates.

(b) Transactions with related parties**(i) Rental expenses**

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Mr. Guo Dongxu	—	652	423	110	104

(Unaudited)

On 31 December 2016, the Group's subsidiaries in PRC entered into lease agreements to lease office premises from Mr. Guo Dongxu during 1 January 2017 to 31 December 2017.

On 15 December 2017, the Group's subsidiaries in PRC entered into lease agreements to lease office premises from Mr. Guo Dongxu during 1 January 2018 to 31 December 2020.

(ii) Amounts received from and repaid to related parties

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
	(Unaudited)				
<i>Received from:</i>					
- Mr. Chan Kam Chung	23,507	17,087	457	262	—
- Mr. Chan Shui Yip	16,739	6,990	—	—	—
- Mr. Guo Yuansuo	4,442	4,206	—	—	—
- Mr. Guo Dongxu	1,184	1,103	23	21	—
Total	<u>45,872</u>	<u>29,386</u>	<u>480</u>	<u>283</u>	<u>—</u>
<i>Repaid to:</i>					
- Mr. Chan Kam Chung	4,696	58,313	8,807	8,554	—
- Mr. Chan Shui Yip	65,783	40,096	2,779	2,779	—
- Mr. Guo Yuansuo	35,009	26,094	—	—	—
- Mr. Guo Wentong	—	9,876	—	—	—
- Mr. Guo Dongxu	4,500	6,238	1,377	1,207	104
- Huasheng	—	356	—	—	—
- Zhangzhou Faith	9,434	—	—	—	—
Total	<u>119,422</u>	<u>140,973</u>	<u>12,963</u>	<u>12,540</u>	<u>104</u>
Net repaid	<u>(73,550)</u>	<u>(111,587)</u>	<u>(12,483)</u>	<u>(12,257)</u>	<u>(104)</u>

(iii) Guarantees provided by related parties to the Group's bank borrowings

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
	(Unaudited)				
- Mr. Chan Kam Chung	272,645	322,112	140,082	180,280	189,788
- Mr. Chan Shui Yip	243,579	238,371	77,082	180,280	126,788
- Mr. Guo Dongxu	252,645	287,112	—	137,280	—
- Mr. Guo Yuansuo	223,580	287,112	—	137,280	—
- Mr. Guo Wentong	223,580	203,371	—	137,280	—
- Mr. Guo Donghuang	223,580	203,371	—	137,280	—
- Mr. She Xiaoying	223,580	203,371	—	137,280	—
- Gold Field	<u>5,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

34 Benefits and interests of directors

The remuneration of each director of the Company paid/payable by the Group for the years ended 31 December 2016 and 2017 and 2018 and three months ended 31 March 2018 and 2019 are set out as follows:

Name of directors	Fees	Salary	Bonus	Other benefits	Total
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Year ended 31 December 2016					
Chairman:					
Mr. Chan Kam Chung	—	165	—	6	171
Executive directors:					
Mr. Chan Shui Yip	—	165	—	6	171
Mr. Guo Dongxu	—	84	—	9	93
Mr. Guo Songsen	—	72	—	9	81
Mr. She Xiaoying	—	102	—	9	111
	—	588	—	39	627
Year ended 31 December 2017					
Chairman:					
Mr. Chan Kam Chung	—	163	—	6	169
Executive directors:					
Mr. Chan Shui Yip	—	163	—	6	169
Mr. Guo Dongxu	—	146	—	10	156
Mr. Guo Songsen	—	78	—	17	95
Mr. She Xiaoying	—	123	—	9	132
	—	673	—	48	721
Year ended 31 December 2018					
Chairman:					
Mr. Chan Kam Chung	—	1,000	—	18	1,018
Executive directors:					
Mr. Chan Shui Yip	—	799	—	18	817
Mr. Guo Dongxu	—	872	—	23	895
Mr. She Xiaoying	—	197	—	24	221
Non-executive directors:					
Mr. Guo Songsen	—	208	—	4	212
Mr. Ho Kwai Ching, Mark	—	13	—	—	13
Mr. Ng Man Kung	—	13	—	—	13
Mr. Hu Guohua	—	13	—	—	13
	—	3,115	—	87	3,202

Name of directors	Fees	Salary	Bonus	Other benefits	Total
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Three months ended 31 March 2019					
Chairman:					
Mr. Chan Kam Chung	—	250	—	5	255
Executive directors:					
Mr. Chan Shui Yip	—	200	—	5	205
Mr. Guo Dongxu	—	196	—	3	199
Mr. She Xiaoying	—	38	—	3	41
Non-executive directors:					
Mr. Guo Songsen	—	37	—	—	37
Mr. Ho Kwai Ching, Mark	—	45	—	—	45
Mr. Ng Man Kung	—	45	—	—	45
Mr. Hu Guohua	—	45	—	—	45
	—	856	—	16	872
Three months ended 31 March 2018 (Unaudited)					
Chairman:					
Mr. Chan Kam Chung	—	250	—	5	255
Executive directors:					
Mr. Chan Shui Yip	—	200	—	5	205
Mr. Guo Dongxu	—	210	—	3	213
Mr. Guo Songsen	—	39	—	2	41
Mr. She Xiaoying	—	35	—	3	38
	—	734	—	18	752

There were no retirement benefits paid or payable to any director during the years ended 31 December 2016 and 2017 and 2018 and three months ended 31 March 2018 and 2019, or at any time during the Track Record Period.

(a) Directors' termination benefits

There were no termination benefits paid or payable to any director during the years ended 31 December 2016 and 2017 and 2018 and three months ended 31 March 2018 and 2019, or at any time during the Track Record Period.

(b) Consideration provided to third parties for making available directors' services

During the Track Record Period, the Company provided no consideration to third parties for making available director's services.

(c) Information about loans, quasi-loans and other dealings in favour of directors

There were no loans, quasi-loans and other dealings entered into between the Group and the directors and in favour of the directors as at 31 December 2016 and 2017 and 2018 and 31 March 2019, or at any time during the Track Record Period.

(d) 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 as at 31 December 2016 and 2017 and 2018 and 31 March 2019 or at any time during the Track Record Period.

35 Subsidiaries

(i) Subsidiaries of the Group as at 31 December 2016 and 2017 and 31 March 2018 and 31 March 2019 are as follows:

Company name	Date of incorporation	Country/Place of incorporation, legal status	Paid in capital as of 31 March 2019	Effective interest held as at			Principal activities	Note
				2016	2017	2018		
				2016	2017	2019		
Directly held:								
Green Source Limited ('Green Source') 綠源有限公司	20 July 2015	BVI	USD 1	100%	100%	100%	Investment holding	Note (i)
Keen Field Limited ('Keen Field') 啟泰有限公司	22 July 2015	BVI	USD 1	100%	100%	100%	Investment holding	Note (i)
Wealth Creation Limited ('Wealth Creation') 恒宇有限公司	22 July 2015	BVI	USD 1	100%	100%	100%	Investment holding	Note (i)
Indirectly held:								
Green Fresh (H.K) International Co., Limited. ('Green Fresh (HK)') 綠新(香港)國際有限公司	19 June 2013	Hong Kong, limited liability company	HKD 10,000	100%	100%	100%	Investment holding	Note (i)
Lubao Technology Development Limited ('Lubao (HK)') 綠寶科技發展有限公司	11 August 2015	Hong Kong, limited liability company	HKD 1	100%	100%	100%	Investment holding	Note (i)
Greenwich (China) Technology Development Limited ('Greenwich (China)') 格林(中國)科技發展有限公司	3 September 2007	Hong Kong, limited liability company	HKD 10,000	100%	100%	100%	Investment holding and trading company	Note (ii)
Green Fresh (Fujian) Foodstuff Co., Ltd. ('Green Fresh (Fujian)') 綠新(福建)食品有限公司	8 November 2007	PRC, private enterprise	USD 13,380,000	100%	100%	100%	Manufacturing and sales of carrageenan, agar-agar and blended products	Note (iii)

Company name	Date of incorporation	Country/Place of incorporation, legal status	Paid in capital as of 31 March 2019	Effective interest held as at			Principal activities	Note
				2016	2017	2018		
				2016	2017	2018		
Fujian Province Lvqi Food Colloid Company Ltd. ('Lvqi (Fujian)') 福建省綠麒食品膠體有限公司	18 March 2009	PRC, private enterprise	RMB 10,000,000	100%	100%	100%	Manufacturing and sales of agar-agar and blended products	(iv)
Lybao (Quanzhou) Biochemistry Company Ltd. ('Lybao (Quanzhou)') 綠寶(泉州)生化有限公司	14 May 1999	PRC, private enterprise	HKD 26,880,000	100%	100%	100%	Manufacturing and sales of carrageenan and blended products	(v)
Shiyanhaiyi Konjac Products Company Ltd. ('Shiyanhaiyi') 十堰海乙魔芋製品有限公司	7 September 2012	PRC, private enterprise	RMB 20,000,000	100%	100%	100%	Manufacturing and sales of konjac products	(vi)
Longhai City Donghaiwan Seaweed Breeding Comprehensive Development Company Limited ('Donghaiwan') 龍海市東海灣海藻養殖綜合開發有限公司	16 July 2012	PRC, private enterprise	RMB 4,240,000	100%	100%	100%	Manufacturing and sales of seaweed	(vii)
Lvqi (Xiamen) Marine Biotechnology Company Ltd ('Lvqi (Xiamen)') 綠麒(廈門)海洋生物科技有限公司	4 June 2013	PRC, private enterprise	RMB 5,000,000	NA	100%	100%	Research and development centre	(viii)
PT. Greenfresh Biotechnology Indonesia	12 August 2016	Indonesia, limited liability company	USD 996,601.25	100%	100%	100%	Investment holding	(i)
Lvqi Trading (Shanghai) Company Limited ('Lvqi (Shanghai)') 綠麒商貿(上海)有限公司	9 February 2018	PRC, private enterprise	RMB 10,000,000	NA	NA	61%	Trading company	(ix)

Note (i): No audited statutory financial statements were prepared for these subsidiaries as they were not required to issue audited financial statements under local statutory requirements.

Note (ii): The financial statements of Greenwich (China) were audited by Alan Chan & Company for the years ended 31 March 2015 and 2016 and were audited by PricewaterhouseCoopers for the period from 1 April 2016 to 31 December 2016 and the year ended 31 December 2017.

Note (iii): The financial statements of Green Fresh (Fujian) were audited by 廈門柏譽聯合會計師事務所 for the years ended 31 December 2016, 2017 and 2018.

Note (iv): The financial statements of Lvqi (Fujian) were audited by 泉州名城有限責任會計師事務所 for the years ended 31 December 2016, 2017 and 2018.

Note (v): The financial statements of Lvbao (Quanzhou) were audited by 晉江市榮信聯合會計師事務所 for the years ended 31 December 2016, 2017 and 2018.

Note (vi): The financial statements of Shiyanghaiyi were audited by 十堰國信會計師事務所有限公司 for the years ended 31 December 2016, 2017 and 2018.

Note (vii): The financial statements of Donghaiwan were audited by 廈門泓正會計師事務所有限公司 for the years ended 31 December 2016, 2017 and 2018.

Note (viii): The subsidiary was acquired on 17 May 2017 at cash consideration of RMB 5,000,000, which was equivalent to the net amount of identifiable assets and liabilities of the company. The financial statements of Lvqi (Xiamen) were audited by 福建中浩會計師事務所有限公司 for the years ended 31 December 2017 and 2018.

Note (ix): The financial statements of Lvqi (Shanghai) were audited by 上海鼎邦會計師事務所 for the year ended 31 December 2018.

36 Investment in subsidiaries — the Company

	As at 31 December			As at
	2016	2017	2018	31 March
	HKD'000	HKD'000	HKD'000	2019
Investment in subsidiaries — at cost, unlisted	<u>115,539</u>	<u>115,539</u>	<u>120,858</u>	<u>122,188</u>

The amount of investment in subsidiaries of HKD 115,539,000 as at 31 December 2016 and 2017 represented the aggregate net assets value of the subsidiaries acquired pursuant to the Reorganisation.

The amount of investment in subsidiaries of HKD 120,858,000 as at 31 December 2018 represented the aggregate net assets value of the subsidiaries acquired pursuant to the Reorganisation of HKD 115,539,000 and the amortised amount of the fair value of share options granted to employees of subsidiaries of HKD 5,319,000.

The amount of investment in subsidiaries of HKD 122,188,000 as at 31 March 2019 represented the aggregate net assets value of the subsidiaries acquired pursuant to the Reorganisation of HKD 115,539,000 and the amortised amount of the fair value of share options granted to employees of subsidiaries of HKD 6,649,000.

37 Contingencies

As at 31 December 2016, 2017 and 2018 and 31 March 2019, there were no significant contingencies items for the Group and the Company.

38 Events after the balance sheet date

Pursuant to the written resolutions passed by the shareholders on 25 September 2019, the authorised share capital of the Company has been increased to HKD500,000,000, and conditional on the share premium account of the Company being credited as a result of the issue of shares pursuant to the global offering, the Company would capitalize an amount of HKD 5,994,000 standing to the credit of the share premium account of the Company by applying such sum to pay up in full at par a total of 599,440,000 shares for allotment and issue to the persons whose names appear on the register of members of the Company on 25 September 2019 in proportion to their then shareholdings.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Company and its subsidiaries in respect of any period subsequent to 31 March 2019 and save as disclosed in this report, no dividend or distribution has been declared, made or paid by the Company or any companies comprising the Group in respect of any period subsequent to 31 March 2019.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set forth in this Appendix does not form part of the Accountant’s Report prepared by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set forth in Appendix I to this prospectus, and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed “Financial Information” in this prospectus and the Accountant’s Report set forth in Appendix I to this prospectus.

(A). UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Share Offer on the consolidated net tangible assets of the Group attributable to the equity holders of the Company as of 31 March 2019 as if the Share Offer had taken place on that date.

The unaudited pro forma adjusted net tangible assets have 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 Share Offer been completed as at 31 March 2019 or at any future dates.

	Audited consolidated net tangible assets of our Group attributable to the equity holders of our Company as of 31 March 2019⁽¹⁾ HK\$’000	Estimated net proceeds from the Share Offer⁽²⁾ HK\$’000	Unaudited pro forma adjusted net tangible assets of our Group attributable to the equity holders of our Company HK\$’000	Unaudited pro forma adjusted net tangible assets per Share⁽³⁾ HK\$’000
Based on an Offer Price of HK\$1.16 per Share	375,280	207,211	582,491	0.73
Based on an Offer Price of HK\$1.74 per Share	375,280	319,723	695,003	0.87

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

- (1) The audited consolidated net tangible assets information of our Group attributable to the equity holders of our Company as of 31 March 2019 is extracted from the accountant's report set forth in Appendix I to this prospectus, which is based on the audited consolidated net assets of our Group attributable to the equity holders of our Company as of 31 March 2019 of HK\$435,038,000 with an adjustment for the intangible assets as of 31 March 2019 of HK\$59,758,000.
- (2) The estimated net proceeds to be received by our Company from the Share Offer are based on the indicative range of the Offer Price of HK\$1.16 and HK\$1.74 per Share, respectively, after deduction of the underwriting fees and other related expenses borne by our Company (excluding listing expenses of HK\$23,467,000 which has been accounted for prior to 31 March 2019) and takes no consideration of any Shares which may fall to be issued upon the exercise of the Over-allotment Option, any Shares which may be issued upon the exercise of any options which may be granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme, or any Shares which may be issued or repurchased by the Company pursuant to the General Mandate and the Buy-Back Mandate.
- (3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 800,000,000 Shares were in issue assuming that the Share Offer and Capitalisation Issue have been completed on 31 March 2019 but takes no consideration of any Shares which may fall to be issued upon the exercise of the Over-allotment Option, any Shares which may be issued upon the exercise of any options which may be granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme, or any Shares which may be granted and issued or repurchased by the Company pursuant to the General Mandate and the Buy-back Mandate.
- (4) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 31 March 2019.

B. ACCOUNTANT'S REPORT ON THE 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 Green Future Food Hydrocolloid Marine Science Company Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Green Future Food Hydrocolloid Marine Science Company Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group attributable to the equity holders of the Company as at 31 March 2019, 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 30 September 2019, in connection with the proposed initial public offering of the shares of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2.

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 2019 as if the proposed initial public offering had taken place at 31 March 2019. 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 three months ended 31 March 2019, on which an accountant's report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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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 on the Unaudited Pro Forma Financial Information

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 2019 would have been as presented.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgement, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 30 September 2019

The following is the text of a letter, summary of values and valuation certificates, prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer for the purpose of incorporation in this prospectus, in connection with its valuation of the property interests held by the Group as at 30 June 2019.



仲量聯行

Jones Lang LaSalle Corporate Appraisal and Advisory Limited
7/F One Taikoo Place 979 King's Road Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Licence No : C-030171

30 September 2019

The Board of Directors
Green Future Food Hydrocolloid Marine Science Company Limited
Flat A, 16th Floor
@Convoy
169 Electric Road
North Point
Hong Kong

Dear Sirs,

In accordance with your instructions to value the property interests held by Green Future Food Hydrocolloid Marine Science Company Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") in the People's Republic of China (the "PRC") and Indonesia, we confirm that we have carried out inspections, 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 2019 (the "valuation date").

Our valuation is carried out on a market value basis. Market value is defined 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".

Due to the nature of the buildings and structures of property nos. 1 to 4 and the particular location in which they are situated, there are unlikely to be relevant market comparable sales readily available. The property interests of property nos. 1 to 4 have therefore been valued by cost approach with reference to their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate 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. In arriving at the value of the

land portion, reference has been made to the sales evidence as available in the locality. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business. In our valuation, it applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

We have also adopted the comparison approach in our valuation of property no. 5 by making reference to comparable market transactions in our assessment of the market value of the property interest. This approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense 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 value.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation — Global Standards 2017 published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates, Real Estate Title Certificates and other official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers — Tian Yuan Law Firm, concerning the validity of the property interests in the PRC and the Company's Indonesia legal advisers — Imran Muntaz & Co., concerning the validity of the property interests in Indonesia.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the property but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the property. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the property is free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

Inspection of the properties in the PRC was carried out in April 2019 by Mr. Mathew Ma and September 2019 by Ms. Esther Li. Mr. Mathew Ma is a member of RICS and has more than 10 years' experience in the valuation of properties in the PRC and Ms. Esther Li has about 3 years' experience in the valuation of properties in the PRC. Inspection of the properties in Indonesia was carried out in February 2019 by Mr. Gerry Anzala who has more than 7 years' experience in the valuation of property in Indonesia. Mr. Gerry Anzala Jaya is a member of the Indonesian Society of Appraisers.

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 arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Hong Kong Dollars (HKD). The exchange rates adopted in our valuation are approximately RMB1=HKD1.138 and RP.1=HKD0.000553 which were approximately the prevailing exchange rates as at the valuation date.

Our summary of values and valuation certificates are attached below for your attention.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Eddie T.W. Yiu
MRICS MHKIS RPS (GP)
Senior Director

Notes: Eddie T.W. Yiu is a Chartered Surveyor who has 25 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

Summary of Values

Group I — Properties held and occupied by the Group in the PRC

No. Property	Market value in existing state as at the valuation date HKD
1. 4 parcels of land, 13 industrial buildings and various structures located at Anshan Industrial Park, Zini Town, Longhai City, Zhangzhou City, Fujian Province, The PRC	162,229,000
2. 3 parcels of land, 8 industrial buildings and various structures located at Neiding Farm, Jiaomei Town, Zhangzhou City, Fujian Province, The PRC	109,003,000
3. 2 parcels of land, 2 industrial buildings and various structures located at Maoting Village, Yonghe Town, Jinjiang City, Fujian Province, The PRC	7,479,000

No. Property	Market value in existing state as at the valuation date HKD
4. A parcel of land, 4 industrial buildings and various structures located at Pulin Industrial Park, No. 22 Pulin Road, Maojian District, Shiyan City, Hubei Province, The PRC	11,429,000
Sub-Total:	<u>290,140,000</u>
Group II — Property held for development by the Group in the Indonesia	
5. 4 parcels of land located at Jalan Raya Klatakan Village, Kendit District, Klatakan Regency, Situbondo Province, East Java, Indonesia	5,909,000
Sub-Total:	<u>5,909,000</u>
Total:	296,049,000

VALUATION CERTIFICATE

Group I — Properties held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2019 HKD
1.	4 parcels of land, 13 industrial buildings and various structures located at Anshan Industrial Park, Zini Town, Longhai City, Zhangzhou City, Fujian Province, The PRC	<p>The property comprises 4 parcels of land with a total site area of approximately 93,279.03 sq.m., 13 buildings and various structures erected thereon which were completed in various stages between 2010 to 2019.</p> <p>The property is located at Anshan Industrial Park. It is about 13 kilometres to the Zhangzhou City centre.</p> <p>The locality of the property is an industrial area with some large-scale factory complexes.</p> <p>The buildings have a total gross floor area of approximately 53,845.88 sq.m.</p> <p>The structures mainly include boundary walls, shed and chimney.</p> <p>The land use rights of the property have been granted for terms expiring between 17 August 2058 and 14 March 2069 for industrial use.</p>	As at the valuation date, the property was occupied by the Group for production, storage, office, staff quarters and ancillary purposes.	162,229,000 (equivalent to RMB142,558,000)

Notes:

1. Pursuant to 4 Real Estate Title Certificates issued by the People's Government of Longhai City, the land use rights of 4 parcels of land with a total site area of approximately 93,279.03 sq.m. have been granted to Green Fresh (Fujian) Foodstuff Co., Ltd. ("Green Fresh (Fujian)", a wholly-owned subsidiary of the Company) for industrial use. The details are set out as follows:

Certificate No.	Site Area	Building	Gross Floor Area	Expiry Date
	(sq.m.)		(sq.m.)	
Min (2019) Long Hai Shi Bu Dong Chan Quan Di No. 0003195	31,876	Boiler Room	1,229.66	17 August 2058
		#1 Workshop	4,876.62	
		#2 Workshop	8,371	
		#1 Warehouse	3,225.88	
		Dormitory	2,932	
		Office	2,447	
Min (2019) Long Hai Shi Bu Dong Chan Quan Di No. 0003196	25,646.03	#5 Workshop	9,310.48	23 April 2066
		#6 Workshop	7,714.92	
		#5 Warehouse	2,457.03	
		#1 Dormitory	3,988.57	
		Boiler Room for #2 Workshop	829.92	
		#7 Workshop	1,250	
Min (2019) Long Hai Shi Bu Dong Chan Quan Di No. 0005759	26,362	N/A	N/A	14 March 2069
Min (2017) Long Hai Shi Bu Dong Chan Quan Di No. 0007696	9,395	N/A	N/A	31 July 2067
Total	<u>93,279.03</u>		<u>48,633.08</u>	

2. For a material warehouse with a gross floor area of approximately 5,212.8 sq.m. erected on the land parcel of Min (2017) Long Hai Shi Bu Dong Chan Quan Di No. 0007696, we have not been provided with any Real Estate Title Certificate.
3. In the valuation of the property, we have attributed no commercial value to a warehouse mentioned in note 2 which have not obtained any proper title certificate. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the building would be HKD3,074,000 (equivalent to RMB2,701,000) as at the valuation date.
4. Pursuant to 3 mortgage contracts — Xing Ying Zhang Qi (Long) 2017 No. 0076 and Xing Ying Zhang Qi (Long) 2019 Nos. 0029 and 4003, the land use rights and the building ownership rights of portion of the property under Min (2017) Long Hai Shi Bu Dong Chan Quan Di No. 0007696 and Min (2019) Long Hai Shi Bu Dong Chan Quan Di Nos. 0003195 and 0003196 are subject to the mortgages in favour of Industrial Bank Co., Ltd. (Long Hai Branch).
5. The property contributes a significant portion of revenue to the Group, we are of the view that the property is the material property held by the Group:

Details of the material property

- (a) General description of location of the property : The property is located in Anshan Industrial Park. It is about 13 kilometres to the Zhangzhou City centre. The locality of the property is an industrial area with some large-scale factory complexes.
- (b) Details of encumbrances, liens, pledges, mortgages against the property : The property is subject to mortgages mentioned in note 4.

- (c) Environmental Issue : As advised by the Company and according to the PRC legal opinion, Green Fresh (Fujian) was fined at an amount of RMB82,024 by the Environmental Protection Bureau of Zhangzhou City due to the discharge of excess water contaminants on 24 November 2016. The mentioned fine was fully settled by Green Fresh (Fujian).
- Since portion of the buildings mentioned in note 3 were self-constructed by Green Fresh (Fujian) without prior approval from environmental protection bureau, there was an environmental punishment which fined at an amount of RMB1,050,000 by the Environmental Protection Bureau of Zhangzhou City. According to the Proof of Environmental Protection and compliance of Green Fresh (Fujian) Food Stuff Co. Ltd. (關於綠新(福建)食品有限公司環境保護守法情況的證明), the mentioned fine was fully settled by Green Fresh (Fujian).
- In many important aspects, the operation activity of Green Fresh (Fujian) is in accordance with the stipulation of the PRC's relevant environment protection laws, administrative regulations and regulated document.
- Fujian Province Sewage Permit No. 35068120180000005 was granted to Green Fresh (Fujian) for a term expiring on 31 December 2019.
- (d) Details of investigations, notices, pending litigation, breaches of law or title defects : Nil
- (e) Future plans for construction, renovation, improvement or development of the property : As advised by the Group, there is a plan of Phase III construction on the land parcel of Min (2019) Long Hai Shi Bu Dong Chan Quan Di No. 0005759 for production purpose.
6. 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. Green Fresh (Fujian) is legally in possession of the land use rights of the property and the building ownership rights of the buildings mentioned in note 1 in the term of land use rights;
 - b. The mortgage contracts mentioned in note 4 are legal and valid and binding on both parties; and
 - c. According to "the certification in regard to the material warehouse of Workshop 1 of Green Fresh Company" (《關於綠新公司一廠原料倉庫的證明》) and "the certification in regard to the construction planning of the material warehouse of Workshop 1 of Green Fresh Company" (關於綠新公司一廠原料倉庫規劃建設的證明), for the building mentioned in note 2 which is the ancillary facility of the land when it is under the Tender, Auction and Listing progress, the building is used by Green Fresh (Fujian) but is lack of legal title as at the valuation date. If the Company stop using and demolish the building before 30 September 2019 and apply for construction approval under the planning, there is little risk that the Green Fresh (Fujian) will be punished by the related government authority.
 - d. According to the Written Decision of Administrative Penalty (行政處罰決定書) issued by the Longhai Urban and Rural Planning and Construction Bureau on 4 March 2019, regarding to the construction of the boiler room, boiler room for #2 Workshop and #7 Workshop, Green Fresh (Fujian) violated the Law of the People's Republic of China on Urban and Rural Planning (中華人民共和國城鄉規劃法) and Law of the People's Republic of China on Urban and Rural Planning in Fujian Province (福建省實施《中華人民共和國城鄉規劃法》辦法), the government requested Green Fresh (Fujian) to apply the Construction Work Planning Permit and fined at an amount of RMB33,095.8 which was fully settled by Green Fresh (Fujian).

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2019 HKD
2.	3 parcels of land, 8 industrial buildings and various structures located at Neiding Farm, Jiaomei Town, Zhangzhou City, Fujian Province, The PRC	<p>The property comprises 3 parcels of land with a total site area of approximately 69,814 sq.m., 8 industrial buildings and various structures erected thereon which were completed between 2012 and 2019. ("Part A")</p> <p>The property is located at Neiding Farm. It is about 15 kilometres to the Zhangzhou City centre. The locality of the property is an industrial area with some large-scale factory complexes.</p> <p>The buildings have a total gross floor area of approximately 21,670.85 sq.m.</p> <p>The structures mainly include plant area roads and boundary walls.</p> <p>The land use rights of the property have been granted for terms expiring between 24 May 2061 and 25 June 2067 for industrial use.</p> <p>In addition to Part A, the property also comprises 3 industrial buildings which were under construction on a parcel of land of Part A as at the valuation date. ("Part B")</p> <p>As advised by the Group, the development of Part B is scheduled to obtain the Construction Work Completion and Inspection Report in third quarter of 2019. Upon completion, the buildings will have a total gross floor area of approximately 8,266.21 sq.m.</p>	<p>As at the valuation date, Part A of the property was occupied by the Group for production, storage, office and ancillary purposes whilst Part B of the property was under development.</p>	<p>109,003,000 (equivalent to RMB95,786,052)</p>

*Notes:***For Part A:**

1. Pursuant to 2 State-owned Land Use Rights Certificates issued by the People's Government of Zhangzhou City, the land use rights of 2 parcels of land with a total site area of approximately 32,134 sq.m. have been granted to Fujian Province Lvqi Food Colloid Company Limited ("Lvqi (Fujian)", a wholly-owned subsidiary of the Company) for industrial use. The details are set out as follows:

No.	Certificate No.	Site Area (sq.m.)	Expiry Date
(1)	Zhang Tai Guo Yong (2012) Di No. 0923	12,832	1 January 2062
(2)	Long Guo Yong (2011 Jiao Zi) Di No. GC0045	19,302	24 May 2061
Total:		32,134	

2. Pursuant to a Real Estate Title Certificate — Min (2019) Zhang Zhou Tai Shang Tou Zi Qu Bu Dong Chan Quan Di No. 0009119, the land use rights of a parcel of land with a site area of approximately 37,680 sq.m. have been granted to Lvqi (Fujian) for a term expiring on 25 June 2067 for industrial use.
3. Pursuant to 8 Building Ownership Certificates, 8 buildings of the property with a total gross floor area of approximately 21,670.85 sq.m. are owned by Lvqi (Fujian). The details are set out as follows:

No.	Certificate No.	Gross Floor Area (sq.m.)	Building
(1)	Zhang Fang Quan Zheng Tai Zi Di No. 20132731	3,268.33	Workshop No.1
(2)	Zhang Fang Quan Zheng Tai Zi Di No. 20120152	3,609.71	Composite building
(3)	Zhang Fang Quan Zheng Tai Zi Di No. 20120151	1,988.77	Workshop No.2
(4)	Zhang Fang Quan Zheng Tai Zi Di No. 20120150	3,198.60	#1 Warehouse
(5)	Zhang Fang Quan Zheng Tai Zi Di No. 20132730	426.60	Boiler room
(6)	Zhang Fang Quan Zheng Tai Zi Di No. 20132732	1,432.60	#2 Warehouse
(7)	Zhang Fang Quan Zheng Tai Zi Di No. 20142289	4,432.51	Workshop No.3
(8)	Zhang Fang Quan Zheng Tai Zi Di No. 20143861	3,313.73	Testing Workshop
Total:		21,670.85	

4. Pursuant to 2 mortgage contracts — Xing Ying Zhang Qi (Long) 2018 No. 0004 and Xing Ying Zhang Qi (Long) 2019 No. 0033, the land use rights of the property under Zhang Tai Guo Yong (2012) Di No. 0923, Long Guo Yong (2011 Jiao Zi) Di No. GC0045 and Min (2019) Zhang Zhou Tai Shang Tou Zi Qu Bu Dong Chan Quan Di No. 0009119 and the building ownership rights of the buildings mentioned on note 3 are subject to the mortgages in favour of Industrial Bank Co., Ltd. (Long Hai Branch).

For Part B:

5. Pursuant to 2 Construction Land Planning Permits — Di Zi Di Nos. 3506002017R3008 and 3506002017R3009 in favour of Lvqi (Fujian), permission towards the planning of 2 parcels of land with a total site area of approximately 37,680 sq.m. has been granted to Lvqi (Fujian).
6. Pursuant to a Construction Work Planning Permit — Jian Zi Di No. 3506002017G3023 in favour of Lvqi (Fujian), 3 industrial buildings with a total gross floor area of approximately 8,266.21 sq.m. have been approved for construction.
7. Pursuant to a Construction Work Commencement Permit — Di No. 350601201712040101 in favour of Lvqi (Fujian), permission by the relevant local authority was given to commence the construction of the buildings with a total gross floor area of approximately 8,266.21 sq.m..
8. As advised by the Company, the total construction cost of the development of Part B is estimated to be approximately HKD27,737,000 (equivalent to RMB24,374,000), of which a total construction cost of approximately HKD27,737,000 (equivalent to RMB24,374,000) had been incurred up to the valuation date.

9. The property contributes a significant portion of revenue to the Group, we are of the view that the property is the material property held by the Group:

Details of the material property

- | | | | |
|-----|--|---|--|
| (a) | General description of location of the property | : | The property is located at Neiding Farm. It is about 15 kilometres to the Zhangzhou City centre. The locality of the property is an industrial area with some large-scale factory complexes. |
| (b) | Details of encumbrances, liens, pledges, mortgages against the property | : | The property is subject to mortgages mentioned in note 4. |
| (c) | Environmental Issue | : | As advised by the Company and according to the PRC legal opinion, there is no record of significant pollution incidents occurred or safety production incidents or any administrative punishment since 2011. |
| (d) | Details of investigations, notices, pending litigation, breaches of law or title defects | : | Nil |
| (e) | Future plans for construction, renovation, improvement or development of the property | : | As advised by the Group, there is no plan for new major development in the next 12 months from the date of this document. |

10. 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. Lvqi (Fujian) is legally in possession of the land use rights of the property and the building ownership rights of the buildings mentioned in notes 1 to 3 in the land use rights term;
- b. The mortgage contracts mentioned in note 4 are legal and valid and binding on both parties; and
- c. For the buildings of Part B mentioned in notes 6 and 7, Lvqi (Fujian) has obtained all requisite construction work approvals in respect of the actual development progress.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2019 <i>HKD</i>
3.	2 parcels of land, 2 industrial buildings and various structures located at Maoting Village, Yonghe Town, Jinjiang City, Fujian Province, The PRC	<p>The property comprises 2 parcels of land with a total site area of approximately 6,437 sq.m., 2 industrial buildings and various structures erected thereon which were completed between 2000 and 2018.</p> <p>The property is about 25 kilometres to the Jinjiang City centre. The locality of the property is a village.</p> <p>The buildings have a total gross floor area of approximately 3,545.15 sq.m.</p> <p>The structures mainly include plant area roads and boundary walls.</p> <p>The land use rights of the property have been granted for terms expiring between 26 June 2057 and 9 June 2065 for industrial use.</p>	As at the valuation date, the property was occupied by the Group for production office and ancillary purposes.	7,479,000 (equivalent to RMB6,572,000)

Notes:

- Pursuant to 2 State-owned Land Use Rights Certificates issued by the People's Government of Jinjiang City, the land use rights of 2 parcels of land with a total site area of approximately 6,437 sq.m. have been granted to Lvbao Quanzhou Biochemistry Co., Ltd. ("Lvbao (Quanzhou)", a wholly-owned subsidiary of the Company) for industrial use. The details are set out as follows:

No.	Certificate No.	Site Area (sq.m.)	Expiry Date
(1)	Jin Guo Yong (2015) Di No. 01992	5,550	9 June 2065
(2)	Jin Guo Yong (2007) Di No. 01238	887	26 June 2057
Total:		6,437	

- Pursuant to a Building Ownership Certificate — Jin Fang Quan Zheng Yong He Zi Di No. 201528918 issued by Housing and Urban & Rural Planning Construction Bureau of Jinjiang City, 2 industrial buildings of the property with a total gross floor area of approximately 3,545.15 sq.m. are owned by Lvbao (Quanzhou).
- Pursuant to a mortgage contract Xing Ying Zhang Qi (Long) 2017 No. 0007, the land use rights of the property under Jin Guo Yong (2015) Di No. 01992 and the building ownership rights of the building mentioned on note 2 are subject to the mortgages in favour of Industrial Bank Co., Ltd. (Long Hai Branch).
- We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers that Lvbao (Quanzhou) is legally in possession of the land use rights of the property and the building ownership rights of the buildings mentioned in notes 1 and 2 in the land use rights term.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2019 <i>HKD</i>
4.	A parcel of land, 4 industrial buildings and various structures located at Pulin Industrial Park, No. 22 Pulin Road, Maojian District, Shiyan City, Hubei Province, The PRC	<p>The property comprises a parcel of land with a site area of approximately 9,231.03 sq.m., 4 industrial buildings and various structures erected thereon which were completed between 2013 and 2017.</p> <p>The property is about 7 kilometres to the urban area of Shiyan City. The locality of the property is an industrial area with some large-scale factory complexes.</p> <p>The buildings have a total gross floor area of approximately 5,467.07 sq.m.</p> <p>The structures mainly include plant area roads and boundary walls. The land use rights of the property have been granted for a term expiring on 30 October 2062 for industrial use.</p>	As at the valuation date, the property was occupied by the Group for production, office, staff quarters, canteen, cold storage and ancillary purposes.	11,429,000 (equivalent to RMB10,043,000)

Notes:

- Pursuant to 3 Real Estate Title Certificates, the land use rights of a parcel of land with a site area of approximately 9,231.03 sq.m. and 4 buildings of the property with a total gross floor area of approximately 5,467.07 sq.m have been granted to Shiyanhaiyi Konjac Products Company Limited (“Shiyanhaiyi”, a wholly-owned subsidiary of the Company) for a term of 50 years expiring on 30 October 2062 for industrial use. The details are set out as follows:

No.	Certificate No.	Gross Floor Area (sq.m.)	Usage
(1)	E (2017) Shi Yan Shi Bu Dong Chan Quan Di No. 0030384	1,192.40	1 industrial building
(2)	E (2017) Shi Yan Shi Bu Dong Chan Quan Di No. 0030383	2,425.19	1 industrial building
(3)	E (2017) Shi Yan Shi Bu Dong Chan Quan Di No. 0030393	<u>1,849.48</u>	2 industrial buildings
Total:		5,467.07	

- We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers that Shiyanhaiyi is legally in possession of the land use rights of the property and the building ownership rights of the buildings mentioned in note 1 in the land use rights term.

VALUATION CERTIFICATE

Group II — Property held for development by the Group in the Indonesia

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2019 HKD
5.	4 parcels of land located at Jalan Raya Klatakan Village, Kendit District, Klatakan Regency, Situbondo Province, East Java, Indonesia	The property comprises 4 parcels of land with a total site area of approximately 63,370 sq.m. The property is held under leasehold interests and the land use rights of the property have been granted for a term of 30 years for industrial use.	As at the valuation date, the property was vacant and in bare land status.	5,909,000 (equivalent to RP10,686,000,000)

Notes:

- Pursuant to 4 copies of Certificate of Right to Build, the registered proprietor of the property is PT Greenfresh (Indonesia) Biotechnology Indonesia with other details as follows:

No.	Certificate of Right to Build No.	Issuance Date	Site Area (sq.m.)
1	No.35/Klatakan	6 June 2018	16,320
2	No.36/Klatakan	6 June 2018	17,270
3	No.37/Klatakan	29 June 2018	17,260
4	No.38/Klatakan	29 June 2018	<u>12,520</u>
Total:			63,370

- PT Greenfresh Biotechnology Indonesia (“Greenfresh (Indonesia)”) is a wholly-owned subsidiary of the Company.
- Pursuant to several copies of conditional sale and purchase agreements signed between independent third parties and the Company, the purchase price for 6 parcels of land with a total site area of approximately 62,429 sq.m. was HKD5,768,000 (equivalent to RP10,282,497,000) and consolidated into 4 copies of Certificate of Right to Build. Pursuant to a summary of land certificate dated 4 June 2018 provided by the Company, an additional land area of 941 sq.m. based on the measurement by Land Office of Indonesia have been recorded into the 4 copies of Certificate of Right to Build as detailed in Note 1, the total site area as set out in Note 1 is 63,370 sq.m.
- Pursuant to Land Utilization Permit (Izin Pemanfaatan Ruang) No. 050/0694/431.301.5/2016 from the Regency Office of Situbondo, the property is permitted to be developed for industrial use.

5. We have been provided with a legal opinion regarding the property interest by the Company's Indonesia legal advisers, which contains, inter alia, the following:
- a. Greenfresh (Indonesia) has signed several conditional sale and purchase agreements ("CSPA") of several land parcels with third party and Greenfresh (Indonesia) has fully paid the purchase price over the Land and these CSPA are legally valid and binding according to the laws of the Republic of Indonesia. Based on Law No.5 of 1960 concerning Agrarian Law, Government Regulation No.40 of 1996 concerning Right to Cultivate, Right to Build and Right to Use Over Land, and Government Regulation No. 24 of 1997 concerning Land Registration, Certificate of Right to Build is the legal proof to register Greenfresh (Indonesia) as the legal owner over the Land. Greenfresh (Indonesia) has been issued the Certificate of Right to Build over the Land and as such, Greenfresh (Indonesia) is the sole lawful owner over the Land;
 - b. Since Greenfresh (Indonesia) is the lawful owner of the Land, Greenfresh (Indonesia) has the full rights to own, lease or put under security any part or all of the Land to any other party; and
 - c. Based on Greenfresh (Indonesia) information, the Land that Greenfresh (Indonesia) owned is free from any liens and encumbrances both in physical and legal encumbrances.
6. Our valuation has been made on the following basis and analysis:

We have identified and analyzed various relevant sales evidences of land in the locality which have similar characteristics as the subject property such as nature, use, site area and accessibility of the property. The unit price of these comparable land sites ranges from HKD66.36 to HKD116.13 per sq.m. on site area basis. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at an assumed unit price for the property.

Set forth 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 3 July, 2015 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 25 September 2019 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) Classes of shares

The share capital of the Company consists of ordinary shares.

(ii) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy

not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

(v) Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid

on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(b) Directors

(i) Appointment, retirement and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iv) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) Remuneration

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(d) Alterations to constitutional documents and the Company's name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) Meetings of members***(i) Special and ordinary resolutions***

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) Voting rights and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings and general meetings requisitioned by shareholders

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

Extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by the Company.

(iv) Notices of meetings and business to be conducted

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
 - (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
 - (cc) the election of directors in place of those retiring;
 - (dd) the appointment of auditors and other officers;
 - (ee) the fixing of the remuneration of the directors and of the auditors;
 - (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
 - (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.
- (v) *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and

the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the 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.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "**Court**"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or

its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which

includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company. Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to the Tax Concessions Law of the Cayman Islands, the Company has obtained an undertaking:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 21 July, 2015.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. The register of members shall contain such particulars as required by Section 40 of the Companies Law. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(p) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(t) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

(u) Economic Substance Requirements

Pursuant to the International Tax Cooperation (Economic Substance) Law, 2018 of the Cayman Islands ("ES Law") that came into force on 1 January 2019, a "relevant entity" is required to satisfy the economic substance test set out in the ES Law. A "relevant entity"

includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands. Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Law.

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraphs under "B. Documents available for public inspection in Hong Kong" in Appendix VI to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands under the Companies Law with limited liability on 3 July 2015. We have established a principal place of business in Hong Kong at Flat A, 16th Floor, 169 Electric Road, North Point, Hong Kong and was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 16 April 2018 under the same address. Mr. CHAN Kam Chung has been appointed as our authorised representative under the Companies Ordinance for the acceptance of service of process and notices on our behalf in Hong Kong.

As our Company was incorporated in the Cayman Islands, our operations are subject to the relevant laws of the Cayman Islands and our constitution comprises the Memorandum and the Articles. A summary of certain provisions of our constitution and relevant aspects of the Cayman Companies Law is set forth in Appendix IV to this prospectus.

2. Changes in our Company's share capital

The following sets forth the changes in the share capital of our Company since the date of incorporation:

- (a) As of the date of incorporation of our Company on 3 July 2015, the authorised share capital of our Company was HK\$390,000 divided into 3,900,000 Ordinary Shares. On the same date, one nil-paid Ordinary Share was allotted and issued to the initial subscriber and such Ordinary Share was transferred to Mr. CHAN Kam Chung at HK\$0.1.
- (b) On 17 December 2015, Mr. CHAN Kam Chung transferred one Ordinary Share to COS Kreation at nil consideration. On the same date, our Company allotted and issued 399 Ordinary Shares in aggregate in the following manners:

Name of our Shareholders	Number of Ordinary Shares allotted and issued	Consideration <i>(HK\$)</i>
COS Kreation	109	10.9
Epoch	110	11.0
Green Forest	63	6.3
East Prosperity	27	2.7
Strong Achievement.	45	4.5
Winning Path.	45	4.5
Total	<u>399</u>	<u>39.9</u>

- (c) On 26 February 2018, our Company allotted and issued an aggregate of 54,480 Ordinary Shares at par to our corporate Controlling Shareholders, namely 14,982 Ordinary Shares to COS Kreation, 14,982 Ordinary Shares to Epoch, 8,580 Ordinary Shares to Green Forest, 6,129 Ordinary Shares to Strong Achievement, 6,129 Ordinary Shares to Winning Path and 3,678 Ordinary Shares to East Prosperity.

- (d) On 26 February 2018, our corporate Controlling Shareholders transferred an aggregate of 3,136 Ordinary Shares to three members of our senior management team (the “**Selected Senior Management**”), a former minority shareholder of Shiyanghaiyi, namely Mr. SHI Jijin, and a consultant of our Controlling Shareholders (collectively, the “**Transferees**”) as follows:-

	Transferees					
	Selected Senior Management			Former minority shareholder of Shiyanghaiyi	Consultant of our Controlling Shareholders	
Shareholders (Transferors)	Mr. DAI Longjin	Mr. CHO Chun Wo	Mr. SU Wenmiao	Mr. SHI Jijin	Growth Profit International Limited ⁽¹⁾	Total
COS Kreation	862					862
Epoch	258	560	44			862
Green Forest			320	174		494
Strong Achievement				190	163	353
Winning Path					353	353
East Prosperity					212	212
Total	<u>1,120</u>	<u>560</u>	<u>364</u>	<u>364</u>	<u>728</u>	<u>3,136</u>

Note:

(1) Growth Profit International Limited is wholly-owned by Mr. NI Zhongsen.

- (e) On 28 February 2018, the Pre-IPO Investor converted part of the Convertible Bonds in the amount of HK\$4,821,320 into 1,120 Ordinary Shares, representing 2.0% of the enlarged number of Ordinary Shares in issue immediately following the allotment and issue of the 54,480 Ordinary Shares mentioned in paragraph (c) above and 1,120 Ordinary Shares in this paragraph.
- (f) On 4 August 2018, the Selected Senior Management and the Consultants transferred all the 3,136 Ordinary Shares acquired by them on 26 February 2018 to our Controlling Shareholders in the reverse manner as set forth in (d) above.
- (g) On 5 August 2018, our Shareholders passed ordinary resolutions in respect of the subdivision of the Ordinary Shares by dividing each Ordinary Share into 10 Shares such that the authorised share capital of our Company would become HK\$390,000 divided into 39,000,000 Shares.
- (h) On 25 September 2019, pursuant to the resolutions passed by our Shareholders on 25 September 2019, our authorised share capital was increased from HK\$390,000 divided into 39,000,000 Shares to HK\$500,000,000 divided into 50,000,000,000 Shares each by the creation of an additional 49,961,000,000 Shares.

- (i) Pursuant to the resolutions passed by our Shareholders on 25 September 2019, our Shareholders resolved that conditional on the share premium account of our Company being credited as a result of the Share Offer, our Directors were authorised to capitalise the sum of HK\$5,994,400 (or any such amount any one Director may determine) from the amount standing to the credit of the share premium account of our Company and apply such sum in paying up in full at par 599,400,000 Shares (or any such number of Shares by any one Director may determine) for allotment and issue to our Shareholders whose names appeared on the register of members of our Company at close of business on 25 September 2019 (or another date as our Directors may direct) in proportion to their then existing Shareholdings and such Shares to be allotted and issued shall rank *pari passu* in all respects with our existing issued Shares.
- (j) Immediately following completion of the Share Offer (without taking into consideration any Share which may be issued upon any exercise of the Over-allotment Option, the Pre-IPO Share Options, and any option that may be granted under the Post-IPO Share Option Scheme), our issued share capital will be HK\$8,000,000 divided into 800,000,000 Shares, all fully paid or credited as fully paid.

Save as disclosed above and as mentioned in “— 4. Resolutions passed by our Shareholders on 5 August 2018 and on 25 September 2019” below in this prospectus, there has been no alteration in our Company’s share capital since incorporation.

3. Changes in share capital of our subsidiaries

The subsidiaries of our Company are listed in the accountant’s report of our Company, the text of which is set forth in Appendix I to this prospectus.

Save as disclosed in Appendix I to this prospectus and the section headed “History, Development, and Reorganisation — Our corporate history — Our subsidiaries ” in this prospectus, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

4. Resolutions passed by our Shareholders on 5 August 2018 and 25 September 2019

Pursuant to the written resolutions passed by our Shareholders on 5 August 2018:

- (a) every Ordinary Share was divided into 10 Shares such that the authorised share capital of our Company became HK\$390,000 divided into 39,000,000 Shares; and
- (b) the rules of the Pre-IPO Share Option Scheme were approved and adopted, and the Director(s) or any committee established by the Board were authorised, at their sole discretion, to (a) administer the Pre-IPO Share Option Scheme; (b) modify, amend or update the rules of the Pre-IPO Share Option Scheme from time to time as he or she considers necessary or appropriate subject to reporting the same to the next general meeting of our Company; (c) grant the pre-IPO share options under the Pre-IPO Share Option Scheme; (d) allot, issue and deal with Shares pursuant to the exercise of the Pre-IPO Share Options; and (e) take all such actions as they consider necessary.

Pursuant to the resolutions passed by our Shareholders on 25 September 2019:

- (c) our authorised share capital was increased from HK\$390,000 divided into 39,000,000 Shares to HK\$500,000,000 divided into 50,000,000,000 Shares each by the creation of an additional 49,961,000,000 Shares;
- (d) the Memorandum and the Articles were approved and adopted conditional upon and with effect from the Listing;
- (e) conditional on (i) the Listing Committee granting listing of, and permission to deal in, on the Main Board, our Shares in issue and to be issued pursuant to the Share Offer, the Capitalisation Issue, and the exercise of the Over-allotment Option and the Pre-IPO Share Options and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and the Underwriting Agreements not being terminated in accordance with the terms of such agreements or otherwise:
 - (i) the Share Offer and the granting of the Over-allotment Option were approved and our Directors were authorised to (a) implement the Listing, the Share Offer and the Over-allotment Option; (b) to allot and issue the Offer Shares and such number of Shares as may be required to be allotted and issued on and subject to the terms and conditions stated in this prospectus and the relevant Application Forms; and (c) to do all things and execute all documents in connection with or incidental to the Listing, the Share Offer, and the Over-allotment Option subject to such modifications, amendments, variations or otherwise (if any) as may be made by our Board (or any committee of our Board thereof established by our Board) in its absolute discretion, and our Board or any such committee of our Board or any one Director was authorised and directed to effect such modifications, amendments variations or otherwise as necessary or appropriate;
 - (ii) following the increase in the authorised share capital and conditional further on the share premium account of our Company being credited as a result of the Share Offer, our Directors were authorised to capitalise an amount of HK\$5,994,000 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 599,440,000 Shares for allotment and issue to the persons whose names appear on the principal register of members of our Company in the Cayman at the close of business on 25 September 2019 (or another date as our Director 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 shareholdings in our Company, each ranking equally in all respects with the then existing issued Shares, and our Directors were authorised to give effect to such capitalisation and distributions;
 - (iii) the rules of the Post-IPO Share Option Scheme were approved and adopted, and our Directors or any committee thereof established by the Board were authorised, at their sole discretion, to: (a) administer the Post-IPO Share Option Scheme; (b) modify/amend the Post-IPO Share Option Scheme from time to time as requested by the Stock Exchange; (c) grant options to subscribe for Shares under the Post-IPO Share Option Scheme up to the limits referred to in the Post-IPO Share Option Scheme; (d) allot, issue and deal with Shares pursuant to the exercise of any option which may be granted under the Post-IPO

Share Option Scheme; (e) make application at the 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 hereafter from time to time be issued and allotted pursuant to the exercise of the options granted under the Post-IPO Share Option Scheme; and (f) take all such actions as they consider necessary;

- (iv) a general unconditional mandate was given to our Directors to allot, issue and otherwise deal with the Shares or convertible securities and to make or grant offers, agreements and options which would or might require the exercise of such powers (otherwise than pursuant to, or in consequence of, the Share Offer, a rights issue, the exercise of any subscription rights which may be granted under any scrip dividend scheme or similar arrangements, any adjustment of rights to subscribe for shares under any options and warrants or a special authority granted by the Shareholders) with an aggregate of not exceeding 20% of the total number of Shares in issue immediately upon completion of the Share Offer and the Capitalisation Issue, excluding any Shares which may be issued upon the exercise of the Over-allotment Option, the Pre-IPO Share Option Options or any option that may be granted under the Post-IPO Share Option Scheme;
- (v) a general unconditional mandate was given to the Directors authorising them to exercise all powers of our Company to buy back the Shares with a total number of not more than 10% of total number of Shares in issue immediately upon completion of Share Offer and the Capitalisation Issue, excluding any Shares which may be issued upon the exercise of the Over-allotment Option, the Pre-IPO Share Options or any option that may be granted under the Post-IPO Share Option Scheme; and
- (vi) general unconditional mandate as mentioned in paragraph (iv) above was extended by the addition to the aggregate number of Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate number of Shares bought back by our Company pursuant to the mandate to buy back Shares referred to in paragraph (v) above provided that extended amount shall not exceed 10% of the total number of Shares immediately following the completion of the Listing (excluding any Shares which may be issued upon the exercise of the Over-allotment Option, the Pre-IPO Share Options or any option that may be granted under the Post-IPO Share Option Scheme).

Each of the general mandates referred to in paragraphs (iv), (v), and (vi) above will remain in effect until the earlier of (a) the conclusion of the next annual general meeting of our Company, unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions or (b) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in a general meeting.

5. Reorganisation

Our Group underwent the Reorganisation. See the section headed “History, Development, and Reorganisation” in this prospectus for further information relating to the Reorganisation.

6. Buy-back of our own securities

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to buy back their securities on the Stock Exchange subject to certain restrictions, the more important of which are summarised below:

(i) Shareholders’ approval

All proposed buy-back of securities (which must be fully paid up in the case of shares for the purpose of Rule 10.06(1)(a)(i) of the Listing Rules) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to the resolutions passed by our Shareholders on 25 September 2019, the Buy-back Mandate was given to the Directors authorising any buy-back by our Company of Shares on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of not more than 10% of the total number of shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option, such mandate to expire at the conclusion of our next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or applicable Cayman Islands laws to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to our Directors, whichever first occurs.

(ii) Source of funds

Buy-back transactions must be paid out of funds legally available for the purpose in accordance with the Articles and the Cayman Companies Law. A listed company may not buy back its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under the Cayman Companies Law, any buy-back by our Company may be made out of profits of our Company, out of our Company’s share premium account or out of the proceeds of a fresh issue of Shares made for the purpose of buy-back. Any premium payable on a redemption or purchase over the par value of the Shares to be bought back must be provided for out of either or both of the profits of our Company or the share premium account of our Company. Subject to the provisions of the Cayman Companies Law, a buy-back of Shares may also be paid out of capital.

(b) Reasons for buy-back transactions

Our Directors believe that it is in the best interest of our Company and the Shareholders for our Directors to have general authority from our Shareholders to enable our Company to buy back Shares in the market. Such buy-back 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 if our Directors believe that such buy-back will benefit our Company and our Shareholders.

(c) Funding of buy-back transactions

In buying back securities, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws of the Cayman Islands.

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 Buy-back 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 Buy-back Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

The exercise in full of the Buy-back Mandate, on the basis of 800,000,000 Shares in issue immediately after the Listing, would result in up to 80,000,000 Shares being bought back by our Company during the period in which the Buy-back Mandate remains in force.

(d) General

Neither our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buy-back Mandate in accordance with the Listing Rules, the Articles and the applicable laws of the Cayman Islands. If, as a result of a securities buy-back, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. As a result, a Shareholder, a group of Shareholders acting in concert (within the meaning under the Takeovers Code), depending on the level of increase of such Shareholders' interest, could obtain or consolidate control of our Company and may become obliged under Rule 26 of the Takeovers Code to make a mandatory offer unless a whitewash waiver is obtained. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any buy-back pursuant to the Buy-back Mandate.

Our Directors will not exercise the Buy-back Mandate if the buy-back would result in the number of our Shares which are in the hands of the public falling below 25% of the total number of our 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 in the Listing Rules) of our Company has notified us that he/she/it has a present intention to sell our Shares to our Company, or has undertaken not to do so if the Buy-back Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this prospectus that are or may be material:




- (a) Convertible Bond Subscription Agreement;
- (b) Deed of Amendment;
- (c) Deed of Indemnity;
- (d) Deed of Non-Competition; and
- (e) Hong Kong Underwriting Agreement.









2. Intellectual property rights of our Group

As of the Latest Practicable Date, we have registered the following intellectual property rights which, in the opinion of our Directors, are material to our business.

(a) Trademarks







The following sets forth the registered trademarks which are material to our business:

No.	Trademark	Registration No.	Registrant	Class(es)	Place of Registration	Duration of validity
1.		9597151	Greenfresh (Fujian)	29	PRC	21 November 2012-20 November 2022
2.		9597298	Greenfresh (Fujian)	30	PRC	7 May 2014-6 May 2024
3.		14305998	Greenfresh (Fujian)	1	PRC	14 May 2015-13 May 2025





No.	Trademark	Registration No.	Registrant	Class(es)	Place of Registration	Duration of validity
4		14305907	Greenfresh (Fujian)	29	PRC	7 June 2015-6 June 2025
5.		14305993	Greenfresh (Fujian)	1	PRC	14 May 2015-13 May 2025
6.		14305994	Greenfresh (Fujian)	1	PRC	14 May 2015-13 May 2025
7.		14305995	Greenfresh (Fujian)	1	PRC	14 May 2015-13 May 2025
8.		8277617	Lvqi (Fujian)	25	PRC	14 May 2015-13 May 2025
9.		8277643	Lvqi (Fujian)	29	PRC	7 December 2011-6 December 2021
10.		8277663	Lvqi (Fujian)	30	PRC	14 May 2011-13 May 2021
11.		1129668	Lvqi (Fujian)	29	PRC	21 November 1997-20 November 2027

No.	Trademark	Registration No.	Registrant	Class(es)	Place of Registration	Duration of validity
12.		14306002	Lvqi (Fujian)	1	PRC	14 May 2015- 13 May 2025
13.		6365228	Lvqi (Xiamen)	29	PRC	21 October 2009- 20 October 2019
14.		14306000	Lvqi (Xiamen)	1	PRC	14 May 2015- 13 May 2025
15.		14305999	Lvqi (Xiamen)	1	PRC	14 May 2015- 13 May 2025
16.		4700157	Lvqi (Xiamen)	29	PRC	7 March 2008- 6 March 2028
17.		1658715	Lvbao (Quanzhou)	29	PRC	28 October 2001- 27 October 2021
18.		1686735	Lvbao (Quanzhou)	29	PRC	21 December 2011- 20 December 2021

No.	Trademark	Registration No.	Registrant	Class(es)	Place of Registration	Duration of validity
19.		14306003	Greenfresh (Fujian)	1	PRC	7 August 2015-6 August 2025
20.	绿新	14306005	Greenfresh (Fujian)	29	PRC	14 May 2015-13 May 2025
21.	绿新	14305997	Greenfresh (Fujian)	1	PRC	28 July 2015-27 July 2025
22.		24882842	Greenfresh (Fujian)	29	PRC	21 June 2018 - 20 June 2028
23.		24928423	Greenfresh (Fujian)	1	PRC	7 July 2018-6 July 2028
24.		20105835	Shiyanghaiyi	1	PRC	28 September 2017-27 September 2027
25.	珊瑚礁	14306001	Lvqi (Xiamen)	1	PRC	14 May 2015-13 May 2025
26.		20041157	Donghaiwan	29	PRC	14 July 2017-13 July 2027
27.		20041156	Donghaiwan	31	PRC	14 July 2017-13 July 2027
28.		304465666	Company	1, 29	Hong Kong	20 March 2018-19 March 2018

No.	Trademark	Registration No.	Registrant	Class(es)	Place of Registration	Duration of validity
29.		304465620	Company	1, 29	Hong Kong	20 March 2018- 19 March 2028
30.		304465657	Company	1, 29	Hong Kong	20 March 2018- 19 March 2028
31.	绿新	304465675	Company	1, 29	Hong Kong	20 March 2018- 19 March 2028
32.		304465639	Company	1, 29	Hong Kong	20 March 2018 - 19 March 2028
33.		304465684AA	Company	1, 16	Hong Kong	20 March 2018 - 19 March 2028
34.		304465684AB	Company	29	Hong Kong	20 March 2018 - 19 March 2028
35.		304465648AB	Company	29	Hong Kong	20 March 2018 - 19 March 2028

The following sets forth a list of trademark applications submitted by us as of the Latest Practicable Date which are material to our business:

No.	Trademark	Application No.	Applicant	Class(es)	Place of Application	Date of Application
1.		D002015000832	Lvqi (Fujian)	1	Indonesia	12 January 2015
2.		304465648AA	Company	1	Hong Kong	20 March 2018
3.		Temp-342638	Lvqi (Fujian)	1	India	21 January 2015
4.		969613	Lvqi (Fujian)	1	Thailand	14 January 2015

(b) Patents

The following sets forth a list of registered patents as of the Latest Practicable Date which are material to our business:

No.	Patent Name	Patent No.	Category	Patent Holder	Patent Registration Place	Duration of validity
1.	Packaging bags (for carrageenan)	ZL 20143 0513359.X	Design	Greenfresh (Fujian)	PRC	10 December 2014-9 December 2024
2.	Packaging bags (for additive of blended food)	ZL 2014 3 0513473.2	Design	Greenfresh (Fujian)	PRC	10 December 2014-9 December 2024
3.	Quick agar-agar preparation method	ZL 20131 0578000.5	Invention	Greenfresh (Fujian)	PRC	19 November 2013-18 November 2033
4.	Carrageenan extract method	ZL 2013 1 0578792.6	Invention	Greenfresh (Fujian)	PRC	19 November 2013-18 November 2033

APPENDIX V**STATUTORY AND GENERAL INFORMATION**

No.	Patent Name	Patent No.	Category	Patent Holder	Patent Registration Place	Duration of validity
5.	Preparation method of different polymerization of carrageenan products	ZL201510595819.1	Invention	Greenfresh (Fujian)	PRC	18 September 2015-17 September 2035
6.	Water filter device in a seaweed gel production line	ZL 201721244584.2	Utility model	Greenfresh (Fujian)	PRC	26 September 2017-25 September 2027
7.	A new feeding device	ZL 201721242450.7	Utility model	Greenfresh (Fujian)	PRC	26 September 2017-25 September 2027
8.	Dust-proof cloth	ZL 201721241161.5	Utility model	Greenfresh (Fujian)	PRC	26 September 2017-25 September 2027
9.	Gel removal device for filter cloth of filter press	ZL 201721241114.0	Utility model	Greenfresh (Fujian)	PRC	26 September 2017-25 September 2027
10.	Drying device for seaweed gel	ZL 201721237893.7	Utility model	Greenfresh (Fujian)	PRC	26 September 2017-25 September 2027
11.	Rain-proof device installed for drying area of seaweed	ZL 201721237892.2	Utility model	Greenfresh (Fujian)	PRC	26 September 2017-25 September 2027
12.	Seaweed gel shredder	ZL 201721237856.6	Utility model	Greenfresh (Fujian)	PRC	26 September 2017-25 September 2027
13.	New alkaline cleaning and watering	ZL 201721237838.8	Utility model	Greenfresh (Fujian)	PRC	26 September 2017-25 September 2027
14.	Acid wash loop device of alkaline cleaning and watering	ZL 201721237509.3	Utility model	Greenfresh (Fujian)	PRC	26 September 2017-25 September 2027
15.	Dryer applicable for seaweed gel production	ZL 201721237507.4	Utility model	Greenfresh (Fujian)	PRC	26 September 2017-25 September 2027
16.	Seaweed granulation machine	ZL 201721237161.8	Utility model	Greenfresh (Fujian)	PRC	26 September 2017-25 September 2027
17.	Anti-blockage for alkaline treatment and watering	ZL 201721237150.X	Utility model	Greenfresh (Fujian)	PRC	26 September 2017-25 September 2027
18.	Pushing dial dispensing machine	ZL 201320728956.4	Utility model	Greenfresh (Fujian)	PRC	19 November 2013-18 November 2023

No.	Patent Name	Patent No.	Category	Patent Holder	Patent Registration Place	Duration of validity
19.	Soaking pool with alkaline	ZL201721234060.5	Utility model	Greenfresh (Fujian)	PRC	25 September 2017-24 September 2027
20.	Highly efficient seaweed production line	ZL201721237168.X	Utility model	Greenfresh (Fujian)	PRC	26 September 2017-25 September 2027
21.	Steam boiling and stirring tank for seaweed	ZL201721237318.7	Utility model	Greenfresh (Fujian)	PRC	26 September 2017-25 September 2027
22.	New seaweed washing device	ZL201721241375.2	Utility model	Greenfresh (Fujian)	PRC	26 September 2017-25 September 2027
23.	Steam boiling device for seaweed	ZL201721244592.7	Utility model	Greenfresh (Fujian)	PRC	26 September 2017-25 September 2027
24.	Preparation method of instant gracilaria agar with low freezing point	ZL 201510230834.6	Invention	Lvqi (Fujian)	PRC	8 May 2015-7 May 2035
25.	Method for preparing high density gracilaria agar aided with ultrasound	ZL 201210376163.0	Invention	Lvqi (Fujian)	PRC	8 October 2012-7 October 2032
26.	Preparation method of Gracilaria	ZL201610103019.8	Invention	Lvqi (Fujian)	PRC	17 February 2016-16 February 2036
27.	Multi-level seaweed washing pool which utilised recycled water	ZL 201320616480.5	Utility model	Lvqi (Fujian)	PRC	30 September 2013-29 September 2023
28.	Anti-blockage structure for output end of alga soaking or cleaning tank	ZL 201320617168.8	Utility model	Lvqi (Fujian)	PRC	30 September 2013-29 September 2023
29.	Residue rinsing device for Gracilaria process and treatment	ZL201721839843.6	Utility model	Lvqi (Fujian)	PRC	25 December 2017-24 December 2027
30.	Washing device for Gracilaria	ZL201721839160.0	Utility model	Lvqi (Fujian)	PRC	25 December 2017-24 December 2027
31.	Water washing device for enzymatic residue	ZL201721832291.6	Utility model	Lvqi (Fujian)	PRC	25 December 2017-24 December 2027

No.	Patent Name	Patent No.	Category	Patent Holder	Patent Registration Place	Duration of validity
32.	Special tank for steam boiling	ZL201721845547.7	Utility model	Lvqi (Fujian)	PRC	26 December 2017-25 December 2027
33.	Low viscosity treatment reactor	ZL201721844681.5	Utility model	Lvqi (Fujian)	PRC	12 October 2018-11 October 2028
34.	Multi-functions alkaline treatment tank	ZL201721846659.4	Utility model	Lvqi (Fujian)	PRC	26 December 2017-25 December 2027
35.	Seaweed drying device	ZL201721844720.1	Utility model	Lvqi (Fujian)	PRC	26 December 2017-25 December 2027
36.	Steam boiling for Gracilaria	ZL201721885509.4	Utility model	Lvqi (Fujian)	PRC	28 December 2017-27 December 2027
37.	Drying device for agar production	ZL201820009320.7	Utility model	Lvqi (Fujian)	PRC	4 January 2018-3 January 2028
38.	Washing machine for Gracilaria	ZL201820009324.5	Utility model	Lvqi (Fujian)	PRC	4 January 2018-3 January 2028
39.	Sifter for agar production	ZL201820009325.X	Utility model	Lvqi (Fujian)	PRC	4 January 2018-3 January 2028
40.	Size-uniform agarose gel microball production system and its production techniques	ZL201610163332.0	Invention	Lvqi (Xiamen)	PRC	19 March 2016-18 March 2036
41.	Glucosamine included agarose gel microball and its preparation method	ZL201610328568.5	Invention	Lvqi (Xiamen)	PRC	18 May 2016-17 May 2036
42.	New carrageenan and its preparation method and application	ZL201610860334.5	Invention	Lvqi (Xiamen)	PRC	29 September 2016-28 September 2036
43.	Preparation method of instant agarose with high specific surface area	ZL201610861291.2	Invention	Lvqi (Xiamen)	PRC	29 September 2016-28 September 2036

The following sets forth a list of patent applications submitted by us as of the Latest Practicable Date which are material to our business:

No.	Patent Name	Patent Application No.	Category	Applicant(s)	Place of application	Date of application
1.	Carrageenan extraction with enzyme replacing alkali process	2016105934577	Invention	Greenfresh (Fujian)	PRC	26 July 2016
2.	Application of carrageenan and its gene	2017109013617	Invention	Greenfresh (Fujian)	PRC	28 September 2017
3.	Production process of low viscosity whitening carrageenan	2017108989612	Invention	Greenfresh (Fujian)	PRC	28 September 2017
4.	Method for assisting discoloration of carrageenan by enzyme	2017108983758	Invention	Greenfresh (Fujian)	PRC	28 September 2017
5.	Thickening of plum blossom jelly and its application	2018102622375	Invention	Greenfresh (Fujian)	PRC	28 March 2018
6.	Compounded meat product thickener and its application method in meatballs	2017106005873	Invention	Greenfresh (Fujian)	PRC	21 July 2017
7.	Preparation method of high water-retaining carrageenan and its application	2018106494075	Invention	Greenfresh (Fujian)	PRC	22 June 2018
8.	Method for improving the quality of carrageenan	201910328643.1	Invention	Greenfresh (Fujian)	PRC	23 April 2019
9.	Preparation method of modified carrageenan	201910330109.4	Invention	Greenfresh (Fujian)	PRC	23 April 2019
10.	Compounded meat product thickener with high water retention and its application	201910403258.9	Invention	Greenfresh (Fujian)	PRC	15 May 2019

APPENDIX V**STATUTORY AND GENERAL INFORMATION**

No.	Patent Name	Patent Application No.	Category	Applicant(s)	Place of application	Date of application
11.	Preparation method of high quality agar	201910328227.1	Invention	Greenfresh (Fujian) and Lvqi (Fujian)	PRC	23 April 2019
12.	Modification method for improving the quality of agar	201910330731.5	Invention	Greenfresh (Fujian) and Lvqi (Fujian)	PRC	24 April 2019
13.	Method for preserving Lactobacillus bulgaricus using Gracilaria as protective agent	2016101098792	Invention	Lvqi (Fujian)	PRC	25 February 2016
14.	Preparation method of low gel strength agar	2016101036777	Invention	Lvqi (Fujian)	PRC	25 February 2016
15.	Preparation method of Gracilaria for promoting growth of Lactobacillus bulgaricus and its application	2016101036283	Invention	Lvqi (Fujian)	PRC	25 February 2016
16.	Method for whitening agar by enzyme	2017109000119	Invention	Lvqi (Fujian)	PRC	28 September 2017
17.	Production process of low viscosity high water holding agar	2017108995774	Invention	Lvqi (Fujian)	PRC	28 September 2017
18.	Preparation method of agar by spray drying	201810649172X	Invention	Lvqi (Fujian)	PRC	22 June 2018
19.	Preparation method of modified agar and its application in fermented soybean milk	2018106381363	Invention	Lvqi (Fujian)	PRC	21 June 2018
20.	Method for improving agar whiteness	201811161116.8	Invention	Lvqi (Fujian)	PRC	30 September 2018
21.	Preparation method of modified agar with high transparency and gel strength	201910330126.8	Invention	Lvqi (Fujian)	PRC	23 April 2019

No.	Patent Name	Patent Application No.	Category	Applicant(s)	Place of application	Date of application
22.	Preparation method of pH responsive agar and its application	201910330250.4	Invention	Lvqi (Fujian)	PRC	23 April 2019
23.	Preparation method of high whiteness agar	201910330730.0	Invention	Lvqi (Fujian)	PRC	24 April 2019
24.	Preparation method of new model of carrageenan and its application	2016108041757	Invention	Lvqi (Xiamen)	PRC	29 September 2016
25.	Agarose with high resolution and production system and technique	201611263155X	Invention	Lvqi (Xiamen)	PRC	30 December 2016
26.	Acid-tolerant carrageenan and its preparation method	2017109789276	Invention	Lvqi (Xiamen)	PRC	19 October 2017
27.	Preparation method of high-quality locust bean gum	2017110115838	Invention	Lvqi (Xiamen)	PRC	26 October 2017

(c) Domain name

As of the Latest Practicable Date, we have registered the following domain names:

Domain name	Registered owner	Date of registration	Expiry date
Greenfreshfood.com	Greenfresh (Fujian)	7 November 2009	7 November 2019 ⁽¹⁾

Note:

(1) We will renew the registration upon the expiry date.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of interests

(a) *Interests of Directors and chief executive*

So far as our Directors are aware, immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued upon any exercise of the Over-allotment Option, Pre-IPO Share Options, and any option that may be granted under the Post-IPO Share Option Scheme), the long or short positions of our Directors or chief executives in our Shares, underlying Shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, under section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, under the Model Code for Securities Transactions by Directors of Listed Issuers as set forth in Appendix 10 to the Listing Rules (the “**Model Code**”) to be notified to us, once the Shares are listed will be as follows:

(i) *Interest in our Company*

Name of Directors	Nature of interest and capacity	Immediately following completion of the Share Offer and the Capitalisation Issue ⁽¹⁾	
		Number of Shares or underlying shares held	Percentage of Shareholding
Mr. CHAN Kam	Interest in controlled corporation ⁽²⁾	161,700,000	19.48
Chung	Interest under the Concert Party Agreement ⁽³⁾	588,000,000	73.50
Mr. CHAN Shui Yip . . .	Interest in controlled corporation ⁽⁴⁾	161,700,000	19.48
	Interest under the Concert Party Agreement ⁽³⁾	588,000,000	73.50
Mr. GUO Songsen	Interest in controlled corporation ⁽⁵⁾	92,603,571	11.58
	Interest under the Concert Party Agreement ⁽³⁾	588,000,000	73.50
Mr. GUO Dongxu	Interest in controlled corporation ⁽⁶⁾	66,150,000	8.27
	Interest under the Concert Party Agreement ⁽³⁾	588,000,000	73.50

Notes:

- (1) Assuming the Over-allotment Option, the Pre-IPO Share Options, and any option that may be granted under the Post-IPO Share Option Scheme are not exercised.

- (2) Mr. CHAN Kam Chung held all issued share in COS Kreation. Therefore, Mr. CHAN Kam Chung is deemed to be interested in all the Shares held by COS Kreation for the purpose of the SFO. Mr. CHAN Kam Chung is the sole director of COS Kreation.
- (3) All Controlling Shareholders are Concert Parties by virtue of the Concert Party Agreement, a summary of which is set forth in the section headed “Controlling Shareholders and Substantial Shareholders — Summary of terms of the Concert Party Agreement” in this prospectus.
- (4) Mr. CHAN Shui Yip held all issued share in Epoch. Therefore, Mr. CHAN Shui Yip is deemed to be interested in all the Shares held by Epoch for the purpose of the SFO. Mr. CHAN Shui Yip is the sole director of Epoch.
- (5) Mr. GUO Songsen held all issued share in Green Forest. Therefore, Mr. GUO Songsen is deemed to be interested in all the Shares held by Green Forest for the purpose of the SFO. Mr. GUO Songsen is the sole director of Green Forest.
- (6) Mr. GUO Dongxu held all issued share in Strong Achievement. Therefore, Mr. GUO Dongxu is deemed to be interested in all the Shares held by Strong Achievement for the purpose of the SFO. Mr. GUO Dongxu is the sole director of Strong Achievement.

(ii) *Interest in associated corporation*

Name of Directors	Name of associated corporation	Nature of interest and capacity	Number of shares	Percentage of shareholding (%)
Mr. CHAN Kam Chung.	COS Kreation	Beneficial owner	One	100
Mr. CHAN Shui Yip . . .	Epoch	Beneficial owner	One	100
Mr. GUO Songsen.	Green Forest	Beneficial owner	One	100

(b) *Interests of substantial shareholders*

So far as our Directors are aware, immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued upon any exercise of the Over-allotment Option, the Pre-IPO Share Options, and any option that may be granted under the Post-IPO Share Option Scheme), the following persons (not being a Director or a chief executive of our Company) will have interests or short positions in our Shares or underlying Shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at general meetings of any member of our Group or has any option in respect of such capital:

Name of substantial shareholders	Nature of interest and capacity	Immediately following completion of the Share Offer and the Capitalisation Issue ⁽¹⁾ Number of Shares held	Percentage of Shareholding
COS Kreation.	Beneficial owner ⁽²⁾	161,700,000	19.48
	Interest under the Concert Party Agreement ⁽³⁾	588,000,000	73.5

Name of substantial shareholders	Nature of interest and capacity	Immediately following completion of the Share Offer and the Capitalisation Issue ⁽¹⁾	
		Number of Shares held	Percentage of Shareholding
Epoch	Beneficial owner ⁽⁴⁾	161,700,000	19.48
	Interest under the Concert Party Agreement ⁽³⁾	588,000,000	73.5
Green Forest	Beneficial owner ⁽⁵⁾	92,603,571	11.58
	Interest under the Concert Party Agreement ⁽³⁾	588,000,000	73.5
Strong Achievement . . .	Beneficial owner ⁽⁶⁾	66,150,000	8.27
	Interest under the Concert Party Agreement ⁽³⁾	588,000,000	73.5
Winning Path	Beneficial owner ⁽⁷⁾	66,150,000	8.27
	Interest under the Concert Party Agreement ⁽³⁾	588,000,000	73.5
East Prosperity	Beneficial owner ⁽⁸⁾	39,696,729	4.96
	Interest under the Concert Party Agreement ⁽³⁾	588,000,000	73.5

Notes:

- (1) Assuming the Over-allotment Option, the Pre-IPO Share Options, and option that may be granted under the Post-IPO Share Option Scheme are not exercised.
- (2) Mr. CHAN Kam Chung held all issued share in COS Kreation. Therefore, Mr. CHAN Kam Chung is deemed to be interested in all the Shares held by COS Kreation for the purpose of the SFO. Mr. CHAN Kam Chung is the sole director of COS Kreation.
- (3) All Controlling Shareholders are Concert Parties.
- (4) Mr. CHAN Shui Yip held all issued share in Epoch. Therefore, Mr. CHAN Shui Yip is deemed to be interested in all the Shares held by Epoch for the purpose of the SFO. Mr. CHAN Shui Yip is the sole director of Epoch.
- (5) Mr. GUO Songsen held all issued share in Green Forest. Therefore, Mr. GUO Songsen is deemed to be interested in all the Shares held by Green Forest for the purpose of the SFO. Mr. GUO Songsen is the sole director of Green Forest.
- (6) Mr. GUO Dongxu held all issued share in Strong Achievement. Therefore, Mr. GUO Dongxu is deemed to be interested in all the Shares held by Strong Achievement for the purpose of the SFO. Mr. GUO Dongxu is the sole director of Strong Achievement.
- (7) Mr. GUO Yuansuo held all issued share in Winning Path. Therefore, Mr. GUO Yuansuo is deemed to be interested in all the Shares held by Winning Path for the purpose of the SFO. Mr. GUO Yuansuo is the sole director of Winning Path.
- (8) Mr. GUO Donghuang held all issued share in East Prosperity. Therefore, Mr. GUO Donghuang is deemed to be interested in all the Shares held by East Prosperity for the purpose of the SFO. Mr. GUO Donghuang is the sole director of East Prosperity.

(c) Interest of substantial shareholders in members of our Group (other than our Company)

<u>Member of our Group</u>	<u>Number of shareholders with 10% or more equity interest other than us</u>	<u>Percentage of the substantial shareholders</u>
Lvqi (Shanghai)	Shanghai Quanyue Investment Management Limited	35.0
	Mr. FENG Shifei	4.0

2. Further information about our Directors*(a) Particulars of service contracts with executive Directors*

Each of the executive Directors has entered into a service contract with our Company on 25 September 2019. The principal particulars of the service agreement are (a) for a term of three years commencing from the Listing Date and (b) subject to termination in accordance with their respective terms. The service agreement may be renewed in accordance with our Articles and the applicable laws and regulations.

(b) Particulars of letters of appointment with independent non-executive Directors and non-executive Director

Each of the independent non-executive Directors and the non-executive Director has signed a letter of appointment with our Company on 25 September 2019 for a term of three years commencing on the Listing Date. The letters of appointment are subject to termination in accordance with their respective terms.

(c) Remuneration of Directors

The aggregate amount of fees, salaries, contributions to retirement benefits, discretionary bonuses, allowances and other benefits in kind granted to our Directors (in a capacity as directors or employees of any subsidiary of our Group) for the three years ended 31 December 2018 were HK\$0.6 million, HK\$0.7 million, and HK\$3.2 million, respectively.

Under the arrangements in force at the date of this prospectus, our Directors will be entitled to receive remuneration (including salaries, allowances, performance related cash bonuses and other benefits in kind such as contributions to pension scheme) which is expected to be HK\$3.6 million for the year ending 31 December 2019.

There has been no arrangement under which a Director has waived or agreed to waive any remuneration or benefits in kind for the Track Record Period.

3. Fees or commissions received

None of the Directors or any of the persons whose names are listed under the paragraphs under “E. Other Information — 8. Consent of experts” below had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this prospectus.

4. Related party transactions

Save as disclosed in the sections headed “Continuing Connected Transactions” and “Relationship with our Controlling Shareholders — Our Controlling Shareholders — Financial independence” in this prospectus and note 32 to the Accountant’s Report, the text of which is set forth in Appendix I to this prospectus, during the Track Record Period and up to the date of this prospectus, our Company has not conducted any other material connected transactions or related party transactions.

5. Disclaimers

Save as disclosed in this prospectus:

- (a) none of our Directors or chief executives has any interests and short positions in our Shares, underlying Shares and debentures of our Company or its associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code to be notified to us and the Stock Exchange, in each case once our Shares are listed on the Stock Exchange;
- (b) so far as is known to any of our Directors or chief executives, no person has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or 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;
- (c) none of our Directors nor any of the parties listed in the paragraphs under “E. Other Information — 8. Consents of experts” of this Appendix is interested in our promotion, or in any assets which have, within the two years immediately preceding the issue of this prospectus, been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to us;
- (d) or in connection with the Underwriting Agreements, none of our Directors nor any of the parties listed in the paragraphs under “E. Other Information — 8. Consents of experts” of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group;

- (e) save in connection with the Underwriting Agreements, none of the parties listed in the paragraphs under “E. Other Information — 8. Consents of experts” of this Appendix: (i) is interested legally or beneficially in any of our Shares or any share in any of our subsidiaries; or (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;
- (f) none of our Directors or their respective associates (as defined under the Listing Rules) or any of our Shareholders (who to the knowledge of our Directors owns more than 5% of our issued share capital) has any interest in our five largest suppliers or customers; and
- (g) None of the Directors or any past Directors of any members of our Group has been paid any sum of money for the Track Record Period (i) as an inducement to join or upon joining us or (ii) for loss of office as a Director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

D. SHARE OPTION SCHEMES

1. Pre-IPO Share Option Scheme

Our Company adopted the Pre-IPO Share Option Scheme by written resolutions on 5 August 2018. The Pre-IPO Share Option Scheme is intended to provide employees of our Group, a former minority shareholder of Shiyanghaiyi, and a consultant to our Controlling Shareholders an opportunity to enjoy our success. The principal terms of the Pre-IPO Share Option Scheme are similar to the terms of the Post-IPO Share Option Scheme except for the following:

- (a) the subscription price per Share shall be HK\$0.01, representing 99.3% discount to the mid-point of the indicative range of the Offer Price. Assuming the Offer Price is HK\$1.45 (being the mid-point of the indicative range of the Offer Price), the exercise price of each pre-IPO Share Option will be HK\$0.01 per Share and we will receive a total consideration of HK\$341,200 if all Pre-IPO Share Options are exercised; and
- (b) save for the options which have been granted, no further options will be offered or granted, as the right to do so will end upon Listing.

As of the date of this prospectus, the Pre-IPO Share Options for an aggregate of 34,120,000 Shares, representing 4.1% of our Shares in issue immediately following completion of the Share Offer, Capitalisation Issue and assuming full exercise of the Pre-IPO Share Options (without taking into consideration our Shares that may be issued or sold pursuant to the exercise of the Over-allotment Option, and any option that may be granted under the Post-IPO Share Option Scheme), have been granted to the Grantees. No further Pre-IPO Share Options will be granted. Each of the Grantees is required to pay HK\$1.0 by way of consideration for the grant of the Pre-IPO Share Options.

The following table sets forth the information on the Grantees:

Grantees	Relationship with our Group	Date of acceptance of grant	Residential address	Number of Shares to be issued pursuant to the exercise of the Pre-IPO Share Options in full	Percentage of Shares in issue immediately following completion of the Share Offer and the Capitalisation issue without taking into consideration any Shares that may be issued upon the exercise of the Over-allotment Option, the Pre-IPO Share Options, and any option that may be granted under the Post-IPO Share Option Scheme
1. Mr. DAI Longin	Assistant General Manager and chief engineer	9 August 2018	Rm.1602, No.15, Lane 328, Xu Chang Road, Yang Pu District, Shanghai, PRC	12,000,000	1.44
2. Mr. CHO Chun Wo	Sales Director	9 August 2018	Flat F, 15/F, Block 5, Vision City, Yeung UK Road, Tsuen Wan, Hong Kong	6,000,000	0.72
3. Mr. SU Wenmiao	Finance Controller	9 August 2018	Room 302, Building 25, Yungu District, Feng Yun Road No.62, Quanzhou Fengze District, Fujian Province, PRC	4,160,000	0.50
4. Mr. SHI Jijin	A former minority shareholder of Shiyanghaiyi	9 August 2018	Room 1302, No.30, Lane 867 Xiuyan Road, Pudong New District, Shanghai, PRC	4,160,000	0.50
5. Growth Profit International Limited ⁽¹⁾	N/A	9 August 2018	Start Chambers, Wickham's Cay II, P.O. Box 2221, Road Town, Tortola, British Virgin Island	7,800,000	0.94

Note:

- (1) Growth Profit International Limited is a company incorporated in the BVI and wholly-owned by Mr. NI Zhongsen and that his residential address is Room 2-2602, Guoji Hua Cheng, Ci Tong Road East, Quanzhou, Fujian Province, the PRC. Mr. NI Zhongsen is a consultant to our Controlling Shareholders.

All holders of Pre-IPO Share Options may only exercise their Pre-IPO Share Options in the following manner:

Name of Grantees	Exercise period of the relevant Pre-IPO Share Options	Maximum percentage of exercisable Pre-IPO Share Options
Mr. DAI Longjin	Valid for five years starting from the Listing Date. All unexercised Pre-IPO Share Options after the relevant exercise periods or upon resignation will lapse.	20% per annum for a period of five years immediately starting from the Listing Date
Mr. CHO Chun Wo	Valid for five years starting from the Listing Date. All unexercised Pre-IPO Share Options after the relevant exercise periods or upon resignation will lapse.	20% per annum for a period of five years immediately starting from the Listing Date
Mr. SU Wenmiao	Valid for five years starting from the Listing Date. All unexercised Pre-IPO Share Options after the relevant exercise periods or upon resignation will lapse.	20% per annum for a period of five years immediately starting from the Listing Date
Mr. SHI Jijin	Valid for five years immediately after six months after the Listing Date	100%
Growth Profit International Limited	Valid for five years immediately after six months after the Listing Date	100%

Application has been made to the Listing Committee for the listing of, and permission to deal in, on the Main Board our Shares which may be issued pursuant to the exercise of the Pre-IPO Share Options, that is 34,120,000 Shares representing 4.1% of the total number of Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue.

The impact of the Pre-IPO Share Options on the operating results of our Group will be accounted for in the consolidated financial statements for each of the six years ending 31 December 2023. Our Directors confirm that the amount charged to our income statement for the year ended 31 December 2018 was HK\$17.6 million and that the amount to be charged to our income statement for the year ending 31 December 2019 is expected to be HK\$5.3 million based on the terms of the Pre-IPO Share Options. The negative impact on earnings per Share for the year ended 31 December 2018 is decreased by 15.8%. The negative impact on earning for the year ending 31 December 2019 is expected to be 4.3%, respectively.

2. Post-IPO Share Option Scheme

The following is a summary of principal terms of the Post-IPO Share Option Scheme conditionally adopted by our Shareholders pursuant to the resolutions passed on 25 September 2019 (the “**Adoption Date**”) and subject to the approval of our Shareholders at the extraordinary general meeting of our Company. The terms of the Post-IPO Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

Our Company will disclose details of the Post-IPO Share Option Scheme in its annual and interim reports including but not limited to the number of options, date of grant, exercise price, exercise period and vesting period during the financial year in the annual/interim reports in accordance with the Listing Rules in force from time to time.

As of the Latest Practicable Date, no option had been granted or agreed to be granted under the Post-IPO Share Option Scheme.

Application has been made to the Listing Committee for the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Post-IPO Share Option Scheme, i.e. 80,000,000 Shares in total.

1. Purpose

The purpose of the Post-IPO Share Option Scheme is to enable our Company to grant Options (as defined below) to Eligible Participants (as defined below) as incentives or rewards for their contribution or potential contribution to our Group and to provide the Eligible Participants an opportunity to have a personal stake in our Company with the view to achieving the following objectives:-

- (a) motivate the Eligible Participants to optimise their performance efficiency for the benefit of our Group;
- (b) attract and retain or otherwise maintain on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of our Group; and/or
- (c) for such purposes as our Board may approve from time to time.

2. Conditions of the Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme shall come into effect on the date on which the following conditions are fulfilled:

- (a) subject to (b) and (c) below, the approval of our Shareholders at extraordinary general meeting for the adoption of the Post-IPO Share Option Scheme;

- (b) the approval of the Stock Exchange for the listing of and permission to deal in, a maximum of 80,000,000 Shares to be allotted and issued pursuant to the exercise of the options (“**Options**”) in accordance with the terms and conditions of the Post-IPO Share Option Scheme;
- (c) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with its terms or otherwise; and
- (d) the commencement of dealing of our Shares on the Main Board on the Listing Date.

3. Who may join

Our Board may, at its absolute discretion, offer Options to subscribe for such number of Shares in accordance with the terms set forth in the Post-IPO Share Option Scheme to:-

- (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group (the “**Executive**”), any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of our Group (the “**Employee**”);
- (b) a director or proposed director (including an independent non-executive director) of any member of our Group;
- (c) a direct or indirect shareholder of any member of our Group;
- (d) a supplier of goods or services to any member of our Group;
- (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group;
- (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; and
- (g) an associate of any of the persons referred to in paragraphs (a) to (c) above.

(the persons referred above are the “**Eligible Participants**”)

4. Maximum number of Shares

The maximum number of Shares which may be issued upon exercise of all Options to be granted under the Post-IPO Share Option Scheme and any other schemes of our Group shall not in aggregate exceed 10% of our Shares in issue as of the Listing Date, i.e. 80,000,000 Shares, excluding Shares which may fall to be issued upon the exercise of the Over-allotment Option (the “**Scheme Mandate Limit**”) provided that:-

- (a) Our Company may at any time as our Board may think fit seek approval from our Shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all Options and options under any other schemes of our Company shall

not exceed 10% of our Shares in issue as of the date of approval by Shareholders in general meeting where the Scheme Mandate Limit is refreshed. Options previously granted under the Post-IPO Share Option Scheme and any other schemes of our Company (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the Post-IPO Share Option Scheme or any other schemes of our Company) shall not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. Our Company shall send to our Shareholders a circular containing the details and information required under the Listing Rules.

- (b) Our Company may seek separate approval from our Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit, provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Participants specifically identified by our Company before such approval is obtained. Our Company shall issue a circular to our Shareholders containing the details and information required under the Listing Rules.
- (c) The maximum number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other schemes of our Group shall not exceed 30% of our Shares in issue from time to time. No Options may be granted under the Post-IPO Share Option Scheme and any other Post-IPO Share Option Scheme of our Company if this will result in such limit being exceeded.

5. Maximum number of Option to each participant

No Option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to that person in any 12-month period exceeds 1% of our Shares in issue from time to time. Where any further grant of Options to such an Eligible Participant would result in our Shares issued and to be issued upon exercise of all Options granted and to be granted to such Eligible Participant (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of our Shares in issue, such further grant shall be separately approved by our Shareholders in general meeting with such Eligible Participant and his close associates (or his associates if the Eligible Participant is a connected person) abstaining from voting. Our Company shall send a circular to our Shareholders disclosing the identity of the Eligible Participant, the number and terms of the Options to be granted (and Options previously granted) to such Eligible Participant, and containing the details and information required under the Listing Rules. The number and terms (including the exercise price) of the Options to be granted to such Eligible Participant must be fixed before the approval of our Shareholders and the date of our Board meeting proposing such grant shall be taken as the date of grant for the purpose of calculating the subscription price of those Options.

6. Offer and grant of Options

Subject to the terms of the Post-IPO Share Option Scheme, our Board shall be entitled at any time within 10 years from the date of adopting the Post-IPO Share Option Scheme to offer the grant of an Option to any Eligible Participant as our Board may in its absolute discretion select to subscribe at the subscription price for such number of Shares as our Board may (subject to the terms of the Post-IPO Share Option Scheme) determine (provided the same shall be a board lot for dealing in our Shares on the Stock Exchange or an integral multiple thereof).

7. Granting Options to connected persons

Subject to the terms in the Post-IPO Share Option Scheme, only insofar as and for so long as the Listing Rules require, where any offer of an Option is proposed to be made to a director, chief executive or a substantial shareholder (as defined in the Listing Rules) of our Company, or any of their respective associates, such offer must first be approved by the independent non-executive Directors (excluding the independent non-executive Director who or whose associates is the grantee of an Option).

Where any grant of Options to a substantial shareholder (as defined in the Listing Rules) or an independent non-executive Director, or any of their respective associates, would result in the securities issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:-

- (a) representing in aggregate over 0.1% of the relevant class of securities in issue; and
- (b) (where the securities are listed on the Stock Exchange), having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK\$5 million, such further grant of Options must be approved by our Shareholders (voting by way of a poll). Our Company shall send a circular to our Shareholders containing the information required under 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.

Approval from our Shareholders is required for any change in the terms of Options granted to a Eligible Participant who is a substantial shareholder or an independent non-executive Director, or any of their respective associates. The grantee, his associates and all core connected persons of our Company must abstain from voting in favour at such general meeting.

8. Offer period and number accepted

An offer of the grant of an Option shall remain open for acceptance by the Eligible Participant concerned for a period of 30 days from the offer date (the “**Offer Date**”) provided that no such grant of an Option may be accepted after the expiry of the effective period of the Post-IPO Share Option Scheme. An Option shall be deemed to have been granted and accepted by the Eligible Participant and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the Option duly signed by the grantee together with a remittance in favour of our Company of HK\$1.0 by way of consideration for the grant thereof is received by our Company on or before the date upon which an offer of an Option must be accepted by the relevant Eligible Participant, being a date not later than 30 days after the Offer Date (the “**Acceptance Date**”). Such remittance shall in no circumstances be refundable.

Any offer of the grant of an Option may be accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in respect of board lots for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer letter comprising acceptance of the offer of the Option. To the extent that the offer of the grant of an Option is not accepted by the Acceptance Date, it will be deemed to have been irrevocably declined.

9. Restriction on the time of grant of Options

Our Board shall not grant any Option under the Post-IPO Share Option Scheme after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the Listing Rules. In particular, no Option shall be granted during the period commencing one month immediately preceding the earlier of the date of our Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and the deadline for our Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcements.

10. Minimum holding period, vesting and performance target

Subject to the provisions of the Listing Rules, our Board may in its absolute discretion when offering the grant of an Option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Post-IPO Share Option Scheme as our Board may think fit (to be stated in the letter containing the offer of the grant of the Option) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by our Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the Option in respect of all or any of our Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Post-IPO Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as our Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an Option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the Option can be exercised.

11. Amount payable for Options

The amount payable on acceptance of an Option is HK\$1.0.

12. Subscription price

The subscription price of a Share in respect of any particular Option shall be such price as our Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the subscription price shall not be less than whichever is the highest of:

- (a) the nominal value of a Share;
- (b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the date of grant; and

- (c) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the 5 business days (as defined in the Listing Rules) immediately preceding the date of grant.

13. Exercise of Option

- (i) An Option shall be exercised in whole or in part (but if in part only, in respect of a board lot or any integral multiple thereof) within the Option period in the manner as set forth in this Post-IPO Share Option Scheme by the grantee by giving notice in writing to our Company stating that the Option is thereby exercised and specifying the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given. Within 30 days after receipt of the notice and, where appropriate, receipt of a certificate from our auditors pursuant to the Post-IPO Share Option Scheme, our Company shall accordingly allot and issue the relevant number of Shares to the grantee (or his legal personal representative(s)) credited as fully paid with effect from (but excluding) the relevant exercise date and issue to the grantee (or his legal personal representative(s)) share certificate(s) in respect of our Shares so allotted.
- (ii) The exercise of any Option may be subject to a vesting schedule to be determined by our Board in its absolute discretion, which shall be specified in the offer letter.
- (iii) The exercise of any Option shall be subject to our Shareholders in general meeting approving any necessary increase in the authorised share capital of our Company.
- (iv) Subject as hereinafter provided:
 - (a) in the case of the grantee ceasing to be an Eligible Participant by reason of death or permanent disability (all evidenced to the satisfaction of the Board) and none of the events which would be a ground for termination of his relationship with our Group under paragraph 16 (e) below has occurred, the grantee or the personal representative(s) of the grantee shall be entitled within a period of 12 months (or such longer period as the Board may determine) from the date of cessation of being an Eligible Participant or death to exercise the Option in full (to the extent not already exercised);
 - (b) in the event that the grantee ceases to be an executive for any reason (including his employing company ceasing to be a member of our Group) other than his death, permanent disability, retirement pursuant to such retirement scheme applicable to our Group at the relevant time or the transfer of his employment to an affiliate company or the termination of his employment with the relevant member of our Group by resignation or termination on the ground of misconduct, the Option (to the extent not already exercised) shall lapse on the date of cessation of such employment and not be exercisable unless our Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as our Board may in its absolute discretion determine following the date of such cessation;

- (c) if a general offer is made to all Shareholders and such offer becomes or is declared unconditional (in the case of a takeover offer) or is approved by the requisite majorities at the relevant meetings of our Shareholders (in the case of a scheme of arrangement), the grantee shall be entitled to exercise the Option (to the extent not already exercised) at any time (in the case of a takeover offer) within one month after the date on which the offer becomes or is declared unconditional or (in the case of a scheme of arrangement) prior to such time and date as shall be notified by our Company;
- (d) if a compromise or arrangement between our Company and its members or creditors is proposed for the purpose of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company, our Company shall give notice thereof to the grantees who have Options unexercised at the same time as it dispatches notices to all members or creditors of our Company summoning the meeting to consider such a compromise or arrangement and thereupon each grantee (or his legal representatives or receiver) may until the expiry of the earlier of:
- (i) the Option period (in respect of any particular Option, the period commencing immediately after the business day (as defined in the Listing Rules) on which the Option is deemed to be granted and accepted in accordance with the Post-IPO Share Option Scheme and expiring on a date to be determined and notified by our Directors to each grantee provided that such period shall not exceed the period of 10 years from the date of the grant of a particular Option but subject to the provisions for early termination thereof contained in the Post-IPO Share Option Scheme);
 - (ii) the period of two months from the date of such notice; or
 - (iii) the date on which such compromise or arrangement is sanctioned by the court,
- exercise in whole or in part his Option.
- (e) in the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it dispatches such notice to each member of our Company give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his Options at any time not later than two business days (as defined in the Listing Rules) prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day (as defined in the Listing Rules) immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

14. Ranking of Shares

Our Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the Memorandum and the Articles and the laws of the Cayman Islands from time to time and shall rank *pari passu* in all respects with the then existing fully paid Shares in issue on the allotment date or, if that date falls on a day when the register of members of our Company is closed, the first date of the re-opening of the register of members, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the allotment date or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members, other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be before the allotment date.

A Share issued upon the exercise of an Option shall not carry rights until the registration of the grantee (or any other person) as the holder thereof.

15. Life of Post-IPO Share Option Scheme

Subject to the terms of the Post-IPO Share Option Scheme, the Post-IPO Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further Options will be granted or offered but the provisions of the Post-IPO Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting Options granted prior to the expiry of the 10-years period or otherwise as may be required in accordance with the provisions of the Post-IPO Share Option Scheme.

16. Lapse of Options

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (a) the expiry date relevant to that Option;
- (b) the expiry of any of the period referred to paragraphs related to exercise of Option;
- (c) the date of the commencement of the winding-up of our Company;
- (d) the date on which the scheme of arrangement of our Company becomes effective;
- (e) the date on which the grantee ceases to be an Eligible Participant by reason of the termination of his relationship with our Group on any one or more of the following grounds:
 - (i) that he has been guilty of serious misconduct;
 - (ii) that he has been convicted of any criminal offence involving his integrity or honesty or in relation to an employee of our Group;

- (iii) that he has become insolvent, bankrupt or has made arrangements or compositions with his creditors generally; or
 - (iv) on any other ground as determined by our Board that would warrant the termination of his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group. A resolution of our Board or our board of directors of the relevant subsidiary to the effect that the relationship of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; and
- (f) the date on which our Board shall exercise our Company's right to cancel the Option at any time after the grantee commits a breach of the restriction on transferability of Option or the Options are cancelled.

No compensation shall be payable upon the lapse of any Option, provided that our Board shall be entitled in its discretion to pay such compensation to the grantee in such manner as it may consider appropriate in any particular case.

17. Adjustment

In the event of any capitalisation issue, rights issue, sub-division or consolidation of Shares or reduction of the share capital of our Company in accordance with applicable laws and regulatory requirements, such corresponding alterations (if any) shall be made (except on an issue of securities of our Company as consideration in a transaction which shall not be regarded as a circumstance requiring alteration or adjustment) in:

- (a) the number of Shares subject to any outstanding Options;
- (b) the subscription price of each Option;
- (c) the Shares to which the Option relates;
- (d) the method of exercise of the Option; and/or
- (e) any combination thereof,

as the auditors or an approved independent financial adviser shall at the request of our Company or any grantee, certify in writing either generally or as regards any particular grantee, to be fair and reasonable, provided that any such alterations shall be made on the basis that a grantee shall have the same proportion of the equity capital of our Company (as interpreted in accordance with the supplementary guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes) as that to which he was entitled to subscribe had he exercised all the Options held by him immediately before such adjustments and the aggregate exercise price payable by a grantee on the full exercise of any Option shall remain as nearly as possible the same as (but shall not be greater than) it was before such event and that no such alterations shall be made if the effect of such alterations would be to enable a Share to be issued at less than its nominal value. The capacity of the auditors or the independent financial adviser, as the case may be, in this

paragraph is that of experts and not arbitrators and their certificate shall, in the absence of manifest error, be final and conclusive and binding on our Company and the grantees. The costs of the auditors or the independent financial adviser to our Company shall be borne by our Company. Notice of such adjustment shall be given to the grantees by our Company.

18. Cancellation of Options not exercised

Our Board shall be entitled for the following causes to cancel any Option in whole or in part by giving notice in writing to the grantee stating that such Option is thereby cancelled with effect from the date specified in such notice (the “**Cancellation Date**”):

- (a) the grantee commits or permits or attempts to commit or permit a breach of the restriction on transferability of Option or any terms or conditions attached to the grant of the Option;
- (b) the grantee makes a written request to our Board for the Option to be cancelled; or
- (c) if the grantee has, in the opinion of our Board, conducted himself in any manner whatsoever to the detriment of or prejudicial to the interests of our Company or its subsidiary.

The Option shall be deemed to have been cancelled with effect from the Cancellation Date in respect of any part of the Option which has not been exercised as of the Cancellation Date. No compensation shall be payable upon any such cancellation, provided that our Board shall be entitled in its discretion to pay such compensation to the grantee in such manner as it may consider appropriate in any particular case.

19. Termination

Our Company may by resolution in general meeting at any time terminate the operation of the Post-IPO Share Option Scheme. Upon termination of the Post-IPO Share Option Scheme as aforesaid, no further Options shall be offered but the provisions of the Post-IPO Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any Option granted prior to the termination or otherwise as may be required in accordance with the provisions of the Post-IPO Share Option Scheme. All Options granted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Post-IPO Share Option Scheme.

20. Transferability of Options

The Option or an Offer (the “**Offer**”) of the grant of an Option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any Option held by him or any Offer made to him or attempt so to do (save that the grantee may nominate a nominee in whose name our Shares issued pursuant to the Post-IPO Share Option Scheme may be registered). Any breach of the foregoing shall entitle our Company to cancel any outstanding Option or part thereof granted to such grantee.

21. Amendment

The Post-IPO Share Option Scheme may be altered in any respect by a resolution of our Board except that the following shall not be carried out except with the prior sanction of an ordinary resolution of our Shareholders in general meeting, provided always that the amended terms of the Post-IPO Share Option Scheme shall comply with the applicable requirements of the Listing Rules:

- (i) any material alteration to its terms and conditions of the Post-IPO Share Option Scheme or any change to the terms of Options granted (except where the alterations take effect automatically under the terms of the Post-IPO Share Option Scheme);
- (ii) any alteration to the provisions of the Post-IPO Share Option Scheme in relation to the matters set forth in Rule 17.03 of the Listing Rules to the advantage of grantees or the Eligible Participants (as the case may be); and
- (iii) any alteration to the aforesaid termination provisions.

E. OTHER INFORMATION**1. Tax and other indemnities**

Our Directors have been advised that no material liability for estate duty is likely to fall on any member of our Group in the Cayman Islands and Hong Kong.

Each of our Controlling Shareholders has entered into the Deed of Indemnity in favour of our Company (for ourselves and on behalf of our subsidiaries) whereby each of our Controlling Shareholders has jointly and severally indemnified us and keep members of our Group at all times fully indemnified against any depletion in or diminution in value of our assets as a direct or indirect consequence of any of the following:

- (a) any duty which is or hereafter becomes payable by any member of our Group by virtue of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong, as amended by the Revenue (Abolition of Estate Duty) Ordinance or the equivalent thereof under the laws of any jurisdiction outside Hong Kong or by virtue of section 43 of the Estate Duty Ordinance or the equivalent thereof under the laws of any jurisdiction outside Hong Kong by reason of the death of any person and by reason of the assets of any member of our Group being deemed for the purpose of Hong Kong estate duty to be included in the property passing on his or her death by reason of that person making or having made a relevant transfer to any member of our Group on or before the Listing Date;

- (b) any amount recovered against any member of our Group under the provisions of section 43(7) of the Estate Duty Ordinance or the equivalent thereof under the laws of any jurisdiction outside Hong Kong in respect of any duty payable under section 43(1)(c) or 43(6) of the Estate Duty Ordinance or the equivalent thereof under the laws of any jurisdiction outside Hong Kong by reason of the death of any person and by reason of the assets of any member of our Group being deemed for the purpose of Hong Kong estate duty to be included in the property passing on his death by reason of that person making or having made a relevant transfer to any member of our Group on or before the Listing Date;
- (c) any amount of duty which any member of our Group is obliged to pay by virtue of section 43(1)(c) of the Estate Duty Ordinance or the equivalent thereof under the laws of any jurisdiction outside Hong Kong in respect of the death of any person in any case where the assets of another company are deemed for the purpose of Hong Kong estate duty to be included in the property passing on that person's death by reason of that person making or having made a relevant transfer to that other company and by reason of any member of our Group having received any distributed assets of that other company on their distribution within the meaning of the Estate Duty Ordinance or the equivalent thereof under the laws of any jurisdiction outside Hong Kong on or before the Listing Date, but only to the extent to which any member of our Group is unable to recover an amount or amounts in respect of that duty from any other person under the provisions of section 43(7)(a) of the Estate Duty Ordinance;
- (d) any penalty imposed on any member of our Group under section 42 of the Estate Duty Ordinance on or before the Listing Date by reason of the relevant company defaulting on any obligation to give information to the Inland Revenue Department under section 42(1) of the Estate Duty Ordinance; and
- (e) any and all taxation falling on any member of our Group resulting from or by reference to any income, profits or gains earned, accrued or received (or deemed to be so earned, accrued or received) on or before the Listing Date or any event occurring or deemed to occur on or before such date whether alone or in conjunction with any other event whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company including any and all taxation resulting from the receipt by any member of our Group of any amount paid by our Controlling Shareholders under the Deed of Indemnity.

Each of our Controlling Shareholders shall, however, not be liable under the Deed of Indemnity for taxation, claim or liability to the extent that:

- (a) to the extent that provisions, reserve or allowance has been made for such taxation in audited consolidated financial statements of our Group during the Track Record Period;
- (b) for which any member of our Group is liable as a result of any event occurring or income, profits or gains earned, accrued or received or alleged to have been earned, accrued or received or transactions entered into in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after the Listing Date;

- (c) to the extent that such taxation or liability would not have arisen but for any act or omission by any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) voluntarily effected without the prior written consent or agreement of our Controlling Shareholders, otherwise than in the ordinary course of business after the Listing Date or carried out, made or entered into pursuant to a legally binding commitment created after 31 March 2019;
- (d) to the extent that such taxation or liability is discharged by another person who is not any member of our Group and that any member of our Group is not required to reimburse such person in respect of the discharge of the taxation or liability; and
- (e) to the extent that such claim arises or is incurred as a consequence of any retrospective change in the law or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the tax authorities or any other authority in any part of the world coming into force after the Listing Date or to the extent such claim arises or is increased by an increase in the rates of taxation after the Listing Date with retrospective effect.

In addition, each of our Controlling Shareholders has jointly and severally indemnified us against:

- any payment made or required to be made by any member of our Group and any costs and expenses incurred as a result of or in connection with any claim (i) falling on any member of our Group resulting from or by reference to any income, profits or gains earned, accrued or received or deemed to occur or (ii) falling on any member of our Group in respect of their assets and liabilities during the Track Record Period or
- any non-compliance with any applicable laws and regulations by any member of our Group prior to the Listing Date or any litigation, arbitration or claim of material importance against any member of our Group in relation to any matter, event or incident occurred prior to the Listing,

provided that such matter has not been disclosed in this prospectus or provision has not been made in the audited financial statements of any member of our Group during the Track Record Period.

2. Litigation

As of the Latest Practicable Date, save as disclosed in the section headed “Business — Legal proceedings” in this prospectus, we are not aware of any other litigation or arbitration proceedings of material importance pending or threatened against us or any of our Directors that could have a material adverse effect on our financial condition or operating results.

3. Sole Sponsor

The Sole Sponsor has made an application on our behalf to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including any Share which may be issued pursuant to the exercise of the Over-allotment Option). The Sole Sponsor satisfies the independence criteria applicable to sponsors set forth in Rule 3A.07 of the Listing Rules. The fees to the Sole Sponsor were HK\$6.7 million.

4. Compliance adviser

Our Company has appointed Essence Corporate Finance (Hong Kong) Limited as the compliance adviser upon Listing in compliance with Rule 3A.19 of the Listing Rules.

5. Preliminary expenses

The preliminary expenses incurred by us in relation to the incorporation of our Company were HK\$48,800 and were paid by us.

6. Promoter

We have no promoter for the purpose of the Listing Rules. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Share Offer and the related transactions described in this prospectus.

7. Qualifications of experts

The following sets forth the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name of experts	Qualifications
Essence Corporate Finance (Hong Kong) Limited	Licensed corporation under the SFO to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities (as defined in the SFO)
Tian Yuan Law Firm	Legal advisers as to the PRC law
Imran Muntaz & Co.	Legal advisers as to Indonesian law
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Squire Patton Boggs (US) LLP	Legal advisers as to international sanctions law
PricewaterhouseCoopers	Certified Public Accountants, Hong Kong
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Independent industry consultant
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Property valuer
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Biological asset valuer

8. Consents of experts

Each of the experts named in the paragraph under “7. Qualifications of experts” above has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or opinion and/or the references to its name included in this prospectus in the form and context in which it is respectively included.

None of the experts named in the paragraph under “7. Qualifications of experts” above has any shareholder interests in any member of our Group or the right (other than the penal provisions) of sections 44A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

9. Binding effect

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) insofar as applicable.

10. Taxation of holders of Shares**(a) Hong Kong**

Dealings in our Shares registered on our Hong Kong branch register of members will be subject to Hong Kong stamp duty. Profits from dealings in our Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) Cayman Islands

No stamp duty is payable in the Cayman Islands on a transfer of shares, debt obligations or other securities in a Cayman Islands company.

(c) Consultation with professional advisors

Intending holders of our Shares are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in our Shares. It is emphasized that none of our Company, our Directors or parties involved in the Share Offer accepts responsibility for any tax effect on, or liabilities of holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing our Shares.

F. MISCELLANEOUS

Save as disclosed in this prospectus:

- (a) 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 our Share or any share in any of our subsidiaries.
- (b) Save as disclosed in this prospectus, we had not issued any debentures nor did we have any outstanding, or authorised or otherwise created but unissued, debentures or any term loans whether guaranteed or secured, or any convertible debt securities as of the Latest Practicable Date.
- (c) Our Directors confirm that:
 - (i) there has been no material adverse change in our financial or trading position or prospects of our Group since 31 March 2019 (being the date to which the latest audited combined financial statements of our Group were prepared); and
 - (ii) there is no arrangement under which future dividends are waived or agreed to be waived; and
 - (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.

- (d) Our principal register of members will be maintained by our principal registrar, Conyers Trust Company (Cayman) Limited, in the Cayman Islands and our Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Branch Registrar and may not be lodged in the Cayman Islands.
- (e) All necessary arrangements have been made to enable our Shares to be admitted into CCASS for clearing and settlement.
- (f) No company within our Group is presently listed on any stock exchange or traded on any trading system.

G. BILINGUAL PROSPECTUS

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 of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). The English text of this prospectus shall prevail over the Chinese text.

A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a 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) a copy of each of the material contracts referred to in the paragraphs under “B. Further Information about our Business — 1. Summary of material contracts” in Appendix V to this prospectus; and
- (c) written consents referred to in the paragraphs under “E. Other Information — 8. Consents of experts” in Appendix V to this prospectus.

B. DOCUMENTS AVAILABLE FOR PUBLIC INSPECTION IN HONG KONG

Copies of the following documents will be available for public inspection at the office of Squire Patton Boggs at 29th Floor, Edinburgh Tower, The Landmark, 15 Queen’s Road Central, Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and the Articles;
- (b) the accountant’s report of our Group from PricewaterhouseCoopers, the text of which is set forth in Appendix I to this prospectus;
- (c) the report from PricewaterhouseCoopers on the unaudited pro forma financial information following completion of the Share Offer, the text of which is set forth in Appendix II to this prospectus;
- (d) the audited financial statements of our Group for each of the three years ended 31 December 2018;
- (e) the property valuation report prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the text of which is set forth in Appendix III to this prospectus;
- (f) the biological asset valuation report prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited;
- (g) the letter of advice dated the date of this prospectus and prepared by Conyers Dill & Pearman summarising certain aspects of the Cayman Islands company law referred to in Appendix IV to this prospectus;
- (h) the Cayman Companies Law;
- (i) the memorandum of advice to the Company dated the date of this prospectus and prepared by Squire Patton Boggs (US) LLP on the applicable international sanctions law referred to in the section headed “Applicable Laws and Regulations” in this prospectus;

- (j) the legal opinion dated the date of this prospectus and issued by Tian Yuan Law Firm, our PRC legal advisers, on certain aspects of our business operations in the PRC and property interests owned and leased by us in the PRC;
- (k) the legal opinion dated the date of this prospectus and issued by Imran Muntaz & Co., our Indonesia legal advisers, on certain aspects of our business operations in Indonesia and property interests owned by us in Indonesia;
- (l) the Frost & Sullivan Report;
- (m) the material contracts referred to in the paragraphs under “B. Further Information about our Business — 1. Summary of material contracts” in Appendix V to this prospectus;
- (n) the rules of the Pre-IPO Share Option Scheme;
- (o) the rules of the Post-IPO Share Option Scheme;
- (p) the service contracts and the letters of appointment entered into between our Company and each of our Directors; and
- (q) the written consents referred to in the paragraphs under “E. Other Information — 8. Consents of experts” in Appendix V to this prospectus.

**GREEN FUTURE FOOD HYDROCOLLOID
MARINE SCIENCE COMPANY LIMITED
綠新親水膠體海洋科技有限公司**