

登輝控股有限公司 Town Ray Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1692



SHARE OFFER



Sponsor



Alliance Capital Partners Limited
同人融資有限公司

Joint Global Coordinators



Alliance Capital Partners Limited
同人融資有限公司



太陽國際証券
SUN INTERNATIONAL SECURITIES

Joint Bookrunners and Joint Lead Managers



太陽國際証券
SUN INTERNATIONAL SECURITIES



浦銀國際
SPDB INTERNATIONAL

IMPORTANT

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



Town Ray Holdings Limited

登輝控股有限公司

(Incorporated in the Cayman Islands with limited liability)

LISTING ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF SHARE OFFER

Total number of Offer Shares : 100,000,000 Shares (subject to the Over-allotment Option)
Number of Public Offer Shares : 10,000,000 Shares (subject to re-allocation)
Number of Placing Shares : 90,000,000 Shares (subject to re-allocation and the Over-allotment Option)
Offer Price : Not more than HK\$1.50 per Offer Share and expected to be not less than HK\$1.30 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value : HK\$0.01 per Share
Stock code : 1692

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

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

The final Offer Price is expected to be fixed by agreement between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the Price Determination Date, which is expected to be on or around Friday, 18 October 2019 and in any event, not later than Monday, 21 October 2019. The Offer Price will be not more than HK\$1.50 per Share and is currently expected to be not less than HK\$1.30 per Share, unless otherwise announced.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, with our Company's consent, reduce the number of Offer Shares under the Share Offer and/or the indicative Offer Price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, a notice of reduction in the number of Offer Shares and/or the indicative Offer Price range will be published on the website of the Stock Exchange at www.hkexnews.hk and the website of our Company at www.townray.com not later than the morning of the last day for lodging applications under the Public Offer. Details of the arrangement will then be announced by our Company as soon as practicable. Further details are set out in the sections headed "Structure and conditions of the Share Offer" and "How to apply for the Public Offer Shares" in this prospectus.

If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company on or around Monday, 21 October 2019, the Share Offer will not become unconditional and will lapse immediately.

Prior to making an investment decision, prospective investors should consider carefully all the information set out in this prospectus, including the risk factors set out in the section headed "Risk factors" in this prospectus. Pursuant to the Public Offer Underwriting Agreement, the Joint Global Coordinators have the right in certain circumstances to terminate the obligations of the Public Offer Underwriters at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Further details of such circumstances are set out in the section headed "Underwriting — Underwriting arrangements and expenses — The Public Offer — Grounds for termination" in this prospectus.

15 October 2019

EXPECTED TIMETABLE

If there is any change in the following expected timetable, our Company will issue a separate announcement to be published on the website of the Stock Exchange (www.hkexnews.hk) and the website of our Company (www.townray.com).

2019⁽¹⁾

- Public Offer commences and **WHITE** and **YELLOW** Application Forms
available from 9:00 a.m.
on Tuesday, 15 October
- Application lists open⁽²⁾ 11:45 a.m.
on Friday, 18 October
- Latest time to lodge **WHITE** and **YELLOW** Application Forms
and to give **electronic application instructions** to HKSCC⁽³⁾ 12:00 noon
on Friday, 18 October
- Application lists close⁽²⁾ 12:00 noon
on Friday, 18 October
- Expected Price Determination Date⁽⁴⁾ Friday, 18 October
- (a) Announcement of the final Offer Price, the indication of level of
interest in the Placing, the results of applications in the Public Offer
and the basis of allocation under the Public Offer to be published
(i) on the website of our Company at www.townray.com; and
(ii) on the website of the Stock Exchange at www.hkexnews.hk
on or before⁽⁵⁾ Thursday, 24 October
- (b) Results of allocations in the Public Offer (with successful applicants’
identification document numbers, where appropriate) to be available
through a variety of channels as described in the section
headed “How to apply for the Public Offer Shares
— 10. Publication of results” from Thursday, 24 October
- A full announcement of the Public Offer containing (a) and (b) above
to be published on the website of the Stock Exchange
at www.hkexnews.hk⁽⁵⁾ and our Company’s website
at www.townray.com⁽⁶⁾ Thursday, 24 October
- Results of allocations in the Public Offer will be available
at www.tricor.com.hk/IPO/result or www.hkeipo.hk/IPOResult
with a “search by ID” function on Thursday, 24 October

EXPECTED TIMETABLE

2019⁽¹⁾

Despatch of share certificates of the Offer Shares or deposit of
share certificates of the Offer Shares into CCASS in respect of
wholly or partially successful applications pursuant
to the Public Offer on or before⁽⁷⁾ Thursday, 24 October

Despatch of refund cheque pursuant to the Public Offer
on or before⁽⁹⁾ Thursday, 24 October

Dealing in the Shares on the Stock Exchange is expected to
commence at 9:00 a.m. on Friday, 25 October

Notes:

1. All times and dates refer to Hong Kong local times and dates except as otherwise stated. Details of the structure of the Share Offer, including the conditions of the Public Offer, are set out in the section headed “Structure and conditions of the Share Offer” in this prospectus.
2. If there is a “black” rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 18 October 2019, the application lists will not open and close on that day. Please refer to the section headed “How to apply for the Public Offer Shares — 9. Effect of bad weather on the opening of the application lists” in this prospectus. If the application lists do not open and close on Friday, 18 October 2019, the dates mentioned in this section may be affected. A press announcement will be made by us in such event.
3. Applicants who apply by giving electronic application instructions to HKSCC should refer to the section headed “How to apply for the Public Offer Shares — 5. Applying by giving electronic application instructions to HKSCC via CCASS” in this prospectus.
4. The Price Determination Date, being the date on which the final Offer Price is to be determined, is expected to be on or around Friday, 18 October 2019 and in any event, not later than Monday, 21 October 2019. If, for any reason, the final Offer Price is not agreed by 6:00 p.m. on Monday, 21 October 2019 between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company, the Share Offer will not proceed and will lapse.
5. The announcement will be available for viewing on the “Main Board — Allotment of results” page on the website of the Stock Exchange at www.hkexnews.hk.
6. None of the information contained on any website forms part of this prospectus.
7. Applicants who apply for 1,000,000 Public Offer Shares or more may collect share certificates (if applicable) and refund cheques (if applicable) in person may do so from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, 24 October 2019 or any other date as notified by us in the newspapers as the date of despatch of share certificates/refund cheques.

EXPECTED TIMETABLE

Applicants being individuals who is eligible for personal collection must not authorise any other person to make their collection on their behalf. Applicants being corporations who is eligible for personal collection must attend by sending their authorised representatives each bearing a letter of authorisation from his/her/its corporation stamped with the corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Branch Share Registrar, Tricor Investor Services Limited. Applicants who have applied on **YELLOW** Application Forms may not elect to collect their share certificates, which will be deposited into CCASS for credit of their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. Uncollected share certificates and refund cheques will be despatched by ordinary post to the addresses specified in the relevant applications at the applicants' own risk. Further information is set out in the section headed "How to apply for the Public Offer Shares" in this prospectus.

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

Share certificates are expected to be issued on Thursday, 24 October 2019 but will only become valid certificates of title provided that the Share Offer has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

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You should rely only on the information contained in this prospectus to make your investment decision. Our Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not contained or made in this prospectus must not be relied on by you as having been authorised by our Company, the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of their respective directors, affiliates, employees or representatives or any other person or party involved in the Share Offer.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. Since this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text in this prospectus. You should read this prospectus in its entirety, including our financial statements and the accompanying notes, before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares. Various expressions used herein are defined in the sections headed “Definitions” and “Glossary of technical terms” in this prospectus.

OVERVIEW

Our Group is an advanced product developer and industrial designer as well as manufacturer and supplier for a broad range of electrothermic household appliances mainly to overseas markets, covering over 30 countries and regions to cater for the requirements of different customers. Most of our revenue during the Track Record Period was generated from our customers in developed countries, such as Germany, France, the United Kingdom and the Netherlands.

We primarily focus on the development and/or application of new technology and products to expand our product portfolio, and the improvement of our existing products in terms of appearance, dimensions, capabilities, functionalities and production cost. Our electrothermic household products can be grouped into two categories, namely: (i) garment care appliances, including steam generator irons, garment steamers and steam irons; and (ii) cooking appliances, including coffee machines, steam cooking appliances and other cooking appliances. According to the F&S Report, we had a market share of approximately 2.3% in terms of export value of electric smoothing irons (include steam generator irons and steam irons), approximately 1.5% for pump driven coffee machines and approximately 0.4% for baby food makers, soup makers and food steamers in the PRC in 2018.

We have experienced an increase in our revenue from approximately HK\$361.1 million for FY2016 to approximately HK\$373.5 million for FY2018, and from approximately HK\$106.6 million for 4M2018 to approximately HK\$144.6 million for 4M2019; and our profit after tax increased from approximately HK\$23.0 million for FY2016 to approximately HK\$38.0 million for FY2018, and from approximately HK\$2.9 million for 4M2018 to approximately HK\$5.2 million for 4M2019. The below table sets forth the breakdown of our revenue, sales volume and average selling price per unit attributable to products under different categories:

	FY2016		FY2017		FY2018		4M2018		4M2019	
	Sales volume	Average selling price per unit	Sales volume	Average selling price per unit	Sales volume	Average selling price per unit	Sales volume	Average selling price per unit	Sales volume	Average selling price per unit
	'000 units	HK\$	'000 units	HK\$	'000 units	HK\$	'000 units	HK\$	'000 units	HK\$
Garment care appliances										
— Steam generator irons	242	294.7	177	315.4	192	368.6	63	372.4	43	353.8
— Garment steamers	390	112.8	423	106.5	107	112.0	67	112.7	16	129.7
— Steam irons	899	132.8	778	136.5	674	131.8	214	139.3	230	131.5
Sub-total of garment care appliances	1,531	153.3	1,378	150.2	973	176.3	344	177.0	289	164.4
Cooking appliances										
— Coffee machines	30	713.2	40	965.3	94	1,228.7	10	758.1	61	1,190.3
— Steam cooking appliances ^(Note 1)	460	189.8	515	190.2	383	195.6	166	192.5	87	206.0
— Other cooking appliances ^(Note 2)	62	232.0	64	223.9	49	235.3	24	257.4	25	257.7
Sub-total of cooking appliances	552	223.1	619	244.2	526	383.3	200	228.0	173	559.4
Others ^(Note 3)	17	190.8	4	157.7	1	149.2	1	131.5	1	208.7
Total	2,100	171.9	2,001	179.3	1,500	248.9	545	195.6	463	312.2

Despite that the total sales volume of our products decreased during the Track Record Period, our total revenue remained stable during FY2016, FY2017 and FY2018 with our revenue from the sales of coffee machines increased significantly from approximately HK\$21.5 million in FY2016 to approximately HK\$115.2 million in FY2018 whilst our sales volume of coffee machines significantly increased by more than two times from approximately 30,000 units in FY2016 to approximately 94,000 units in FY2018 with the average unit price increased from approximately HK\$713.2 to approximately HK\$1,228.7 during the same period. Our coffee machines comprise relatively more parts and components than our other products. A typical coffee machine comprises approximately 50 sub-

SUMMARY

assembled units with over 300 parts and components in total to be assembled together throughout the entire production process. The production utilisation rate of our large-scale plastic injection moulding machines for production of plastic housings for coffee machines was approximately 81.9%, 84.3% and 86.4% for FY2016, FY2017 and FY2018, respectively, and further reached approximately 90.3% for 4M2019, demonstrating a strong need to increase our production capacity in the coming years to cater for the demands of our customers.

	FY2016 Revenue		FY2017 Revenue		FY2018 Revenue		4M2018 Revenue		4M2019 Revenue	
	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total
Garment care appliances										
— Steam generator irons	71,210	19.7	55,791	15.6	70,745	18.9	23,605	22.2	15,232	10.5
— Garment steamers	44,025	12.2	44,988	12.5	11,970	3.2	7,562	7.1	2,117	1.5
— Steam irons	119,383	33.1	106,251	29.6	88,853	23.8	29,777	27.9	30,240	20.9
Sub-total of garment care appliances	234,618	65.0	207,030	57.7	171,568	45.9	60,944	57.2	47,589	32.9
Cooking appliances										
— Coffee machines	21,499	6.0	38,924	10.8	115,155	30.8	7,450	7.0	72,444	50.1
— Steam cooking appliances ^(Note 1)	87,342	24.1	97,879	27.3	74,904	20.1	31,995	30.0	17,951	12.4
— Other cooking appliances ^(Note 2)	14,383	4.0	14,372	4.0	11,656	3.1	6,020	5.7	6,487	4.5
Sub-total of cooking appliances	123,224	34.1	151,175	42.1	201,715	54.0	45,465	42.7	96,882	67.0
Others ^(Note 3)	3,229	0.9	596	0.2	179	0.1	154	0.1	91	0.1
Total	361,071	100.0	358,801	100.0	373,462	100.0	106,563	100.0	144,562	100.0

The below table sets forth the breakdown of our gross profit and gross profit margin during the Track Record Period by products under different categories:

	FY2016		FY2017		FY2018		4M2018		4M2019	
	Gross profit HK\$'000	Gross profit margin %	Gross profit HK\$'000	Gross profit margin %	Gross profit HK\$'000	Gross profit margin %	Gross profit HK\$'000	Gross profit margin %	Gross profit HK\$'000	Gross profit margin %
Garment care appliances										
— Steam generator irons	22,738	31.9	16,618	29.8	20,867	29.5	6,014	25.5	4,750	31.2
— Garment steamers	12,235	27.8	12,313	27.4	3,010	25.1	1,704	22.5	552	26.1
— Steam irons	35,452	29.7	30,399	28.6	22,433	25.2	6,857	23.0	8,720	28.8
Sub-total of garment care appliances	70,425	30.0	59,330	28.7	46,310	27.0	14,575	23.9	14,022	29.5
Cooking appliances										
— Coffee machines	6,106	28.4	11,588	29.8	35,420	30.8	1,974	26.5	23,736	32.8
— Steam cooking appliances ^(Note 1)	25,916	29.7	30,637	31.3	20,546	27.4	7,736	24.2	5,562	31.0
— Others cooking appliances ^(Note 2)	3,923	27.3	3,896	27.1	3,032	26.0	1,414	23.5	1,773	27.3
Sub-total of cooking appliances	35,945	29.2	46,121	30.5	58,998	29.2	11,124	24.5	31,071	32.1
Others ^(Note 3)	785	24.3	140	23.5	37	20.7	30	19.6	20	21.7
Total	107,155	29.7	105,591	29.4	105,345	28.2	25,729	24.1	45,113	31.2

Notes:

- (1) Steam cooking appliances refer to food steamers and baby food makers.
- (2) Others cooking appliances refer to soup makers and milk bottle warmers.
- (3) Others mainly refer to consumer electronics products, cleaning products and air purifiers.

Revenue from the sales of garment care appliances accounted for approximately HK\$234.6 million, HK\$207.0 million, HK\$171.6 million and HK\$47.6 million for FY2016, FY2017, FY2018 and 4M2019, respectively, representing 65.0%, 57.7%, 45.9% and 32.9% of total revenue for the corresponding periods. Revenue from the sales of cooking appliances accounted for approximately HK\$123.2 million, HK\$151.2 million, HK\$201.7 million and HK\$96.9 million for FY2016, FY2017, FY2018 and 4M2019, respectively, representing 34.1%, 42.1%, 54.0% and 67.0% of total revenue of the corresponding periods. Such increase during the Track Record Period was attributable to the significant increase in the sales of coffee machines mainly as a result of the launch of new models of fully automatic coffee machine which was well recognised by our customers.

We experienced an increasing trend in demand for coffee machines. To cater for this market demand, our Group has shifted our efforts to focus on manufacturing coffee machines. On the other hand, we manufactured fewer steam generator irons as a result of our adjustment of focus from steam generator irons to coffee machines in FY2017.

For FY2016, FY2017, FY2018 and 4M2019, the sales volume of cooking appliances was approximately 552,000 units, 619,000 units, 526,000 units and 173,000 units, respectively, and the average selling price per unit of our cooking appliances was HK\$223.1, HK\$244.2, HK\$383.3 and HK\$559.4, respectively. The increase in average selling price during the Track Record Period and the significant increase in the sales of coffee machines were mainly as a result of the launch of new models of fully automatic coffee machine as mentioned above. The average selling price of coffee machines

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remained stable at a level of approximately HK\$1,200 between FY2018 and 4M2019 and the slight price fluctuation during the corresponding period was primarily due to the sales of a combination of different models of coffee machines with different unit prices in 4M2019, resulting in a slight decrease in average selling price of coffee machine during the corresponding period.

For FY2016, FY2017, FY2018 and 4M2019, the sales volume of garment care appliances was approximately 1.5 million units, 1.4 million units, 1.0 million units and 289,000 units, respectively, and the average selling price per unit of our garment care appliances was HK\$153.3, HK\$150.2, HK\$176.3 and HK\$164.4, respectively. As our Group devoted intensive efforts to strengthen our sales and marketing activities for coffee machines in order to capture the potential business opportunities, we had allocated more resources, including our production capacity, to coffee machine, which correspondingly reduced the production capacity of garment care appliances; therefore, we were more selective in securing sale orders for steam generator irons, which were of higher gross profit margin among our products in garment care appliances. As a result, we experienced an increase in average unit price of steam generator irons with decrease in sales volume for FY2016, FY2017 and FY2018. The average selling price per unit and the sales volume of our garment care appliances decreased in 4M2019 was due to the fact that new models were still under development.

For FY2016, FY2017, FY2018 and 4M2019, the gross profit margin for garment care appliances sold by our Group was approximately 30.0%, 28.7%, 27.0% and 29.5%, respectively; while the gross profit margin for cooking appliances during the same period was approximately 29.2%, 30.5%, 29.2% and 32.1%, respectively. During the Track Record Period, our gross profit margin decreased from 29.4% for FY2017 to 28.2% for FY2018. Such slight decrease was mainly due to the increase in unit price of plastic which was one of our major raw material components, and time was required to renegotiate contract terms with our customers for price adjustment to cover the increased cost. Our gross profit margin increased to approximately 31.2% for 4M2019. The increase in the gross profit margin for cooking appliances from approximately 24.5% for 4M2018 to 32.1% for 4M2019 was mainly a result of (i) the depreciation of RMB against USD during the corresponding period; and (ii) the increase in the sales of coffee machines, which was driven by increase in number of unit sold and relatively higher gross profit margin of approximately 32.8%. The increase in our gross profit margin for garment care appliances from approximately 23.9% for 4M2018 to approximately 29.5% for 4M2019 was mainly attributable to the depreciation of RMB during the corresponding period as mentioned above.

The following table sets forth a breakdown of our revenue by business segments during the Track Record Period:

	FY2016		FY2017		FY2018		4M2018		4M2019	
	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total
ODM business	166,328	46.1	151,145	42.1	213,911	57.3	48,307	45.3	94,807	65.6
OEM business	194,743	53.9	207,656	57.9	159,551	42.7	58,256	54.7	49,755	34.4
Total	361,071	100.0	358,801	100.0	373,462	100.0	106,563	100.0	144,562	100.0

For FY2016, FY2017, FY2018 and 4M2019, revenue from our ODM business was approximately HK\$166.3 million, HK\$151.1 million, HK\$213.9 million and HK\$94.8 million, respectively, representing 46.1%, 42.1%, 57.3% and 65.6% of total revenue of the corresponding periods. Revenue from our OEM business accounted for approximately HK\$194.7 million, HK\$207.7 million, HK\$159.6 million and HK\$49.8 million for FY2016, FY2017, FY2018 and 4M2019, respectively, representing 53.9%, 57.9%, 42.7% and 34.4% of total revenue of the corresponding periods.

The primary raw materials used in our production are mainly electrical parts, plastic raw materials and parts, metal raw materials and parts, power cords and lead wires, and electronic parts. For FY2016, FY2017, FY2018 and 4M2019, our material costs accounted for approximately 63.2%, 64.1%, 65.5% and 68.1% of our cost of sales, respectively.

Our headquarters in Hong Kong carry out the functions of overall business operation, sales and marketing, product design, and financial and strategic management, whilst our production facilities located in our Huizhou Factory carry out the research and development, procurement, production, and quality assurance functions.

With over 10 years of operating history, we have good knowledge and experience in the technology in relation to pressure, volume and temperature, steam, motor, electronics and electrical circuits as well as strong design, research and development capabilities. We therefore have developed

SUMMARY

and/or applied the technology, including thermodynamics, pump pressure, motor-driven, coffee brewing system, electronic control and user-interface programming in our products. In addition, various know-how and crafts are applied to our production process of electrothermic household appliances, such as injection moulding, metal stamping, aluminium die-casting, hot plate/induction welding, automatic electrostatic spraying system, automatic glue dispenser system, automatic steam promotor spraying system, laser etching and automatic testing system.

With over a decade of operations since the establishment of Tunbow (Huizhou) in 2005, our Group has been expanding our sales network and has built up the reputation in the electrothermic household appliances manufacturing industry.

In 2006, we successfully designed the first generation of our fully automatic coffee machine, where our second and third generation were launched in 2010 and 2016, respectively. In 2018, our testing laboratory of Town Ray (Huizhou) was appointed as a suitable customer's testing facility stage 1 by TÜV Rheinland and accredited with a certificate of approval by DEKRA Certification B.V.. For further details of our business model, please refer to the section headed "Business — Our business model" in this prospectus.

Our customers and suppliers

We had over 100 customers contributed revenue to us during the Track Record Period. Some of them are reputable and internationally recognised brand companies headquartered in Europe (including Germany, France, the United Kingdom and the Netherlands). Our sales to our five largest customers for FY2016, FY2017, FY2018 and 4M2019 accounted for approximately 70.9%, 67.5%, 59.0% and 71.1% of our total revenue, respectively, while our sales to our largest customer accounted for approximately 23.5%, 20.7%, 15.5% and 33.7% of our total revenue of the corresponding years/period, respectively. We have maintained stable relationships with most of our five largest customers for the Track Record Period of approximately seven years to 11 years. For further details of our customers, please refer to the section headed "Business — Our customers".

During the Track Record Period, we engaged more than 400 suppliers. Most of them are located in the PRC. The primary raw materials used in our production process are electrical parts, plastic raw materials and parts, metal raw materials and parts, power cords and lead wires, and electronic parts. For FY2016, FY2017, FY2018 and 4M2019, our material costs represented 63.2%, 64.1%, 65.5% and 68.1% of our cost of sales, respectively. We have maintained stable relationships with our suppliers during the Track Record Period. As at the Latest Practicable Date, we have business relationships ranging from two to 13 years with our five largest suppliers. For further details of our suppliers, please refer to the section headed "Business — Our suppliers" in this prospectus.

Intellectual property

As at the Latest Practicable Date, our Group has registered over 50 patents (including invention patents and utility patents), over 40 designs and over 10 trademarks in the PRC, Hong Kong, the EU, Turkey and Hungary. We have also applied for registration of over 30 patents and five trademarks in the PRC. For further details of the trademark and patents which are material to the business of our Group and our domain names, please refer to the section headed "Business — Intellectual property rights" in this prospectus.

COMPETITIVE STRENGTHS

We believe our success and potential for further growth are attributable to our following competitive strengths: (i) we have established strong presence in the electrothermic household appliances manufacturing industry with long-term relationships with our major customers and suppliers; (ii) we drive the industrial technology and know-hows ahead to position ourselves as one of the leading market players; (iii) we have strong design, research and development capabilities; (iv) we maintain stringent control over our quality; (v) we have a diversified product portfolio; and (vi) we have an experienced and competent management team. For further details of our competitive strengths, please refer to the section headed "Business — Competitive strengths" in this prospectus.

BUSINESS STRATEGIES

Our principal business objective is to strengthen our position in electrothermic household appliances manufacturing industry. We intend to achieve these objectives by implementing the following strategies: (i) upgrading our production facilities and enhancing our production capacity; (ii)

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strengthening our product design and development capabilities and increasing our product offerings; (iii) strengthening our customer base; and (iv) upgrading our information technology systems. For further details of our business strategies and future plans, please refer to the section headed “Business — Business strategies and future plans” in this prospectus.

OUR SHAREHOLDERS

Our Controlling Shareholders are Modern Expression, Dr. Chan who is our non-executive Director and the chairman of our Board, and Ms. Cheng who is the spouse of Dr. Chan and a non-executive Director.

Immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares that may be allotted and issued upon the exercise of the Over-allotment Option and any option that may be granted under the Share Option Scheme), our Company will be owned as to 53.41% by Modern Expression. Dr. Chan and Ms. Cheng, being the joint legal and beneficial owners of the entire issued share capital of Modern Expression, are indirectly holding 53.41% of the issued share capital of our Company and regarded as our Controlling Shareholders under the Listing Rules.

Each of our Controlling Shareholders, Directors and their respective close associates does not have any interest apart from the business of our Group which competes or is likely to compete, directly or indirectly with the business of our Group and which requires disclosure pursuant to Rule 8.10 of the Listing Rules. For further details of our Controlling Shareholders, please refer to the section headed “Relationship with our Controlling Shareholders” in this prospectus.

SUMMARY OF HISTORICAL FINANCIAL PERFORMANCE

Business Transfer

As part of the Reorganisation, Town Ray (Huizhou) was established in 2017 and Tunbow (Huizhou) transferred its design, manufacture and sale of electrothermic household appliances business to Town Ray (Huizhou) in 2018. Such Business Transfer was completed on 31 December 2018. There is no material change in business operation before and after the Business Transfer, and our Directors do not anticipate any significant impact on our Group’s financial performance from the business of manufacture and sales of electrothermic household appliances before and after the Business Transfer, where the Business Transfer had been assumed to have taken place at the beginning of the Track Record Period. For details, please refer to the paragraph headed “Financial information — Overview — Business transfer” in this prospectus.

The tables below set out the summary of the audited financial information of our Group for FY2016, FY2017, FY2018 and 4M2019. For further details of our financial information, please refer to the Accountants’ Report in Appendix I to this prospectus.

Highlights of consolidated statements of profit or loss

	FY2016 HK\$’000	FY2017 HK\$’000	FY2018 HK\$’000	4M2018 HK\$’000	4M2019 HK\$’000
Revenue	361,071	358,801	373,462	106,563	144,562
Cost of sales	(253,916)	(253,210)	(268,117)	(80,834)	(99,449)
Gross profit	107,155	105,591	105,345	25,729	45,113
Other income and gains, net	4,888	32,605	8,202 ^(Note)	1,009	1,778
Selling and distribution costs	(10,121)	(7,711)	(8,691)	(2,665)	(2,426)
General and administrative expenses	(58,424)	(65,746)	(57,176)	(18,026)	(30,082)
Other expenses, net	(8,394)	(5,430)	(865)	(2,627)	(2,987)
Finance costs	(1,046)	(294)	(885)	(293)	(1,093)
Profit before tax	34,058	59,015	45,930	3,127	10,303
Income tax expense	(11,091)	(9,551)	(7,891)	(236)	(5,055)
Profit for the year/period	<u>22,967</u>	<u>49,464</u>	<u>38,039</u>	<u>2,891</u>	<u>5,248</u>

Note: It mainly included the non-recurring gain of approximately HK\$30.0 million on disposal of a piece of land to the local government in Huizhou, the PRC.

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Non-HKFRS measure:

	FY2016	FY2017	FY2018	4M2018	4M2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year/period	22,967	49,464	38,039	2,891	5,248
<i>After adjustment of one-off gain/loss</i>					
Less: Gain on disposal of held for sales assets (net of tax)	—	(22,522)	—	—	—
Add: Loss on disposal of property, plant and equipment, and associated expenses (net of tax)	6,474	1,268	65	—	—
Add: Listing expenses	—	—	—	—	11,826
Adjusted net profit for the year/period	<u>29,441</u>	<u>28,210</u>	<u>38,104</u>	<u>2,891</u>	<u>17,074</u>

We believe that the presentation of non-HKFRS measure in conjunction with the corresponding HKFRS measures provides useful information to investor regarding financial and business trends and results of operations, by eliminating (i) one-off gain on disposal of held for sales assets, (ii) loss on disposal of property, plant and equipment, and associated expenses; and (iii) Listing expenses, which our Directors consider irrelevant to our operating performance. We also believe that such non-HKFRS measure is appropriate for evaluating our Group's operating performance.

We recorded significant other income and gains in FY2017, which was mainly attributable to the gain on disposal of a piece of land to the local government in Huizhou, the PRC, of approximately HK\$30.0 million. This gain was non-recurring in nature and we may not be able to record such gain in the future. For details, please refer to the section headed "Financial information — Period to period comparison of results of operations — FY2017 compared to FY2016" to this prospectus.

Highlights of consolidated statements of financial position

	As at 31 December			As at
	2016	2017	2018	30 April
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total non-current assets	167,923	170,010	66,482	65,696
Total current assets	257,840	325,957	203,417	237,217
Total current liabilities	173,990	222,429	114,581	140,911
Net current assets	83,850	103,528	88,836	96,306
Total assets less current liabilities	251,773	273,538	155,318	162,002
Net assets	250,067	271,864	136,472	142,530

We recorded net current assets of approximately HK\$83.9 million, HK\$103.5 million, HK\$88.8 million and HK\$96.3 million as at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019, respectively. For further details of our financial position, please refer to the section headed "Financial information — Net current assets" in this prospectus. We recorded a decrease in net assets from approximately HK\$271.9 million as at 31 December 2017 to approximately HK\$136.5 million as at 31 December 2018, primarily attributable to a deemed distribution by our Group to Tunbow Investments (BVI) (which is controlled by our Controlling Shareholders) in connection with the Reorganisation comprising the assets and liabilities of Tunbow (Huizhou) not transferred, assigned or novated to Town Ray (Huizhou) as at 31 December 2018 including mainly the land and the factory premises held by Tunbow (Huizhou). For details, please refer to note 29 of the Accountants' Report as set out in Appendix I to this prospectus.

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Highlights of consolidated statements of cash flows

	FY2016	FY2017	FY2018	4M2018	4M2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating cash flows before movements in working capital	66,167	56,456	63,597	10,116	18,835
Net cash flows from operating activities	53,841	7,035	106,173	45,436	3,138
Net cash flows from/(used in) investing activities	(6,586)	(16,737)	13,874	(16,336)	(1,463)
Net cash flows from/(used in) financing activities	(34,545)	(24,111)	(93,118)	(11,592)	13,580
Net increase/(decrease) in cash and cash equivalents	12,710	(33,813)	26,929	17,508	15,255
Cash and cash equivalents at beginning of year/period	50,178	60,237	28,287	28,287	51,857
Effect of foreign exchange rate changes, net	(2,651)	1,863	(3,359)	498	637
Cash and cash equivalents at end of year/period	<u>60,237</u>	<u>28,287</u>	<u>51,857</u>	<u>46,293</u>	<u>67,749</u>

For further details of our cash flows, please refer to the section headed “Financial information — Cash flows” in this prospectus.

SELECTED KEY FINANCIAL RATIOS

	FY2016/As at 31 December 2016	FY2017/As at 31 December 2017	FY2018/As at 31 December 2018	4M2019/As at 30 April 2019
Current ratio ⁽¹⁾	1.5 times	1.5 times	1.8 times	1.7 times
Quick ratio ⁽²⁾	1.3 times	1.3 times	1.4 times	1.2 times
Return on total assets ⁽³⁾	5.4%	10.0%	14.1%	17.1%
Return on equity ⁽⁴⁾	9.2%	18.2%	27.9%	36.4%
Gearing ratio ⁽⁵⁾	41.8%	50.8%	34.5%	46.3%
Debt to equity ratio ⁽⁶⁾	17.7%	40.4%	Net cash	Net cash
Interest coverage ⁽⁷⁾	33.6 times	201.7 times	52.9 times	21.2 times

Notes:

- Current ratio is calculated based on the current assets divided by current liabilities as at the respective year/period end.
- Quick ratio is calculated based on the current assets less inventories, divided by current liabilities as at the respective year/period end.
- Return on total assets is calculated based on the profit (after adding back the Listing expenses) for the year/period divided by total assets multiplied by 100%. Return on total assets for 4M2019 is annualised for illustrative purpose.
- Return on equity is calculated based on the profit (after adding back the Listing expenses) for the year/period divided by total equity multiplied by 100%. Return on equity for 4M2019 is annualised for illustrative purpose.
- Gearing ratio is calculated based on the total debt (being our bank borrowing and amounts due to related companies) divided by the total equity as at the respective year/period end.
- Debt to equity ratio is calculated based on the net debt (being our total debts net of cash and cash equivalents) divided by the total equity as at the respective year/period end.
- Interest coverage ratio is calculated based on the profit before finance costs and income tax (after adding back the Listing expenses) divided by the finance costs for the respective year/period.

For further details of our key operational and financial data, please refer to the section headed “Financial information — Selected key financial ratios” in this prospectus.

RISK FACTORS

Our Group's business and financial performance may be affected by a number of factors. Some of the major risks that may materially and adversely affect our business, financial condition and results of operations include: (i) our sales are subject to changes in consumer preferences and other macroeconomic factors that affect consumer spending patterns; (ii) our Group relies on a few major customers and our performance will be materially and adversely affected if our Group's relationship with any one of them deteriorates; (iii) our other income and gains relating to the gain on disposal of a piece of land was non-recurring in nature and we may not record such gain in the future; (iv) our business and financial position may be adversely affected if we are not able to continue servicing the European market effectively or if there is any adverse change in the macro-economic situation or economic downturn in Europe, e.g. the Brexit; (v) our results of operations could be adversely affected if we fail to keep pace with customer demands and preferences for product design, research and development and manufacturing of our products; and (vi) our business and financial position may be adversely affected if the recent Sino-U.S. trade war persists.

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In particular, our revenue arising from sales to the U.S. amounted to approximately HK\$21.6 million, HK\$33.4 million, HK\$28.8 million and HK\$10.0 million for FY2016, FY2017, FY2018 and 4M2019, respectively, representing approximately 6.0%, 9.3%, 7.7% and 6.9% of our total revenue during the corresponding period, respectively. If the recent Sino-U.S. trade war persists and as a result the global economic environment deteriorates, then the sales of our products could be affected by trade restrictions implemented by the U.S. and the PRC Government, which may in turn have an adverse impact on our business in the U.S.

For FY2016, FY2017, FY2018 and 4M2019, our revenue arising from sales to the United Kingdom amounted to approximately HK\$87.3 million, HK\$41.1 million, HK\$53.8 million and HK\$8.7 million, respectively, representing approximately 24.2%, 11.4%, 14.4% and 6.0% of our total revenue during the corresponding period, respectively. Uncertainty surrounding Brexit could also result in fluctuations or a downturn in aspects of the United Kingdom economy which may damage customers, and/or investors' confidence and/or reduce consumer spending in the United Kingdom. Any of these events could have an adverse impact on our Group's business, financial condition, results of operations and prospects.

More details of the risks we are exposed to are set out in the section headed "Risk factors" in this prospectus.

INDUSTRY AND COMPETITIVE LANDSCAPE

According to the F&S Report, there were more than 5,000 small and medium enterprises and large enterprises principally engaging in the manufacture of different types of electrothermic household appliances in 2018. We are regarded as one of the participants in the electrothermic household appliance market in the PRC.

It is estimated that our Group had a market share of approximately 2.3% in terms of export value of electric smoothing irons (include steam generator irons and steam irons), approximately 1.5% for pump driven coffee machines, and approximately 0.4% for baby food makers, soup makers and food steamers in the PRC in 2018.

LISTING EXPENSES

Our Directors expect that our total Listing expenses, which are non-recurring in nature, will amount to approximately HK\$40.5 million (assuming the Offer Price of HK\$1.40 per Offer Share; being the mid-point of the indicative Offer Price range stated in this prospectus). Out of the total HK\$40.5 million of Listing expenses, approximately HK\$11.8 million had been recognised in profit or loss accounts in 4M2019, our Directors expect to further recognise approximately HK\$8.7 million in our Group's profit and loss accounts for FY2019 and the remaining estimated Listing expenses in the amount of approximately HK\$20.0 million will be deducted from equity upon the Listing.

Accordingly, the financial results of our Group for FY2019 are expected to be significantly affected by the estimated expenses in relation to the Listing, as a result, it is expected that there will be a significant decrease in net profit for FY2019. Our Directors would like to emphasise that this predicted cost of Listing is a current estimate for reference only. As such, the actual amount may differ from these estimates and the final amount to be recognised in the consolidated statement of comprehensive income of our Group for FY2019 is subject to adjustment based on audit and the then changes in variables and assumptions.

NO MATERIAL ADVERSE CHANGE

Save for the total expenses for the Listing estimated to be approximately HK\$40.5 million, of which approximately HK\$20.5 million will be recorded in our Group's profit and loss for FY2019, our Directors confirm that, up to the date in this prospectus, there has been no material adverse change in the financial or trading position or prospects of our Group since 30 April 2019 (being the date to which the latest audited consolidated financial statements of our Group were prepared), and there is no event since 30 April 2019 which would materially affect the information shown in the Accountants' Report set out in Appendix I in this prospectus.

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FUTURE PLANS AND USE OF PROCEEDS

We estimate that the net proceeds from the Share Offer which we will receive, assuming an Offer Price of HK\$1.40 per Offer Share, being the mid-point of the indicative Offer Price range, and after deducting related underwriting fees and estimated expenses in connection with the Share Offer and the Over-allotment Option is not exercised, the aggregate net proceeds to our Company from the Share Offer will be approximately HK\$99.5 million.

Our Directors presently intend to apply such net proceeds as follows:

- approximately HK\$50.4 million (or approximately 50.7% of the proceeds) will be used for upgrading our production facilities and enhancing our production capacity, in particular (i) approximately HK\$32.5 million will be earmarked for acquiring additional units of machinery for new production facilities and upgrading existing production facilities in our Huizhou Factory; (ii) approximately HK\$9.3 million will be earmarked for increasing the level of automation in our production process by acquiring more automated robots to assist us in the manufacturing of plastic casings and parts, metal casings and parts, electronic components and quality control; (iii) approximately HK\$6.7 million will be earmarked for upgrading our existing factory building facilities; and (iv) approximately HK\$1.9 million will be earmarked for acquiring additional power transformer for our production facilities in view of the increase in production scale in our Huizhou Factory;
- approximately HK\$31.6 million (or approximately 31.8% of the proceeds) will be used for strengthening our product design and development capabilities and increasing our product offerings, in particular (i) approximately HK\$29.9 million for expanding and enhancing our product range by developing new ODM models, (ii) approximately HK\$1.5 million for recruiting additional engineers and designers; and (iii) approximately HK\$0.2 million for strengthening our product design and development capabilities by purchasing and implementing additional equipment and software;
- approximately HK\$8.6 million (or approximately 8.6% of the proceeds) will be used for strengthening our customer base, in particular (i) approximately HK\$7.1 million will be earmarked for attending the exhibitions held in Europe, Hong Kong and Latin America, conducting site visits to both existing and potential overseas customers to enhance our market presence in the international market and to expand the geographic coverage of our products and our customer base; and subscribing for market data to enhance our sales activities; (ii) approximately HK\$1.2 million will be earmarked for recruiting sales executives who will be responsible for identifying the potential customers; and (iii) approximately HK\$0.3 million will be earmarked for providing product samples to existing and potential customers for marketing purpose;
- approximately HK\$5.7 million (or approximately 5.7% of the proceeds) will be used for upgrading our information technology systems, in particular (i) approximately HK\$4.4 million will be earmarked for purchasing a new version of ERP system to cover wider aspects in our daily operations and enhance electronic data interchange and data direct linkage; (ii) approximately HK\$1.3 million will be earmarked for provision of staff training on the usage and system infrastructure, as well as provision of system maintenance and system development after the system upgrade; and
- approximately HK\$3.2 million (or approximately 3.2% of the proceeds) will be used for general working capital purpose.

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

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OFFER STATISTICS

	Based on the minimum indicative Offer Price of HK\$1.30 per Share	Based on the maximum indicative Offer Price of HK\$1.50 per Share
Market capitalisation	HK\$520,000,000	HK\$600,000,000
Unaudited pro forma adjusted net tangible assets per Share	0.61	0.66

Notes:

- (1) The calculation of the market capitalisation of our Company is based on 400,000,000 Shares in issue immediately following the completion of the Share Offer but does not take into account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme.
- (2) The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 400,000,000 Shares, being the number of Shares expected to be in issue immediately following the completion of shares of the Share Offer without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or of any options that may be granted under the Share Option Scheme.
- (3) No adjustment has been made to the unaudited pro forma adjusted net tangible assets per Share to reflect any trading result or other transaction of our Group entered into subsequent on 30 April 2019.

DIVIDEND

No dividends were declared for FY2016 and 4M2019. During FY2017, subsidiaries of our Company declared an interim and final dividends in aggregate amounted to HK\$51,740,000 to Tunbow Electrical (BVI) Limited and Tunbow Investments (BVI), and were fully settled in FY2017. During FY2018, a subsidiary of our Company declared a final dividend amounted to HK\$32,229,000 to Tunbow Electrical (BVI) Limited. The said dividend was fully settled in FY2018.

Our Directors consider that there is no material adverse impact on our Group's financial and liquidity position arising out of the dividend payment.

Our Group currently does not have any specific dividend policy. Dividends may be paid out by way of cash or by other means that our Directors consider appropriate. The declaration of future dividends will be subject to the discretion of our Board and the approval of our Shareholders and will depend on our earnings, financial condition, cash requirement and availability and any other factors our Directors may deem relevant. As such factors and the payment of dividends are at the discretion of our Board, there can be no assurance that any particular dividend amount or any dividend at all, will be declared and paid in the future. Prospective investors should note that historical dividend payments should not be regarded as an indication of our future dividend.

RECENT DEVELOPMENT

We continued to focus on principal business of manufacturing and supplying of a board range of electrothermic household appliances, in particular garment care and cooking appliances. Based on our unaudited financial information, our Group's revenue for the eight months ended 31 August 2019 as compared to the corresponding period in prior year followed the similar upward trend as recorded in FY2018 and 4M2019. Subsequent to the Track Record Period and up to the Latest Practicable Date, our business and revenue model remained unchanged, and there was no material change in our cost structure.

Having considered that our production utilisation rate for coffee machines and steam generator irons reached a relatively high level of approximately 86.4% and 93.8% in FY2018, an additional machinery has been in use since June 2019 mainly for the manufacturing of plastic housings for steam generator irons as well as other plastic casings and parts.

Our Directors confirm that up to the date in this prospectus, other than the non-recurring Listing expenses incurred/estimated, there has been no material adverse change in our financial or trading position since 30 April 2019 (being the date to which our Company's latest consolidated audited financial results were prepared), and there has been no events since 30 April 2019 which would materially affect the information shown in the accountants' report, the text of which is set out in Appendix I to this prospectus.

DEFINITIONS

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

“4M2018”	the four months ended 30 April 2018
“4M2019”	the four months ended 30 April 2019
“Application Form(s)”	WHITE Application Form(s) and YELLOW Application Form(s), or where the context so requires, any of them, relating to the Public Offer
“Articles” or “Articles of Association”	the amended and restated articles of association of our Company adopted on 3 October 2019, as amended from time to time, a summary of which is set out in Appendix III to this prospectus
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board” or “Board of Directors”	the board of Directors
“Business Day(s)” or “business day(s)”	any day(s) (other than Saturday(s), Sunday(s) or public holiday(s)) in Hong Kong on which licenced banks in Hong Kong are open generally for normal banking business
“Business Transfer”	the business transfer between Tunbow (Huizhou) as transferor and Town Ray (Huizhou) as transferee which Tunbow (Huizhou) agreed to transfer its design, manufacture and sale of household appliances business including, amongst others, its customers, suppliers and information relating to its customers and suppliers, to Town Ray (Huizhou). The business transfer was completed on 31 December 2018
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of 299,988,822 Shares to be made upon reorganisation of certain sums standing to the credit of the share premium account of our Company upon completion of the Share Offer referred to in the paragraph headed “A. Further information about our Group — 6. Written resolutions of our Shareholders passed on 3 October 2019” in Appendix IV to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person permitted to participate in CCASS as a direct clearing participant or general clearing participant

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“CCASS Custodian Participant”	a person permitted 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 Participants”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“close associate(s)”	has the meaning ascribed to it under the Listing Rules
“Companies Law”	the Companies Law (as revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	Town Ray Holdings Limited (登輝控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 28 September 2017
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction”	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 this prospectus, refers to Modern Expression, Dr. Chan and Ms. Cheng or, where the context so requires, any one of them
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Corporate Governance Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules

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“Deed of Indemnity”	the deed of indemnity dated 3 October 2019 executed by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for and on behalf of our subsidiaries) regarding certain indemnities, details of which are set out in the paragraph headed “E. Other information” in Appendix IV to this prospectus
“Director(s)”	the director(s) of our Company
“Dr. Chan”	Dr. Chan Kam Kwong Charles (陳鑑光博士), the spouse of Ms. Cheng, a non-executive Director, the chairman of our Board and one of our Controlling Shareholders
“EU”	the European Union
“EUR” or “Euro”	the official currency of the EU
“F&S” or “Frost & Sullivan”	Frost & Sullivan Limited, an independent market research company
“F&S Report”	An industry report prepared by F&S and commissioned by our Company, an extract of which is set out in the section headed “Industry overview” in this prospectus
“FY2016”	the financial year ended 31 December 2016
“FY2017”	the financial year ended 31 December 2017
“FY2018”	the financial year ended 31 December 2018
“FY2019”	the financial year ending 31 December 2019
“FY2020”	the financial year ending 31 December 2020
“FY2021”	the financial year ending 31 December 2021
“Group”, “we”, “us” or “our”	our Company and our subsidiaries at the relevant time or, where the context otherwise requires, in respect of the period prior to our Company becoming the holding company of our present subsidiaries, our present subsidiaries and the businesses operated by such subsidiaries (as the case may be)

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“HKFRSs”	Hong Kong Financial Reporting Standards
“HKICPA”	The Hong Kong Institute of Certified Public Accountants
“HKD” or “HK\$” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”, “HKSAR” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited, the Hong Kong branch share registrar of our Company
“Hong Kong Government”	the government of Hong Kong
“Huizhou Factory”	the factory buildings and production facilities leased by Town Ray (Huizhou) located at Huizhou City, Guangdong Province, the PRC, the same premises was occupied and operated by Tunbow (Huizhou) prior to the Business Transfer
“independent third party(ies)”	an individual(s) or a company(ies) who or which to the best of our Directors’ knowledge information and belief, having made all reasonable enquires, is/are not a connected person(s) of our Company within the meaning of the Listing Rules
“International Sanctions”	all applicable laws and regulations related to economic sanctions, export controls, trade embargoes and wider prohibitions and restrictions on international trade and investment related activities, including those adopted, administered and enforced by the U.S. Government, the EU and its member states, the United Nations or the Government of Australia
“International Sanctions Legal Advisers”	Hogan Lovells, our legal advisers as to International Sanctions laws in connection with the Listing
“Joint Bookrunners” or “Joint Lead Managers”	Sun International Securities Limited and SPDB International Capital Limited
“Joint Global Coordinators”	Alliance Capital Partners Limited and Sun International Securities Limited

DEFINITIONS

“Latest Practicable Date”	7 October 2019, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information in this prospectus prior to its publication
“Listing”	listing of the Shares on the Main Board
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date expected to be on 25 October 2019, on which our Shares are listed and from which dealings therein are permitted to take place on the Main Board
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Main Board”	the Main Board of the Stock Exchange
“Memorandum of Association” or “Memorandum”	the amended and restated memorandum of association of our Company adopted on 3 October 2019, as amended from time to time, a summary of which is set out in Appendix III to this prospectus
“Modern Expression”	Modern Expression Limited, a company incorporated in BVI with limited liability on 8 November 2004, and one of our Controlling Shareholders
“Mr. Chan”	Mr. Chan Wai Ming (陳偉明先生), an executive Director and chief executive officer of our Group
“Mr. Chiu”	Mr. Chiu Wai Kwong (趙維光先生), an executive Director and company secretary of our Company
“Mr. Yu”	Mr. Yu Kwok Wai (俞國偉先生), an executive Director
“Ms. Cheng”	Ms. Cheng Yuk Sim Connie (鄭玉嬋女士) (also known as Ms. Cheng Yuk Yee Connie (鄭玉而女士)), the spouse of Dr. Chan, a non-executive Director and one of our Controlling Shareholders
“Ms. Tang”	Ms. Tang Mei Wah (鄧美華女士), an executive Director
“OFAC”	the United States Department of Treasury’s Office of Foreign Assets Control

DEFINITIONS

“Offer Price”	the final price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be subscribed for or issued pursuant to the Share Offer, to be determined in the manner further described in the section headed “Structure and conditions of the Share Offer” in this prospectus
“Offer Share(s)”	the Public Offer Shares and the Placing Shares
“Over-allotment Option”	the option expected to be granted by us to the Placing Underwriters under the Placing Underwriting Agreement, exercisable by the Joint Global Coordinators (on behalf of the Placing Underwriters), pursuant to which we may be required to allot and issue up to an aggregate of 15,000,000 additional Shares (representing 15% of the number of Offer Shares initially being offered under the Share Offer) at the Offer Price, to, among other things, cover over-allocations in the Placing, if any, as further described in the section headed “Structure and conditions of the Share Offer” in this prospectus
“Placing”	the conditional placing of the Placing Shares by the Placing Underwriters at the Offer Price to selected professional, institutional and private investors as set out in the section headed “Structure and conditions of the Share Offer” in this prospectus
“Placing Shares”	the 90,000,000 Shares being initially offered by our Company for subscription pursuant to the Placing, subject to re-allocation as described in the section headed “Structure and conditions of the Share Offer” in this prospectus
“Placing Underwriter(s)”	the underwriters of the Placing, who are expected to enter into the Placing Underwriting Agreement to underwrite the Placing
“Placing Underwriting Agreement”	the conditional underwriting and placing agreement relating to the Placing expected to be entered into on or about the Price Determination Date by, among others, our Company and the Placing Underwriters, particulars of which are summarised in the section headed “Underwriting” in this prospectus
“PRC” or “China”	the People’s Republic of China, which for the purpose of this prospectus and for geographical reference only, excluding Hong Kong, Macau Special Administrative Region and Taiwan region
“PRC Government”	the central government of the PRC, including all government subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the content requires, any of them

DEFINITIONS

“PRC Legal Advisers”	Beijing Dentons Law Offices, LLP (Shenzhen), the legal advisers to our Company as to the laws of the PRC
“Predecessor Companies Ordinance”	the predecessor Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force from time to time before 3 March 2014
“Price Determination Agreement”	the price determination agreement to be entered into between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), on or before the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date expected to be on Friday, 18 October 2019, and in any event no later than Monday, 21 October 2019, on which the final Offer Price is determined for the purposes of the Share Offer
“Public Offer”	the offer of the Public Offer Shares for subscription by the members of the public in Hong Kong for cash at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%), payable in full on application, and subject to the terms and conditions described in the section headed “Structure and conditions of the Share Offer” in this prospectus and the Application Forms
“Public Offer Shares”	the 10,000,000 Shares initially being offered for subscription under the Public Offer, subject to re-allocation as described in the section headed “Structure and conditions of the Share Offer” in this prospectus
“Public Offer Underwriters”	the underwriters of the Public Offer whose names listed in the section headed “Underwriting — Public Offer Underwriters” in this prospectus
“Public Offer Underwriting Agreement”	the conditional underwriting agreement dated 14 October 2019 relating to the Public Offer entered into among our Company, our Controlling Shareholders, our executive Directors, the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters, particulars of which are summarised in the section headed “Underwriting” in this prospectus
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganisation”	the corporate reorganisation of our Group in the preparation for the Listing, details of which are set out in the section headed “History, development and Reorganisation — Reorganisation” in this prospectus
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC

DEFINITIONS

“Sanctioned Person(s)”	certain person(s) and identity(ies) listed on OFAC’s Specially Designated Nationals and Blocked Persons List or other restricted parties lists maintained by the United States, EU, United Nations or Australia
“SFC”	the Securities and Futures Commission
“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) of par value of HK\$0.01 each in the share capital of our Company
“Share Offer”	the Public Offer and the Placing
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 3 October 2019, the principal terms of which are summarised in the paragraph headed “D. Share Option Scheme” in Appendix IV to this prospectus
“Shareholder(s)”	holder(s) of the Share(s)
“Sponsor”	Alliance Capital Partners Limited, the sponsor for the Listing and a licenced corporation to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
“Stabilising Manager”	Sun International Securities Limited
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between the Stabilising Manager and Modern Expression on or around the Price Determination Date, pursuant to which the Stabilising Manager may borrow up to 15,000,000 Shares from Modern Expression to cover any over-allocations under the Placing, if any
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Substantial Shareholder(s)”	has the meaning ascribed to it in the Listing Rules and details of our Substantial Shareholders are set out in the section headed “Substantial Shareholders” in this prospectus
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs, as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Town Ray (Huizhou)”	Town Ray Electrical (Huizhou) Limited* (登輝電器(惠州)有限公司), a wholly foreign owned enterprise established under the laws of the PRC on 14 December 2017, and an indirect wholly-owned subsidiary of our Company
“Town Ray Development”	Town Ray Development Limited (登輝發展有限公司), a company incorporated in BVI with limited liability on 27 September 2017, and an indirect wholly-owned subsidiary of our Company
“Town Ray Enterprises”	Town Ray Enterprises Limited (登輝企業有限公司), a company incorporated in BVI with limited liability on 27 September 2017, and an indirect wholly-owned subsidiary of our Company
“Town Ray Hong Kong”	Town Ray Hong Kong Limited (登輝香港有限公司), a company incorporated in Hong Kong with limited liability on 19 October 2017, and an indirect wholly-owned subsidiary of our Company
“Town Ray Investments (BVI)”	Town Ray Investments (BVI) Limited (登輝投資有限公司), a company incorporated in BVI with limited liability on 27 September 2017, and a direct wholly-owned subsidiary of our Company
“Track Record Period”	the period comprising FY2016, FY2017, FY2018 and 4M2019
“TRY”	Turkish Lira, the lawful currency of Turkey
“Tunbow (Huizhou)”	Tunbow Electrical (Huizhou) Limited* (東保利電業(惠州)有限公司), a company incorporated in Huizhou City, Guangdong Province, the PRC with limited liability on 5 December 2005, which was the transferor under the Business Transfer and a connected person of our Group as at the Latest Practicable Date
“Tunbow Group”	Tunbow Group Limited (東保集團有限公司), a company incorporated in Hong Kong with limited liability on 21 November 2007, and an indirect wholly-owned subsidiary of our Company
“Tunbow Investments (BVI)”	Tunbow Investments (BVI) Limited, a company incorporated in BVI with limited liability on 19 November 2004, which is controlled by our Controlling Shareholders
“Underwriters”	the underwriters of the Public Offer Underwriters and the Placing Underwriters, details to which are set out in the section headed “Underwriting” in this prospectus
“Underwriting Agreements”	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement

DEFINITIONS

“United States” or “U.S.”	the United States of America
“U.S. dollars”, “USD” or “US\$”	United States dollars, the lawful currency of the United States of America
“U.S. Government”	the government of the United States
“ WHITE Application Form(s)”	the application form(s) to be completed in accordance with the instructions in the section headed “How to apply for the Public Offer Shares” in this prospectus
“ YELLOW Application Form(s)”	the application form(s) to be completed in accordance with the instructions in section headed “How to apply for the Public Offer Shares” in this prospectus
“sq.ft.”	square foot
“sq.m.”	square metre
“%”	per cent

* For identification purpose only

In this prospectus, if there is any inconsistency between the official Chinese name of the PRC laws or regulations or the PRC Government authorities or the PRC entities and their English translation, the Chinese version shall prevail. English translations of official Chinese names are for identification purposes only.

In this prospectus, unless otherwise specified, conversion of Renminbi, USD and EUR have been translated into HK\$ at exchange rates prevailing at the relevant times for illustrative purposes only. Such conversions shall not be construed as representations that amounts in Renminbi were or could have been or could be converted into HK\$ at such rates or any other exchange rates.

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.

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms used in this prospectus. These terms and their meanings may or may not correspond to standard industry meaning or usage of these terms.

“3D CAD”	three-dimensional computer-aided design
“CAGR”	compounded annual growth rate
“CCC Certification”	China Compulsory Certification, a systematic, independent product certification systems served to offer more legal certainty as well as freedom of trade and commerce
“CE Marking”	a certification marking which signifies that products sold in the European Economic Area have been assessed to meet high safety, health, and environmental protection requirements
“CTF”	Customers’ Testing Facilities, facilities owned by manufacturers and are allowed to perform certification system under multilateral certification system based on IEC International Standards
“DGCCRF”	the French General Directorate for Competition Policy, Consumer Affairs and Fraud Control, regulates and controls the legality and safety of products and services available on the markets open to competition for all economical actors and private consumers, and can deliver administrative sanctions in case of abuses
“electrothermic”	to describe an object that converts electrical energy to thermal energy
“ERP”	enterprise resource planning
“ETL Certification”	a certification indicates that the products were tested, inspected and certified by Intertek, a quality assurance provider
“FCA”	free carrier, which requires the seller to deliver goods to a carrier nominated by the buyer, or another party nominated by the buyer. The seller fulfils its obligations to deliver when the goods have loaded on to the carrier nominated by the buyer
“FDA”	Food and Drug Administration, an U.S. federal agency that is responsible for protecting the public health by ensuring the safety, efficacy, and security of human and veterinary drugs, biological products, and medical devices; and by ensuring the safety of our nation’s food supply, cosmetics, and products that emit radiation
“FOB”	free on board, which requires the seller to deliver goods on board a vessel designated by the buyer. The seller fulfils its obligations to deliver when the goods have passed over the ship’s rail

GLOSSARY OF TECHNICAL TERMS

“GS Marking”	Geprüfte Sicherheit, a mark which indicates that the product bearing the mark was tested and complies with the minimum requirements of the German Product Safety Act
“IC”	integrated circuit, a small chip that can function as an amplifier, oscillator, timer, microprocessor, or even computer memory
“IEC”	International Electrotechnical Commission, a global organisation that release consensus-based publications on agreements on the technical description of the characteristics to be fulfilled by the product, system, service or object in question. The IEC also manages conformity assessment systems for electric and electronic products, systems and services
“ISO”	International Organisation for Standardisation
“ISO 2859-1”	Sampling procedures for inspection by attributes — Part 1: Sampling schemes indexed by acceptance quality limit for lot-by-lot inspection
“ISO 9001”	International Standard for Quality Management Systems, specifies requirements for a quality management system where an organisation needs to demonstrate its ability to consistently provide products that meet customer and applicable statutory and regulatory requirements, and aims to enhance customer satisfaction through the effective application of the system
“LED”	light-emitting diode, a semiconductor light source that emits light when current flows through it
“LFGB Certification”	a certification testing programme under German Food, Tobacco products, Cosmetics and Other Daily Consuming Management Act
“mould” or “tooling”	a hollowed-out block that is used to fill with liquid or pliable material such as plastic, glass, metal or ceramic raw material. When the material hardens or sets inside the block, the shape of the block is adopted
“NCB”	National Certification Body
“NTC”	negative temperature coefficient, sensors to detect the change of resistance with temperature in a manner compatible with the controller software

GLOSSARY OF TECHNICAL TERMS

“ODM”	acronym for original design manufacturing, where a manufacturer designs, develops and manufactures a product which is eventually sold under the brand name of the customer or under no specific brand
“OEM”	acronym for original equipment manufacturing, where products are manufactured in whole or in part in accordance with the customer’s specifications and are marketed under brand names designated by customers
“plastic housing”	the external plastic casings of the appliances
“PCB”	printed circuit board, a board that connects electronic components or electrical components using conductive tracks, pads and other features etched from one or more sheet layers of copper laminated onto and/or between sheet layers of a non-conductive substrate
“PTFE”	Polytetrafluoroethylene, a synthetic fluoropolymer with high level of resistance to temperature changes, electrical insulation, and ageing and chemical resistant that is used as a coating material and can also be further processed into high-end fine chemicals which can be widely applied in the chemicals, construction, electrical and electronics and automotive industries
“RoHS”	Restriction of Hazardous Substances Directive of the EU, which restricts the use of certain hazardous materials found in electrical and electronic equipment
“SMT”	a method for producing electronic circuits in which the components are mounted or placed directly onto the surface of PCB
“TFT LCD”	thin-film-transistor liquid-crystal display, a variant of a liquid-crystal display that uses thin-film-transistor technology to improve image qualities such as addressability and contrast
“thermodynamics”	the measurement and physics of converting thermal energy to and from other forms of energy and the way it affects the state of matter (e.g. water and steam)
“UL Certification”	a certification indicates that the products were tested, inspected and certified by Underwriters Laboratories, an independent testing organisation
“XRF”	X-ray fluorescence

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. In some cases, the words such as “aim”, “anticipate”, “believe”, “estimate”, “expect”, “going forward”, “intend”, “may”, “plan”, “potential”, “predict”, “propose”, “seek”, “should”, “will”, “would” and other similar expressions are used to identify forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our Group’s business and operating strategies and plans of operation;
- the amount and nature of, and potential for, future development of our Group’s business;
- our Company’s dividend distribution plans;
- the regulatory environment as well as the general industry outlook for the industry in which our Group operates;
- future developments in the industry in which our Group operates; and
- the trend of the economy of Hong Kong, the Europe, the United States, the PRC and the world in general.

These statements are based on several assumptions, including those regarding our Group’s present and future business strategy and the environment in which our Group will operate in the future.

Our Group’s future results could differ materially from those expressed or implied by such forward-looking statements. In addition, our Group’s future performance may be affected by various factors including, without limitation, those discussed in the sections headed “Risk factors” and “Financial information” in this prospectus.

Should one or more risks or uncertainties stated in the aforesaid sections materialise, or should any underlying assumptions be proved incorrect, actual outcomes may vary materially from those indicated. Prospective investors should therefore not place undue reliance on any of the forward-looking statements. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements as set out in this section.

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

RISK FACTORS

You should carefully consider all of the information in this prospectus including the risks and uncertainties described below before making an investment in the Offer Shares. The business, financial condition or results of operation of our Group could be materially and adversely affected by any of these risks. The trading price of our Shares could decline due to any of these risks, and you may lose all or part of your investment.

A number of risks and uncertainties are inherent in our operations. We have categorised these risks and uncertainties into those relating to (i) our business, (ii) the industry, (iii) the PRC, (iv) the Share Offer and (v) this prospectus. Investors should carefully consider the following information in conjunction with the other information contained in this prospectus.

RISKS RELATING TO OUR BUSINESS

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

Our business is affected by consumer preferences as well as changes in consumers' spending patterns, which are often difficult to predict. We believe that our success to date is largely attributable to our ability to design and develop new household appliances products and improving our existing products. If we fail to design and develop products with acceptable quality, or fall behind our competitors in improving our product quality or product variety, our operating results and financial condition may be adversely affected.

Our growth is strengthened by the expansion of our product offerings which depends on consumers' demand and market preferences in Europe and the United States, for electrothermic household appliances. The level of consumer demand is dependent on the economic environment in these markets, the level of household disposable income and the consumption preferences of our target customers. Household appliances products are consumer products which are affected by consumer preferences and their spending patterns. We need to keep up with changes in consumer preferences and tastes in order to maintain our market share and profitability. Our ability to assess and react to changes in consumer demand, preferences and taste will directly affect our business and operating results.

Our Group relies on a few major customers and our performance will be materially and adversely affected if our Group's relationship with any one of them deteriorates

For FY2016, FY2017, FY2018 and 4M2019, sales to our Group's five largest customers accounted for approximately 70.9%, 67.5%, 59.0% and 71.1%, respectively, of our total revenue, and sales to our Group's largest customer accounted for approximately 23.5%, 20.7%, 15.5% and 33.7%, respectively, of our total revenue during the same periods. Although we have entered into cooperation or long-term agreements with some of our major customers, we could not guarantee that our customers will place us purchase orders on a sufficient amount. Due to our concentration on our major customers, it may also be difficult for us to liaise with such customers for satisfactory prices and commercial terms. Save and except for our long-term agreement with Customer G, we generally do not have minimum purchase commitments from our major customers, and we are not the exclusive supplier for these customers.

RISK FACTORS

If our Group's major customers cease to purchase or reduce substantially their order size in the future, whether due to their decision to change supplier or any other reasons, our Group may not be able to seek alternative customers within a short period of time, the business and financial performance of our Group will be materially adversely affected.

Furthermore, there is no assurance that these customers will not purchase from other suppliers who may offer prices lower than ours, or are believed to offer products of equal or superior quality. Therefore, there is no certainty that we will continue to generate revenue from these customers.

As at the Latest Practicable Date, we had entered into cooperation or long-term agreements with three of our five largest customers for the Track Record Period, namely Customer A, Customer D and Customer G. Such agreements generally provide that a customer can terminate the agreement without cause by giving prior written notice. For details of our cooperation or long-term agreements with customers, please refer to the section headed "Business — Our customers" in this prospectus. In particular, we entered into a long-term agreement with Customer G on 14 December 2018, pursuant to which Customer G agreed to purchase fully automatic coffee machines from our Group with a minimum purchase commitment of 100,000 units by 31 December 2020. Therefore, termination of such agreement, or proximate termination, could materially and adversely affect our business, financial condition, results of operations and prospects.

Our other income and gains relating to the gain on disposal of a piece of land was non-recurring in nature and we may not record such gain in the future

We recorded significant other income and gains in FY2017, which was mainly attributable to the gain on disposal of a piece of land to the local government in Huizhou, the PRC, of approximately HK\$30.0 million. Such disposal was non-recurring in nature and we may not be able to record such gain in the future, which in turn may affect our profitability. For details, please refer to the section headed "Financial information — Period to period comparison of results of operations — FY2017 compared to FY2016" to this prospectus.

Our business and financial position may be adversely affected if we are not able to continue servicing the European market effectively or if there is any adverse change in the macro-economic situation or economic downturn in Europe, e.g. the Brexit

Circumstances in Europe such as economic downturn, natural disaster, and significant changes in consumer spending patterns, which are beyond our control, may affect our business. We have historically been relying heavily on the European market. During the Track Record Period, Europe was our largest sales market. For FY2016, FY2017, FY2018 and 4M2019, revenue arising from sales to Europe amounted to approximately HK\$271.1 million, HK\$261.4 million, HK\$308.4 million and HK\$126.1 million, respectively, representing approximately 75.1%, 72.9%, 82.6% and 87.3% of our total revenue during the corresponding periods, respectively. However, we cannot assure you that we will be able to continue to do so in the future. We believe that our geographical sales contribution is expected to remain significantly towards the European market.

If there are significant changes in the consumer spending patterns and if we are unable to respond effectively to the European market or offer competitive prices to our customers in Europe, our business and financial performance could be adversely affected. Our operating results are heavily dependent on the European macro-economic situations such as changes in global or local economic and political

RISK FACTORS

conditions, general market sentiment, changes in the regulatory environment, fluctuations in interest rates, consumer preferences, spending patterns, and employment levels, may affect the overall performance of the economies of Europe. Consequently, the demand for our household appliances products from Europe may drastically decrease, and if we could not divert our business to other geographical locations, our revenue, profitability, and business prospects will be materially adversely affected.

In addition, our Group may face potential risks and uncertainty associated with the results and outcome of the referendum on the United Kingdom's withdrawal from the EU on 23 June 2016 (“**Brexit**”). Brexit could affect the operational and regulatory regime to which our Group is currently subject in the United Kingdom. It could also impact the United Kingdom's fiscal, monetary and regulatory landscape, its economy and the future growth of its various industries as well as the same in Europe, including those in which our Group and our customers operate. Following the referendum on Brexit, the British pound generally depreciated against U.S. dollars during the Track Record Period. Uncertainty surrounding Brexit could also result in fluctuations or a downturn in aspects of the United Kingdom's economy which may damage customers, and/or investors' confidence and/or reduce consumer spending in the United Kingdom. Any of these events could have an adverse impact on our Group's business, financial condition, results of operations and prospects.

Our results of operations could be adversely affected if we fail to keep pace with customer demands and preferences for product design, research and development and manufacturing of our products

The success of our Group depends on our ability to identify and account for the market demands and customer preferences during our product development and production process. This requires a combination of various elements such as, accurate analysis and prediction of market trends, timely collection of consumer feedback, strong research and development capability and flexible and cost-effective production. If we are unable to predict, identify or react to changing consumer preferences or market trends or if we misjudge the market for our products, the growth and success of our business could be materially and adversely affected, potentially resulting in significant decreases in sales. Specifically, any of the following events, among others, may have a material and adverse effect on our business, financial condition and results of operations:

- failure to remain competitive in our product design, research and development capabilities;
- failure to maintain short cycles for product design, research and development while meeting evolving industry production standards;
- inability to maintain the high-quality of our production;
- failure to maintain our efficient and cost-effective production operation;
- inability to distribute our products in a timely and efficient manner in response to customer demand; or
- failure to recruit or train sufficient research and development employees.

RISK FACTORS

Our business and financial position may be adversely affected if the recent Sino-U.S. trade war persists

For FY2016, FY2017, FY2018 and 4M2019, our revenue arising from sales to the U.S. amounted to approximately HK\$21.6 million, HK\$33.4 million, HK\$28.8 million and HK\$10.0 million, respectively, representing approximately 6.0%, 9.3%, 7.7% and 6.9% of our total revenue during the corresponding year/period, respectively.

It is noted that the U.S. Government is considering imposing tariffs on various products imported from the PRC to the U.S. Some of our customers are located in U.S. while our production plant is located in the PRC. Effective from 1 September 2019, the U.S. Government announced the imposition of additional 15% import tariffs for another batch of Chinese products with an annual trade value of approximately US\$300 billion, which covers coffee machines, electric smoothing irons, baby food makers, food steamers and soup makers. On 13 August 2019, the United States Trade Representative announced that certain products were being removed from the tariffs list while tariffs on some other products would be delayed to 15 December 2019. Such new tariffs may result in potential risk to the business performance of electrothermic household appliance manufacturers in the PRC in a long term.

If the recent Sino-U.S. trade war persists and as a result the global economic environment deteriorates, then the sales of our products could be affected by trade restrictions implemented by the U.S. and the PRC Government, which may in turn have an adverse impact on our business. There is no assurance that our products to be exported to the U.S. would not be subject to the additional tariff. Should we be liable for the additional tariff, the competitiveness of our products in the U.S. market will then be adversely affected. Further, the uncertainty on the trade restriction policies resulting from the Sino-U.S. trade war may cause difficulties for our customers in the U.S. to project their purchasing plans and may cause them to reduce their orders from us, which could materially and adversely affect our financial and business position.

We may not be successful in the development of new initiatives or improvement in the quality of our existing products

During the Track Record Period, we invested and put effort in the design and development of new products. We cannot assure you that our development initiatives could be successfully completed within the budget cost and time frame, or that our new products will launch within anticipated time frame or budget, or that our new products will meet the market preference, achieve a wide market acceptance, or receive a positive market response. Furthermore we cannot guarantee that these new products will be well received by our customers and achieve anticipated sales target or profit margin. In addition, we cannot assure you that our competitors will not develop similar products as our new products. If the products under development cannot be successfully commercialised or fail to attract sufficient customers' demand and market response to generate sufficient revenue to cover the research and development costs and resources invested, our market share, profitability and financial conditions may be adversely affected.

RISK FACTORS

If we are unable to maintain the existing level of utilisation rate at our production facilities, our margins and profitability may be materially and adversely affected

For FY2016, FY2017, FY2018 and 4M2019, our production utilisation rate for coffee machines was approximately 81.9%, 84.3%, 86.4% and 90.3%, respectively, and those for steam generator irons were approximately 93.1%, 72.1%, 93.8% and 54.2%, respectively. For details of the production utilisation rate, please refer to the section headed “Business — Our production and production facilities — Production capacity” in this prospectus. The production utilisation rate may be affected by various other factors, such as skills of our employees, natural disasters and breakdown of our production equipment. There is no assurance that we will be able to maintain a comparable level of output and production utilisation rate in our Huizhou Factory in the future. If we are unable to maintain the existing level of production utilisation rate for any or all of our production facilities, our business, financial condition and operating results may be materially and adversely affected.

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

Our Group’s exposure to credit risk is influenced mainly by the individual characteristics of each customer, rather than the industry or country in which the customers operate, and therefore significant concentrations of credit risk primarily arise when our Group has significant exposure to individual customers.

During the Track Record Period, our Group’s credit term granted to our customers was 30 to 90 days in general. For FY2016, FY2017, FY2018 and 4M2019, the trade receivables of our Group amounted to approximately HK\$61.5 million, HK\$69.0 million, HK\$79.8 million and HK\$64.9 million, respectively, while the trade receivables turnover days were approximately 62.2 days, 70.2 days, 78.0 days and 53.9 days, respectively. Up to 31 August 2019, approximately 100%, 100%, 98.6% and 98.0% of trade receivables as at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019 respectively had been settled. Approximately 70.3%, 80.6%, 76.7% and 71.0% of the total trade receivables as at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019 were attributable to our Group’s five largest customers of the respective years/period. The financial position, profitability and cash flow of our Group depend on whether customers will be able to settle the outstanding balances owed to our Group in a timely manner. If there is any delay or default in payments made by the customers, the financial position, profitability and cash flow of our Group may be materially and adversely affected.

We are subject to risk of fluctuations in the exchange rate between RMB and USD

During the Track Record Period, approximately 98.3%, 92.9%, 92.9% and 93.2% of our Group’s revenue was denominated in USD, while approximately 95.7%, 87.5%, 90.3% and 82.2% of our costs were denominated in RMB.

Our profit margins will be adversely affected to the extent that we are unable to increase the USD denominated selling prices of our products sold to overseas customers or shift the exchange risk to our customers to account for the appreciation of the RMB against the USD. Any significant fluctuations in the exchange rate between the RMB and USD may result in increases or decreases in our reported costs and earnings, and may also materially affect our business and results of operations. During the Track

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Record Period, our Group did not engage in any hedging activity. Any significant fluctuations in the exchange rate between RMB and USD could materially and adversely affect our financial condition and results of operations.

The functional currency of our operating PRC subsidiaries is RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into HKD at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into HKD at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. For FY2016, FY2017, FY2018 and 4M2019, the exchange differences on translation of foreign operations recognised in other comprehensive income/loss amounted to a loss of approximately HK\$13.0 million, a gain of approximately HK\$14.0 million, a loss of approximately HK\$10.3 million and a gain of approximately HK\$0.8 million, respectively.

Fluctuations in the price of materials may have a material adverse effect on the business, results of operations and financial condition of our Group

As the business continues to grow, our Group has experienced an increasing demand for various materials and parts. For FY2016, FY2017, FY2018 and 4M2019, our material costs represented approximately 63.2%, 64.1%, 65.5% and 68.1%, respectively, of the cost of sales of our Group. We may not be able to directly pass on any increase in the price of materials to the customers in short run, which may have a material adverse effect on the business, results of operations and financial condition of our Group.

During the Track Record Period, our Group did not enter into any long-term contracts with our suppliers or commit any minimum quantities to, its third-party suppliers, therefore the fluctuation in prices of materials may have a material effect on the cost of sales of our Group as the prices of parts and components can be volatile given that they are determined by various factors such as the industry demand and supply. Our Group cannot assure that future price increases in materials or changes in the supply of materials will not materially and adversely affect our Group's operating results and performance.

We depend on third party suppliers of raw materials, and we may not be able to secure a stable supply of raw materials with acceptable quality or on acceptable terms

The success of our business depends on our ability to obtain sufficient quantities of quality raw materials, such as electrical parts, plastic raw materials and parts, metal raw materials and parts, power cords and lead wires, and electronic parts, on commercially acceptable terms and in a timely manner.

For FY2016, FY2017, FY2018 and 4M2019, our purchases from our five largest suppliers, in aggregate, amounted to approximately 19.4%, 16.6%, 14.2% and 20.0% of the total purchase, respectively. We have not entered into long-term supply contracts with our suppliers. If any of our suppliers fails to deliver raw materials to us in accordance with our production schedule or if we fail to identify alternative sources of quality raw materials at acceptable prices when needed, or with the required quantity and quality, or at all, the resulting loss of production volume may materially and adversely affect our ability to deliver products to our customers in a timely manner, or at all, and may materially and adversely affect our business, financial condition and results of operations.

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An increase in labour costs may adversely affect our Group's business, results of operations, financial condition and growth prospects

According to the F&S Report, electrothermic household appliances manufacturing is considered a labour-intensive business. As at the Latest Practicable Date, our Group had 41 and 821 full-time employees in Hong Kong and the PRC, respectively. We believe our production process sustainability is highly dependent on the ability to maintain cost effectiveness. Our direct labour costs accounted for 19.8%, 19.1%, 18.9% and 19.0% of our Group's total cost of sales for FY2016, FY2017, FY2018 and 4M2019, respectively. Labour costs in the PRC have been rising in recent years and may continue to increase in the future. We cannot give assurance that the labour cost will continue to be stable. If our Group fails to retain our existing labour and/or recruit sufficient labour in a timely manner, we may not be able to accommodate sudden increase in demand for our products. If our Group is not able to manufacture and deliver its products on schedule or if we are unable to implement the expansion plans, our business, results of operations, financial condition and growth prospects would be materially adversely affected. Furthermore, if there is a significant increase in labour cost, the cost of our Group's business operation would increase, and its profitability would be adversely affected.

We may not be able to manage our inventory risks effectively

We operate in an industry which requires us to manage a large volume of inventory effectively. We may not be able to resell those products if our customers cancel orders with us. In addition, we depend on our demand forecasts for the raw materials to make purchase decisions and to manage our inventories. Demand for products, however, can change significantly between the time when inventory is ordered and the date by which we hope to sell it, and as such our customers may not order products in the quantities that we expect. As at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019, our inventory amounted to approximately HK\$31.0 million, HK\$46.2 million, HK\$43.1 million and HK\$64.6 million, accounted for approximately 12.0%, 14.1%, 21.2% and 27.2% of our total current assets, respectively. As we plan to expand our production to meet customers' demands, we may not be able to manage our inventory effectively. If we fail to manage our inventory effectively, we may be subject to a heightened risk of inventory obsolescence, a decline in inventory values, and significant inventory write-downs. In addition, we may be required to lower sale prices in order to reduce inventory level, which may lead to lower gross margins. High inventory levels may also require us to commit substantial capital resources, preventing us from using that capital for other important purposes. Any of the above may materially and adversely affect our results of operations and financial condition. If we fail to resell products from cancelled orders, our financial condition and results of operations may be materially and adversely affected.

Discrepancy in contributions to various employee benefit plans and insurances as required by the PRC regulations may subject us to penalties

Pursuant to the applicable PRC laws and regulations, we are required to participate in various social security insurances, including pension contributing plans, medical insurance, work-related injury insurance, maternity insurance and unemployment insurance, and housing provident fund for our employees in the PRC, and contribute to these plans and funds at the level specified by the relevant local government authorities from time to time at locations where we operate. During the Track Record Period, we made contribution based on the mutually agreed designated wage of the employees, which were higher than the minimum base amount required by the local government authorities for the purpose

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of calculating the employee benefit contribution, but lower than their respective actual wage, and such method has resulted in a discrepancy between the amount of contribution we made and the amount as required by the relevant PRC regulations.

We had outstanding provisions for the discrepancy as payroll and employee benefit payables of approximately HK\$4.6 million, HK\$5.2 million, HK\$0.5 million and HK\$0.6 million as at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019, respectively while relevant provision of approximately HK\$3.9 million were retained in Tunbow (Huizhou) as at 31 December 2018, and therefore forms part of the assets and liabilities deemed distributed to Tunbow Investments (BVI) (which is controlled by our Controlling Shareholders) on 31 December 2018. As of the Latest Practicable Date, we had not received any notice from the local authorities or any claim from our current and former employees regarding the discrepancy in our payment. However, we cannot assure you that the relevant local government authorities will not require us to pay the discrepancy within a prescribed time or impose late fees or fines on us, which may adversely affect our business, financial condition and results of operations.

Any failure to maintain an effective quality control system at our production facilities could have a material adverse effect on our business and operations

The quality of our products is dependent on the effectiveness of our quality control system, and our ability to ensure that our employees adhere to our quality control policies and guidelines. Any failure in our quality control system may result in production of defective or substandard products, which in turn may impair our reputation, result in delays in the delivery of our products and the need to replace defective or substandard products, which could have a material and adverse impact on our business, financial conditions and results of operations.

We rely on third-party logistics service providers and courier companies to deliver our products

Since we do not have our own transportation team, we engaged independent logistics service providers for the transport or delivery of our products to locations designated by our customers. Should the logistics service providers fail to comply with the transportation arrangements or any regulatory requirements, they may fail to transport or deliver our products to our customers in a timely manner or at all. Upon any failure by any of our existing logistics service providers to discharge their delivery obligations, we may not be able to find other suitable companies or agents as replacements on a timely basis, and our business, financial performance and operations may therefore be adversely and materially affected.

We rely on our key management personnel

Our future success is highly dependent on the ongoing efforts of our management and key personnel. We rely on such management and key personnel for their capabilities in developing new and maintaining existing customer relationships and developing new products and their extensive knowledge of and experience in the electrothermic household appliances manufacturing industry. We may not be able to retain the services of our management or key personnel or attract and retain management or key personnel in the future. We may also be unable to attract or retain the specialised personnel required to achieve our business objectives, and failure to do so could adversely affect our business and prospects. In addition, we depend on the continued service of skilled managerial and technical personnel. In the

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event that any member of our management or any of our key personnel joins a competitor or forms a competing company, we may not be able to replace them easily and we may lose our technical know-how, product development capability, customers, business partners and other key staff members.

We require various licences, certificates and permits to operate our business, and the failure to obtain or renew any or all of these licences, certificates and permits could adversely affect our business, financial condition and results of operations.

We are required to maintain various licences, certificates and permits in order to operate our manufacturing facilities. We are required to comply with applicable standards in relation to our production processes. Our facilities are subject to regular inspections by the regulatory authorities for compliance with the relevant laws and regulations in the jurisdictions where we operate. As at the Latest Practicable Date, we had the pollutant discharge license of Guangdong Province, PRC for disposing waste with a term from 20 April 2019 to 18 October 2019. As mentioned in the section headed “Regulatory overview — The PRC — Laws and regulations on environmental protection and hazardous substances — Pollutant discharge license and environmental protection tax” in this prospectus, such license will not be issued anymore since 13 August 2019. The enterprises whose production processes involve industrial furnaces shall apply for national pollutant discharge license by the year of 2020. Failure to pass these inspections, or otherwise obtain or renew our licences, certificates and permits, could lead to temporary or permanent suspension of some or all of our production activities which would adversely affect our business, financial condition and results of operations.

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

Some of our products must satisfy pre-requisite safety standards and/or requirements in accordance to certain certifications before they can be imported to or sold in the domestic markets. The safety standards and certification requirements are subject to changes by government and relevant certification authorising bodies from time to time, and more stringent requirements may be imposed to enhance product safety. As such, it is important that we keep updated of such possible changes and adjust our technical capability in advance. If we fail to accommodate to such changes efficiently, we may not be able to secure our businesses under the new requirements and we will lose our existing customers, and this in turn will adversely affect our operations and financial results.

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

Our Group is exposed to risk of product liability claims if the use of our products results in health or safety issues or damages. The end-consumers of our products may be entitled to commence an action under tort against our Group and we may also be subject to tortious liabilities for any damages caused by defects of our products. There is no assurance that we would not be named as a defendant in a lawsuit or proceedings brought by end-consumers in respect of our products in the future. A successful claim against us in respect of our products or a recall of our products may result in (i) legal costs incurred in connection with such claim or other adverse allegations or rectifying such defects; (ii) deterioration of our brand and image; and (iii) material adverse effect on our sales, operating results and financial condition.

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Disruptions, damage or destruction to our production facilities, equipment and machinery or other leased properties may materially and adversely affect our business, financial condition and results of operations

The success of our Group relies on product quality and safety, which is depended on our quality control system decided by a number of factors, including the design of the system, the quality control training programme, and our ability to ensure that our employees adhere to our quality control policies and guidelines. Any failure of our quality control system could result in the production of substandard products, which in turn may impair our reputation, result in delays in the delivery of our products and the need to recall substandard products, which could have a material and adverse impact on our business, financial condition and operating results. Additionally, efficient and consistent daily operations of our production facilities are highly crucial to our business. Regular repair and maintenance programmes for our production facilities are scheduled by our production departments to ensure that our production facilities are in good conditions. Although we have implemented regular repair and maintenance programmes, there is no assurance that we are able to discover all the faults and defects whenever they exist or occur in order to execute repair works or take appropriate measures before any harm is caused to our plant, staff or production. Furthermore, we cannot assure you that there will be no sudden malfunctions or stops in our production facilities during our daily operations due to any natural disasters, power shortage or malicious human acts and if any breakdown or malfunctions of machinery happens, our business, financial condition and operating results could be adversely impacted.

Our production enhancement may not be successful

We plan to utilise certain portion of the net proceeds from the Share Offer on upgrading our production facilities and enhancing our production capacity. The overall utilisation rate of the production facilities in our Huizhou Factory was approaching full utilisation for FY2018. It is our strategic plan to upgrade our production facilities and enhance our production capacity in order to meet the increasing demand for our products and to capture future growth opportunities in the electrothermic household appliances manufacturing industry. Further details on our production enhancement are set forth in the section headed “Business — Business strategies and future plans — Upgrading our production facilities and enhancing our production capacity” in this prospectus.

The success of our production enhancement hinges on our ability to capture additional demand from our customers. However, there is no assurance that we will be able to maintain or establish relationships with our existing or prospective customers or secure new purchase orders from them to utilise our increased production capacity. We may have problems of under-utilisation of our new production facilities if demand for our products does not increase at the same rate. In the event that the above events happen or we are unable to achieve the desired utilisation of our production capacity as planned, there could be a material adverse effect on our performance and results of operation.

Furthermore, the future capital expenditure of our Group for the purchase of machinery and equipment may result in an increase in our depreciation expenses and may therefore adversely affect our Group’s future results of operations and financial expense performance. Our ability to increase revenue, profit and cash flow therefore depends on our continued ability to expand our production capacity.

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We cannot guarantee that the production enhancement will be successfully implemented. There may be uncertainties and risks, such as cost overrun, delays, shortage of labour and shortage of key materials, which are beyond our control and would increase the implementation costs. Any failure to implement our production enhancement may make it difficult to further develop our business operations, take advantage of market opportunities or effectively compete with our competitors. If our capacity expansion does not proceed as we desire, is not timely completed or does not result in the anticipated benefits, our future plans, profitability and growth may be materially and adversely affected.

Foreign governments may institute various trade protection measures and impose high tariffs on imported goods

During the Track Record Period, we had over 100 customers contributed revenue to us. Our major customers are mainly reputable and internationally recognised brand companies headquartered in Europe (e.g. Germany, France, the United Kingdom, and the Netherlands), to which we export our products may impose countervailing duties on imports to offset the competitive advantages the exporting producers may have from subsidies provided by their domestic governments. As such, any trade protection measures unfavourable to our export products imposed by foreign governments including tariffs on imported goods will increase our cost of sales.

We cannot assure you that the countries to which we export our products directly or indirectly will not initiate trade protection measures including anti-dumping duties and countervailing duties, which may impact our products in the future. If any of the above occurs, our profit margins will be adversely affected and we cannot assure you that we will be able to pass on this extra cost to our customers. Our overseas customers may instead choose to purchase from our competitors that can offer cheaper prices. In either of the aforementioned situations, we may lose export sales turnover and market share, which could materially and adversely affect our business, financial conditions and results of operations.

We may not have insurance coverage that is adequate to cover potential liabilities or losses

Our Group may face liabilities that exceed its available insurance coverage or arise from claims outside the scope of its insurance coverage. Furthermore, we are not able to provide assurance that our Group will not receive any complaints or claims against it or be subject to product recalls. Our Group may have to spend significant resources and time to defend itself if legal proceedings for product liability are instituted against our Group. The successful assertion of product liability claims against our Group could require our Group to pay significant monetary damages and/or subject our Group to recall of its products. If any such claims are made, our Group's reputation may also be adversely affected, which may lead to loss of market share, and the business, results of operations, financial condition and prospects of our Group could be materially and adversely affected. Further information on our Group's insurance coverage is set forth in the section headed "Business — Insurance" in this prospectus.

We may fail to adequately protect our intellectual property rights

Our principal intellectual property rights cover our proprietary technology, product designs and our patents and trademarks. We are susceptible to infringement by third parties of our intellectual property rights and there is no assurance that third parties will not copy or otherwise obtain and use our intellectual property rights without authorisation. We have obtained patents for some of our proprietary technology and registered several of our designs and trademarks. However, it is not possible for us to comply with, and seek every clearance under, the relevant laws of all possible jurisdictions for the

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protection and enforceability of our intellectual property rights and there is no assurance that such registrations can completely protect us against any infringements or challenges by our competitors or other third parties. When necessary, we may have to expend a significant amount of financial resources to assert, safeguard and/or maintain our intellectual property rights. If our intellectual property rights cannot be enforced against an infringement by our competitors or other third parties, our business, financial condition and operating results could be adversely affected.

On the other hand, we may be susceptible to third parties claims that we are infringing their intellectual property rights, and if there is a successful claim of intellectual property rights infringement against us, we might be required to pay substantial damages to the party claiming infringement, refrain from further sale of our products, develop non-infringing technology or enter into costly licencing agreements on an on-going basis. However, we may not be able to obtain licencing agreements on terms acceptable to us or at all. Any intellectual property litigation or successful claim could have a material adverse effect on our business, operating results or financial condition.

We could be adversely affected as a result of any sales we make to certain countries that are, or become subject to, sanctions administered by the United States, the EU, the United Nations, Australia and other relevant sanctions authorities.

The United States and other jurisdictions or organisations, including the EU, the United Nations and Australia, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organisations within such countries.

During the Track Record Period, we had sales and deliveries of our electrothermic household appliances to customers located in Russia and the Balkans. Russia, in particular, has been subject to a variety of additional sanctions measures since its actions in Crimea were deemed to be illegal by the Governments of many Western governments and governmental organisations, including additional sanctions measures adopted by the United States in 2018 and 2019. Further, the region of Crimea, which is located in between Russia and Ukraine, is subject to comprehensive international sanctions, and while we have not conducted any business transactions in Crimea during the Track Record Period, we do business in Russia, which claims sovereignty over Crimea. The revenue generated from our business activities relating to Russia and the Balkans was approximately HK\$10.4 million, HK\$2.5 million, HK\$2.9 million and HK\$0.6 million, representing approximately 2.9%, 0.7%, 0.8% and 0.4% of our total revenue for FY2016, FY2017, FY2018 and 4M2019, respectively. Russia and the Balkans were subject to targeted sanctions during the Track Record Period.

While we have implemented internal control measures to minimise our risk exposure to International Sanctions, sanctions laws and regulations are constantly evolving, and new persons and entities are regularly added to the list of Sanctioned Persons. Further, new requirements or restrictions could come into effect which might increase the scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions. Our business and reputation could be adversely affected if the authorities of United States, the EU, the United Nations, Australia or any other jurisdictions were to determine that any of our future activities constitutes a violation of the sanctions they impose or provides a basis for a sanctions designation of our Group.

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RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE

Our Group may be subject to liability in connection with industrial accidents at its production facilities

As the production process of our Group involves the operation of tools, equipment and machinery which are potentially dangerous, industrial accidents resulting in personal injuries or even deaths may occur. We are not able to provide assurance to you that industrial accidents at our Group's production facilities, whether due to malfunctions of tools, equipment or machinery or other reasons, will not occur in the future. As such, our Group may be held liable for the personal injuries or deaths and subject to monetary losses, fines or penalties or other forms of legal liability as well as business interruptions caused by equipment shutdowns for government investigation or implementation or imposition of safety measures. For example, work safety laws imposed by the PRC Government authorities could impose compliance costs or reduce the efficiency of our Group's operations, thereby materially and adversely affecting its business, results of operations and financial condition.

We are subject to a variety of environmental, health and safety laws and regulations

We are subject to the PRC laws and regulations relating to the discharge of pollutants as a result of our production processes. Compliance with existing and future environmental, health and safety laws could subject us to costs or liabilities, including fines, impact on our production capabilities, result in suspension of our business operations, expand or acquire facilities and generally impact our financial performance. If we are held liable for damages in the event of any violation of applicable environmental, health and safety laws, our reputation, licences and certifications to manufacture may be revoked, and our financial condition and results of operations could be materially and adversely affected.

We face fierce market competition in the electrothermic household appliances manufacturing industry and failure to compete efficiently could materially and adversely affect our business

We operate in a highly fragmented industry with a large number of manufactures that provide products like ours. Some of these companies may be able to use profits from their other operations to subsidise losses in their businesses with which we compete or sell the similar products with lower price. These advantages over us may enable them to, among other things; (i) develop products which are similar or more attractive than ours; (ii) achieve production cost reductions and produce similar products that are less expensive than ours which will enable them to increase their market share; and/or (iii) market, promote and sell their products more effectively and develop stronger relationships with customers. The abovementioned factors could significantly harm our ability to sell and market. If we fail to maintain or improve our market position or fail to respond accordingly to changes in the competitive landscape, our business, profit margins, financial condition and operating results may be materially and adversely affected.

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RISKS RELATING TO THE PRC

Our Group's business could be materially and adversely affected by changes in economic, political and social conditions in the PRC, as well as by changes in policies adopted by the PRC Government

We conduct all our production in the PRC, as such the financial condition and results of operations of our business are subject to political, economic and legal developments in the PRC to a significant extent. The PRC's economy differs from the economies of other developed countries in many aspects, including government involvement, growth rate, control of foreign exchange, allocation of resources and capital investment. We cannot assure you that there will not be any unfavourable changes in the PRC's political, economic and governmental policies and measures that could impact the industries in which we operate, which could in turn diminish the demand for our products.

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

The PRC legal system is based on statutes whereas court decisions have limited precedential value. Since the late 1970s, the PRC Government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation since then has significantly enhanced the protections afforded to various forms of foreign investments in China, however as the PRC legal system continues to evolve, the interpretations of many statutes, regulations and rules are not always uniform and enforcement such laws involves uncertainties. Further, some regulatory requirements issued by certain PRC Government authorities may not be consistently applied. Since the PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties create difficulties in our ability to enforce the contracts we have entered into with our business partners and customers. Such uncertainties could materially and adversely affect our business and operations. Furthermore, intellectual property rights and confidentiality protections in China may not be as effective as in the more developed countries. We cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and other foreign investors, including you. In addition, any litigation in China may be protracted and result in substantial costs and diversion of our resources and management attention.

RISKS RELATING TO SHARE OFFER

There has not been any prior public market for our Shares and an active trading market may not develop

An active trading market for our Shares may not develop and the trading price of our Shares may fluctuate significantly. Prior to the Share Offer, there has been no public market for our Shares. The Offer Price was the result of negotiation between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), and the Offer Price may not be indicative of the price at which our Shares will be traded following completion of the Share Offer. In addition, we cannot assure

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you that an active trading market for our Shares will develop, or, if it does develop, that it will be sustained following completion of the Share Offer, or that the trading price of our Shares will not fall below the Offer Price.

Shareholders' interest in our Company's share capital may be diluted in the future

We may need to raise additional funds in the future to finance further expansion of our business. If additional funds are raised through the issuance of new equity or equity-linked securities of our Group other than on a pro rata basis to existing Shareholders, the percentage of ownership of such Shareholders in our Company may be reduced, and such new securities may confer rights and privileges that take priority over those conferred by our Shares.

In addition, we may issue additional Shares upon exercise of the options to be granted under the Share Option Scheme in the future. The increase in the number of Shares outstanding after the issue would result in the reduction in the percentage ownership of the Shareholders and may result in a dilution in the earnings per Share and net asset value per Share.

The trading volume and price of our Shares may fluctuate. Further, any disposal of a substantial number of Shares by our Controlling Shareholders in the public market may adversely affect market price of our Shares

The trading volume and price of our Shares may be highly volatile. Factors such as variations in our revenue, earnings and cash flow, announcements of business development, strategic alliances or acquisitions, new projects, industrial or environmental accidents suffered by us, loss of key personnel, changes in ratings by financial analysts and credit rating agencies or litigation may cause large and sudden changes in the volume and price at which our Shares will trade. In addition, the Stock Exchange and other securities markets have from time to time experienced significant price and volume fluctuations that are not related to the operating performance of any particular company. These fluctuations may also materially and adversely affect the market price of our Shares.

Further, we cannot assure you that our Controlling Shareholders will not dispose of, in part or in whole of, their Shares following the expiration of their respective lock-up periods after the Listing. We cannot predict the effect, if any, of any future sale of our Shares by any of our Controlling Shareholders on the market price of our Shares. Sale of our Shares by any of our Controlling Shareholders may materially and adversely affect the prevailing market price of our Shares.

Granting options under the Share Option Scheme may affect our Group's result of operation and dilute Shareholders' percentage of ownership

Our Company may grant share options under the Share Option Scheme in the future. The fair value of the options on the date on which they are granted with reference to the valuer's valuation will be charged as share-based compensation, which may adversely affect our Group's results of operation. Issuance of Shares for the purpose of satisfying any award made under the Share Option Scheme will also increase the number of Shares in issue after such issuance and thus may result in the dilution to the percentage of ownership of our Shareholders and the net asset value per Share. No option has been granted pursuant to the Share Option Scheme as at the Latest Practicable Date. For a summary of the terms of the Share Option Scheme, please refer to the paragraph headed "D. Share Option Scheme" in Appendix IV to this prospectus.

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We cannot assure you that we will declare or distribute any dividend in the future

Any decision to declare and pay any dividends would require the recommendations of our Board and approval of our Shareholders. Any decision to pay dividends will be made having regard to factors such as the results of operation, financial condition and position, and other factors deemed relevant. Any distributable profits that are not distributed in any given year may be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operation. We cannot assure you that we will be able to declare or distribute any dividend. Our future declarations of dividends will be at the absolute discretion of our Board.

RISKS RELATING TO STATEMENTS IN THIS PROSPECTUS

Certain facts, statistics and data contained in this prospectus have not been independently verified and may not be reliable

Certain facts, statistics and data in this prospectus are derived from various sources including various official government sources that we believe to be reliable and appropriate for such information. However, we cannot guarantee the quality or reliability of such source materials. We believe that the sources of the said information 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 or that any fact has been omitted rendering such information false or misleading. Nevertheless, such information has not been independently verified by us, the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of their respective directors, affiliates or advisers (which, for the purpose of this paragraph, excludes Frost & Sullivan) and therefore, none of them makes any representation as to the accuracy or completeness of such facts, statistics and data. Furthermore, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to, or place on, such information or statistics.

Investors should read the entire prospectus and we strongly caution you not to place any reliance on any information contained in press articles, other media and/or research reports

There may be press and media coverage regarding our Group or the Share Offer, which may include certain events, financial information, financial projections and other information about our Group that do not appear in this prospectus. We have not authorised the disclosure of any other information not contained in this prospectus. We do not accept any responsibility for any such press or media coverage and make no representation as to the accuracy or completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this prospectus is inconsistent or conflicts with the information contained in this prospectus, our Group disclaims responsibility for them. Accordingly, investors should not rely on any such information. In making your decision as to whether to subscribe for and/or purchase our Shares, you should rely only on the financial, operational and other information included in this prospectus.

RISK FACTORS

Forward-looking statements contained in this prospectus are subject to risks and uncertainties

This prospectus contains certain statements and information that are “forward-looking” and uses forward-looking terminologies such as “anticipate”, “believe”, “could”, “estimate”, “expect”, “may”, “ought to”, “should” or “will” or similar terms. Those statements include, among other things, the discussion of our growth strategy and expectations concerning our future operations, liquidity and capital resources. Investors of our Shares are cautioned that reliance on any forward-looking statements involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include, but are not limited to, those identified in this section, many of which are beyond our control. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations by us that our plans or objectives will be achieved and investors should not place undue reliance on such forward-looking statements. We do not undertake any obligation to update publicly or release any revisions of any forward-looking statements, whether as a result of new information, future events or otherwise.

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 our Company. The 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 omission of which would make any statement in this prospectus misleading.

INFORMATION ON THE SHARE OFFER

This prospectus is published solely in connection with the Share Offer. Details of the terms of the Share Offer are described in the section headed “Structure and conditions of the Share Offer” in this prospectus and in the related Application Forms.

The Listing is sponsored by the Sponsor and the Share Offer is managed by the Joint Global Coordinators. The Public Offer is fully underwritten by the Public Offer Underwriters and the Placing is expected to be fully underwritten by the Placing Underwriters.

RESTRICTIONS ON OFFER OF 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, and without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any such circumstances such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

The distribution of this prospectus or the related Application Forms and the offering and sales of the 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. In particular, the Offer Shares have not been offered and sold, and will not be offered or sold, directly or indirectly, in the PRC or the United States, except in compliance with the relevant laws and regulations of each of such jurisdictions.

No action has been taken to register or qualify the Offer Shares or the Share Offer, or otherwise to permit a public offering of the Offer Shares, in any jurisdiction outside Hong Kong. The distribution of this prospectus and the related Application Forms in jurisdictions outside Hong Kong may be restricted by law and therefore persons into whose possession this prospectus or any of the related Application Forms comes should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the applicable securities laws.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

Each person subscribing for the Offer Shares will be required to confirm, or be deemed by his/its subscription of the Offer Shares to have confirmed, that he/she/it is aware of the restrictions on offer of the Offer Shares described in this prospectus and the Application Forms, and that he/she/it is not subscribing for, and has not been offered, any Share in circumstances that contravene any such restrictions.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Our Company has applied to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme).

No part of the share or loan capital of our Company is listed, traded or dealt in on any stock exchange and save as disclosed herein, no such listing or permission to deal is being or proposed to be sought.

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

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential applicants for the Share Offer are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the subscription for, holding, purchase, disposal of or dealing in the Shares or exercising their rights thereunder. It is emphasised that none of our Company, our Directors, the Sponsor, the Underwriters, their respective directors or any other person involved in the Share Offer accepts responsibility for any tax effects on, or liabilities of, holders of Shares resulting from the subscription for, holding, purchase, disposal of or dealing in the Offer Shares or the exercise of their rights thereunder.

HONG KONG SHARE REGISTRAR AND STAMP DUTY

The principal register of members of our Company will be maintained by our principal share registrar, Eterra Trust (Cayman) Limited, in the Cayman Islands. All the Offer Shares will be registered on the Hong Kong branch register of members to be maintained by Tricor Investor Services Limited. Dealings in the Offer Shares registered on our Company's branch register of members maintained in Hong Kong will be subject to Hong Kong stamp duty. Unless our Directors otherwise agree, all transfers and other documents of title of shares must be lodged for registration with and registered in Hong Kong and may not be lodged in the Cayman Islands.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

OFFER SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

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

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

All necessary arrangements have been made for the Shares to be admitted into CCASS. If investors are unsure about the details of CCASS settlement arrangement and how such arrangements will affect their rights and interests, they should seek the advice of their stockbroker or other professional adviser.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares are expected to commence on or about Friday, 25 October 2019. The Shares will be traded in board lots of 2,000 Shares each.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. If there is any inconsistency between the Chinese names of the Chinese entities mentioned in this prospectus and their English translation, the Chinese names shall prevail.

CURRENCY TRANSLATIONS

Solely for your convenience, this prospectus contains translations of certain RMB or USD into HKD, respectively at specified rates. For illustration purpose only, you may make conversion of USD and RMB into HKD in this prospectus based on the exchange rate as at the Latest Practicable Date set out below:

US\$1.00: HK\$7.80
RMB1.00: HK\$1.11

Such conversion shall not be construed as representations that amount of such currency was or may have been converted into HKD and vice versa at such rates or any other exchange rates.

ROUNDING

Certain amounts or percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, totals of rows or columns of numbers in tables may not be equal to the apparent total of individual items. Where information is presented in thousands or millions of units, amounts may have been rounded up or down. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

Name	Residential Address	Nationality
<i>Executive Directors</i>		
Mr. Chan Wai Ming (陳偉明先生)	Flat B, 4th Floor Ming Garden 283–283A Prince Edward Road West Kowloon City, Kowloon Hong Kong	Chinese
Mr. Chiu Wai Kwong (趙維光先生)	Flat C, 21st Floor Tower 2, The Parkside 18 Tong Chun Street Tseung Kwan O New Territories Hong Kong	Chinese
Ms. Tang Mei Wah (鄧美華女士)	Flat D, 8th Floor Block 20 Dynasty View Classical Garden Tai Po New Territories Hong Kong	Chinese
Mr. Yu Kwok Wai (俞國偉先生)	No. 515, 1st Floor, The Wonderland Tai Po Tau Tsuen Tai Po New Territories Hong Kong	Chinese
<i>Non-executive Directors</i>		
Dr. Chan Kam Kwong Charles (陳鑑光博士)	Flat A, 30th Floor Block 3, Garden Terrace 8A Old Peak Road Mid-levels Hong Kong	Chinese
Ms. Cheng Yuk Sim Connie (鄭玉嬋女士) also known as Ms. Cheng Yuk Yee Connie (鄭玉而女士)	Flat A, 30th Floor Block 3, Garden Terrace 8A Old Peak Road Mid-levels Hong Kong	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Name	Residential Address	Nationality
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Independent non-executive Directors

Mr. Chan Ping Yim (陳炳炎先生)	Flat B, 7th Floor Tak Fook Court, Bedford Gardens 157 Tin Hau Temple Road North Point Hong Kong	British
Mr. Choi Chi Leung Danny (蔡志良先生)	Flat 506 Block J Kornhill Hong Kong	Chinese
Mr. Chan Shing Jee (陳承志先生)	19th Floor Chung Tak Mansion 2 Magazine Gap Road Mid-levels Hong Kong	Chinese

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

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER
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PARTIES INVOLVED**Sponsor****Alliance Capital Partners Limited**

A corporation licenced under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined in the SFO

Room 1502–1503A

Wing On House

71 Des Voeux Road Central

Central

Hong Kong

Joint Global Coordinators**Alliance Capital Partners Limited**

Room 1502-1503A

Wing On House

71 Des Voeux Road Central

Central

Hong Kong

Sun International Securities Limited

Unit 2412–13, 24/F

China Merchants Tower

Shun Tak Centre

168–200 Connaught Road Central

Hong Kong

**Joint Bookrunners and Joint Lead
Managers****Sun International Securities Limited**

Unit 2412–13, 24/F

China Merchants Tower

Shun Tak Centre

168–200 Connaught Road Central

Hong Kong

SPDB International Capital Limited

Suites 3207–3212, 32/F

One Pacific Place

88 Queensway

Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Legal advisers to our Company

As to Hong Kong law

ONC Lawyers

Solicitors, Hong Kong

19/F

Three Exchange Square

8 Connaught Place

Central

Hong Kong

As to the PRC law

Beijing Dentons Law Offices, LLP (Shenzhen)

Registered law firm in the PRC

3F & 4F, Block A

Shenzhen International Innovation Center

No.1006, Shennan Boulevard

Futian District

Shenzhen

PRC

As to the Cayman Islands law

Appleby

Cayman Islands attorneys-at-law

2206–19 Jardine House

1 Connaught Place

Central

Hong Kong

As to EU laws and regulations and

International Sanctions law

Hogan Lovells

11/F One Pacific Place

88 Queensway

Hong Kong

<p>DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER</p>

Legal advisers to the Sponsor and the Underwriters

As to the Hong Kong law
ZM Lawyers
Solicitors, Hong Kong
 20/F, Central 88
 Nos. 88–98 Des Voeux Road Central
 Hong Kong

As to the PRC law
Allbright Law Offices (Shenzhen)
Registered law firm in the PRC
 22/F–23/F, Tower 1
 Excellence Century Centre
 Fu Hua 3 Road
 Futian District
 Shenzhen
 Guangdong Province
 PRC

Auditors and Reporting accountants

Ernst & Young
Certified Public Accountants
 22/F
 CITIC Tower
 1 Tim Mei Avenue
 Central
 Hong Kong

Industry consultant

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

Internal control consultant

BT Corporate Governance Limited
 2/F
 625 King's Road
 North Point
 Hong Kong

Receiving bank

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

CORPORATE INFORMATION

Registered office	PO Box 1350 Clifton House 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
Headquarters	10th Floor, Block A Chung Mei Centre 15 Hing Yip Street, Kwun Tong Kowloon Hong Kong
Principal place of business in Hong Kong registered under Part 16 of the Companies Ordinance	10th Floor, Block A Chung Mei Centre 15 Hing Yip Street, Kwun Tong Kowloon Hong Kong
Company's website	www.townray.com <i>(Note: information contained in this website does not form part of this prospectus)</i>
Company secretary	Mr. Chiu Wai Kwong <i>Certified Public Accountant</i> Flat C, 21st Floor Tower 2, The Parkside 18 Tong Chun Street Tseung Kwan O, New Territories Hong Kong
Authorised representatives <i>(for the purposes of the Listing Rules)</i>	Mr. Chan Wai Ming Flat B, 4th Floor Ming Garden 283-283A Prince Edward Road West Kowloon City, Kowloon Hong Kong Mr. Chiu Wai Kwong Flat C, 21st Floor Tower 2, The Parkside 18 Tong Chun Street Tseung Kwan O, New Territories Hong Kong
Audit committee	Mr. Chan Ping Yim (<i>Chairman</i>) Mr. Choi Chi Leung Danny Mr. Chan Shing Jee

CORPORATE INFORMATION

Remuneration committee	Mr. Chan Shing Jee (<i>Chairman</i>) Mr. Chan Ping Yim Mr. Choi Chi Leung Danny
Nomination committee	Mr. Choi Chi Leung Danny (<i>Chairman</i>) Mr. Chan Ping Yim Mr. Chan Shing Jee
Principal share registrar	Estera Trust (Cayman) Limited PO Box 1350 Clifton House 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
Hong Kong branch share registrar	Tricor Investor Services Limited Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Compliance Adviser	Alliance Capital Partners Limited <i>A corporation licenced under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined in the SFO</i> Room 1502–1503A Wing On House 71 Des Voeux Road Central Central Hong Kong
Principal banker	The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Hong Kong

INDUSTRY OVERVIEW

The information contained in this section and elsewhere in this prospectus have been derived from various official government publications 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 Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, 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. As a result, you should not unduly rely upon such facts and statistics contained in this prospectus.

SOURCE OF INFORMATION

We have commissioned Frost & Sullivan, an independent market research and consulting company, to conduct an analysis of, and to prepare a report on the electrothermic household appliance market in the PRC and Europe. The report prepared by Frost & Sullivan for us is referred to in this prospectus as the F&S Report. We agreed to pay Frost & Sullivan a fee of HK\$440,000 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 practises advising, training, client research, competitive intelligence and corporate strategy.

We have included certain information from the F&S Report in this prospectus because we believe this information facilitates an understanding of the electrothermic household appliance market in the PRC and Europe for the prospective investors. The F&S Report includes information of the electrothermic household appliance market in the PRC and Europe as well as other economic data, which have been quoted in this prospectus. Frost & Sullivan's independent research consists of both primary and secondary research obtained from various sources in respect of the electrothermic household appliance market in the PRC and Europe. 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 F&S 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 steady development of the electrothermic household appliance market in the PRC and Europe.

OVERVIEW OF MACROECONOMIC ENVIRONMENT IN EUROPE

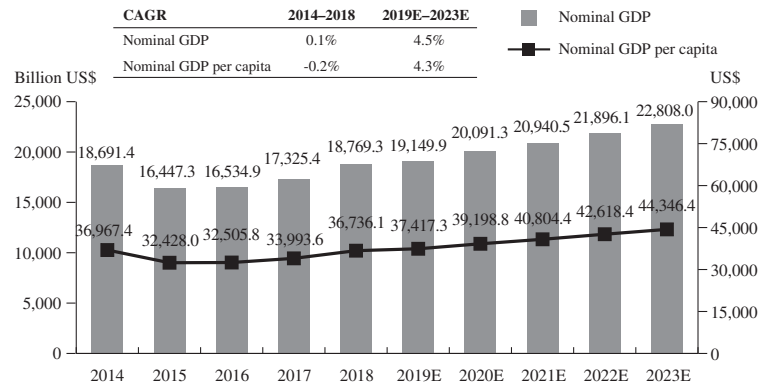
Nominal GDP and nominal GDP per capita

Due to Eurozone crisis and unstable economic environment in certain countries, the nominal GDP in Europe has witnessed a mild growth from approximately US\$18,691.4 billion in 2014 to approximately US\$18,769.3 billion in 2018, representing a CAGR of 0.1%. The negative growth in 2015 was primarily due to high unemployment, deflation as well as weak investment resulted in decline of domestic demand. With the growing domestic demand, recovery of trade performance and economy in global level, the nominal GDP in Europe is estimated to increase at a CAGR of 4.5% during 2019 to 2023E.

The nominal GDP per capita in Europe has recorded a moderate decline from approximately US\$36,967.4 in 2014 to approximately US\$36,736.1 in 2018, representing a CAGR of -0.2%. The nominal GDP per capita in Europe is expected to increase during 2019 to 2023 at a CAGR of 4.3%. The economic growth as indicated by the nominal GDP and nominal GDP per capita underpins the expansion of vertical industries including retail and trade industries.

INDUSTRY OVERVIEW

Nominal GDP and nominal GDP per capita (Europe), 2014–2023E



Note: Data covers EU countries (EU-28) only

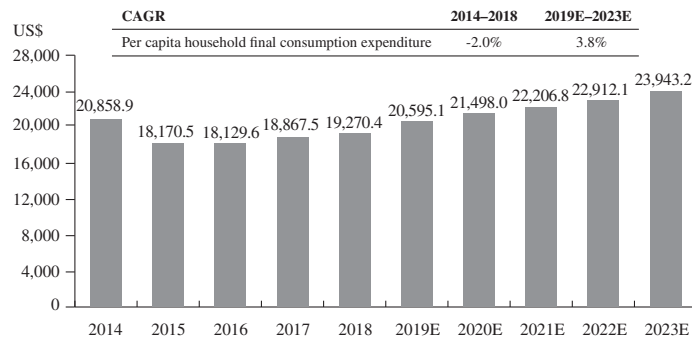
Source: International Monetary Fund, Frost & Sullivan

Household consumption expenditure

The per capita household final consumption expenditure in Europe registered a decline from US\$20,858.9 in 2014 to US\$19,270.4 in 2018, representing a CAGR of -2.0%. As there was a rise in spending on prioritised households' basic needs such as electricity, gas and fuel, as well as housing rent and transport, spending on non-essentials such as luxury goods, restaurants and hotels declined, as a squeeze on real incomes may affect consumer spending.

With the anticipated economic recovery and growing domestic demand, the household expenditure, in line with the nominal GDP per capita, in Europe is expected to increase at a CAGR of 3.8% during 2019 to 2023.

Per capita household final consumption expenditure (Europe), 2014–2023E



Note: Data covers EU countries (EU-28) only

Source: World Bank, Frost & Sullivan

OVERVIEW OF ELECTROTHERMIC HOUSEHOLD APPLIANCE MARKET IN EUROPE

Definition and classification

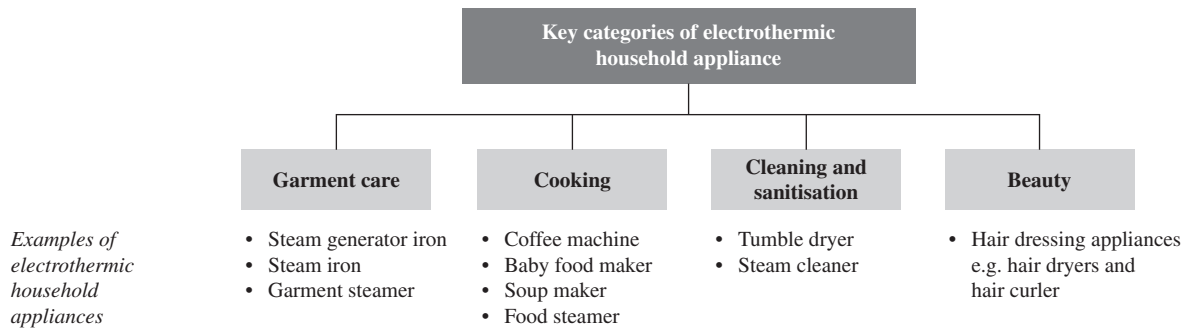
Electrothermic household appliance generally refers to household appliance that converts electrical energy to thermal energy, which can be broadly classified into, for example, several major categories such as garment care, cooking, cleaning and sanitisation, and beauty.

In general, electrothermic household appliances serve various functions based on thermodynamics which involves the measurement and physics of converting thermal energy to and from other forms of energy and the way it affects the state of matter (e.g. water and steam). Specifically, certain electrothermic household appliances for garment care, such as steam iron and steam generator irons, operate based on generation of

INDUSTRY OVERVIEW

steam as a heat carrier through transfer of thermal energy for vaporisation of water upon reaching the boiling point. The application of such kind of electrothermic household appliance is comparatively safer with lower risk of explosions, as steam is used as heat carrier.

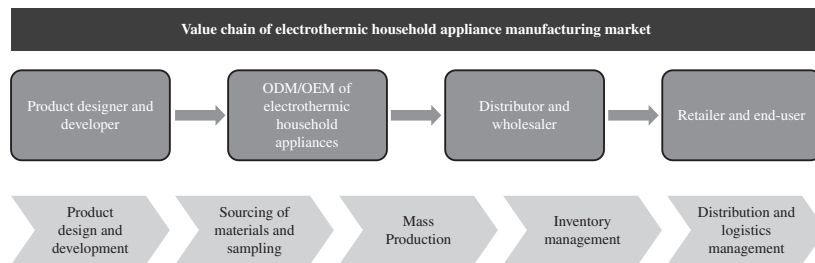
Our Group mainly engages in the development and manufacture of electrothermic household appliances mainly for garment care and cooking purposes, such as steam generator irons, steam irons, coffee machines, food steamers, soup makers and baby food makers.



Source: Frost & Sullivan

Value chain analysis

Development of electrothermic household appliance is generally undertaken by in-house designers and developers or together with the brand owners. Prior to manufacturing of product, conceptual design and sample product will be developed, tested and approved by brand owners. Materials used in electrothermic household appliance are primarily electrical parts, components such as integrated circuits, transistors, and motor supplied by third party. Certain ODM of electrothermic household appliance may source raw materials such as metal (such as copper, lithium and aluminium), plastic and chemicals to develop their own parts with better and consistent quality, as well as demonstrate high level of research and development capabilities with strong focus on product innovation through in-house development of product.



Source: Frost & Sullivan

Retail sales value of selected electrothermic household appliance in Europe

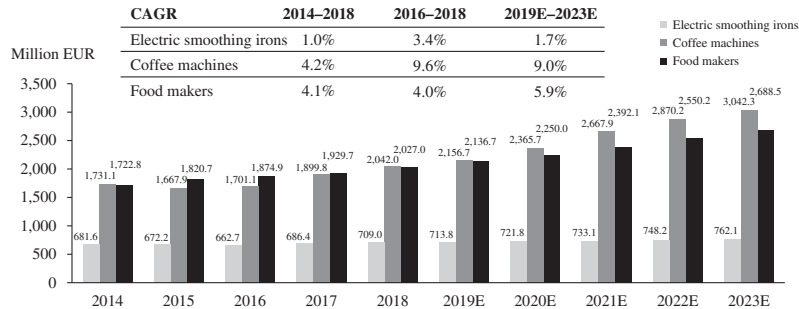
With the further development of open markets and the removal of trade barriers, the retail sales value of electrothermic household appliance witnessed a growth in the past five years. Specifically, according to Frost & Sullivan, the retail sales value of electric smoothing irons, coffee machine and food makers recorded a steady growth at a CAGR of 1.0%, 4.2% and 4.1% respectively during 2014 to 2018. With the growth in population base that creates higher domestic demand for household appliances, the retail sales value of electric smoothing irons, coffee machine and food makers in Europe is expected to increase at a CAGR of 1.7%, 9.0% and 5.9% respectively during 2019 to 2023.

According to Frost & Sullivan, our Group's major customers generally demonstrate a deep market penetration with wide range of product portfolio and broad consumer reach in their respective local retail markets. For example, Customer A is a home and kitchen appliance brand established in 1936, specialising in toasters, hair dryers, bread makers, kettles and sandwich toasters and other appliances with strong presence in the United Kingdom. Customer B is renowned for baby care products including feeding utensils and baby cooking appliances developed in France. Customer C is a multinational electronic conglomerate principally engaged in provision of healthcare solutions, personal health and lighting solutions globally and currently hired approximately 74,000 employees across 100 countries worldwide, which has been recognised as a key

INDUSTRY OVERVIEW

brand of consumer healthcare electronics. Customer D, being headquartered in Turkey, is the largest manufacturing centre of white goods in Europe and had been considered as a key player in Turkish white goods, built-in appliances and air-conditioners markets. Customer G is a key German coffee retailer with over 600 retail stores in Germany and over 300 retail stores in the rest of the world.

Retail sales value of selected electrothermic household appliance, Europe, 2014–2023E



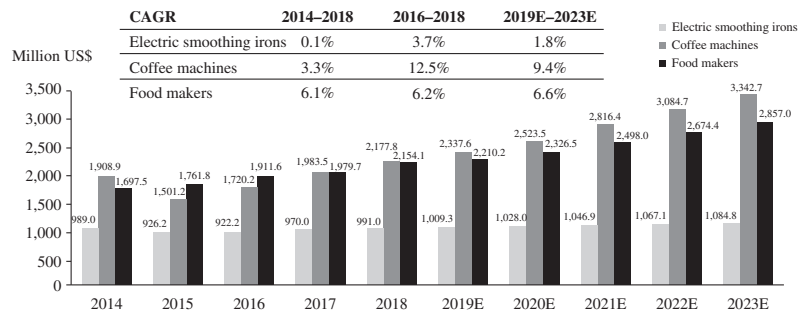
Note: Food makers includes food steamers, soup makers and baby food makers; electric smoothing irons include steam generator irons and steam irons.

Source: Frost & Sullivan

Import value of selected electrothermic household appliance in Europe

Driven by the demand from consumers on electrothermic household appliances and in line with the trend of retail sales, according to Frost & Sullivan, the import value of electric smoothing irons, coffee machine and food makers registered an overall growth at a CAGR of 0.1%, 3.3% and 6.1% respectively. Going forward, with the increase in popularity and adoption of electrothermic household appliances (e.g. coffee machines and food makers for steam cooking) in Europe, the import value of electric smoothing irons, coffee machine and food makers are expected to maintain the growing trend at a CAGR of 1.8%, 9.4% and 6.6% respectively during 2019 to 2023.

Import value of selected electrothermic household appliance, Europe, 2014–2023E



Note: Food makers include food steamers, soup makers and baby food makers; electric smoothing irons include steam generator irons and steam irons.

Source: Frost & Sullivan

Outlook of electrothermic household appliance market in Europe

European market demand of electrothermic household appliance is driven by new model of products with advanced technology and innovative features. With the expected growth in purchasing power of consumers in the European market and increase in health awareness (e.g. Steam cooking is considered the healthiest amongst other cooking methods and the key benefits include (i) retaining nutrients (e.g. vitamin and minerals) in food and (ii) oil-free cooking), demand for premium and advanced electrothermic household appliances is expected to increase. Accordingly, electrothermic household appliance brand owners in the European market puts high emphasis in research, development and product innovation with strong marketing activities in order to appeal to customers' demand in enhancement in their quality of life and sustain in the competitive market environment.

INDUSTRY OVERVIEW

The PRC is expected to continue to be the major source of electrothermic household appliance supplying to Europe, primarily due to (i) high production cost in European countries, (ii) established industry structure and supply chain of electrothermic household appliance manufacturing in the PRC; and (iii) strong trade relationship between the PRC and European countries. In general, brand owners in Europe prefer working with a limited number of approved manufacturers in the PRC to ensure consistent product quality.

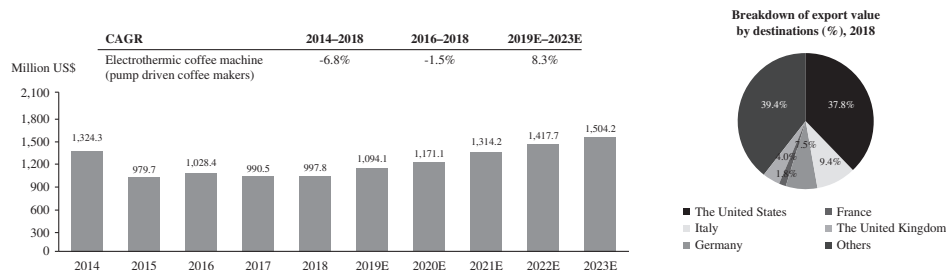
OVERVIEW OF ELECTROTHERMIC HOUSEHOLD APPLIANCE MANUFACTURING MARKET IN THE PRC

Export value of coffee machine in the PRC

The PRC has been the world's largest household appliance manufacturer due to its competitive advantages in production and labour costs. According to Trade Map and Frost & Sullivan, from 2014 to 2018, the export value of electrothermic pump driven coffee machine in the PRC recorded a decline at a compound annual rate of 6.8% which was mainly attributable to weak global demand and economic uncertainties during 2014 to 2015 which resulted in the significant decline of export value of coffee machine from US\$1,324.3 million in 2014 to US\$979.7 million in 2015. Furthermore, the retail sales value and import value of coffee machines in Europe has also seen a decline at a year-on-year rate of 3.7% and 21.4% respectively during 2014 to 2015. According to Frost & Sullivan, the expected growth of export value of electrothermic pump driven coffee machines in the PRC during 2019 to 2023 is primarily driven by the increase in market demand for coffee globally and the growing consumers' demand for high quality coffee and emergence of specialty coffee which puts high emphasis on the value and quality of coffee made with skills, which results in the growth of overall coffee related industries including the coffee machines market. According to International Coffee Organisation, the global coffee consumption increased from approximately 151.5 million 60kg bags in 2014 to approximately 161.4 million 60kg bags in 2018. Furthermore, according to United States Department of Agriculture, the global coffee production is expected to achieve a record high of 174.5 million 60kg bags in 2019 with a strong year-on-year growth of approximately 9.8%. To cope with the market demand and rising sophistication of consumers for coffee machine, brand owners had expanded their product portfolio and developed affordable models with varieties instead of typical types (e.g. single-served and capsule-based). Furthermore, subsequent to the recovery of European economic environment, the domestic demand for coffee machines in Europe has seen a growth as indicated by (i) strong growth of retail sales value of coffee machines in Europe with a significant CAGR of 9.6% during 2016 to 2018; (ii) strong growth of import value of coffee machines in Europe with a significant CAGR of 12.5% during 2016 to 2018 and (iii) increasing penetration of coffee machines in certain European markets (i.e. United Kingdom). According to Frost & Sullivan, the penetration rate of coffee machines in the United Kingdom by ownerships of households has seen a moderate growth from approximately 28% in 2014 to 30% in 2016, and subsequently at a fast pace to 36% in 2018. Going forward, the penetration rate is expected to increase continuously and reach 43% by 2023. The increasing coffee consumption, coupled with the increasing coffee machine retail and trade performance, is indicative to the expected rebound of the market demand for coffee machines in European market as well as export from the PRC as a global leading exporter of coffee machine with a share of over 40% in terms of export value. In view of the established supply chain and adoption of core technology of coffee machine by OEMs, the PRC is expected to maintain the role as the leading exporting country of coffee machine globally and the export value of electrothermic pump driven coffee machine in the PRC is expected to grow at a CAGR of 8.3% during 2019 to 2023.

In 2018, the United States, Italy, Germany, the United Kingdom and France were the major destinations for pump driven coffee machine in the PRC, accounted for approximately 37.8%, 9.4%, 7.5%, 4.0% and 1.8% of the total export value respectively.

Export value of electrothermic coffee machine in the PRC, 2014–2023E



Note: Data refers to HS code 85167130 pump driven coffee machines.

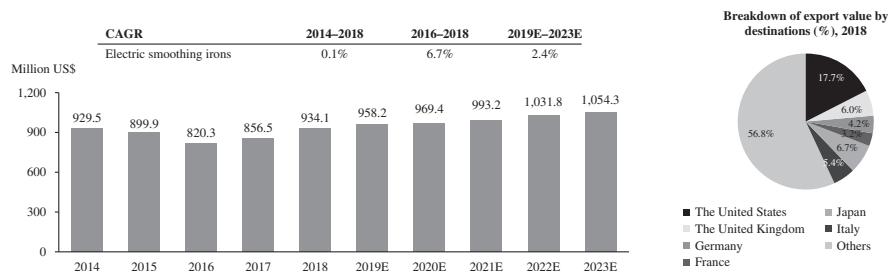
Source: Trade Map, Frost & Sullivan

INDUSTRY OVERVIEW

Export value of electric smoothing irons in the PRC

According to Trade Map and Frost & Sullivan, from 2014 to 2018, the export value of electric smoothing irons in the PRC recorded a slight growth at a CAGR of 0.1%, increased from US\$929.5 million to US\$934.1 million in 2018. It was due to stable global market demand for electric smoothing irons and the export trade in the PRC, which was partially affected by weakened demand in European countries during 2014 to 2016. In 2018, the export value of electric smoothing irons saw a significant growth of 9.1% from 2017 as driven by recovery of global economy and market demand. The export value of electric smoothing irons is expected to further recover at a CAGR of 2.4% from 2019 to 2023, reaching US\$1,054.3 million by 2023, driven by regular replacement of old steam irons by consumers. In 2018, the United States, Japan, Italy, Germany, the United Kingdom and France are the major export destinations for electric smoothing irons from the PRC.

Export value of electric smoothing irons in the PRC, 2014–2023E



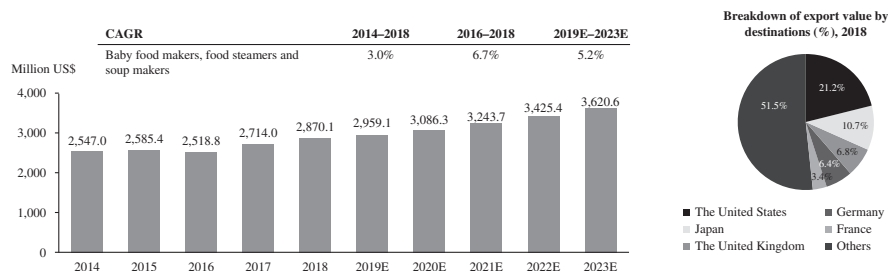
Note: Data refers to HS code 851640 for electric smoothing irons; electric smoothing irons include steam generator irons and steam irons, and the export value of electrothermic steam generator irons in the PRC is not available based on the public source data obtained.

Source: Trade Map, Frost & Sullivan

Export value of baby food makers, food steamers and soup makers in the PRC

According to Trade Map and Frost & Sullivan, the export value of baby food makers, food steamers and soup makers in the PRC recorded a growth from approximately US\$2,547.0 million in 2014 to US\$2,870.1 million in 2018, representing a CAGR of 3.0%. The growth was primarily driven by the increasing global demand for advanced and innovative cooking appliance. From 2019 to 2023, the export value of baby food makers, food steamers and soup makers is expected to grow at a CAGR of 5.2%, reaching US\$3,620.6 million by 2023. The growth is likely driven by the increasing demand and requirements for these household appliances. In 2018, the United States, Japan, the United Kingdom are the major export destinations for baby food makers, food steamers and soup makers from the PRC.

Export value of baby food makers, food steamers and soup makers in the PRC, 2014–2023E



Note: Data refers to HS code 85167990 for baby food makers, food steamers and soup makers, etc. Due to limited availability of information, breakdown of value by respective product type is not available.

Source: Trade Map, Frost & Sullivan

Market drivers and opportunities

Technology innovation and portfolio extension — The major product innovations introduced in the electrothermic household appliance market are in terms of core technology, product performance, features, and design. The electrothermic household appliance manufacturing industry in the PRC will benefit from the growing global demand for innovative products resulted from purchasing power in overseas markets such as

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Europe and United States. In addition, manufacturers and brand owners are increasing effort and investment in research and development of advanced products to cater for requirements from different consumers. With the heightening brand awareness by consumers, more emphasis is being placed on product design, functions and features, medium to high-end electrothermic household appliances becomes mainstay of the consumer market. It is also seen that premium and innovative brands have reaped high profits, indicating that Chinese manufacturers that possess technologies and know-how, and are capable to deliver innovative designs will have advantageous position for capture the market opportunities.

Changing lifestyle in key end-markets — Changing lifestyle in Europe provides great opportunities for designers and manufacturers to come up with conceptual design for new product, which is favourable for ODMs in the PRC with strong product development capabilities as the PRC has been a major source of electrothermic household appliances for European market and European brand owners of electrothermic household appliances typically prefer sourcing product from the ODMs with proven track record, strong industry knowhow and R&D capacities. The demand for coffee machine is expected to continue to grow in the future as the demand increases rapidly with higher spending propensity. Opportunities for coffee machine market also abound in the region owing to the rising disposable incomes, increased adoption of Western consumption habits, and growing preference of youngsters. Particularly, the growing adoption of Western consumption habits amongst Chinese population and other Asian countries has driven the demand for electrothermic household appliances under the overseas brand owners (e.g. European brands) which are well-recognised in respect of product design, quality and function, and such factor will likely benefit the ODMs of electrothermic household appliances for renowned overseas brands in the PRC. In the overseas market such as the European countries, changing life style with growing preference towards machine-made coffee featured with easy and quick preparation over handmade coffee resulted from faster pace of life, as well as increasing for demand and tendency to make premium coffee at home have favoured the PRC manufacturing and export market. More user-friendly and enhanced product features such as one-touch and compact design have been in the trend to meet evolving customer needs.

Market challenges and threat

Requirement of capital — In view of rising labour cost, increasing complexity of product and shorten production cycle, manufacturers are addressing the productivity gap by adopting a three-pronged strategy targeting automated manufacturing, improving education, and imported expertise. More investment is expected to be made for the robotic machines, which will further stimulate automated production in various applications. The adoption of automated production enables manufacturers to (i) deliver product in higher quality, precision level and consistency, (ii) minimise defective products and (iii) reduce labour cost and overall operation cost in a long run. Manufacturers will face pressure to obtain funding to finance their capital expenditure in order to maintain their competitiveness in the industry.

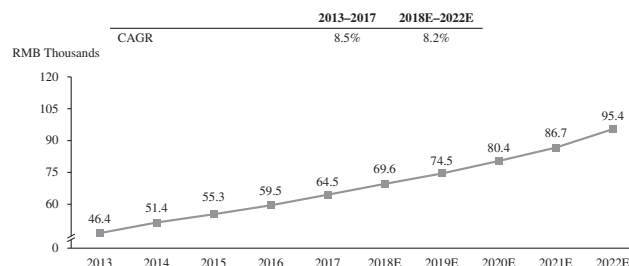
Rising operation costs — Rising cost of operation is one of the key constraints for electrothermic household appliance manufacturing industry, including the rising labour cost as the industry is considered labour intensive. Given the limited pool of product designers and engineers, electrothermic household appliance manufacturers are required to raise the wage level for such kinds of professional staff. It is expected that the increasing operation cost may become a financial constraint of manufacturers in the PRC.

MAJOR COSTS FOR ELECTROTHERMIC HOUSEHOLD APPLIANCES MANUFACTURERS IN THE PRC

Labour cost

According to National Bureau of Statistics of China and Frost & Sullivan, the average wage of employed persons in urban areas in the manufacturing industry in the PRC has witnessed rapid growth from RMB46,431 in 2013 to RMB64,452 in 2017, representing a CAGR of 8.5%. From 2018 to 2022, the average wage of employed persons in urban areas in the manufacturing industry is expected to increase significantly, mainly attributable to inflation in the PRC and increased demand for skilled labour in the manufacturing industry.

Average annual wage of employed persons in urban areas in manufacturing industry, the PRC, 2013–2022E



Note: Latest available figures were recorded in 2017.

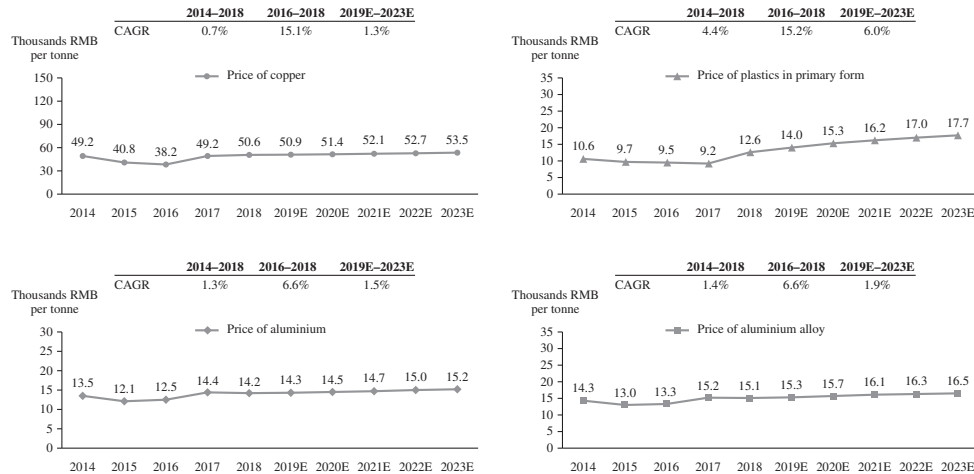
Source: National Bureau of Statistics of China, Frost & Sullivan

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Raw materials cost

The raw materials used for manufacturing of electrothermic household appliances and its components are similar, which are mainly metals (e.g. copper and aluminium) and plastics. According to Frost & Sullivan, the price of copper in the PRC generally experienced a slight growth at a CAGR of 0.7% during 2014 to 2018. Fluctuations in aluminium prices were recorded in the from 2014 to 2018. During the same period, price of plastics in primary form recorded a growth at a CAGR of 4.4%, driven by the recovery of downstream industrial sector. From 2019 to 2023, the prices of aluminium and aluminium alloy are expected to increase at a CAGR of 1.5% and 1.9% respectively, due to consumption outstripping production outside of the PRC. Fiscal stimulus from the Chinese government to spur infrastructure projects could provide a boost to copper demand, leading to a moderate recovery of copper prices in the coming years.

Price trend of selected raw materials, the PRC, 2014–2023E



Source: Frost & Sullivan

PRICE TREND OF SELECTED ELECTROTHERMIC HOUSEHOLD APPLIANCE IN THE PRC

Export unit price of pump driven coffee machine, electric smoothing irons and baby food makers, food steamers and soup makers in the PRC

The following table sets out the export unit price of selected electrothermic household appliances in the PRC:

Product	Export unit price										CAGR (2014–2018)
	2014		2015		2016		2017		2018		
	US\$	HK\$	US\$	HK\$	US\$	HK\$	US\$	HK\$	US\$	HK\$	
Pump driven coffee machine	51.7	404.8	48.3	378.2	48.7	381.3	49.9	390.7	50.2	393.1	–0.6%
Electric smoothing irons	8.9	69.7	8.9	69.7	8.5	66.6	8.3	65.0	8.2	64.2	–1.6%
Baby food makers, food steamers and soup makers	6.0	47.0	5.9	46.2	6.1	47.8	5.9	46.2	6.2	48.5	0.7%

Source: Frost & Sullivan

Unit price of the major electrothermic household appliances sold by our Group is generally higher than the export unit price of respective types of products in the market. Our Directors believe that our products are considered as mid-to-high end products in the industry because:

- i. we provide advanced design and functions on our products with our strong research and development capability;

INDUSTRY OVERVIEW

- ii. our major customers are mainly reputable and internationally recognised brand companies headquartered in Europe, which have stringent requirements on quality and safety; and
- iii. the market position of our major customers are mid-to-high end; therefore, our products are considered as mid-to-high end products in the industry.

For details of the average selling price per unit of our products under different categories, please refer to the section headed “Business — Our products” in this prospectus.

According to Frost & Sullivan, mid-to-high end electrothermic household appliance is featured with relatively higher export unit price and thus retail price over the low-end ones and is typically sold by renowned brand owners in overseas markets (e.g. Europe) with better product quality and performance. The export unit price of mid-to-high end electrothermic household appliance could be double or even triple of the export unit price of the low-end ones due to the higher quality requirement by the brand owners and fulfilment of international standards. Thus, in terms of export unit price, the prices of our Group’s products are of mid-to-high end.

Impact of U.S.-Sino trade war and Brexit on electrothermic household appliance manufacturing market in the PRC

Effective from 1 September 2019, the U.S. Government announced the imposition of additional 15% import tariffs for another batch of Chinese products with an annual trade value of approximately US\$300 billion, which covers coffee machines, electric smoothing irons, and baby food makers, food steamers and soup makers. On 13 August 2019, the United States Trade Representative announced that certain products were being removed from the tariff list while tariffs on some other products, such as electric smoothing irons, and baby food makers, food steamers and soup makers, would be delayed to 15 December 2019. Such new tariffs may result in potential risk to the business performance of electrothermic household appliance manufacturers in the PRC in a long term.

However, given that (i) the PRC is a leading manufacturing and exporting country for electrothermic household appliance in the world with well-established supply chain, technology and facilities; and (ii) there is a significant number of local manufacturers serving overseas brand owners and customers on an OEM and ODM basis with in-depth understanding of customer requirement and product specification, brand owners, and customers are difficult to source the product from manufacturers in alternative countries in a short period of time. In addition, the effects of additional tariffs imposed on Chinese electrothermic household appliance for manufacturers in the PRC could potentially be mitigated given the depreciation of RMB against U.S. dollars. Therefore, the impact of such proposed modification on the electrothermic household appliance manufacturers in the PRC is considered minimal in short-term.

Similarly, business operations of electrothermic household appliance manufacturers in the PRC have not been adversely impacted by Brexit due to the fact that the process of Brexit has been delayed with a six-month extension until 31 October 2019 since its announcement in 2016 and the actual timeline for implementation still remains uncertain. In addition, the retail sales value of electrothermic household appliance, including coffee machines, electric smoothing irons, and baby food makers, food steamers and soup makers in United Kingdom has seen a growth during 2016 to 2018. Meanwhile, the export value of the aforesaid products in the PRC also demonstrated a significant growth during the same period of time.

COMPETITIVE LANDSCAPE OF ELECTROTHERMIC HOUSEHOLD APPLIANCE MANUFACTURING MARKET IN THE PRC

Overview of market competition

The electrothermic household appliance manufacturing market in the PRC is highly fragmented, comprising more than 5,000 small and medium enterprises and large enterprises principally engaging in the manufacture of different types of electrothermic household appliances in 2018. Majority of local manufacturers in the PRC operate as an OEM basis focusing on domestic markets while some manufacturers with proven product development capability may also serve as ODM for overseas customers. Going forward, the electrothermic household appliance manufacturers in the PRC may focus on value-adding products and enhance service level, as well as developing overseas business for better profit level. Meanwhile, the market is expected to undergo consolidation given the financial constraints of manufacturers resulted from escalating operation cost.

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According to Frost & Sullivan, in view of the fragmented nature of industry and market participants generally specialised in certain types of electrothermic household appliances, there is no single participant dominating the overall electrothermic household appliances market in the PRC. Some of the participants in the electrothermic household appliance market in the PRC are Joyoung Co., Ltd. (九陽股份有限公司), Xinbao Electrical Appliances Holdings Co., Ltd. (廣東新寶電器股份有限公司), Ningbo Kaibo Group Co., Ltd. (寧波凱波集團有限公司), Cuori Electrical Appliances (Group) Co., Ltd. (卓力電器集團有限公司) and our Group. The aforesaid market participants may focus on different types of electrothermic household appliances with different target end-markets. For example, some of them specialise in the cooking appliances while others specialise in cleaning appliances and serve domestic or overseas customers. In addition, as electrothermic household appliances market in the PRC is highly fragmented and respective products may carry distinctive features, the market shares and ranking of market participants are therefore not available.

In 2018, the Group's revenue generated from electrothermic household appliances was equivalent to US\$47.9 million (approximately HK\$373.5 million), including the export of garment care appliances such as electric smoothing irons and cooking appliances such as coffee machines, food steamers, baby food makers and soup makers. It is estimated that our Group had a market share of approximately 2.3% in terms of export value of electric smoothing irons, approximately 1.5% for pump driven coffee machines and approximately 0.4% for baby food makers, soup makers and food steamers in the PRC in 2018.

Factors of market competition

Product quality and service level — Established electrothermic household appliances manufacturers generally offer high quality of products and demonstrate outstanding service capability in respect of product design and development, manufacturing and delivery. In addition, manufacturers of electrothermic household appliances with proven track record in offering innovative products and achieving stringent quality control (e.g. through adoption of quality management system) with minimum defects in products are more advantageous in securing orders from and maintain business relationship with brand owners.

Industry reputation and recognition — Electrothermic household appliances manufacturers with strong market presence and industry reputation is more preferred by brand owners. In particular, manufacturers with long-established history, compliance with internationally-recognised quality management system (e.g. ISO) and industry standards (e.g. Waste Electrical & Electronic Equipment (WEEE) Directive, Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) and International Electrotechnical Commission (IEC)) are competitive in developing business with customers in European markets, which generally put high emphasis on quality and technical requirements for their manufacturers.

Entry barriers

Capital requirement — Electrothermic household appliance manufacturing is considered a capital-intensive business. Apart from expenditure for setting up production facilities with machinery and equipment, capital reserve is also required to support major operation from product development, procurement, production and distribution. As such, new entrants without sufficient funding are difficult to maintain their business operations.

Established customer relationship — In general, established electrothermic household appliance manufacturers had maintained a strong business relationship with key customers which are mostly the brand owners. Brand owners may face the quality and service risks associated with switching their existing OEMs and ODMs of electrothermic household appliance to new and inexperienced ones. As a result, the high switching cost for brand owners may become a key barrier for new entrants in electrothermic household appliance manufacturing market.

Industry know-how and development capabilities — Established market participants generally possess strong industry know-how and demonstrate capabilities in manufacturing. Specifically, ODMs generally exhibit strong capacity in design and product development and even own patents for self-invented products. Thus, industry and technical knowledge may serve as a key entry barrier.

DIRECTORS' CONFIRMATION

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 F&S Report which may qualify, contradict or have an impact on the information therein.

OVERVIEW

Our operations are principally located in Hong Kong and the PRC and our products exported to customers in Europe, including the United Kingdom, France, Germany and the Netherlands (the “**European Countries**”) represented approximately 63.9%, 55.3%, 56.3% and 59.3% of our total revenue during the Track Record Period, respectively. Our sales to the European Countries are subject to these jurisdictions’ regulations and legislation, and the regulations relevant to our business are summarised in this section. To the extent that our products are covered by the EU anti-dumping duties described in more detail below, imports into the European Countries will be subject to the additional applicable duties. This section sets out a summary of certain aspects of the laws and regulations in Hong Kong and the PRC and trade related laws and regulations in the European Countries. Information contained in this section should not be construed as a comprehensive summary of laws and regulations applicable to our Group.

HONG KONG

Laws and regulations in relation to our Group’s business operation

Sale of Goods Ordinance

The Sale of Goods Ordinance (Chapter 26 of the Laws of Hong Kong), which codifies the law in relation to the sale of goods, provides that:

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

Subject to the Control of Exemption Clauses Ordinance (Chapter 71 of the Laws of Hong Kong), any right, duty or liability arising under a contract of sale of goods by implication of law may be negative or varied by express agreement or by the course of dealing between the parties or by usage if the usage is such as to bind both parties to the contract.

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Consumer Goods Safety Ordinance and Consumer Goods Safety Regulation

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

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

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

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

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

Trade Descriptions Ordinance

The Trade Descriptions Ordinance (Chapter 362 of the Laws of Hong Kong) (the “**Trade Descriptions Ordinance**”) prohibits false trade description, false, misleading or incomplete information, false statements etc., in respect of goods offered in the course of trade.

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

REGULATORY OVERVIEW

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

Laws and regulations in relation to transfer pricing

Inland Revenue Ordinance

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

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

The IRD issued a Departmental Interpretation and Practice Notes No. 46 which provides clarifications and guidance on the IRD’s views on transfer pricing in December 2009 and further issued a Departmental Interpretation and Practice Notes No. 48 in March 2012 which provides a mechanism for taxpayers to pre-agree their transfer pricing arrangements with the IRD.

Furthermore, the Inland Revenue (Amendment) (No. 6) Ordinance 2018 (the “**Amendment Ordinance**”) was gazetted on 13 July 2018. The main objectives of the Amendment Ordinance are to codify the transfer pricing principles and implement certain measures under the base erosion and profit shifting package promulgated by the Organisation for Economic Co-operation and Development such as the transfer pricing documentation requirements. In particular, section 50AAF of the Amendment Ordinance codifies the arm’s-length principle for provision between associated persons. Section 82A of the Amendment Ordinance stipulated additional tax in certain cases, including that a person is liable to be assessed to additional tax of the amount of tax undercharged resulting from transfer pricing adjustments, unless it is proved that reasonable efforts have been made to determine the arm’s length amount for the transaction(s).

As the Amendment Ordinance was gazetted on and effective from 13 July 2018, the risk of any transfer pricing adjustments imposed on Tunbow Group by it only arises from the related party transactions with Tunbow (Huizhou) or Town Ray (Huizhou) from 13 July 2018 onwards.

Our Directors, based on the advices given to them by an independent tax consultant, are given an understanding that Tunbow (Huizhou) yielded a mark-up on total cost (“**MTC**”) in FY2018 which is within the interquartile range of the comparable companies. Therefore, the corresponding risk of transfer pricing adjustment from Hong Kong perspective is limited. Town Ray (Huizhou) started operation in October 2018. It yielded a MTC in FY2018 which is above the interquartile range of the comparable companies. In the event where transfer pricing adjustments are imposed on Tunbow Group by the IRD,

REGULATORY OVERVIEW

our Group may apply for corresponding adjustments in China in accordance with the relief provision in the Associated Enterprises Article of the Double Tax Agreement between China and Hong Kong. The applicable profits tax rate in Hong Kong applicable to Tunbow Group for the upward profit adjustments is 16.5% while the corporate income tax rate in China applicable to Tunbow (Huizhou) and Town Ray (Huizhou) is 25% in China. The potential additional tax payable of Tunbow Group in Hong Kong would be offset by the potential tax relief obtained by Tunbow (Huizhou) or Town Ray (Huizhou) in China.

Overall, based on the advices of the independent tax consultant, our Directors consider that the risk of additional tax payment and the statutory interest at our Group level during the Track Record Period is remote.

THE PRC

Laws and regulations on establishment and operation of foreign invested enterprises

Companies with limited liability and joint stock companies with limited liability established and operating in the PRC are governed by the Company Law of the PRC (中華人民共和國公司法) (the “**PRC Company Law**”), which was promulgated by the Standing Committee of the National People’s Congress (the “**SCNPC**”) on 29 December 1993 and was latest amended on 26 October 2018.

The establishment procedures, verification and approval procedures, registered capital requirements, foreign exchange control, accounting practises, taxation, labour matters and all other relevant matters of a wholly foreign-owned enterprise shall be subject to the Wholly Foreign owned Enterprise Law of the PRC (中華人民共和國外資企業法) (the “**Wholly Foreign-owned Enterprise Law**”), which was promulgated by the SCNPC on 12 April 1986 and amended on 31 October 2000 and 3 September 2016, and the Implementation Rules of the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法實施細則) (the “**Implementation Rules**”), which were promulgated by the Ministry of the Foreign Economic Relation and Trade of the PRC on 12 December 1990 and amended by the PRC State Council (the “**State Council**”) on 12 April 2001 and 19 February 2014, and the Provisional Measures for Filing Administration of Establishment and Changes of Foreign-invested Enterprise (外商投資企業設立及變更備案管理暫行辦法) (the “**Provisional Measures**”), which were promulgated by the Ministry of Commerce of the People’s Republic of China (the “**MOFCOM**”) and came into force on 8 October 2016, and were amended on 30 July 2017 and 29 June 2018, respectively. Under the Wholly Foreign-owned Enterprise Law, the Implementation Rules and the Provisional Measures, applications for the establishment of the foreign-invested enterprise which is subject to the implementation of the Special Administrative Measures for Access of Foreign Investment (the “**Negative List**”), shall be submitted for examination and approval by the State Council department in charge of foreign economic relations and trade, or a body authorised by the State Council. In the event of a division, merger or other major changes to such a foreign-invested enterprise, it shall report to, and seek approval from, the examining and approving body and carry procedures for registration of such changes with the industrial and commercial administrative authorities. Establishment or other major changes of foreign-invested enterprises which are not subject to the implementation of Negative List shall be only subject to filling administration.

The latest version of the Catalogue for the Guidance of Foreign Investment Industries (the “**Catalogue**”) (外商投資產業指導目錄) promulgated by the National Development and Reform Commission (the “**NDRC**”) and the MOFCOM on 28 June 2017, and implemented on 28 July 2017, and the Negative List (2019 Edition) (外商投資準入特別管理措施(負面清單) (2019版)) implemented on

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30 July 2019, provide guidance for market access of foreign capital by categorising industries into encouraged industries for foreign investment, restricted industries for foreign investment, and prohibited industries for foreign investment. Those industries which are not stipulated in the Catalogue and the Negative List are deemed as “permitted industries for foreign investment.”

On 15 March 2019, the SCNPC promulgated the Foreign Investment Law of the PRC (中華人民共和國外商投資法) (the “**Foreign Investment Law**”), which will come into force as of 1 January 2020. Foreign Investment Law, upon taking effect, will repeal simultaneously the Law of the People’s Republic of China on Sino-foreign Equity Joint Ventures, the Wholly Foreign-owned Enterprise Law and the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures. Subject to the Foreign Investment Law, foreign invested enterprises may keep their original organisational forms for five years after the effectiveness of the present Law. And the specific implementing measures shall be developed by the State Council.

Laws and regulations on foreign exchange

Foreign Exchange Administration

The principal laws and regulations governing foreign currency exchange in the PRC are the Foreign Exchange Administration Regulations of the PRC (中華人民共和國外匯管理條例), latest amended on August 5, 2008. Under these regulations, the RMB is freely convertible for current account items, including the trade and service-related foreign exchange transactions and other current exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities, unless the prior approval of the State Administration of Foreign Exchange (“SAFE”) is obtained and prior registration with SAFE is made.

According to the Notice of the State Administration of Foreign Exchange on Reforming the Management Mode of Foreign Exchange Capital Settlement of Foreign Investment Enterprises (國家外匯管理局關於改革外商投資企業外匯資金結匯管理方式的通知) (“**Circular 19**”) promulgated on 30 March 2015 and came into force on 1 June 2015, the system of willingness-based foreign exchange settlement is adopted for the foreign exchange capital of foreign-invested enterprises. A foreign-invested enterprise shall use capital under the authentic and self-use principles within its business scope.

Pursuant to the Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving the Foreign Exchange Administration Policies for 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 on 13 February 2015 and implemented on 1 June 2015, two administrative approval procedures, respectively the foreign exchange registration approval under domestic direct investment and the foreign exchange registration approval under overseas direct investment, are now cancelled.

Laws and regulations on taxation and dividend distribution

Enterprise Income Tax

Pursuant to the Enterprise Income Tax Law (中華人民共和國企業所得稅法, the “**EIT Law**”) promulgated by the NPC on 16 March 2007 first becoming effective on 1 January 2008 and latest revised on 29 December 2018 and the Implementation Rules for Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施細則, the “**EIT Rules**”) promulgated by the State Council on 6

REGULATORY OVERVIEW

December 2007 and becoming effective on 1 January 2008, taxpayers include both resident enterprises and non-resident enterprises. “**Resident Enterprises**” means enterprises lawfully incorporated in China, or lawfully incorporated pursuant to the laws of foreign countries (regions) but whose actual management organisation is located in China. “**Non-resident Enterprises**” means enterprises lawfully incorporated in accordance with the laws of foreign countries (regions) with no actual management organisation in China, but having an office or premises established in China, or having income derived from China although it does not have an office or premises in China.

Value Added Tax

The State Council promulgated the Provisional Regulations of the PRC on Value-Added Tax (中華人民共和國增值稅暫行條例, the “**Provisional Regulations on Value-Added Tax**”) on 13 December 1993 which was first implemented on 1 January 1994, but last revised on 19 November 2017. The Ministry of Finance (the “**MOF**”) first promulgated and implemented the Implementation Rules for the Provisional Regulations of the PRC on Value-added Tax (中華人民共和國增值稅暫行條例實施細則, the “**Implementation Rules for Value-Added Tax**”) on 25 December 1993 which was revised on 15 December 2008 and 28 October 2011.

Pursuant to the Provisional Regulations on Value-Added Tax and the Implementation Rules for Value-Added Tax, units and individuals engaged in sales of goods, provision of processing, repair and replacement services and importation of goods in the territory of PRC, are considered as Value-Added Tax (the “**VAT**”) taxpayers, and shall therefore pay VAT.

Pursuant to the Notice of the MOF and the State Administration of Taxation (the “**SAT**”) on the Adjustment to 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) issued on 4 April 2018 and came into effect on 1 May 2018, the tax rates of 17% and 11% applicable to the taxpayers who have VAT taxable sales activities or imported goods are adjusted to 16% and 10%, respectively.

Dividend Distribution

The PRC laws and regulations regulating dividend distribution of foreign-invested enterprises mainly include the PRC Company Law, the Law of the PRC on Sino-foreign Equity Joint Ventures and the Regulations for the Implementation of the Law of the PRC on Sino-foreign Equity Joint Ventures, the Wholly Foreign-owned Enterprise Law and the Implementation Rules for the Wholly Foreign-owned Enterprises Law.

Pursuant to the PRC Company Law, a company shall retain 10% of the profits as the company’s statutory reserve funds when the company distributes the profits after tax of the then financial year, and the retention can be stopped upon the company’s statutory reserve funds has accumulated up to 50% of the registered capital of the company. If the statutory reserve funds of the company are not sufficient to cover its losses in previous years, the company shall use the profits of the current year to cover the losses before retaining statutory reserve funds. The remaining after-tax profits after the losses have been made up for and the statutory reserve funds has been retained can be distributed to its shareholders.

Pursuant to the Implementation Rules, wholly foreign-owned enterprises in China shall, after payment of income taxes on their profits pursuant to the tax laws of China, retain at least 10% of their after-tax profits each year as reserve funds, and the retention can only stop when the cumulative amount

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of the reserve funds reaches 50% of the registered capital. These reserve funds cannot be reallocated as cash dividends. In addition, wholly foreign-owned enterprises should retain some of their after-tax profits as staff incentive and welfare funds, the proportion of which may be determined by themselves.

Besides, pursuant to the EIT Law, dividends paid to non-resident enterprises and other passive income from China should be taxed at the standard rate of 20% withholding tax. The EIT Rules reduced the tax rate from 20% to 10%.

Pursuant to the Arrangements between the Mainland China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Tax Evasion 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) signed by the Mainland China and the HKSAR on 21 August 2006 and the Notice of the State Administration of Taxation on Issues Concerning the Implementation of Dividend Clauses of Tax Treaties (國家稅務總局關於執行稅收協定股息條款有關問題的通知) promulgated and implemented by the SAT on 20 February 2009 the withholding tax rate for dividends paid by a Chinese resident company to a Hong Kong resident should be no more than 5%, with the requirement that the Hong Kong resident must be a company that has been holding at least 25% of the Chinese company's equity interests for 12 consecutive months before receipt of the dividends.

Pursuant to the Administrative Measures for Non-Resident Taxpayers to Enjoy the Treatment under Tax Treaties (非居民納稅人享受稅收協定待遇管理辦法) promulgated by the SAT on 27 August 2015 and implemented on 1 November 2015, which is latest revised on 15 June 2018, where a non-resident taxpayer who receives dividends from a Chinese resident enterprise satisfies the terms and conditions for the treatment under tax treaties, it may, at the time of tax declaration, or through withholding agent, enjoy the treatment of the tax treaties and accept the subsequent administration of the tax authority.

Transfer Pricing

Pursuant to the EIT Law, related-party transactions shall comply with the arm's length principle (獨立交易原則). If the related-party transaction fails to comply with the arm's length principle, which also results in the reduction of the taxable income or earnings, the taxation authority shall make adjustments to its transfer pricing.

According to the Announcement of the State Administration of the Taxation on Relevant Matters relating to Improving the Filing of Related-Party Transactions and the Management of Contemporaneous Document (國家稅務總局關於完善關聯申報和同期資料管理有關事項的公告) (the “**SAT Circular 42**”), any resident enterprise subject to tax collection on an actual profit basis and any non-resident enterprise which has establishments or offices in the PRC and reports and pays enterprises income tax shall, together with annual income tax filing, submit the Annual Report disclosing its transactions with related-parties. The SAT Circular 42 also requires enterprises to prepare contemporaneous documentation reports based on a tax year which includes master files, local files and special issue files, and submit the files in accordance with the requirements of the tax authorities.

According to the Administrative Measures for Special Tax Adjustment and Investigation and Mutual Consultation Procedures (特別納稅調查調整及相互協商程式管理辦法) (the “**SAT Circular 6**”) which was promulgated by the SAT on 17 March 2017, partly amended on 15 June 2018 and effective as of 15 June 2018, the tax authorities exercise special tax adjustment monitoring and management of enterprises via review of the reporting of related-party transaction, management of contemporaneous

documentation, profit level monitoring and other means. If the enterprise receives a special tax adjustment risk warning from tax authorities or detects in itself any special tax adjustment risk, the enterprise may carry out voluntary adjustments regarding tax payment matters and the relevant tax authority may still proceed with special tax investigation adjustment proceeds according to the relevant provisions. Besides, pursuant to the tax treaties signed by PRC, the SAT may activate mutual consultation procedures either upon application by an enterprise or upon request by the competent tax authority of the counter-party of a tax treaty to consult and negotiate with the latter, so as to avoid or eliminate international double taxation triggered by special tax adjustment.

Laws and regulations on environmental protection and hazardous substances

Environmental Protection Law

The Environmental Protection Law of the PRC (中華人民共和國環境保護法, the “**Environmental Protection Law**”) established the legal framework for China’s environmental protection efforts. It was promulgated and implemented by the SCNPC on 26 December 1989 and amended on 24 April 2014.

Pursuant to the Environmental Protection Law, any organisation that discharges pollutants shall take effective measures to prevent and control the environmental pollution and harm caused by waste gas, waste water, waste residues and etc. generated in the production, construction or other activities.

Environmental Impact Assessment of Construction Projects

The Environmental Impact Assessment Law of the PRC (中華人民共和國環境影響評價法, the “**Environmental Impact Assessment Law**”) was promulgated by SCNPC on 28 October 2002 and implemented on 1 September 2003, and latest revised on 29 December 2018. Pursuant to the provisions of the Environmental Impact Assessment Law, the Chinese government put forth the environmental impact evaluation system to construction projects and implemented classification management according to the degree of environmental impact of the construction project.

In the event of possible significant environmental impact, an environmental impact report shall be prepared for comprehensive assessment of the environmental impact. In the event of possible slight environmental impact, an environmental impact statement shall be prepared for analysis or specific assessment of the environmental impact. In the event of minimal environmental impact which does not warrant an environmental impact assessment, an environmental impact registration form shall be completed. Where the environmental impact assessment documents of a construction project are not examined or not approved after examination by the relevant approval department pursuant to law, the construction unit shall not commence the construction of the project. Even after the approval of the environmental impact assessment documents, if the construction project’s nature, scale, location or production craft, or the measures taken for prevention and control of pollution and for prevention of ecology damage have significantly changed, the construction unit should resubmit the environmental impact assessment documents of the construction project for approval.

Environmental Protection Management of Construction Projects

The State Council promulgated and implemented the Regulations on Environmental Protection Management of Construction Projects (建設項目環境保護管理條例) on 29 November 1998, which was revised on 16 July 2017 and implemented on 1 October 2017. The Former Ministry of Environmental

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Protection of the PRC promulgated the Provisional Measures for Environmental Protection Acceptance of Construction Projects upon Completion (建設項目竣工環境保護驗收暫行辦法) on 20 November 2017.

Upon completion of a construction project, the construction unit shall be responsible to conduct the acceptance inspection of the complementary environmental protection facilities pursuant to the standards and procedures stipulated by the environmental protection administrative authorities of the State Council, and formulate the acceptance inspection report. The construction unit shall, in the acceptance inspection process of the environmental protection facilities, inspect, monitor and record the construction and testing status of the construction project's environmental protection facilities truthfully, and shall not commit any fraud.

Pollutant Discharge License and Environmental Protection Tax

The Ministry of Environmental Protection promulgated and implemented the Interim Regulations on the Management of Pollutant Discharge License (排污許可證管理暫行規定) on 23 December 2016 and the Administrative Measures for Pollutant Discharge Licensing (for Trial Implement) (排污許可管理辦法(試行)) on 10 January 2018 to regulate the application, issuance, implementation, supervision and other acts of Pollutant Discharge License.

Environmental protection authorities, in accordance with the application and commitment of pollutant discharging units, through the issuance of legal document in the form of Pollutant Discharge License, lay out the environmental management requirements, regulate and restrict the pollutant discharge behaviours of discharging units in accordance with laws and regulations, and implement the environmental administration and supervision on discharging units according to the Pollutant Discharge License.

According to the Notice of Guangdong Provincial Department of Ecology and Environment on Stopping Issuing the Pollutant Discharge License of Guangdong Province and Other Related Matters (廣東省生態環境廳關於停止核發廣東省排污許可證等有關事項的通知, the “**Stopping Notice**”), the administrative approval of Pollutant Discharge License of Guangdong Province has been cancelled since 13 August 2019, and the Pollutant Discharge License of Guangdong Province will not be issued anymore. Meanwhile, the Guangdong Provincial Department of Ecology and Environment will accelerate the issuance of National Pollutant Discharge License and organise pollutant discharge units to apply for National Pollutant Discharge License in a timely manner.

According to the Classification Management Catalog of Pollutant Discharge Permits for Stationary Sources of Pollution (2017 Edition), enterprises whose production processes involve industrial furnaces shall apply for National Pollutant Discharge License by the year of 2020. As Town Ray (Huizhou)'s production processes involve industrial furnaces, it shall apply for National Pollutant Discharge License by the year of 2020.

Based on the Stopping Notice, our PRC Legal Advisers are of the view that the non-renewal of the Pollutant Discharge License of Guangdong Province for Town Ray (Huizhou) does not violate the laws and regulations of the PRC. As advised by our PRC Legal Advisers, basing on the Stopping Notice and our PRC Legal Advisers' inquiry to Huizhou Ecology and Environment Bureau, Town Ray (Huizhou) can continue production after the expiration of the Pollutant Discharge License of Guangdong Province,

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and there is no legal impediment to obtain National Pollutant Discharge License if Town Ray (Huizhou) legally submits the required application materials according to the relevant laws and regulations of the PRC.

According to the Environmental Protection Tax Law of the PRC (中華人民共和國環境保護稅法) promulgated on 25 December 2016 and latest amended on 26 November 2018 by the SCNPC, and the Implementing Regulations for the Environmental Protection Tax Law of the PRC (中華人民共和國環境保護稅法實施條例) promulgated on 25 December 2017 and implemented on 1 January 2018 by the State Council, enterprises, public institutions and other producers/operators that discharge taxable pollutants directly to the environment within the jurisdiction of the People's Republic of China are the taxpayers of environmental protection tax and shall pay the Environmental Protection Tax.

Restriction of the Use of Hazardous Substances

The Administrative Measures on the Restriction of the Use of Hazardous Substances in Electrical and Electronic Products (電器電子產品有害物質限制使用管理辦法) was promulgated by the Ministry of Industry and Information Technology, the National Development and Reform Commission, the Ministry of Science and Technology, the Ministry of Finance, the Ministry of Environmental Protection, the Ministry of Commerce, the General Administration of Customs, the General Administration of Quality Supervision and the Inspection and Quarantine on January 6, 2016 and became effective on July 1, 2016. The restriction of the use of hazardous substances in electrical and electronic products is carried out through the catalog management. Such management catalog shall be prepared, adjusted and released by the Ministry of Industry and Information Technology, in concert with other relevant ministries, and in light of the actual industrial development situation.

Laws and regulation on product quality

The SCNPC promulgated the Product Quality Law of the PRC (中華人民共和國產品質量法, the “**Product Quality Law**”) on 22 February 1993 and implemented it on 1 September 1993, which was revised on 8 July 2000, 27 August 2009 and 29 December 2018.

Engaging in the manufacturing and sale of any product in China shall comply with the Product Quality Law. The state, in accordance with the quality management standards commonly used internationally, implements enterprise quality certification system. Enterprises may, on a voluntary basis, apply to a certification body acknowledged by the department for product quality supervision under the State Council or by a department authorised by the aforesaid department for enterprise quality system certification.

Laws and regulations on the protection of consumer rights and interests

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

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

Laws and regulations relating to rental property

The SCNPC promulgated the PRC Urban Real Estate Management Law (中華人民共和國城市房地產管理法, the “**Urban Real Estate Management Law**”) on 5 July 1994, which was implemented on 1 January 1995, and revised on 30 August 2007 and 27 August 2009.

Pursuant to the Urban Real Estate Management Law, in the lease of a house, the lessor and the lessee shall conclude a written lease agreement with the term, purpose and price of the lease, repair responsibility and other rights and obligations of the parties, and shall register the lease with the property administrative department for record.

Laws and regulations on labour security

Labour Relationship

The SCNPC promulgated the Labour Law of the PRC (中華人民共和國勞動法) on 5 July 1994, which became effective on 1 January 1995, and was revised on 29 December 2008. The SCNPC promulgated the Labour Contract Law of the PRC (中華人民共和國勞動合同法) on 29 June 2007, which became effective on 1 January 2008, and was then revised on 28 December 2012. The State Council promulgated the Regulations on the Implementation of Labour Contract Law of the PRC (中華人民共和國勞動合同法實施條例) (collectively the “**PRC labour laws**”) on 18 September 2008, which became effective on the same date. Pursuant to the PRC labour laws, a written labour contract shall be concluded to establish a labour relationship.

Labour Dispatch

According to the Interim Provisions on Labour Dispatch (勞務派遣暫行規定) promulgated by the Ministry of Human Resources and Social Security on 24 January 2014 and becoming effective on 1 March 2014, a company can only use dispatched workers on temporary, ancillary or alternative positions, and the number of dispatched workers shall not exceed 10% of the total number of employees.

Social Insurance

The Social Insurance Law of the PRC (中華人民共和國社會保險法) was promulgated by the SCNPC on 28 October 2010 and amended on 29 December 2018. The State Council promulgated and implemented the Provisional Regulations on Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例) (collectively the “**PRC social insurance laws**”) on 22 January 1999, which were revised on 24 March 2019.

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Pursuant to the Social Insurance Law of the PRC, the basic pension insurance, basic medical insurance and unemployment insurance premiums shall be paid jointly by the employers and employees. The work-related injury insurance and maternity insurance premiums shall be paid by the employers, while the employees are not required to pay. Enterprises in China shall apply for social insurance registration with social insurance institutions, and pay social insurance premiums for their employees.

Housing Provident Fund

Pursuant to the Regulations on Management of Housing Provident Fund (住房公積金管理條例) promulgated and implemented by the State Council on 3 April 1999 and last amended on 24 March 2019, enterprises shall apply for housing provident fund registration with the relevant housing provident fund management centre, set up housing provident fund accounts at the entrusted bank, and make housing provident fund deposits for their employees.

Laws and regulations related to import and export of good

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

The Circular of the Ministry of Commerce on Relevant Issues Concerning the Record Keeping and Registration of the Right to Foreign Trade by Foreign-invested Enterprises (商務部關於外商投資企業外貿權備案登記有關問題的通知), which was promulgated by the MOFCOM and implemented on 17 August 2004, further stipulates that any foreign-funded enterprise lawfully established after 1 July 2004 that undertakes import/export of self-use or self-produced goods and technologies of this enterprise need not complete the formalities of record-keeping and registration by foreign trade operators.

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

EU

Extensive EU legislation aims to safeguard the health, safety and interests of consumers by covering a wide range of aims, such as the promotion of consumers’ rights to information and education, consumer safety, the protection of consumers’ economic and legal interests, and product packaging and labelling. While a regulation is a binding legislative act directly applicable in the member states, a directive must be implemented by the members in accordance with their domestic legal system.

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Most importantly, enforcement of the rules is the exclusive competence of national authorities in EU member states. Thus, while the directives set out minimum common standards of product liability and consumer protection in the EU, the enforcement of their rules may (and, indeed, does) vary throughout the EU. Therefore, national laws and other measures implementing these directives should be researched separately to obtain a complete picture of the recourse avenues available to consumers in each EU member state.

EU import duties

Custom duties

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

Under the Union Customs Code, the importation of goods into the EU is subject to the payment of relevant import value-added tax, customs duties, and other excise duties (as applicable), in accordance with the framework set out in Council Directive 2008/118 EC (as amended). Additional customs duties may be further imposed under the EU’s anti-dumping and countervailing measures. The framework for these measures is set out in Regulation (EU) 2016/1036 and Regulation (EU) 2016/1037 (as amended), and the relevant value-added tax and customs duties (including anti-dumping and countervailing duties, where applicable) and excise duties are assessed by relevant EU member state customs authorities, who are responsible for the application and enforcement of the EU customs law.

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

Tariff and Non-tariff measures

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

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

Product safety in the EU

General product safety, Directive 2001/95/EC (the “GPS Directive”)

The GPS Directive applies to all EU member states and was required to be implemented into member state national law by 15 January 2004. Its provisions apply to all consumer products subject to product-specific requirements that may be applicable under separate legislation. On 13 February 2013, the European Commission adopted proposals to improve product safety in the EU, which consist of, inter alia, a proposal for a Regulation on Consumer Product Safety, replacing the existing GPS Directive. Among others, the proposed Regulations introduce a requirement on manufacturers and importers of consumer products to include information about the product’s origin on the packaging of the product. The proposals are currently going through the EU’s legislative procedure for adoption.

The GPS Directive aims to ensure that products placed on the EU market are safe for consumer use and that effective corrective action is taken when this is not the case. The GPS Directive requires that producers must only put products on the market that are safe, having regard to the product’s composition, packaging, labelling, warnings and instructions for use. Producers and distributors also have obligations to take corrective actions in respect of products posing a safety risk that have already been placed on the EU market.

The responsibility for ensuring safety of products on the EU market lies with the manufacturer of the product, or where the manufacturer is not based in the EU, its representative in the EU (if applicable) or the importer.

Food contact materials

General requirements for all materials that are intended to come into contact directly or indirectly with food are laid down in Regulation (EC) 1935/2004. Specific EU regulations have also been established for food contact materials containing ceramics, regenerated cellulose film, plastics, recycled plastics and active and intelligent materials. In addition, there are directives that regulate particular substances and groups of substances used in the manufacture of food contact materials.

Electrical equipment

Specific EU legislation applies to certain electrical products, including the EU Low Voltage Equipment Directive 2014/35/EU, which requires the manufacturer to conduct a safety and conformity assessment to establish product safety and legislative compliance, before affixing a CE mark to the product. Additional legislation sets out specific requirements relating to the composition and labelling of certain electrical equipment and disposal of such equipment.

Consumer protection in the EU

Articles 12 and 114 of the Lisbon Treaty lay down the overarching provisions for promoting the interests, health and safety of consumers in the EU. With a view to meeting such objectives, further legislation has been adopted to protect the economic and legal interests, and health of consumers, and ensure the safety and free movement of products within the EU.

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The sale of consumer goods and associated guarantees (“Directive 1999/44/EC”)

Directive 1999/44/EC, which was required to be nationally implemented by 1 January 2002, applies to the sale of goods to consumers within the EU. Directive 1999/44/EC guarantees consumers a minimum level of protection with respect to remedies in the event of non-conformity of a product with the sale contract at the time of delivery.

Consumer Rights Directive 2011/83/EU (“Consumer Rights Directive”)

The Consumer Rights Directive was required to be nationally implemented by 13 December 2013 and applies to contracts concluded after 13 June 2014. It amends Directives 93/13/EEC and Directive 1999/44/EC and repeals previous legislation relating to distance selling. The Consumer Rights Directive relates to contracts between traders and consumers on the sale of goods, services and online digital content.

Unfair commercial practises

Directive 2005/29/EC prohibits unfair business-to-consumer commercial practises in the EU, in particular misleading and aggressive commercial practises such as the provision of false or untrue information to consumers.

Liability for defective products (“Directive 85/374/EEC”)

Directive 85/374/EEC, which was required to be nationally implemented by July 1988, states that producers of consumer products are liable to consumers for damage caused by defects in their products. Directive 85/374/EEC defines damages as death, personal injury or damage to any item of property (other than the defective property), and the parties that may be liable include the manufacturer of the finished product or any components; any person who presents himself as the producer (such as by placing their name or trademark on the product); and any person who imports the product into the EU for sale or distribution.

Civil Liability

In addition to regulatory liability, there may also be civil claims in both contract and tort in respect of product liability/safety and consumer protection.

ENGLAND AND WALES

Pursuant to the Brexit referendum, the United Kingdom is expected to leave the EU sometime in 2019, although date remains subject to the outcome of any negotiations between the United Kingdom and the remaining EU Member States that remain ongoing as of the Latest Practicable Date. From the date the United Kingdom leaves the EU, it is no longer expected to be part of the EU single market or customs union. This could lead to significant changes to the United Kingdom’s customs duty regime, which could also impact the import of goods from outside the EU.

Copyright and trademarks

Copyrights exist automatically on creation of a “copyright work” (defined in section 1 of the Copyright, Designs and Patents Act 1988 (“**CDPA**”)), and are not required to be registered in order to subsist in the United Kingdom.

The Trade Marks Act 1994 (“**TMA**”) regulates the registration of United Kingdom trademarks, the use of registered United Kingdom trademarks and related matters. It is also possible to register international trade marks ‘designating’ either the United Kingdom and/or the EU via the so-called Madrid system, and thus obtain trade mark protection with the same effects as a direct United Kingdom and/or EU trade mark application.

Section 9 of the TMA provides that the owner of a registered United Kingdom trade mark has exclusive rights in the trade mark which are infringed by the use in the course of trade and without the owner’s consent, of the trade mark (or any sign confusingly similar to it) in the United Kingdom, that is (a) identical to the registered mark and used in relation to identical goods or services; (b) is similar or identical to the registered mark, and used in relation to similar or identical goods or services, with a likelihood of confusion on the part of the public; or (c) identical or similar to the registered mark where the mark has a reputation in the United Kingdom/Member States and the use of the sign, takes unfair advantage of, or is detrimental to, the distinctive character or repute of the registered trade mark. The TMA provides that a registered trade mark owner is, in an action for infringement, entitled to relief including by way of damages, injunctions and accounts.

As with the general import of goods into the EU, goods imported into the United Kingdom must not infringe any Intellectual Property Rights which other operators may hold in the United Kingdom. Exporters should inquire into whether the goods they want to export to the United Kingdom are already subject to an Intellectual Property Right in any of the EU member states, and obtain, if necessary, an appropriate licence from the right-holder. The aforementioned doctrine of exhaustion is also provided for in the United Kingdom.

Laws and regulations relating to imports

The enforcement of customs procedures in the United Kingdom is the responsibility of HM Revenue & Customs, and the extent and scope of their powers are contained in legislation including the Customs and Excise Management Act 1979 (“**CEMA**”) and various directly applicable EU regulations, including the Union Customs Code. CEMA serves to consolidate the United Kingdom customs law and, inter alia, considers duty chargeable on imported goods, and together with other applicable laws, provides that the value for customs purposes is generally the price payable or paid by the buyer of the goods imported into the United Kingdom. The point at which duty is payable on the goods varies depending on when entry or declaration is deemed to have been made, the nature of the goods, fixed regulations, the method of import and purpose.

A penalty may be imposed where a person engages in any conduct for the purpose of evading any relevant tax or duty on imports, or engages in any conduct by a duty, obligation, requirement or condition imposed by or under legislation relating to any relevant tax or duty is contravened. Value added tax (VAT) also applies on the importation of goods into the United Kingdom from outside the EU

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(see below). Sections 15 and 16 of the Value Added Tax Act 1994 provide that enactments relating to customs duties apply generally (but with appropriate modifications) in relation to VAT chargeable on the importation of goods as they apply to customs duties.

From a United Kingdom perspective, the declarant for goods imported into the United Kingdom is liable to pay relevant United Kingdom VAT and customs duties (including applicable anti-dumping and countervailing duties) to Her Majesty's Revenue and Customs ("HMRC"). The amount of United Kingdom VAT and customs duty is determined based on the declared value of the goods, the tariff classification of the goods and the country of origin of the goods. Anti-dumping and countervailing duties will only be applicable where the imported goods are subject to such anti-dumping and countervailing measures. The declarant is also under a duty to submit an import declaration to HMRC.

Laws and regulations relating to product quality and safety and consumer protection

Much of the laws of England and Wales on product quality originates from and/or implements EU law, reflecting the requirements for product safety and consumer protection across member states. Manufacturers and distributors are obliged to ensure that products supplied for sale are safe and bear the appropriate safety warnings. The General Product Safety Regulations 2005 set out the extent of these obligations (by reference to the EU standards from time to time, and the actions that producers must take in monitoring products and recalling unsafe products that have been released for sale. Failure to comply with certain obligations within the Regulations can lead to fines and imprisonment. The United Kingdom has also implemented product-specific EU legislation including the Electrical Equipment (Safety) Regulations 2016 (which implements the Low Voltage Equipment Directive).

Individual customers benefit from much greater protection than business customers. The Consumer Rights Act 2015, which replaced and consolidated certain previous consumer protection legislation, requires goods sold to consumers to be of satisfactory quality, fit for their intended purpose, to match the description made available and to match any sample or model displayed prior to sale. It also imposes overarching requirements of fairness and transparency.

All products placed on the market in England and Wales must comply with the information requirements set out in the Consumer Protection from Unfair Trading Regulations 2008 (as amended). These regulations prohibit certain types of unfair commercial practises and provides that traders must not mislead consumers by providing false information or omitting to provide certain information. There are also specific regulations requiring provision of pricing information, such as the Price Marketing Order 2004 (SI 2004/102).

OVERALL REGULATORY COMPLIANCE IN EU AND UNITED KINGDOM

Hogan Lovells, our counsel as to the laws of the United Kingdom and the EU, has confirmed based on its due diligence of the company's operations in the United Kingdom and the EU, that there are no instances of material non-compliance with the applicable laws and regulations of these jurisdictions.

SANCTIONS LAWS AND REGULATIONS

Hogan Lovells, our International Sanctions Legal Advisers, have provided the following summary of the sanctions regimes imposed by their respective jurisdictions. During the Track Record Period, we had sales and deliveries of our electrothermic household appliances to customers located in Russia and the Balkans (including Greece, Romania, Serbia and Slovenia). Russia and the Balkans were subject to targeted sanctions during the Track Record Period. This summary does not intend to set out the laws and regulations relating to the U.S., the EU, the United Nations and Australian sanctions in their entirety.

U.S.

Treasury regulations

OFAC is the primary agency responsible for administering U.S. sanctions programmes against targeted countries, entities, and individuals. “Primary” U.S. sanctions apply to “U.S. persons” or activities involving a U.S. nexus (e.g., funds transfers in U.S. currency or activities involving U.S.-origin goods, software, technology or services even if performed by non-U.S. persons), and “secondary” U.S. sanctions apply extraterritorially to the activities of non-U.S. persons even when the transaction has no U.S. nexus. Generally, U.S. persons are defined as entities organised under U.S. law (such as companies and their U.S. subsidiaries); any U.S. entity’s domestic and foreign branches (sanctions against Iran and Cuba also apply to U.S. companies’ foreign subsidiaries or other non-U.S. entities owned or controlled by U.S. persons); U.S. citizens or permanent resident aliens (“green card” holders), regardless of their location in the world; individuals physically present in the United States; and U.S. branches or U.S. subsidiaries of non-U.S. companies.

Depending on the sanctions programme and/or parties involved, U.S. law also may require a U.S. company or a U.S. person to “block” (freeze) any assets/property interests owned, controlled or held for the benefit of a sanctioned country, entity, or individual when such assets/property interests are in the United States or within the possession or control of a U.S. person. Upon such blocking, no transaction may be undertaken or effected with respect to the asset/property interest — no payments, benefits, provision of services or other dealings or other type of performance (in case of contracts/agreements) — except pursuant to an authorisation or licence from OFAC.

OFAC’s comprehensive sanctions programmes currently apply to Cuba, Iran, North Korea, Syria, and the Crimea region of Russia/Ukraine (the comprehensive OFAC sanctions programme against Sudan was terminated on October 12, 2017). OFAC also prohibits virtually all business dealings with persons and entities identified in the SDN List. Entities that a party on the SDN List owns (defined as a direct or indirect ownership interest of 50% or more, individually or in the aggregate) are also blocked, regardless of whether that entity is expressly named on the SDN List. Additionally, U.S. persons, wherever located, are prohibited from approving, financing, facilitating, or guaranteeing any transaction by a non-U.S. person where the transaction by that non-U.S. person would be prohibited if performed by a U.S. person or within the United States.

REGULATORY OVERVIEW

United Nations

The United Nations Security Council (the “UNSC”) can take action to maintain or restore international peace and security under Chapter VII of the United Nations Charter. Sanctions measures encompass a broad range of enforcement options that do not involve the use of armed force. Since 1966, the UNSC has established 30 sanctions regimes.

The UNSC sanctions have taken a number of different forms, in pursuit of a variety of goals. The measures have ranged from comprehensive economic and trade sanctions to more targeted measures such as arms embargoes, travel bans, and financial or commodity restrictions. The UNSC has applied sanctions to support peaceful transitions, deter non-constitutional changes, constrain terrorism, protect human rights and promote non-proliferation.

There are 14 ongoing sanctions regimes which focus on supporting political settlement of conflicts, nuclear non-proliferation, and counter-terrorism. Each regime is administered by a sanctions committee chaired by a non-permanent member of the UNSC. There are 10 monitoring groups, teams and panels that support the work of the sanctions committees.

United Nations sanctions are imposed by the UNSC, usually acting under Chapter VII of the United Nations Charter. Decisions of the UNSC bind members of the United Nations and override other obligations of United Nations member states.

EU

Under EU sanction measures, there is no “blanket” ban on doing business in or with a jurisdiction targeted by sanctions measures. It is not generally prohibited or otherwise restricted for a person or entity to do business (involving non-controlled or unrestricted items) with a counterparty in a country subject to EU sanctions where that counterparty is not a Sanctioned Person or not engaged in prohibited activities, such as exporting, selling, transferring or making certain controlled or restricted products available (either directly or indirectly) to, or for use in a jurisdiction subject to sanctions measures.

Australia

The Australian restrictions and prohibitions arising from the sanctions laws apply broadly to any person in Australia, any Australian anywhere in the world, companies incorporated overseas that are owned or controlled by Australians or persons in Australia, and/or any person using an Australian flag vessel or aircraft to transport goods or transact services subject to United Nations sanctions.

Applicability to our sales in Russia

The United States, the EU, the United Nations, acting through the Security Council, Australia and a number of other countries and governmental organizations impose a variety of sanctions measures that limit parties’ ability to transact with certain persons, entities or organizations in Russia. Other sanctions imposed by these regulators target specific sectors of the Russian economy, such as the financial, energy, and defense sectors. These sanctions have been implemented for a number of reasons articulated by the sanctions regulators, including in response to Russia’s 2014 invasion of Ukraine, interference in the United States and other countries recent elections, malicious cyber-enabled activities, human rights abuses, use of a chemical weapon, weapons proliferation, illicit trade with North Korea, and support to

REGULATORY OVERVIEW

Syria. The area known as Crimea, which is located in the area between Russia and Ukraine, is subject to very extensive sanctions implemented when it was deemed to be annexed by Russia in 2014. They also place various transportation restrictions on Crimea, including listing various ports where ships cannot dock.

Hogan Lovells, our International Sanctions Legal Advisers, performed the following procedures to evaluate our risk of exposure to penalties imposed under International Sanctions laws and regulations:

- (a) reviewed documents provided by us about our Group, our business operations, revenues, sales contracts and counterparty list in Russia and the Balkans, ownership structure and management;
- (b) reviewed our list of counterparties in Russia and the Balkans during the Track Record Period against the lists of persons and organisations subject to International Sanctions, and confirmed that they are not on such lists; and
- (c) received written confirmation from us that except for our sales to customers located in Russia and the Balkans as disclosed in the section headed “Risk factors — We could be adversely affected as a result of any sales we make to certain countries that are, or become subject to, sanctions administered by the United States, the EU, the United Nations, Australia and other relevant sanctions authorities”, 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 International Sanctions.

As advised by our International Sanctions Legal Advisers after performing the procedures set out above, our activities during the Track Record Period do not appear to implicate restrictions under International Sanctions. Further, given the scope of our Share Offer and the expected use of proceeds as set out in this prospectus, our International Sanctions Legal Advisers are of the view that the involvement by parties in the Share Offer will not implicate any applicable International Sanctions on such parties, including our Company, our Company’s investors, Shareholders, the Stock Exchange and the Listing Committee and group companies, or any person involved in the Share Offer and accordingly, the sanction risk exposure to our Company, its investors and Shareholders, and persons who might, directly or indirectly, be involved in permitting the listing, trading and clearing of our Company’s Shares (including the Stock Exchange, the Listing Committee and related group companies) is very low.

HISTORY, DEVELOPMENT AND REORGANISATION

OVERVIEW

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 28 September 2017. Pursuant to the Reorganisation as more particularly described in the paragraph headed “Reorganisation” in this section, our Company has become the holding company of our Group for the purpose of the Listing and holds the entire interest of six subsidiaries, namely, Town Ray Investments (BVI), Town Ray Development, Town Ray Enterprises, Tunbow Group, Town Ray Hong Kong and Town Ray (Huizhou).

OUR BUSINESS DEVELOPMENT

Prior to forming our Group, Dr. Chan and Ms. Cheng had accumulated years of experience in the household appliances industry. Dr. Chan started to engage in the business of exporting plastic materials and electronic products in 1991 by incorporating Town Ray International Limited (“**Town Ray International**”). In 1995, Dr. Chan and Ms. Cheng tapped into the business of manufacturing ODM household appliances through the establishment of Dongbaoli Electrical (Shenzhen) Co., Ltd. (東保利電業(深圳)有限公司) (“**Dongbaoli (Shenzhen)**”) with Tunbow Electrical Limited as its trading arms. For details of Dr. Chan’s and Ms. Cheng’s background and experience, please refer to the section headed “Directors and senior management” in this prospectus.

Town Ray International ceased to export plastic materials and electronic products in 1998. Prior to the disposal of Town Ray International, it was an investment holding company. For the purpose of streamlining the corporate structure, Town Ray International was disposed to an individual (the “**Purchaser**”), an independent third party, in 2015 at a consideration of approximately RMB1.2 million, which was the mutually agreed cost of the asset held by Town Ray International based on arm’s length negotiation with the Purchaser. Our Directors confirm that save for acquiring Town Ray International, the Purchaser did not and do not have any past or present relationship (business, financing or otherwise) with our Group, Controlling Shareholders, Directors, senior management or any of their respective associates, and our Group has had no transaction with Town Ray International since such disposal to the Purchaser and up to the Latest Practicable Date.

Dongbaoli (Shenzhen) was wholly-owned by Tunbow Electrical Limited since its establishment until 2004. Since then, Dongbaoli (Shenzhen) has been owned as to 89% and 11% by Tunbow Electrical Limited and Tunbow Industries Limited, respectively, both of which have in turn been controlled by Dr. Chan and Ms. Cheng. Both were also trading arms of Dongbaoli (Shenzhen). Tunbow Electrical Limited and Tunbow Industries Limited are currently investment holding companies with no other business operation. They do not have any direct or indirect competition with the business of our Group.

The history of our Group can be traced back to 2005 when Dr. Chan, Ms. Cheng together with other business partners established Tunbow (Huizhou). At that time, we utilised the manufacturing facilities of Dongbaoli (Shenzhen) located in Shenzhen. We moved into our production facilities in Huizhou from 2011 to 2013. Since then, Dongbaoli (Shenzhen) had been engaged in the business of property investment, being one of the property investment companies controlled by our Controlling Shareholders. As such, Dongbaoli (Shenzhen) had no other business operation and had no customer or supplier in relation to the business of manufacturing household appliances during the Track Record Period and up to the Latest Practicable Date. Dongbaoli (Shenzhen) did not form part of our Group during the Track Record Period and up to the Latest Practicable Date, and will not form part of our Group after the Listing.

HISTORY, DEVELOPMENT AND REORGANISATION

Being endeavour to become an advanced product developer and industrial designer of household appliances, we devote substantial effort to the design and development of products. In 2006, we successfully designed the first generation of our fully automatic coffee machine. Our Group endeavours to enhance technology development to provide quality products to our customers and we launched the second and third generations of our fully automatic coffee machine in 2010 and 2016, respectively.

Throughout the years, our Group has expanded its business in terms of our production capacity, product range and production processes. During the Track Record Period, we sold our products to over 30 countries and regions and our product offerings covered different types of (i) garment care appliances, including steam generator irons, garment steamers and steam irons; and (ii) cooking appliances, including coffee machines, food steamers, baby food makers, soup makers and milk bottle warmers.

We place emphasis on quality control and management. In October 2018, Tunbow Group was accredited with ISO9001:2015 in sales and marketing of small electrical appliances for household use and electronic consumer products and Town Ray (Huizhou) was accredited with ISO9001:2015 in design and manufacturing of small electrical appliances for household use, and manufacturing of electronic consumer products.

Apart from engaging in the business of our Group, Dr. Chan and Ms. Cheng also engage in property holding and investment activities through a number of companies controlled by them and these companies will not form part of our Group after the Listing. As our Group is positioned to focus on the business of manufacturing and sale of electrothermic household appliances, the property holding and investment business of Dr. Chan and Ms. Cheng was not injected into our Group.

Prior to the Reorganisation, Tunbow (Huizhou) operated the design, manufacture and sale of household appliances business and also owns two parcels of land in Huizhou of an aggregate area of approximately 81,926 sq.m. (the “**Land No. 1**” and the “**Land No. 2**”, collectively the “**Huizhou Land Parcels**”), and an industrial building complex erected on Land No. 1 with a gross floor area of approximately 85,036.1 sq.m. (the “**Huizhou Properties**”), on which our production facilities are occupying approximately 73,650.04 sq.m. Approximately 75% of Land No. 2 has not been developed.

In between the Huizhou Land Parcels, our Controlling Shareholders also own another parcel of land (the “**Land No. 3**”) through one of their companies. Tunbow (Huizhou) will carry out property investment after completion of the Business Transfer, which is similar to other property investment companies controlled by our Controlling Shareholders. In view of the distinct business nature and the clear delineation between the electrothermic household appliances manufacturing business of our Group and the property investment business of our Controlling Shareholders, and the advantages of managing Huizhou Land Parcels and Land No. 3, being the three parcels of adjacent lands as a whole by the excluded companies owned by our Controlling Shareholders, as part of the Reorganisation, Town Ray (Huizhou) was established in 2017 and Tunbow (Huizhou) transferred its design, manufacture and sale of household appliances business to Town Ray (Huizhou) in 2018.

Our Directors are of the view that our Group and our management team can focus our attention and financial resources, including the net proceeds from the Share Offer, in developing and realising the full potential of our core business by upgrading our production facilities or acquiring new production facilities, instead of further developing the Land No. 2 given that approximately 75% of Land No. 2 has not been developed, and high development costs are expected to be incurred.

HISTORY, DEVELOPMENT AND REORGANISATION

In light of the considerable amount of tax, such as land appreciation tax and profit tax that would be incurred for the transfer of Tunbow (Huizhou), the Huizhou Land Parcels and the Huizhou Properties, our Directors consider that it would be more commercially justifiable to conduct the Business Transfer, rather than incurring tax for the transfer of Tunbow (Huizhou), the Huizhou Land Parcels and the Huizhou Properties from the excluded companies owned by our Controlling Shareholders to our Group. Also, the exclusion of Tunbow (Huizhou) and the Huizhou Properties will not affect the use of the Huizhou Properties as our production facilities, as since 1 October 2018, Town Ray (Huizhou) has rented part of the Huizhou Properties from Tunbow (Huizhou) at market rent for use as our production facilities. Therefore, our Directors are of the view that it would be commercially justifiable not to include Tunbow (Huizhou) and the Huizhou Properties in our Group.

As advised by our PRC Legal Advisers and as confirmed by our Directors, Tunbow (Huizhou) did not have any material regulatory non-compliance during the Track Record Period. Our Directors further confirm that Tunbow Electrical (BVI) Limited, the holding company of Tunbow (Huizhou), has been an investment holding company since its incorporation and did not have any material regulatory non-compliance during the Track Record Period.

For details of the Business Transfer, please refer to the paragraph headed “Reorganisation” in this section.

Major business milestones

The following table sets forth a summary of the major business milestones in our Group’s business development:

Year	Event
2005	<ul style="list-style-type: none"> Dr. Chan, Ms. Cheng together with other business partners established Tunbow (Huizhou).
2006	<ul style="list-style-type: none"> We designed the first generation of our fully automatic coffee machine.
2010	<ul style="list-style-type: none"> We launched the second generation of our fully automatic coffee machine.
2011–2013	<ul style="list-style-type: none"> We moved into our manufacturing facilities in Huizhou.
2012	<ul style="list-style-type: none"> We were granted a patent (patent number: ZL200910174566.5) in the PRC on the core brewing technology for the second generation of our fully automatic coffee machine.
2014	<ul style="list-style-type: none"> We were granted a patent (patent number: ZL201420177619.5) in the PRC on the electric steam technology for our steam iron.
2016	<ul style="list-style-type: none"> We launched the third generation of our fully automatic coffee machine.
2017	<ul style="list-style-type: none"> We were granted a patent (patent number: ZL201510053719.6) in the PRC on the water filling technology for our steam iron.

HISTORY, DEVELOPMENT AND REORGANISATION

Year	Event
2018	<ul style="list-style-type: none"> ● The testing laboratory of Town Ray (Huizhou) was appointed as a suitable customer's testing facility stage 1 by TÜV Rheinland. ● The testing laboratory of Town Ray (Huizhou) was accredited with a certificate of approval for customer's testing facility stage 1 by DEKRA Certification B.V.. ● Tunbow Group was accredited with ISO9001:2015 in sales and marketing of small electrical appliances for household use and electronic consumer products. ● Town Ray (Huizhou) was accredited with ISO9001:2015 in design and manufacturing of small electrical appliances of household use, and manufacturing of electronic consumer products. ● As part of the Reorganisation, Town Ray (Huizhou) was established in 2017 and Tunbow (Huizhou) transferred its design, manufacture and sale of electrothermic household appliances business to Town Ray (Huizhou) in 2018.

OUR CORPORATE DEVELOPMENT

The following is a brief corporate history of the establishment and major changes in shareholdings of our Group's subsidiaries.

Town Ray Investments (BVI)

Town Ray Investments (BVI) was incorporated in BVI with limited liability on 27 September 2017. It is authorised to issue a maximum of 50,000 ordinary shares of a single class with a par value of US\$1.00 each. It is an investment holding company.

On 13 October 2017, Town Ray Investments (BVI) allotted and issued one share with a par value of US\$1.00 as fully paid to our Company and the entire issued share capital of Town Ray Investments (BVI) became wholly owned by our Company.

Town Ray Development

Town Ray Development was incorporated in BVI with limited liability on 27 September 2017. It is authorised to issue a maximum of 50,000 ordinary shares of a single class with a par value of US\$1.00 each. It is an investment holding company.

On 13 October 2017, Town Ray Development allotted and issued one share with a par value of US\$1.00 as fully paid to Town Ray Investments (BVI) and the entire issued share capital of Town Ray Development became wholly owned by Town Ray Investments (BVI).

HISTORY, DEVELOPMENT AND REORGANISATION

Town Ray Enterprises

Town Ray Enterprises was incorporated in BVI with limited liability on 27 September 2017. It is authorised to issue a maximum of 50,000 ordinary shares of a single class with a par value of US\$1.00 each. It is an investment holding company.

On 13 October 2017, Town Ray Enterprises allotted and issued one share with a par value of US\$1.00 as fully paid to Town Ray Investments (BVI) and the entire issued share capital of Town Ray Enterprises became wholly owned by Town Ray Investments (BVI).

Town Ray Hong Kong

Town Ray Hong Kong was incorporated in Hong Kong with limited liability on 19 October 2017. It is an investment holding company.

On the date of its incorporation, Town Ray Hong Kong allotted and issued one ordinary share as fully paid to Town Ray Enterprises and the entire issued share capital of Town Ray Hong Kong of HK\$1.00 became wholly owned by Town Ray Enterprises.

Tunbow Group

Tunbow Group was incorporated in Hong Kong with limited liability on 21 November 2007. It engages in the trading of electrothermic household appliances.

On the date of its incorporation, Tunbow Group allotted and issued 10,000,000 subscriber shares of HK\$1.00 per share as fully paid to Tunbow Investments (BVI) and the entire issued share capital of Tunbow Group became wholly-owned by Tunbow Investments (BVI).

As part of the Reorganisation, Tunbow Group became a wholly-owned subsidiary of Town Ray Development.

Town Ray (Huizhou)

On 14 December 2017, Town Ray (Huizhou) was established under the laws of the PRC as a wholly foreign-owned enterprise. It engages in design, manufacture and sale of household appliances.

As at the date of its establishment, it had a registered capital of HK\$30,000,000. The entire equity interest of Town Ray (Huizhou) became wholly-owned by Town Ray Hong Kong.

REORGANISATION

Our Group underwent the Reorganisation in preparation for the Listing, which involved the following steps:

1. Incorporation of our Company

On 28 September 2017, our Company was incorporated in the Cayman Islands as an exempted company with limited liability. As at the date of its incorporation, it had an authorised share capital of HK\$380,000 divided into 38,000,000 Shares with a par value of HK\$0.01 each.

HISTORY, DEVELOPMENT AND REORGANISATION

On the date of its incorporation, our Company allotted and issued one subscriber Share as fully paid to an initial subscriber, an independent third party. On the same day, the nominee subscriber as transferor executed an instrument of transfer in favour of Tunbow Investments (BVI) as transferee, pursuant to which the nominee subscriber transferred the one subscriber Share, representing the entire issued share capital of our Company, to Tunbow Investments (BVI) for a consideration of HK\$0.01.

On 28 September 2017, our Company allotted and issued 10,174 Shares as fully paid to Tunbow Investments (BVI). Tunbow Investments (BVI) then held 10,175 Shares, representing the entire issued share capital of our Company.

On 9 October 2017, our Company allotted and issued 17 Shares, 119 Shares, 153 Shares, 153 Shares, 187 Shares, 187 Shares and 187 Shares as fully paid to Innoinvest Limited, Mr. Lee Pak Man, Mr. Poon Ching Ching, Kelvin, Mr. Chiu, Mr. Chan, Ms. Tang and Mr. Yu, respectively. After such allotment, our Company was owned as to 91.03% by Tunbow Investments (BVI), 0.15% by Innoinvest Limited, 1.07% by Mr. Lee Pak Man, 1.37% by Mr. Poon Ching Ching, Kelvin, 1.37% by Mr. Chiu, 1.67% by Mr. Chan, 1.67% by Ms. Tang and 1.67% by Mr. Yu, respectively.

2. Incorporation of Town Ray Investments (BVI)

On 27 September 2017, Town Ray Investments (BVI) was incorporated in BVI with limited liability. It is authorised to issue a maximum of 50,000 ordinary shares of a single class with a par value of US\$1.00 each. On 13 October 2017, Town Ray Investments (BVI) allotted and issued one share with a par value of US\$1.00 as fully paid to our Company and the entire issued share capital of Town Ray Investments (BVI) became wholly-owned by our Company.

3. Incorporation of Town Ray Development

On 27 September 2017, Town Ray Development was incorporated in BVI with limited liability. It is authorised to issue a maximum of 50,000 ordinary shares of a single class with a par value of US\$1.00 each. On 13 October 2017, Town Ray Development allotted and issued one share with a par value of US\$1.00 as fully paid to Town Ray Investments (BVI) and the entire issued share capital of Town Ray Development became wholly-owned by Town Ray Investments (BVI).

4. Incorporation of Town Ray Enterprises

On 27 September 2017, Town Ray Enterprises was incorporated in BVI with limited liability. It is authorised to issue a maximum of 50,000 ordinary shares of a single class with a par value of US\$1.00 each. On 13 October 2017, Town Ray Enterprises allotted and issued one share with a par value of US\$1.00 as fully paid to Town Ray Investments (BVI) and the entire issued share capital of Town Ray Enterprises became wholly-owned by Town Ray Investments (BVI).

5. Incorporation of Town Ray Hong Kong

On 19 October 2017, Town Ray Hong Kong was incorporated in Hong Kong with limited liability. On the date of its incorporation, Town Ray Hong Kong allotted and issued one ordinary share as fully paid to Town Ray Enterprises and the entire issued share capital of Town Ray Hong Kong became wholly-owned by Town Ray Enterprises.

6. Incorporation of Town Ray (Huizhou)

On 14 December 2017, Town Ray (Huizhou) was established under the laws of the PRC as a wholly foreign-owned enterprise. As at the date of its establishment, it had a registered capital of HK\$30,000,000. The entire equity interest of Town Ray (Huizhou) became wholly-owned by Town Ray Hong Kong.

7. Acquisition of Tunbow Group by Town Ray Development

Immediately before the Reorganisation, Tunbow Investments (BVI) held 10,000,000 ordinary shares in Tunbow Group, representing the entire issued share capital of Tunbow Group.

On 28 December 2017, Tunbow Investments (BVI) entered into a sale and purchase agreement with Town Ray Development and executed the relevant instrument of transfer and bought and sold notes on 31 December 2017, pursuant to which Town Ray Development purchased 10,000,000 ordinary shares in Tunbow Group from Tunbow Investments (BVI), at a nominal consideration of HK\$1.00.

Upon completion of the above transaction, Tunbow Group became a wholly-owned subsidiary of Town Ray Development.

8. Transfer of the design, manufacture and sale of household appliances business from Tunbow (Huizhou) to Town Ray (Huizhou)

On 21 August 2018, Tunbow (Huizhou) and Town Ray (Huizhou) entered into a business transfer agreement, pursuant to which Tunbow (Huizhou) agreed to transfer its design, manufacture and sale of household appliances business including, amongst others, its customers, suppliers and information relating to its customers and suppliers, to Town Ray (Huizhou).

The Business Transfer was completed on 31 December 2018. The total consideration for the Business Transfer was RMB1.00.

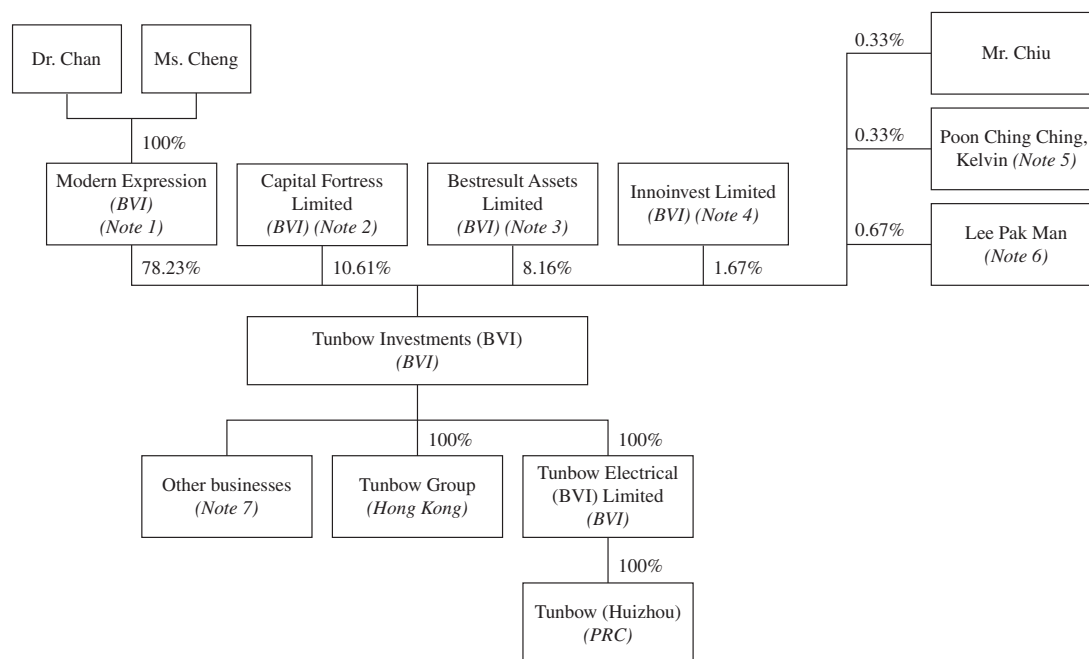
9. Tunbow Investments (BVI) distribution

As part of the Reorganisation, on 30 September 2019, the shareholders of Tunbow Investments (BVI) resolved to distribute the entire shareholding held by Tunbow Investments (BVI) in our Company (representing 91.03% of the then total issued share capital of our Company) to the shareholders of Tunbow Investments (BVI) by way of ordinary distribution in specie in proportion to their respective shareholding interests in Tunbow Investments (BVI). Immediately after such ordinary distribution in specie but prior to the completion of the Capitalisation Issue and the Share Offer, Modern Expression (a company wholly-owned by Dr. Chan and Ms. Cheng jointly), Capital Fortress Limited (a company wholly-owned by Mr. Leung Yat Cheong, Albert), Bestresult Assets Limited (a company wholly-owned by Ms. Li Siu Lan), Innoinvest Limited (a company wholly-owned by Mr. Chu Ming Tak), Mr. Lee Pak Man, Mr. Poon Ching Ching, Kelvin, Mr. Chiu, Mr. Chan, Ms. Tang and Mr. Yu will hold approximately 71.21%, 9.65%, 7.43%, 1.67%, 1.67%, 1.67%, 1.67%, 1.67% and 1.67% of the issued share capital of our Company, respectively.

HISTORY, DEVELOPMENT AND REORGANISATION

CORPORATE STRUCTURE

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

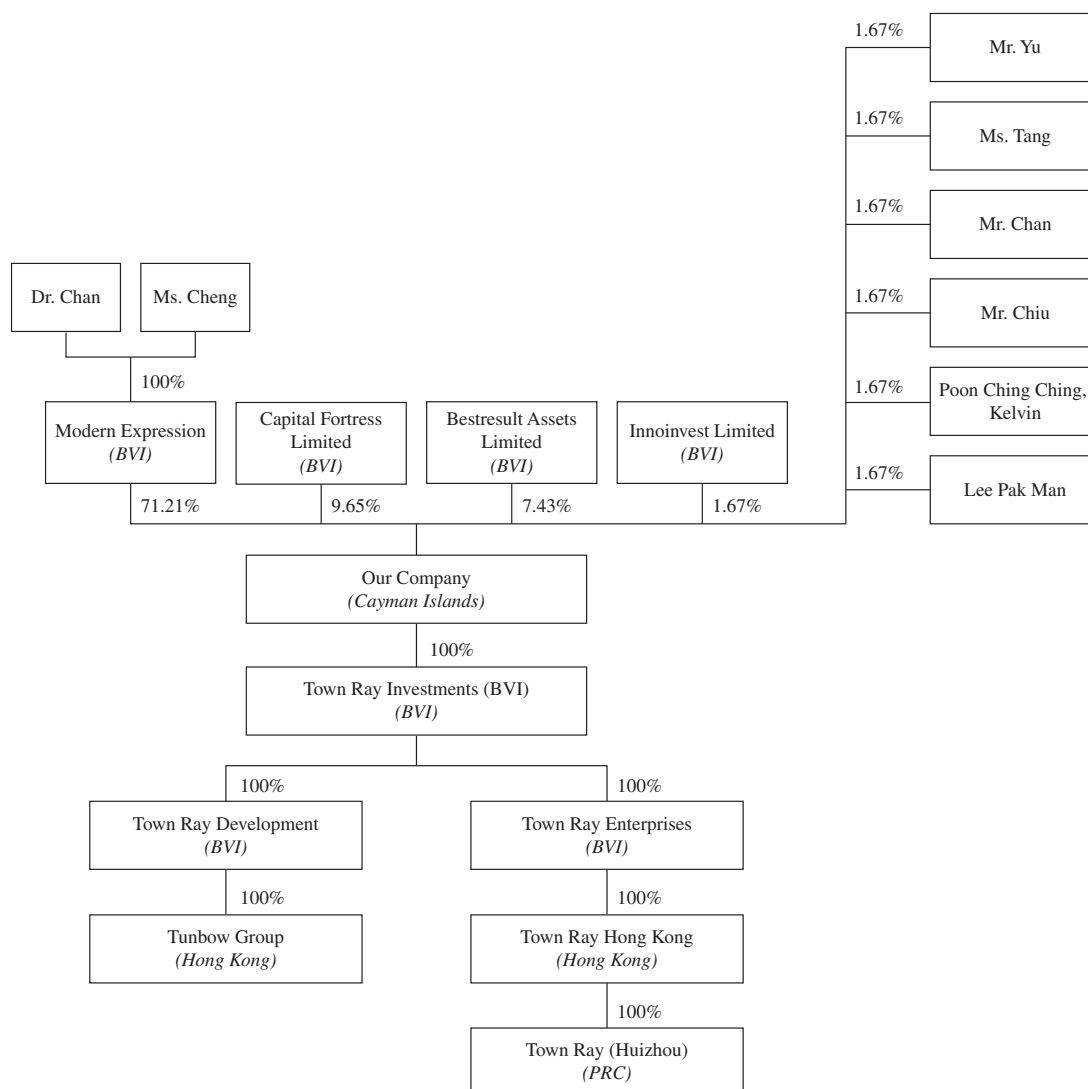


Notes:

1. Modern Expression is wholly-owned by Dr. Chan and Ms. Cheng jointly. Dr. Chan and Ms. Cheng are spouses.
2. Capital Fortress Limited is wholly-owned by Mr. Leung Yat Cheong, Albert, the legal representative of Town Ray (Huizhou) and a member of our senior management.
3. Bestresult Assets Limited is wholly-owned by Ms. Li Siu Lan, a director of Tunbow Group.
4. Innoinvest Limited is wholly-owned by Mr. Chu Ming Tak, a member of our senior management.
5. Mr. Poon Ching Ching, Kelvin is a member of our senior management.
6. Mr. Lee Pak Man is a member of our senior management.
7. Other than holding the interest of our Group, our Controlling Shareholders indirectly hold companies engaging in investment holding and property investment businesses through Tunbow Investments (BVI), the details of which are set out in the section headed “Relationship with our Controlling Shareholders — Background of our Controlling Shareholders” in this prospectus.

HISTORY, DEVELOPMENT AND REORGANISATION

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

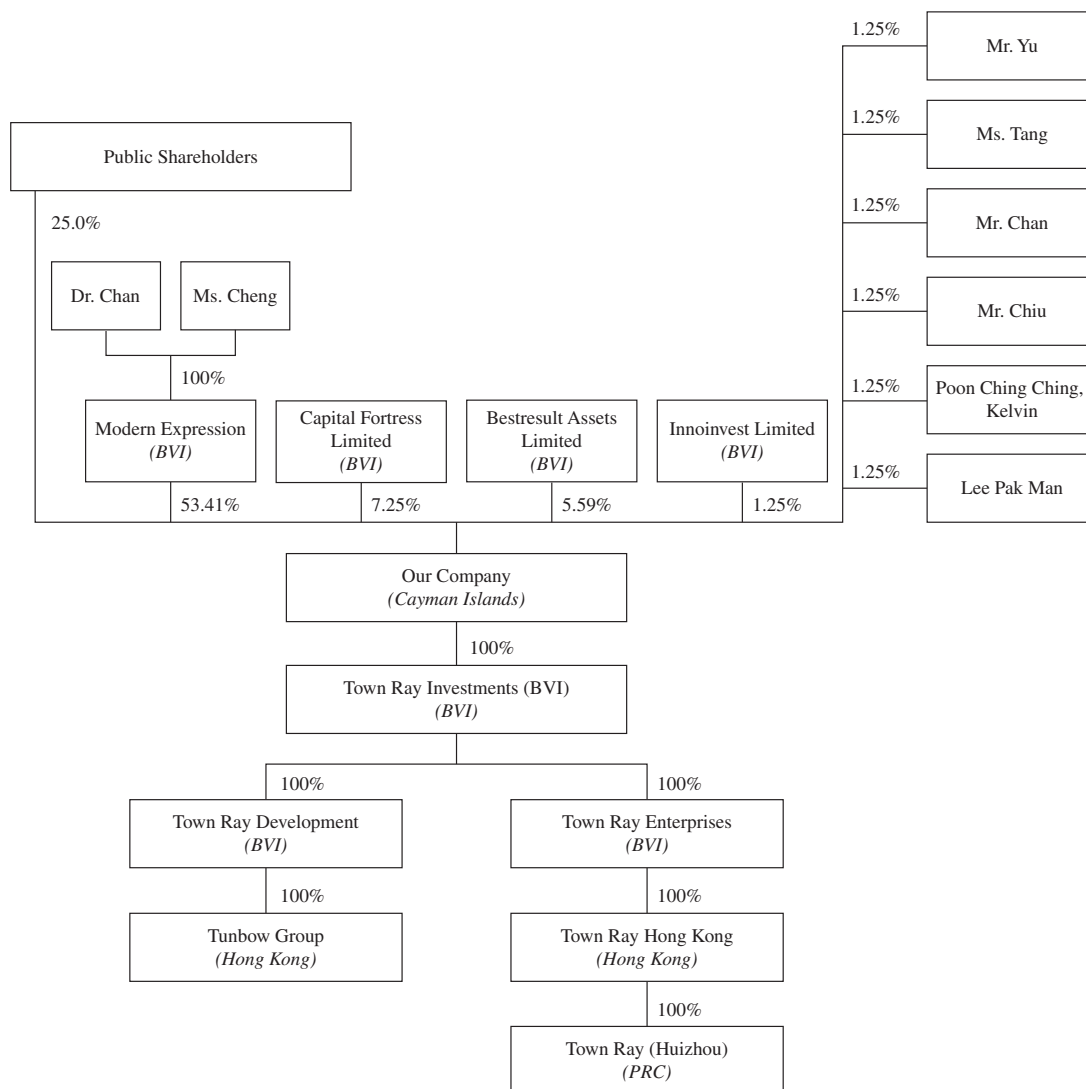


Capitalisation Issue

Conditional upon the crediting of our Company's share premium account as a result of the issue of the Offer Shares pursuant to the Listing, our Directors are authorised to capitalise an amount of HK\$2,999,888.22 standing to the credit of the share premium account of our Company by applying such sum to pay up in full at par a total of 299,988,822 Shares for allotment and issue immediately prior to the Share Offer, to Modern Expression, Capital Fortress Limited, Bestresult Assets Limited, Innoinvest Limited, Mr. Lee Pak Man, Mr. Poon Ching Ching, Kelvin, Mr. Chiu, Mr. Chan, Ms. Tang and Mr. Yu, in proportion (as nearly as possible without involving fractions and odd lots) to their then respective shareholding percentage in our Company, so that the number of Shares so allotted and issued, when aggregated with the number of Shares already owned by them, will constitute 75% of the issued share capital of our Company immediately after completion of the Capitalisation Issue and the Share Offer.

HISTORY, DEVELOPMENT AND REORGANISATION

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



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OVERVIEW

We are an advanced product developer and industrial designer as well as manufacturer and supplier for a broad range of electrothermic household appliances mainly to overseas markets, covering over 30 countries and regions, to cater for the requirements of different customers. Most of our revenue during the Track Record Period was generated from our customers in developed countries, such as Germany, France, the United Kingdom and the Netherlands. Our Directors are of view that our commitment to high technical quality enables our products to comply with the strict quality and safety standards in the developed countries, which allow us to stand out from other competitors.

Our electrothermic household products can be grouped into two categories, namely: (i) garment care appliances, including steam generator irons, garment steamers and steam irons; and (ii) cooking appliances, including coffee machines, steam cooking appliances and other cooking appliances. Substantially all of these products are rooted on thermodynamics technology which involves the measurement and physics of converting thermal energy to and from other forms of energy and the way it affects the state of matter (e.g. water and steam). The below table sets forth the breakdown of our revenue attributable to products under different categories:

	FY2016		FY2017		FY2018		4M2018		4M2019	
	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total
Garment care appliances										
— Steam generator irons	71,210	19.7	55,791	15.6	70,745	18.9	23,605	22.2	15,232	10.5
— Garment steamers	44,025	12.2	44,988	12.5	11,970	3.2	7,562	7.1	2,117	1.5
— Steam irons	119,383	33.1	106,251	29.6	88,853	23.8	29,777	27.9	30,240	20.9
Sub-total of garment care appliances	234,618	65.0	207,030	57.7	171,568	45.9	60,944	57.2	47,589	32.9
Cooking appliances										
— Coffee machines	21,499	6.0	38,924	10.8	115,155	30.8	7,450	7.0	72,444	50.1
— Steam cooking appliances ^(Note 1)	87,342	24.1	97,879	27.3	74,904	20.1	31,995	30.0	17,951	12.4
— Other cooking appliances ^(Note 2)	14,383	4.0	14,372	4.0	11,656	3.1	6,020	5.7	6,487	4.5
Sub-total of cooking appliances	123,224	34.1	151,175	42.1	201,715	54.0	45,465	42.7	96,882	67.0
Others ^(Note 3)	3,229	0.9	596	0.2	179	0.1	154	0.1	91	0.1
Total	361,071	100.0	358,801	100.0	373,462	100.0	106,563	100.0	144,562	100.0

Notes:

- (1) Steam cooking appliances refer to food steamers and baby food makers.
- (2) Others cooking appliances refer to soup makers and milk bottle warmers.
- (3) Others mainly refer to consumer electronics products, cleaning products and air purifiers.

With over 10 years of operating history, we have good knowledge and experience in the technology in relation to pressure, volume and temperature, steam, motor, electronics and electrical circuits as well as strong design, research and development capabilities. We therefore have developed and/or applied the technology, including thermodynamics, pump pressure, motor-driven, coffee brewing system, electronic control and user-interface programming in our products. In addition, various know-

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hows and crafts are applied to our production process of electrothermic household appliances, such as injection moulding, metal stamping, aluminium die-casting, hot plate/induction welding, automatic electrostatic spraying system, automatic glue dispenser system, automatic steam promotor spraying system, laser etching and automatic testing system, with an aim to manufacture safer and more cost effective products to our customers. For instance, the coffee machine produced by us ranked top in energy class in July 2018 according to the record of a consumer-oriented online search tool in Europe, which was financed by the European Commission. For details, please refer to the paragraph headed “Research and development” in this section.

We work on the technical feasibility of designs provided by our customers or developed by us to transform a concept into mass production. Depending on whether the product design plan is developed by us or provided by our customers, our business can be categorised into two business models, namely ODM business and OEM business. For the ODM business, our products are designed and developed by our research and development department based on our customers’ general concept and our own design capacity. For the OEM business, we manufacture our products based on our customers’ design with their requirements and specifications. The following table sets forth a breakdown of our revenue by business segments during the Track Record Period:

	FY2016		FY2017		FY2018		4M2018		4M2019	
	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total
ODM business	166,328	46.1	151,145	42.1	213,911	57.3	48,307	45.3	94,807	65.6
OEM business	<u>194,743</u>	<u>53.9</u>	<u>207,656</u>	<u>57.9</u>	<u>159,551</u>	<u>42.7</u>	<u>58,256</u>	<u>54.7</u>	<u>49,755</u>	<u>34.4</u>
Total	<u><u>361,071</u></u>	<u><u>100.0</u></u>	<u><u>358,801</u></u>	<u><u>100.0</u></u>	<u><u>373,462</u></u>	<u><u>100.0</u></u>	<u><u>106,563</u></u>	<u><u>100.0</u></u>	<u><u>144,562</u></u>	<u><u>100.0</u></u>

Our headquarter in Hong Kong carries out the functions of overall business operation, sales and marketing, product design, and financial and strategic management, whilst our production facilities located at Huizhou Factory carry out the research and development, procurement, production and quality assurance functions. For FY2016, FY2017, FY2018 and 4M2019, our theoretical maximum production capacity of coffee machines and steam generator irons were 38,123 units, 45,747 units, 117,683 units and 77,350 units, and 259,233 units, 250,084 units, 201,201 units and 72,800 units, respectively, with a production utilisation rate of approximately 81.9%, 84.3%, 86.4% and 90.3%, and 93.1%, 72.1%, 93.8% and 54.2%, respectively, based on the assumptions as further elaborated in the paragraph headed “Our production and production facilities” in this section.

With over a decade of operations since the establishment of Tunbow (Huizhou) in 2005, our Group has been expanding our sales network and has built up the reputation in the electrothermic household appliances manufacturing industry. Our Directors believe that our Group’s expertise and experience in the design, development and manufacture of electrothermic household appliances distinguish ourselves by providing comprehensive capabilities covering market research, product design and development, production control, quality assurance and logistics and after-sales services. It also enables us to offer our customers one-stop services by integrating lengthy and complex production process to effectively reduce lead time and production cost as well as to provide our customers with a more flexible production plan.

Furthermore, our Group's commitment and capabilities in research as well as to development have allowed us to achieve technological enhancement and respond and adapt to changes in the ever-changing market environment, thus enabling us to continuously expand our product portfolio and explore new business opportunities.

COMPETITIVE STRENGTHS

We believe our success and potential for further growth are attributable to our competitive strengths as set out below:

We have established strong presence in the electrothermic household appliances manufacturing industry with long-term relationships with our major customers and suppliers

We have established long-term relationships with our major customers who are reputable and internationally-recognised brand companies headquartered in Europe. As at the Latest Practicable Date, a majority of our five largest customers for the Track Record Period had been working with us from seven years to 11 years. We believe that we have built up a strong presence in the electrothermic household appliances manufacturing industry and established good and close business relationships with our major customers. With the long-term cooperation with such internationally-recognised brand companies, we have developed our capability with reference to international standards in terms of safety and quality assurance, and exchanged ideas on electrothermic household appliances worldwide. For details of our customers, please refer to the paragraph headed "Our customers" in this section.

We source electrical parts, plastic raw materials and parts, metal raw materials and parts, power cords and lead wires, and electronic parts from our approved suppliers or suppliers designated by our customers. We have developed long-term business relationships with our five largest suppliers for the Track Record Period, ranging from two to 13 years. Given the well-established business relationships with our suppliers, we are able to secure a stable supply of safe and high quality raw materials, and may be able to obtain a more competitive price. For details of our suppliers, please refer to the paragraph headed "Our suppliers" in this section.

We drive the industrial technology and know-hows ahead to position ourselves as one of the leading market players

We focus on technological innovation, quality and design to produce high-quality and unique products to our customers. As at the Latest Practicable Date, our Group has registered over 50 patents (including invention patents and utility patents), over 40 designs and over 10 trademarks in the PRC, Hong Kong, the EU, Turkey and Hungary. We have also applied for registration of over 30 patents and five trademarks in the PRC. We have developed technology in different aspects, such as thermodynamics, pump pressure, motor-driven, coffee brewing system, electronic control and user-interface programming. In addition, various know-hows and crafts are applied to our production process of electrothermic household appliances in our Huizhou Factory, such as injection moulding, metal stamping, aluminium die-casting, hot plate/induction welding, automatic electrostatic spraying system, automatic glue dispenser system, automatic steam promotor spraying system, laser etching and automatic testing system. For details, please refer to the paragraphs headed "Research and development" and "Our production and production facilities" in this section.

According to the F&S Report, our major customers have deep market penetration with wide range of product portfolio and broad consumer reach in their respective local retail markets. Our Directors are of view that we could not only act as a traditional manufacturer or product supplier to our customers but also an advanced product developer and industrial designer to cope with their increasing demand of product quality, safety and functionality.

We believe our patents and designs enable us to address our customers' business needs and effectively differentiate us from other competitors. Our technological advances also allow us to launch a wide variety of highly-specialised products that consistently meet our customers' increasingly complex expectations. According to the record of a consumer-oriented online search tool in Europe financed by the European Commission, the coffee machine produced by us ranked top in energy class in July 2018. Our Directors are of the view that our research and development capabilities, together with the forward-looking marketing insights of our management, can drive us ahead in the electrothermic household appliances manufacturing industry and position ourselves as one of the leading market players.

We have strong design, research and development capabilities

We emphasise the importance of product development. As at the Latest Practicable Date, we had over 40 staff in our research and development department, comprised of product designers, engineers and technicians. Our research and development department is led by our engineering director Mr. Chu Ming Tak, our research and development director Mr. Lee Pak Man and our design director Mr. Poon Ching Ching, Kelvin. All of them have at least 20 years of experience in product engineering, inspection, development or relevant fields. Most of our designers and engineers are graduated from either universities or technical colleges in their respective fields in industrial design, mechanical engineering, electronic engineering and graphic design or related disciplines and are experienced in either hardware or software designs for electrothermic household appliances.

Our research and development department focuses on developing or applying new and existing technologies, generating design concepts, researching on the characteristics of suitable materials, designing the product based on customers' specifications and transforming such design concepts into physical products by taking part in the prototype development process, supporting the product development process undertaken by our OEM customers. In 2006, we successfully designed the first generation of our fully automatic coffee machine, of which some of its components were developed by us. Our Group endeavours to enhance technology development to provide quality products to our customers and we launched the second and third generation of our fully automatic coffee machines in 2010 and 2016, respectively. Benefited from our research and development efforts in the past few years, we intend to have at least 20 new products or upgraded models to be developed or launched in the market in FY2019, including but not limited to steam generator irons, steam irons, garment steamers, coffee machines, baby food makers and food steamers. We from time to time strengthen the competitive edge of our products through the application of new technology, such as brewing system, easy-change accessories, micro pump, two-way valve, multi-colour LED touch display, TFT LCD and double NTC control in developing new products and upgraded models.

We believe that strong design, research and development capabilities are critical to our sustainable development and success. Our research and development department works closely with our sales and marketing department to exchange information on product quality standards and requirements and customer preferences and feedbacks. Our sales and marketing department gathers source of inspiration and market information about the latest trend of similar products in the global market by attending market exhibitions and regularly communicating with our customers. We also meet with our raw material suppliers to gain knowledge on the latest types of materials that could be used to develop new products.

In situations where our customers provide us with preliminary concepts or specifications, we collaborate with them to enhance on the product design and functionality and materialise them into physical products. Our Directors consider that our value-added services in products design, research and development will continue to support the growth of our business.

We maintain stringent control over our quality

Our Directors believe that distinctive and consistent quality production is crucial to our business operation and the product safety is of paramount importance. As such, in addition to our commitment to high technical quality, we have implemented a quality control system that complies with IEC standards and other international standards in the EU (e.g. CE Marking, GS Marking, LFGB Certification and DGCCRF), U.S. (e.g. ETL Certification, UL Certification and FDA approved) and PRC (e.g. CCC Certification), to ensure that our products can comply with not only PRC standards as required by the PRC law and regulations but also international standards that may be imposed upon our relevant customers. For details of our awards and recognitions, please refer to the paragraph headed “Awards and certifications” in this section.

Our Directors consider that our stringent control over our quality will give us competitive edge as well as improve our corporate image. Our quality assurance department had expanded to over 90 staff members as at the Latest Practicable Date. Our quality assurance department is led by our quality director Mr. Albert Leung, who has over 35 years of experience in electrical appliances manufacturing industry. We also have three quality managers and each of them has over seven years of experience in electrical appliances manufacturing industry.

We also have an in-house laboratory accredited by NCB as CTF (Stage 1) in which our laboratory personnel can conduct testing. For details of our quality control management, please refer to the paragraph headed “Quality assurance and control” in this section.

We have a diversified product portfolio

We are able to offer a broad range of products to our customers to cater for their different requirements and preferences on product specifications. We also develop and manufacture customised electrothermic household appliances for our customers based on their concepts and requirements. Our products are mainly divided into two categories, namely: (i) garment care appliances, including steam generator irons, garment steamers and steam irons; and (ii) cooking appliances, including coffee machines, steam cooking appliances and other cooking appliances. For further details regarding the composition of our product portfolio, please refer to the paragraph “Our products” in this section.

Our Directors believe that our diversified product portfolio, coupled with the good quality of our products, is one of the key factors for our success. Our diversified product portfolio has also enabled us to serve as an “one-stop” product supplier, with market research, product design and development, production control, quality assurance, logistics and after-sales services, for various types of electrothermic household appliances. We believe it allows us to attract new customers, in particular reputable and internationally recognised brand companies, better meet the continuous evolving needs of our existing customers and reduce our customers’ willingness to source electrothermic household appliances from different manufacturers. We believe that our diversified product portfolio has allowed us to utilise our production capacity and given us the flexibility to cope with market changes, thereby broadening our customer base and sources of revenue.

We have an experienced and competent management team

We have an experienced and competent management team with extensive operational expertise and in-depth understanding of the electrothermic household appliances manufacturing industry.

Dr. Chan, our founder, the chairman of our Board, non-executive Director and one of our Controlling Shareholders, has over 40 years of experience in manufacturing and sales of electrothermic household appliances. Ms. Cheng, our founder, non-executive Director and one of our Controlling Shareholders, has over 30 years of experience in overseeing marketing activities and management of electrothermic household appliances manufacturing business. Both Dr. Chan and Ms. Cheng have been in key management and leadership roles in the development of our Group. The insight and strategic vision of them has allowed us to develop and pursue sustainable business strategies as well as seize profitable market opportunities, thus contributing to our success to date.

Our management team has four executive Directors and six members of senior management who have solid experience in the electrothermic household appliances manufacturing industry. For details of their qualifications and experience, please refer to the section headed “Directors and senior management” in this prospectus.

Since 2010, 10 staff members at middle and management level have been awarded associateship by the Professional Validation Council of Hong Kong Industries, which requires the candidates with proven relevant industrial experience. We believe that our management team has solid experience and professional recognition in the electrothermic household appliances manufacturing industry and the leadership of our management team will continue to bring business growth and profitability, thereby strengthening our market position in the electrothermic household appliances manufacturing industry.

Our Directors are of the view that our Group has a relative low turnover rate in our senior management and technical personnel. The stability enables us to develop in-depth industry knowledge for efficient operations of our Group’s business.

BUSINESS STRATEGIES AND FUTURE PLANS

Our principal business objective is to strengthen our position in electrothermic household appliances manufacturing industry. We intend to achieve these objectives by implementing the following strategies:

Upgrading our production facilities and enhancing our production capacity

During the Track Record Period, we had over 100 customers who contributed revenue to us, including reputable and internationally recognised brand companies headquartered in Europe. For each of FY2016, FY2017, FY2018 and 4M2019, customers from Europe contributed approximately 75.1%, 72.9%, 82.6% and 87.3% of our revenue, respectively. According to the F&S Report, the retail sales value of coffee machines, food makers and electric smoothing irons (include steam generator irons and steam irons) in Europe are expected to increase at a CAGR of 9.0%, 5.9% and 1.7%, respectively, during 2019 to 2023, contributed by strong adoption of electrothermic household appliances in Europe which is driven by new models of products with advanced technology and innovative features.

As at the Latest Practicable Date, we had maintained long-term business relationships with most of our five largest customers for FY2016, FY2017, FY2018 and 4M2019, ranging from seven years to 11 years of which Customer A, Customer B and Customer D confirmed that we were one of their major electrothermic household appliances suppliers in the PRC in FY2018. Our Directors believe that we are positioned as one of the approved electrothermic household appliances manufacturers to serve the reputable and internationally recognised brand companies due to our safety and quality products and value-added services to our customers. In particular, we have entered into cooperation agreements with two of our five largest customers for the Track Record Period, namely Customer A and Customer D, as well as a long-term agreement with another major customer, Customer G, who agreed to purchase for an intended quantity of fully automatic coffee machines with a minimum purchase commitment of 100,000 units by 31 December 2020.

Having considered (i) our competitive strengths mentioned above; (ii) the forecasted growth in the total retail sales value of coffee machine, food maker and steam iron in Europe; and (iii) the expected increasing demand for our products especially coffee machine from our major customers with long-term and stable business relationships, our Directors believe that our Group can expand our business on top of our present scale of operations if we are to continue to enhance our production capacity through upgrading existing production facilities and investing in new production facilities.

For FY2016, FY2017, FY2018 and 4M2019, our production utilisation rate for coffee machines were approximately 81.9%, 84.3%, 86.4% and 90.3%, while that of steam generator irons were 93.1%, 72.1%, 93.8% and 54.2%, respectively. In order to meet the expected increasing demand and requirements of our existing and potential customers in respect of production technology and capacity as well as to increase our production efficiency, our Group plans to continue to upgrade our existing production facilities and to acquire additional units of machinery for plastic injection moulding, in particular for the manufacturing of plastic housings for coffee machines and steam generator irons which is the major bottlenecks in our production process. These new and upgraded production facilities will be utilised for the manufacturing of all our electrothermic household products especially coffee machines to cope with the sales target with

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Customer G and the expected increasing demand from other customers as further disclosed in the paragraph headed “Our customers” in this section. According to the F&S Report, the export value of electrothermic pump driven coffee machine in the PRC is expected to grow at a CAGR of 8.3% during 2019 and 2023, driven by the growing consumers’ demand for high quality coffee and emergence of specialty coffee which puts high emphasis on the value and quality of coffee made with skills. Therefore, our Directors believe that more resources should be utilised to enhance our production capacity of coffee machine to cater for the market trend in electrothermic household appliances manufacturing industry.

We plan to utilise approximately HK\$50.4 million (or approximately 50.7% of the net proceeds from the Share Offer) for upgrading our production facilities and enhancing our production capacity, in particular (i) approximately HK\$32.5 million will be earmarked for acquiring additional units of machinery for new production facilities and upgrading existing production facilities in our Huizhou Factory; (ii) approximately HK\$9.3 million will be earmarked for increasing the level of automation in our production process by acquiring more automated robots to assist us in the manufacturing of plastic casings and parts, metal casings and parts, electronic components as well as quality control; (iii) approximately HK\$6.7 million will be earmarked for upgrading our existing factory building facilities; and (iv) approximately HK\$1.9 million will be earmarked for acquiring additional power transformer for our production facilities in view of the increase in production scale in our Huizhou Factory.

(i) Acquiring additional units of machinery for new production facilities and upgrading existing production facilities in our Huizhou Factory

The details of the machinery to be acquired for the setting up or upgrading of new or existing production facilities are set out below:

(a) For new production facilities

Details of machinery	Quantity	Estimated acquisition cost <i>HK\$ million</i>
Large-scale plastic injection moulding machine	1	2.3
Small and medium-scale plastic injection moulding machine and ancillary facilities	23	20.1
Bridge crane	3	0.9

(b) For upgrading existing production facilities

Details of machinery	Quantity	Estimated acquisition cost <i>HK\$ million</i>
Automatic paint spraying system powered by gas	1	3.3
SMT mounting machine	2	2.2
Automatic insertion machine	1	1.8
Air compress system	1	1.2
Wave soldering machine	2	0.5
Automatic sandblasting machine	1	0.2

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(a) For new production facilities

During the Track Record Period, we acquired additional machinery and reallocated more production resources to coffee machine production, evidenced by the increase in theoretical maximum production capacity of coffee machines from 38,123 units in FY2016 to 117,683 units in FY2018. We plan to add or upgrade our machines by acquiring more-advanced automatic or semi-automatic machines from Japan and the PRC, which are of higher costs than our current model according to the latest quotations from the vendors.

The bottlenecks in our production process are the manufacturing of plastic housings for steam generator irons and coffee machines, the typical product in each of our main product categories, namely garment care appliances and cooking appliances, respectively. For further details of the bottlenecks in our production process, please refer to the paragraph headed “Our production and production facilities” in this section. As at the Latest Practicable Date, we had 119 units of plastic injection moulding machines of different scales and functions, details of which are set out below:

Type	Technical specialisation	Primary function in our production process	Quantity (units)
Large-scale plastic injection moulding machines	Over 400 tonnes	<ul style="list-style-type: none"> ● Manufacturing of plastic housings for coffee machines and steam generator irons 	3
Medium-scale plastic injection moulding machines	Over 200 tonnes and below 400 tonnes	<ul style="list-style-type: none"> ● Manufacturing of plastic housings for other appliances ● Manufacturing of other plastic casings and parts for all appliances 	33
Small-scale plastic injection moulding machines	Below 200 tonnes	<ul style="list-style-type: none"> ● Manufacturing of smaller plastic casings and parts for all appliances 	83

Plastic housings for coffee machines and steam generator irons can only be manufactured by large-scale plastic injection moulding machines, and thus the production of these components are the bottlenecks in our production process. The machinery to be acquired for setting up or upgrading of new or existing production facilities are all standard machinery used in electrothermic household appliances manufacturing industry which can be used to manufacture different parts and components for a wide range of appliances. In the context of our Group we utilise the

machinery as described above, and the large-scale plastic injection moulding machines will only be utilised for specific components of specific products, namely plastic housings for coffee machines and steam generator irons.

Justifications for acquiring one large-scale plastic injection moulding machine and 23 small and medium-scale plastic injection moulding machines

Out of the 24 plastic injection moulding machines to be acquired by us pursuant to our use of proceeds from the Share Offer, one of which will be a large-scale plastic injection moulding machine and we intend to designate it for the manufacturing of plastic housings for coffee machines, whilst the remaining ones will be small or medium-scale plastic injection moulding machines principally for the manufacturing of smaller plastic casings and parts for coffee machines and other appliances (if necessary). As coffee machines and steam generator irons are relatively larger in size and their plastic housings are manufactured in one-piece, which cannot be assembled by several smaller plastic casings as compared to that of other appliances, therefore, we can only use large-scale plastic injection moulding machines to manufacture the plastic housings for coffee machines and steam generator irons. With the addition of one large-scale plastic injection moulding machine, our production capacity of coffee machines or steam generator irons will increase by approximately 254,000 units or 239,000 units per annum, respectively, and we cannot use other smaller plastic injection moulding machines to manufacture these plastic housings. For details, please refer to the paragraph headed “Our production and production facilities” in this section.

In general, when a large-scale plastic injection moulding machine is fully deployed to the production of plastic housings of coffee machines, approximately 44 small and medium-scale plastic injection moulding machines shall be deployed to produce sufficient pieces of other plastic casings and parts of the coffee machines, for assembling together with the plastic housings and other parts to form a coffee machine given the fact that a typical coffee machine comprises over 300 parts and components to be assembled together throughout the entire production process. Taking into account the number of small and medium-scale plastic injection moulding machines our Group possessed as at the Latest Practicable Date and the fact that one of our large-scale plastic injection moulding machines currently in place could be utilised for production of certain plastic casings and parts during the period when the demand for steam generator irons has yet to pick up, our Directors are of the view that additional 23 small and medium-scale plastic injection moulding machines will be optimal for producing sufficient pieces of plastic casings and parts of the coffee machines in view of the additional large-scale plastic injection moulding machine to be acquired through the net proceeds from the Share Offer.

We intend to utilise these machines for the manufacturing of our electrothermic household products, especially coffee machines, to cope with the sales volume set out under the long-term agreement with Customer G and the expected increasing demand from other customers as further disclosed in the paragraph headed “Our customers” in this section.

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As our overall production capacity is limited by the bottlenecks as explained above, we use the production volume of large-scale plastic injection moulding machines for plastic housings as the indicator of our production capacity and production utilisation rate. We had one, one, two and two large-scale plastic injection moulding machines used in our bottleneck production process for FY2016, FY2017, FY2018 and 4M2019, respectively, together with other small and medium-scale plastic injection moulding machines for the manufacturing of other plastic casings and parts. During the Track Record Period, our production utilisation rate for coffee machines and steam generator irons had been increasing from 81.9% and 93.1% for FY2016 to 86.4% and 93.8% for FY2018. Having considered that our production utilisation rate for coffee machines and steam generator irons reached a relatively high level and the purchase orders on hand in the first half of 2018, we had an additional large-scale plastic injection moulding machines with certain small and medium-scale plastic injection moulding machines in second half of 2018 in order to rearrange and increase our production capacity for coffee machines to cope with the expected rising demand. We further placed order for another additional machinery in February 2019 (delivered to our Huizhou Factory in the May 2019) and we use this third large-scale plastic injection moulding machine mainly for the manufacturing of plastic housings for steam generator irons as well as other plastic casings and parts for all appliances including coffee machines.

We plan to further acquire additional production facilities in accordance with the expected demand from our existing customers, new customers and potential customers in FY2019, FY2020 and FY2021 with the number of large-scale plastic injection moulding machines used in our production processes to be further increased to three, four and four, respectively, together with other small and medium-scale plastic injection moulding machines for the manufacturing of other plastic casings and parts, during the same periods. For FY2019, our theoretical maximum production capacity of coffee machines and steam generator irons will be increased to approximately 254,000 units and 239,000 units, respectively, with the arrival of the second large-scale plastic injection moulding machine in second half of 2018 and the third large-scale plastic injection moulding machine in first half of 2019 as mentioned above, which will be primarily for satisfying the demand from Customer G which has entered into a long-term agreement with us for an intended purchase quantity of 250,000 units of coffee machines in total to be delivered by April 2020, of which 100,000 units order have been confirmed or delivered.

Going forward, we intend to acquire the fourth plastic injection moulding machines and ancillary facilities in the first half of 2020 for the production of coffee machines which are expected to be delivered in second half of 2020 with the theoretical maximum production capacity of coffee machines reaching approximately 320,000 units, while that of steam generator irons will remain at 239,000 units, for FY2020. With this fourth large-scale plastic injection moulding machine to be delivered by end of 2020, our production facilities are expected to reach a theoretical maximum production capacity of approximately 508,000 units of coffee machines and approximately 358,000 units of steam generator irons by FY2021.

Our total revenue remained stable during the FY2016, FY2017 and FY2018, but our revenue from the sales of coffee machines increased significantly from approximately HK\$21.5 million in FY2016 to approximately HK\$38.9 million in FY2017 and further to approximately HK\$115.2 million in FY2018 whilst the export value of electrothermic coffee machine in the PRC recorded a decline at a CAGR of -1.5% between 2016 and 2018. Our Directors believe that such significant growth in our sales of coffee machines shows our ability to capture the market demand by adjusting our product mix and strategy to satisfy our customers' needs. Going forward, our Directors believe there are ample opportunities for our business to grow. According to the F&S Report, the demand for coffee machine is expected to continue to grow in the future as the demand increases rapidly with higher spending propensity. Particularly, changing life style and increasing for demand and tendency to make premium coffee at home in Europe have favoured the PRC manufacturing and export market as more user-friendly and enhanced product features such as one-touch and compact design have been in the trend to meet evolving customer needs.

Our strategies to increase market share for coffee machines between FY2018 and FY2021

In view of the anticipated increase in the demand for coffee machine and changing life style according to the F&S Report, our Directors plan to further enhance our production capacity to capture the rising demand for coffee machine and increase our market share, leveraged by our strategies of (1) increasing our product offerings through strengthening our product design and development capabilities; and (2) enhancing our market presence in the international market through attending trade exhibitions, conducting site visits to both existing and potential overseas customers for potential business opportunity.

Being endeavour to become an advanced product developer and industrial designer of electrothermic household appliances, we devote substantive effort to the design and development of products. Since we designed our first generation fully automatic coffee machine in 2006, we have been investing in the design and development of different models of coffee machines over a decade. Our Group's third generation fully automatic coffee machine was launched in 2016, contributing significant increase in our sales volume of coffee machines from approximately 30,000 units in FY2016 to approximately 94,000 units in FY2018 with the average unit price increased from approximately HK\$713.2 to approximately HK\$1,228.7 during the same period. Therefore, leveraged on the success in the sales of third generation of fully automatic coffee machine in terms of the significant growth in sales volume and average unit price and our competitive strengths in the industry, we intend to further upgrade certain models of our third generation fully automatic coffee machines to integrate new colour user interface with more drink selections and functions, as well as to develop our fourth generation fully automatic coffee machine with new design concepts including more compact size, more ease of use, high reliability and deliver higher quality coffee, given the fact that more user-friendly and enhanced product features such as one-touch and compact design have been in the trend to meet evolving customer needs according to the F&S Report.

Most of our five largest customers for the Track Record Period are headquartered in Europe. To explore more potential customers, we intend to attend trade exhibitions held in Hong Kong, Europe and Latin America, conduct site visits to overseas customers with the aims to enhance our market presence in the international market and to expand the geographic coverage of our products and our customer base. According to the F&S Report, the demand for coffee machine increases rapidly with higher spending propensity and a rising demand for coffee in emerging regions, such as the PRC. Opportunities for coffee machine market also exist in such regions owing to the rising disposable incomes, increased adoption of western consumption habits, and the growing preference of youngsters. Therefore, our Directors believe that there are also opportunities to explore the markets in Asia. We intend to expand our sales and marketing department, and to explore business opportunities through obtaining commissioned market research reports from independent market research analysts and recruiting one or two marketing executives, who will be responsible for identifying the potential customers. For details, please refer to the paragraph headed “Business strategies and future plans — Strengthening our customer base” in this section.

(b) For upgrading existing production facilities

According to the accounting policy of our Group, the expected useful life of our machines was approximately 10 years. The current average age of our Group’s major machinery was 13 years as at the Latest Practicable Date as our plastic injection moulding machines, phenolic injection moulding machines, die-casting machines, stamping machines and SMT mounting machines had over 10 years of service on average. For details of our major machinery, please refer to the paragraph headed “Our production and production facilities — Production facilities and warehouse” in this section.

We use automatic paint spraying system to spray coating materials to the surface of phenolic plastic parts, plastic housings and other plastic casings and parts. Our automatic paint spraying system has been in use for over 10 years and we intend to utilise approximately HK\$3.3 million out of the net proceeds from the Share Offer for upgrading our automatic paint spraying system to a more advanced model by FY2020.

Our SMT mounting machines, wave soldering machines, automatic sandblasting machines and air compress system have also been in use for over 10 years, exceeding the expected useful life of our machines according to the accounting policy of our Group. As such, we intend to upgrade these machines gradually.

We use SMT mounting machines and wave soldering machines to mount the electronic components onto the PCB in the soldering process for both garment care appliances and cooking appliances whilst we use automatic sandblasting machines mainly in the production process of garment care appliances. In view of the increase in our theoretical maximum production capacity of coffee machines and steam generator irons to approximately 320,000 units and 239,000 units in FY2020, respectively, we intend to upgrade some of our existing SMT mounting machines, wave soldering machines and automatic sandblasting machines to more advanced models by FY2020.

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Compressed air pressure is required throughout our production process to support the operation of certain major machinery including plastic injection moulding machines. Therefore, we intend to upgrade our existing air compress system to support our expansion plan.

We currently rely on our workers to insert larger electronic components onto the PCB manually. To increase our production efficiency and cope with our expansion plan, we intend to upgrade our existing production facilities in this process through acquiring an automatic insertion machine to carry out the relevant tasks.

Apart from the abovementioned machinery to be acquired for upgrade purpose out of the net proceeds from the Share Offer, we currently expect that an additional HK\$10.7 million will also be incurred primarily for the upgrade of other existing machinery by FY2021, and such amount will be financed by the internal resources of our Group. For details of the total capital expenditure of our expansion plan, please refer to the section headed “Future plans and use of proceeds — Reasons for the Listing” in this prospectus.

(ii) Increasing the level of automation in our production process

We also intend to increase the level of automation in our production process by acquiring more automated robots to assist our production. The details of the key machinery and automated robots to be acquired to assist our production are set out below:

Details of machinery	Function	Quantity	Estimated acquisition cost <i>HK\$ million</i>
Automated robot	Manufacturing of plastic casings and parts	10	2.7
Automated plastic paint spraying machine	Plastic paint spraying	1	1.6
Automated robot	Stamping and embossing of metal parts	10	0.6
Automated robot	Manufacturing of metal casings and parts	10	0.6
Product reliability testing centre	Inspection of products	1	2.4
Centralised conveying system	Feeding of raw materials into production machinery	1	1.4

According to the F&S Report, electrothermic household appliance manufacturers in the PRC are facing rising labour cost, increasing complexity of product and shorter production cycle, thus more investment is expected to be made for the robotic machines, which will further stimulate automated production in various applications, notwithstanding that manufacturers will face pressure to obtain funding to finance their capital expenditure in

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order to maintain their competitiveness in the industry. The adoption of automated production enables manufacturers to (i) deliver products in higher quality, precision level and consistency, (ii) minimise defective products and (iii) reduce labour cost and overall operation cost in a long run. Our Directors believe the increase in the level of automation will lower our production cost and increase our profit margins. In addition, a high level of automation in the production process will further increase our capabilities to produce highly standardised quality products, enhance our production efficiency and reduce our reliance on labour force.

(iii) Upgrading our existing factory building facilities and (iv) acquiring additional power transformer for our production facilities

To accommodate for the upgrading of existing production facilities, we also intend to upgrade our existing factory building facilities in our Huizhou Factory, which include the renovation of the existing factory buildings, upgrade of existing production workshops to Class 100,000 cleanliness standard, installation of an upgraded security system as well as acquisition of additional 2000KVA power transformer. For FY2016, FY2017, FY2018 and 4M2019, revenue attributable to our cooking appliances accounted for approximately 34.1%, 42.1%, 54.0% and 67.0% of our revenue, respectively. There are certain directives in the EU that regulate particular substances and groups of substances used in the manufacture of food contact materials and relevant quality control system including monitoring of the implementation. Based on the communication with our customers, we understand that they have strict cleanliness standard and quality control on production environment of their manufacturers. To cater for the demand of our customers, we plan to adopt advanced disinfection technology and design in our production environment and upgrade certain of our production facilities for cooking appliances to reach the Class 100,000 cleanliness standard and an upgraded security system for monitoring purpose.

We intend to acquire the machinery based on the expected time frame as set out below:

	From the Latest Practicable Date to 31 December 2019 <i>HK\$ million</i>	From 1 January 2020 to 30 June 2020 <i>HK\$ million</i>	From 1 July 2020 to 31 December 2020 <i>HK\$ million</i>	Total <i>HK\$ million</i>
(i) Acquiring additional units of machinery for new production facilities and upgrading existing production facilities				
(a) for new production facilities for coffee machines				
• Plastic injection moulding machine and ancillary facilities	—	2.3	20.1	22.4
• Bridge crane	—	—	0.9	0.9

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	From the Latest Practicable Date to 31 December 2019 <i>HK\$ million</i>	From 1 January 2020 to 30 June 2020 <i>HK\$ million</i>	From 1 July 2020 to 31 December 2020 <i>HK\$ million</i>	Total <i>HK\$ million</i>
(b) for upgrading existing production facilities				
• Automatic paint spraying system powered by gas	—	—	3.3	3.3
• SMT mounting machine	—	—	2.2	2.2
• Automatic insertion machine	—	—	1.8	1.8
• Air compress system	—	1.2	—	1.2
• Wave soldering machine	—	—	0.5	0.5
• Automatic sandblasting machine	0.2	—	—	0.2
Sub-total	0.2	3.5	28.8	32.5
(ii) Increasing the level of automation in our production process				
• Automated robot (manufacturing of plastic casings and parts)	—	—	2.7	2.7
• Automated plastic paint spraying machine	1.6	—	—	1.6
• Automated robot (stamping and embossing of metal parts)	0.6	—	—	0.6
• Automated robot (manufacturing of metal casings and parts)	—	0.6	—	0.6
• Product reliability testing centre	—	2.4	—	2.4
• Centralised conveying system	—	—	1.4	1.4
Sub-total	2.2	3.0	4.1	9.3

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	From the Latest Practicable Date to 31 December 2019 <i>HK\$ million</i>	From 1 January 2020 to 30 June 2020 <i>HK\$ million</i>	From 1 July 2020 to 31 December 2020 <i>HK\$ million</i>	Total <i>HK\$ million</i>
(iii) Upgrading our existing factory building facilities and (iv) acquiring additional power transformer for our production facilities				
• Renovation of the existing factory buildings	2.3	—	—	2.3
• Installation of an upgraded security system	0.6	—	—	0.6
• Upgrading of existing production workshops to Class 100,000 cleanliness standard	—	1.9	1.9	3.8
• Acquisition of additional 2000KVA power transformer	—	—	1.9	1.9
Sub-total	<u>2.9</u>	<u>1.9</u>	<u>3.8</u>	<u>8.6</u>
Total	<u><u>5.3</u></u>	<u><u>8.4</u></u>	<u><u>36.7</u></u>	<u><u>50.4</u></u>

To the best of our Directors' knowledge, information and belief having made all reasonable enquiries with machine vendors and banks in PRC, the machinery to be acquired by us for new production facilities and upgrade existing production facilities as well as for increasing the level of automation in our production process are not available for leasing in the market from either vendors or banks, and these machinery are also bulky in size and difficult to be relocated. We also do not consider subcontracting as an alternative to us as our Directors believe substantial part, if not all, of the production process should remain in Huizhou Factory given that (1) our cooking appliances are food related products and therefore safety, hygiene, and quality of the products are of utmost importance, (2) there are various quality and safety standards in the developed countries, and compliance with all of these is crucial, (3) outsourcing part of our production process to subcontractors may expose our Group to the risk of infringement of our skills and techniques, or our intellectual property rights.

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For illustrative purpose only, we set out below an analysis on the financial benefits and cost savings of acquiring additional automated robots based on the corresponding items under cost of sales recorded in FY2018:

	Cost of sales (with the additional automated robots) HK\$'000	Cost of sales (without additional automated robots) HK\$'000	Costs saving HK\$'000
Direct labour costs	45,510 ^(Note 1)	50,641	5,131
Depreciation	15,307 ^(Note 2)	14,474	(833)
Utilities	8,752 ^(Note 3)	8,211	(541)
Total	<u>69,569</u>	<u>73,326</u>	<u>3,757</u>

Notes:

1. The direct labour costs is calculated by the wages times the number of production workers to be employed. It is estimated that the automated robots will reduce approximately 67 production workers to be employed.
2. The depreciation of the additional automated robots is assumed to be an expected useful life of 10 years with a salvage value.
3. The additional utilities consumed by the additional automated robots is calculated by the number of operating hours of the automated robots in a year, multiplied by the estimated amount of electricity consumption times the per unit of the current price of electricity.

Our Directors are of the view that other than the benefits of cost-saving as mentioned above, there is also non-monetary benefit for acquiring additional automated robots as the automated robots can substitute the repetitive labour works conducted by the production workers, thereby alleviating the burdens from labour shortage.

The acquisition of machinery, upgrade of our existing factory building facilities (including additional power transformer) and acquisition of automated robots will enhance our production efficiency and quantity of product outputs. We believe such investment will expand our production capacity and further enhance our profitability.

Strengthening our product design and development capabilities and increasing our product offerings

Electrothermic household appliances manufacturing industry is characterised by rapid technological advancements and susceptible to changes in market trends and demands. We believe that product design and development in response to safety standards, customers' preferences and market trends are crucial to our success. According to the F&S Report, European market demand of electrothermic household appliance is also driven by new model of products with advanced

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technology and innovative features, and the demand for premium and advanced electrothermic household appliances is expected to increase with the expected growth in purchasing power of consumers in the European market and increase in health awareness.

Our Directors believe that it is important to strengthen our product design and development capabilities and increase our product offerings in order to capture the increasing demand for electrothermic household appliances in such highly fragmented industry. During the Track Record Period, we developed two, six, six and nil new ODM models, and our relevant design and development costs for tooling were approximately HK\$3.2 million, HK\$4.1 million, HK\$5.0 million and nil, respectively, with the average cost for tooling for each model of our ODM products of approximately HK\$0.9 million.

Benefited from our research and development efforts and experience accumulated in the past few years, our product design and development capabilities become stronger and the team could simultaneously handle more items. Accordingly, with the assistance of net proceeds from the Share Offer, we intend to have at least 20 new products or upgraded models (three ODM models developed in FY2018 and in the pipeline but to be launched in the market in FY2019, twelve ODM models to be developed in FY2019 and five OEM models to be developed together with the customers in FY2019) to be developed or launched in the market in FY2019, including but not limited to, steam generator irons, steam irons, garment steamers, coffee machines, baby food makers and food steamers.

We plan to utilise approximately HK\$31.6 million (or approximately 31.8% of the net proceeds from the Share Offer) for strengthening our product design and development capabilities and increasing our product offerings, in particular (i) approximately HK\$29.9 million for expanding and enhancing our product range by developing new ODM models; (ii) approximately HK\$1.5 million for recruiting additional engineers and designers; and (iii) approximately HK\$0.2 million for purchasing and implementing additional equipment and software.

Based on our past experience, our Directors estimate that the average design and development cost for each model of our ODM products would be approximately HK\$1.0 million, with the highest estimated cost of approximately HK\$2.3 million for certain models, depending on the complexity of the product design, which in turn affects the cost of tooling. Such estimated average design and development cost for our ODM products between FY2019 and FY2021 is slightly higher than that during the Track Record Period because we intend to develop certain new models for our ODM products featuring new design concepts and functions, which includes our fourth generation fully automatic coffee machines, in order to cater customers' needs in the overseas markets. The increase in the average cost for tooling after the Listing is driven by the complexity of the product design, while the increase in the total costs for tooling is a combined effect of the number of new models to be developed and the estimated tooling costs for each model.

Going forward, our Directors intend to further expand our own product offerings by utilising approximately HK\$29.9 million of the net proceeds from the Share Offer as below:

- (i) approximately 40.9% will be allocated for design and development of at least 11 new models of coffee machines;

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- (ii) approximately 29.0% will be allocated for design and development of at least nine new models of steam generator irons;
- (iii) approximately 15.0% will be allocated for design and development of at least six new models of other garment care appliances including steam irons and garment steamers; and
- (iv) approximately 15.1% will be allocated for design and development of at least four new models of cooking appliances including food steamers and soup makers.

Details of these 30 new models of electrothermic household appliances to be developed from the Latest Practicable Date up to 31 December 2021 in order to cope with our business development are set out as follows:

Period	Products to be developed	Category	Relevant design and development cost to be incurred
From the Latest Practicable Date to 31 December 2019	<ul style="list-style-type: none"> ● One model for steam generator iron ● Two models for steam iron ● One model for garment steamer ● Two models for coffee machine ● One model for food steamer 	Garment care Garment care Garment care Cooking Cooking	Approximately HK\$2.1 million
From 1 January 2020 to 31 December 2020	<ul style="list-style-type: none"> ● Six models for steam generator iron ● Three models for steam iron ● Six models for coffee machine ● One model for soup maker 	Garment care Garment care Cooking Cooking	Approximately HK\$13.0 million
From 1 January 2021 to 31 December 2021	<ul style="list-style-type: none"> ● Two models for steam generator iron ● Three models for coffee machine ● Two models for other cooking appliances 	Garment care Cooking Cooking	Approximately HK\$14.8 million
Sub-total			Approximately HK\$29.9 million

For coffee machines, we intend to (i) upgrade our existing models to integrate new colour user interface with more drink selections and functions; and (ii) develop our fourth generation fully automatic coffee machines with new design concepts including more compact size, more ease of use, high reliability and deliver higher quality coffee. For steam generator irons, we intend to (i) upgrade our existing models to integrate new digital user interface, larger water tank and different usages; and (ii) develop new designs with more compact size for easy storage and higher steam rate. The average design and development cost per model in FY2021 is significantly higher because we intend to develop (i) two new models of steam generator iron of more compact size, more ease of use, high reliability and generate higher steam rate with the estimated design and development cost of approximately up to HK\$1.8 million per model; (ii) three new models of coffee machine including our fourth generation fully automatic coffee machine which could deliver high quality coffee and enable users to make milk froth for the coffee with new digital control for milk froth wand function with the estimated design and development cost of approximately up to HK\$2.3 million per model; and (iii) two models of other cooking appliances including cooking machine and steam oven which would be designed for users with less culinary knowledge with digital user interface for automatic cooking function, enhancing ease-of-use for either beginners and professionals, with the estimated design and development cost of approximately up to HK\$1.9 million per model. Given the complexity of the aforementioned new models, it is expected that the cost of toolings will be higher because the new models will comprise more parts and components and the design and specification of certain parts and components will be more complicated.

Commercial rationale for developing more new ODM models

According to the F&S Report, the market growth for electrothermic household appliances from PRC manufacturers is attributed to the changes in lifestyle amongst European consumers who are conscious about the importance of wellness and balanced lifestyle through cooking, and such changing lifestyle in Europe provides great opportunities for designers and manufacturers to come up with conceptual design for new product, which is favourable for ODM manufacturers in the PRC with strong product development capabilities. In order to capture this market trend in such highly fragmented industry, our Directors are of the view that the new models of electrothermic household appliances to be developed by us have to focus on catering for the abovementioned changing lifestyle in Europe, while using safer and more cost-effective raw materials. According to F&S Report, continuous launch of new models with advanced and diversified designs, functions and features can help as to target different customer bases and drive the purchasing decision of customers. In view of the significant increase in sales of automatic coffee machine in FY2018, our Directors believe that our third generation fully automatic coffee machines has already been well-recognised by the market. Considering different customers in different countries would probably have different preference on functions and features, our Directors are of the view that further investment in development of new models of automatic coffee machines, including deviation of the design of current generation and development of the next generation, could facilitate our Group to further penetrate the market which may result in higher demand of our Group's products. We also proposed new functions and features of our products to our customers and discussed with them, and based on our discussion with our customers, we believe new models are on demand in the market.

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Such increasing demand for new models was also evidenced by the increasing number of customer enquiries received by us during the Track Record Period. For instance, we received 6, 13, 26 and 36 enquires from both existing and potential customers for new ODM models of our coffee machines and steam generator irons for each of FY2016, FY2017, FY2018 and between 1 January 2019 and the Latest Practicable Date. These existing and potential customers originated not only from European countries but also Israel, Japan, Taiwan, Mauritius, India and the United States and some of them eventually placed orders with us for new models of coffee machines and steam generator irons. Therefore, our Directors believe that we will be able to enhance our competitiveness and capture the market opportunities in electrothermic household appliances manufacturing industry by developing more new ODM models.

During the Track Record Period, we increased our efforts in developing more new ODM models with the relevant design and development cost incurred increased from approximately HK\$3.2 million in FY2016 to approximately HK\$4.1 million in FY2017 and further to approximately HK\$5.0 million in FY2018, augmented with the net proceeds from the Share Offer to be utilised in FY2019, resulting in a total of at least 15 new ODM models to be developed or launched in the market in FY2019. Out of the abovementioned HK\$29.9 million to be utilised for expanding and enhancing our product range by developing new ODM models, approximately 40.9% and 29.0% of which will be spent for the design and development cost of coffee machines and steam generator irons, the typical product in each of our main product categories, namely garment care appliances and cooking appliances, respectively.

We will continue to strengthen our research and development team by recruiting experienced research and development professionals and talents, which consist of five mechanical engineers, one software engineer and two product designers to further develop our product design and development capabilities of electrothermic household appliances to cater customer needs in the overseas markets. The following table sets out the preferred qualifications, experience and salaries of the eight additional research and development staff to be recruited with the net proceeds from the Share Offer:

Position	Location	Preferred experience and qualifications	Average monthly salary
Mechanical engineer	Hong Kong	<ul style="list-style-type: none"> • University or equivalent, majoring in product design, mechanical engineering, industrial design, or related field • Experience in product design or development, engineering and electrical appliance manufacturer field is preferred 	HK\$20,000
Software engineer	PRC	<ul style="list-style-type: none"> • Technical college or above • experience in software system development • experience in PCB design 	HK\$14,000

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Position	Location	Preferred experience and qualifications	Average monthly salary
Mechanical engineer	PRC	<ul style="list-style-type: none"> • Technical college or above • Experience in electrical appliance manufacturer field is preferred 	HK\$14,000
Product designer	PRC	<ul style="list-style-type: none"> • Technical college or above • Experience in graphic design is preferred 	HK\$12,500

We intend to use approximately HK\$0.2 million for purchasing 3D design software and hardware to assist our research and development team to enhance our design and development capabilities.

Our sales and marketing department will continue to work closely with our research and development department on exchange of product standards and customers' preferences to more effectively incorporate these feedback into our product development.

Strengthening our customer base

Our Directors are of the view that our success builds largely on our extensive sales and marketing network. Most of our five largest customers for the Track Record Period are headquartered in Europe. Although we do not have any overseas subsidiaries or representative offices, we regularly exhibit in or visit local and international market exhibitions, including Hong Kong Electronics Fair (Spring Edition), Hong Kong Electronics Fair (Autumn Edition), Lifestyle Expo in Dubai, IFA (Internationale Funkausstellung Berlin) in Berlin, Germany and Canton Fair in Guangzhou, the PRC, to promote our electrothermic household appliances to explore potential customers. Participation in market exhibitions is one of our primary modes of marketing to the potential overseas customers. In addition, we also conduct site visits to keep our customers informed of our new products and keep ourselves abreast of the latest market trends in the overseas markets. Going forward, we will continue to maintain our current market penetration by our efforts in maintaining and further improving our customer relationship.

We plan to utilise approximately HK\$8.6 million (or approximately 8.6% of the net proceeds from the Share Offer) for strengthening our customer base, in particular (i) approximately HK\$7.1 million will be earmarked for attending the exhibitions held in Hong Kong, Europe and Latin America, conducting site visits to both existing and potential overseas customers to enhance our market presence in the international market and to expand the geographic coverage of our products and our customer base, and subscribing for market data to enhance our sales activities; (ii) approximately HK\$1.2 million will be earmarked for enhancing our marketing effort through recruiting sales executives who will be responsible for identifying the potential customers; and (iii) approximately HK\$0.3 million will be earmarked for providing product samples to existing and potential customers for marketing purpose.

For overseas site visits, our staff will stay in our major customers' countries and they will be required to attend various site visits with our customers to understand our customers' development. In the meantime, they can provide relevant technical support to our customers and exchange the feedbacks for our future product development. During the trip, our staff can also gain a deep understanding of our customers' business model, client base and market culture. We believe it allows us to keep ourselves abreast of their evolving needs and the latest market trends.

Our Directors believe that there also are opportunities to explore the markets in Asia. For such purposes, we intend to strengthen our sales strategies and expand our sales and marketing department, and explore business opportunities through obtaining commissioned market research reports from independent market research analysts and recruiting one or two marketing executives, who will be responsible for identifying the potential customers. Our Group believes that a successful sales strategy will help further boost our sales.

Upgrading our information technology systems

In addition to our design and development capabilities, our capacity to design, develop and manufacture sophisticated electrothermic household appliances also depends on the performance of our information technology system. Our Directors believe that continued investment in information technology system is necessary in order to increase our overall efficiency and capacity in product design, development and manufacture. We have invested in different types of international software and self-developed system to effectively and comprehensively improve our business operations. Since 2005, we have been using SAP, an international ERP system, to provide us with a centralised and integrated management platform. Such software also allows us to enhance our client management and communications between various departments as well as to rapidly respond to the changes of supply chain and purchase orders, and to conduct data analysis on our inventory control, production scheduling and logistic planning.

We plan to utilise approximately HK\$5.7 million (or approximately 5.7% of the net proceeds from the Share Offer) for upgrading our information technology systems, in particular approximately HK\$4.4 million will be earmarked for purchasing a new version of ERP system to cover wider aspects in our daily operations and enhance electronic data interchange and data direct linkage.

With the upgraded and integrated ERP system, we can increase efficiency in our information exchange and improve inventory and logistics management and ultimately increase customer satisfaction. After the system upgrade, we intend to utilise approximately HK\$1.3 million to provide staff training on the usage and system infrastructure as well as provide system maintenance and system development. Our Directors believe that the aforesaid software and hardware upgrade and installation of a new ERP system will enable us to cope with our business development and optimise our operational processes.

OUR BUSINESS MODEL

We are an advanced product developer and industrial designer as well as manufacturer and supplier for electrothermic household appliances. With over 10 years of business operation, we have good knowledge and experience in 3D CAD design, mould making, plastic moulding, aluminium die-casting, metal pressing, painting and printing, assembly and testing.

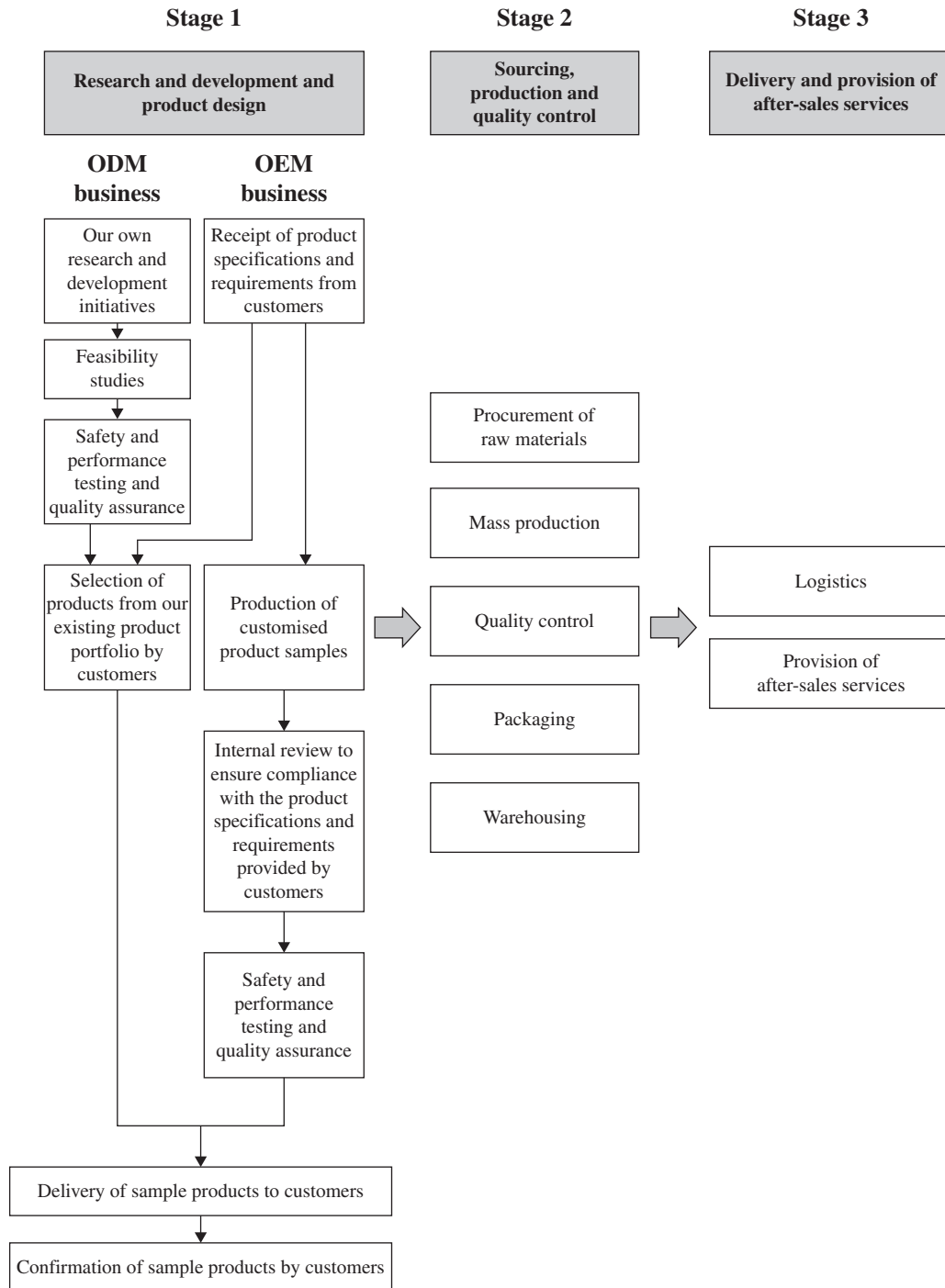
We specialise in the research, design, development, manufacture and sales of a broad range of high quality electrothermic household appliances mainly to overseas customers. Unlike traditional manufacturing business, we work on the technical feasibility of designs initiated by us or provided by our customers to transform design concepts into physical products with the degree of involvement by our research and development department varies on a case-by-case basis. Depending on whether the product design plans are initiated by us or provided by our customers, our business can be categorised into two business models, namely ODM business and OEM business, both of which go through similar stages in our general business operations being managed and operated by same team of management and staff.

For the ODM business, our products are initiated, designed and developed by our research and development department based on our own market research and design capacity. Our products can be manufactured and sold to multiples customers.

For the OEM business, we in general manufacture our products based on our customers' design concepts with or without their requirements and specifications. In some cases if the customers do not provide us with detailed specifications, requirements, and/or design concepts of the products necessary for formulating the production plans with sufficient particulars to enable manufacturing of all necessary components, or in certain situation where we believe the product design plans could be further enhanced with our latest knowledge in the industry, our research and development department will work closely with the customers to adjust, modify or alternate the relevant specifications, requirements, and/or design concepts. Under our OEM business model, our products are generally manufactured and sold to the particular customer initiated the product design plan.

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The following diagram illustrates the business model of our general business operations:



Stage 1 — Research and development and product design

In order to respond to and anticipate changes in the industry and the market environment, our sales and marketing department will communicate with our customers and conduct market research to assess and analyse the industry and market environment from time to time. Our sales and marketing department works closely with our research and development department and exchanges the market trends and technical information from time to time.

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For the ODM business, our research and development department will formulate proposals to improve our existing products or develop new products based on the feedback from customers or the findings from our sales and marketing department. We also conduct intellectual property check and review the relevant technical documents to ensure that we will not infringe any existing intellectual property rights. After the proposals approved by the Board, our research and development department will create product industrial designs, 3D CAD designs and prototypes for feasibility studies. Subsequently, we will conduct mould making for the improved or new products and produce some sample products. We will then formulate quality assurance plans and conduct different aspects of performance and safety testing on the sample products. If the sample products satisfy us with desired performance, reliability and safety requirements, we will add such products into our product portfolio.

For the OEM business, our customers generally provide us with specifications, requirements and/or design concepts of the electrothermic household appliances that they intend to purchase. For the customers come with their own product designs, our sales and marketing department may advise them on the implementation and/or improvement of the product designs by using our own technologies. If the customers agree with our suggestions, we will pass the designs together with specifications and requirements to our production department to produce pre-production samples of the contemplated designs for their comments and approvals. Our sales and marketing department, together with our production department, will also formulate production plans, including budget, timetable, resource allocation arrangement, and revert to our customers with quotations.

If the customers do not have an exact development plan of the products, our sales and marketing department will introduce them to select their desired products from our existing product portfolio, upon which we will send them some sample products for confirmation and approval. We may also satisfy our customers' requests by making adjustments, modifications or alterations to our existing products.

If none of our existing products is able to satisfy our customers' requests or meet the product specifications, requirements or product concept provided by them, we also have the capability to design, develop and manufacture customised products for our customers. Our research and development department will, according to the product specifications and requirements provided by our customers, create new product industrial designs, customised prototypes and product blueprints and conduct the 3D CAD designs and making of moulds and toolings. Our production department will then produce a limited number of sample products. We will internally review the sample products to make sure that they comply with our customers' requirements. Similar to our own initiatives, we will formulate quality assurance plans and conduct different aspects of performance and safety testing on them. Once we are satisfied with the sample products in our internal review, we will send them to our customers for their confirmation and approval. Our research and development department will make adjustments and alterations to the prototypes according to our customers' feedback.

Stage 2 — Production process

Upon receipt of formal purchase orders from our customers, we will formulate production plans and schedules through our ERP system. Our procurement department will check our own inventory to confirm whether we have sufficient raw materials for mass production and procure the necessary raw materials from our suppliers. Our production department will proceed with mass production based on the confirmed sample products in accordance with the production plans and schedules. Depending on the availability of our own labour resources, production plans and schedules, we may outsource certain parts of our production process to third party subcontractors to achieve our production optimisation. Nonetheless, during the Track Record Period we did not outsource any parts of our production process to third party subcontractors but retained the entire production process in our Huizhou Factory to ensure the quality of our products as our Directors believe that our commitment to high technical quality enables our products to comply with the strict quality and safety standards in the developed countries.

We place consistent emphasis on the quality of our products that strictly fulfils the stringent international safety standards as well as our customers' specifications and requirements. Our products comprise of a diversity of electrothermic household appliances and are known to our customers to be exceptional in terms of their quality, safety, appearance and durability.

Our Directors believe that the distinguished quality of our products is a result of our Group's dedication to a comprehensive quality assurance and control system. Our quality assurance department is assigned to monitor each step of the production process to ensure the parts and components consistent with the sample products. To further ensure that our finished products comply with all applicable environmental standards and are safe and reliable, our quality assurance department will also conduct quality control tests on each of our finished products before packaging. For details, please refer to the paragraph headed "Quality assurance and control" in this section.

We pack our products according to our customers' requirements and specifications. The packed products would then be transferred to our warehouse for our customers' final inspection.

Stage 3 — Delivery and provision of after-sales services

Our customers generally send their own quality inspectors or engage independent inspectors to our warehouse to conduct a quality inspection on the finished products. Once the finished products meet the satisfaction of our customers, our customers will generally issue us with certification documents to indicate that the products are approved for shipment. We will then arrange the external logistics companies for delivery the packed products to the loading ports or freight forwarders designated by our customers. We will provide after-sales services to our customers, such as packaging, provision of spare parts, certification and relevant technical support.

ODM AND OEM BUSINESSES

With over 10 years of operating history, our Group has developed a unique set of production know-hows to achieve the quality, functionality, appearance and price points of our products that have captured the loyalty of our customers. We offer our customers with "one-stop" production solutions which comprises product design and development, raw material sourcing and procurement,

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manufacturing, quality assurance, packaging and delivery. Depending on whether our design and development capability are required by our customers, our major business segments can be categorised into ODM business and OEM business.

For the ODM business, our products are designed and developed by our research and development department based on our customers' general concepts and our own design capacity. In terms of revenue, the major products attributable to our ODM business during the Track Record Period included coffee machines, steam irons and steam generator irons.

For the OEM business, we in general manufacture our products based on our customers' design concepts with their requirements and specifications. In some cases if the customers do not provide us with detailed specifications, requirements, and/or design concepts of the products necessary for formulating the production plans, our research and development department will work closely with the customers to adjust, modify or alternate the relevant specifications, requirements, and/or design concepts. In terms of revenue, the major products attributable to our OEM business during the Track Record Period included baby food makers, steam irons and steam generator irons.

The following table sets forth a breakdown of our revenue and gross profit by business segments during the Track Record Period:

	FY2016		FY2017		FY2018		4M2018		4M2019	
	Revenue		Revenue		Revenue		Revenue		Revenue	
	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total
ODM business	166,328	46.1	151,145	42.1	213,911	57.3	48,307	45.3	94,807	65.6
OEM business	<u>194,743</u>	<u>53.9</u>	<u>207,656</u>	<u>57.9</u>	<u>159,551</u>	<u>42.7</u>	<u>58,256</u>	<u>54.7</u>	<u>49,755</u>	<u>34.4</u>
Total	<u><u>361,071</u></u>	<u><u>100.0</u></u>	<u><u>358,801</u></u>	<u><u>100.0</u></u>	<u><u>373,462</u></u>	<u><u>100.0</u></u>	<u><u>106,563</u></u>	<u><u>100.0</u></u>	<u><u>144,562</u></u>	<u><u>100.0</u></u>
	FY2016		FY2017		FY2018		4M2018		4M2019	
	Gross profit	Gross margin %	Gross profit	Gross margin %	Gross profit	Gross margin %	Gross profit	Gross margin %	Gross profit	Gross margin %
	HK\$'000		HK\$'000		HK\$'000		HK\$'000		HK\$'000	
ODM business	49,296	29.6	46,191	30.6	61,909	28.9	11,833	24.5	29,718	31.3
OEM business	<u>57,859</u>	<u>29.7</u>	<u>59,400</u>	<u>28.6</u>	<u>43,436</u>	<u>27.2</u>	<u>13,896</u>	<u>23.9</u>	<u>15,395</u>	<u>30.9</u>
Total	<u><u>107,155</u></u>	<u><u>29.7</u></u>	<u><u>105,591</u></u>	<u><u>29.4</u></u>	<u><u>105,345</u></u>	<u><u>28.2</u></u>	<u><u>25,729</u></u>	<u><u>24.1</u></u>	<u><u>45,113</u></u>	<u><u>31.2</u></u>

For FY2016, FY2017, FY2018 and 4M2019, revenue from our ODM business was approximately HK\$166.3 million, HK\$151.1 million, HK\$213.9 million and HK\$94.8 million, respectively, representing 46.1%, 42.1%, 57.3% and 65.6% of total revenue of the corresponding periods. Revenue from our OEM business accounted for approximately HK\$194.7 million, HK\$207.7 million, HK\$159.6 million and HK\$49.8 million for FY2016, FY2017, FY2018 and 4M2019, respectively, representing 53.9%, 57.9%, 42.7% and 34.4% of total revenue of the corresponding periods.

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OUR PRODUCTS

During the Track Record Period, we researched, designed, developed, manufactured and supplied electrothermic household appliances to our customers. Our electrothermic household appliances can be divided into two categories, namely: (i) garment care appliances, including steam generator irons, garment steamers and steam irons; and (ii) cooking appliances, including coffee machines, steam cooking appliances and other cooking appliances. Substantially all of these products are rooted on thermodynamics technology which involves the measurement and physics of converting thermal energy to and from other forms of energy and the way it affects the state of matter (e.g. water and steam).

The below table sets forth the breakdown of our revenue, sales volume and average selling price per unit attributable to products under different categories:

	FY2016 Revenue		FY2017 Revenue		FY2018 Revenue		4M2018 Revenue		4M2019 Revenue	
	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total
Garment care appliances										
— Steam generator irons	71,210	19.7	55,791	15.6	70,745	18.9	23,605	22.2	15,232	10.5
— Garment steamers	44,025	12.2	44,988	12.5	11,970	3.2	7,562	7.1	2,117	1.5
— Steam irons	119,383	33.1	106,251	29.6	88,853	23.8	29,777	27.9	30,240	20.9
Sub-total of garment care appliances	234,618	65.0	207,030	57.7	171,568	45.9	60,944	57.2	47,589	32.9
Cooking appliances										
— Coffee machines	21,499	6.0	38,924	10.8	115,155	30.8	7,450	7.0	72,444	50.1
— Steam cooking appliances ^(Note 1)	87,342	24.1	97,879	27.3	74,904	20.1	31,995	30.0	17,951	12.4
— Other cooking appliances ^(Note 2)	14,383	4.0	14,372	4.0	11,656	3.1	6,020	5.7	6,487	4.5
Sub-total of cooking appliances	123,224	34.1	151,175	42.1	201,715	54.0	45,465	42.7	96,882	67.0
Others ^(Note 3)	3,229	0.9	596	0.2	179	0.1	154	0.1	91	0.1
Total	361,071	100.0	358,801	100.0	373,462	100.0	106,563	100.0	144,562	100.0

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	FY2016		FY2017		FY2018		4M2018		4M2019	
	Average selling price	Average selling price	Average selling price	Average selling price	Average selling price	Average selling price	Average selling price	Average selling price	Average selling price	Average selling price
	Sales volume	per unit	Sales volume	per unit	Sales volume	per unit	Sales volume	per unit	Sales volume	per unit
	'000 units	HK\$	'000 units	HK\$	'000 units	HK\$	'000 units	HK\$	'000 units	HK\$
Garment care appliances										
— Steam generator irons	242	294.7	177	315.4	192	368.6	63	372.4	43	353.8
— Garment steamers	390	112.8	423	106.5	107	112.0	67	112.7	16	129.7
— Steam irons	899	132.8	778	136.5	674	131.8	214	139.3	230	131.5
Sub-total of garment care appliances	1,531	153.3	1,378	150.2	973	176.3	344	177.0	289	164.4
Cooking appliances										
— Coffee machines	30	713.2	40	965.3	94	1,228.7	10	758.1	61	1,190.3
— Steam cooking appliances ^(Note 1)	460	189.8	515	190.2	383	195.6	166	192.5	87	206.0
— Other cooking appliances ^(Note 2)	62	232.0	64	223.9	49	235.3	24	257.4	25	257.7
Sub-total of cooking appliances	552	223.1	619	244.2	526	383.3	200	228.0	173	559.4
Others ^(Note 3)	17	190.8	4	157.7	1	149.2	1	131.5	1	208.7
Total	2,100	171.9	2,001	179.3	1,500	248.9	545	195.6	463	312.2

Notes:

- (1) Steam cooking appliances refer to food steamers and baby food makers.
- (2) Others cooking appliances refer to soup makers and milk bottle warmers.
- (3) Others mainly refer to consumer electronics products, cleaning products and air purifiers.

During the Track Record Period, our business experienced a stable growth. For FY2016, FY2017, FY2018 and 4M2019, our revenue was approximately HK\$361.1 million, HK\$358.8 million, HK\$373.5 million and HK\$144.6 million, respectively. Such increase was attributable to the significant increase in the sales of coffee machines mainly as a result of the launch of new models of fully automatic coffee machine which was well recognised by our customers.

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The gross profit margin for garment care appliances sold by our Group for FY2016, FY2017, FY2018 and 4M2019 was approximately 30.0%, 28.7%, 27.0% and 29.5%, respectively; while the gross profit margin for cooking appliances during the relative periods was approximately 29.2%, 30.5%, 29.2% and 32.1%, respectively. The below table sets forth the breakdown of our gross profit and gross profit margin attributable to products under different categories:

	FY2016		FY2017		FY2018		4M2018		4M2019	
	Gross profit	Gross profit margin %	Gross profit	Gross profit margin %	Gross profit	Gross profit margin %	Gross profit	Gross profit margin %	Gross profit	Gross profit margin %
	HK\$'000		HK\$'000		HK\$'000		HK\$'000		HK\$'000	
Garment care appliances										
— Steam generator irons	22,738	31.9	16,618	29.8	20,867	29.5	6,014	25.5	4,750	31.2
— Garment steamers	12,235	27.8	12,313	27.4	3,010	25.1	1,704	22.5	552	26.1
— Steam irons	<u>35,452</u>	29.7	<u>30,399</u>	28.6	<u>22,433</u>	25.2	<u>6,857</u>	23.0	<u>8,720</u>	28.8
Sub-total of garment care appliances	70,425	30.0	59,330	28.7	46,310	27.0	14,575	23.9	14,022	29.5
Cooking appliances										
— Coffee machines	6,106	28.4	11,588	29.8	35,420	30.8	1,974	26.5	23,736	32.8
— Steam cooking appliances ^(Note 1)	25,916	29.7	30,637	31.3	20,546	27.4	7,736	24.2	5,562	31.0
— Others cooking appliances ^(Note 2)	<u>3,923</u>	27.3	<u>3,896</u>	27.1	<u>3,032</u>	26.0	<u>1,414</u>	23.5	<u>1,773</u>	27.3
Sub-total of cooking appliances	35,945	29.2	46,121	30.5	58,998	29.2	11,124	24.5	31,071	32.1
Others ^(Note 3)	<u>785</u>	24.3	<u>140</u>	23.5	<u>37</u>	20.7	<u>30</u>	19.6	<u>20</u>	21.7
Total	<u>107,155</u>	29.7	<u>105,591</u>	29.4	<u>105,345</u>	28.2	<u>25,729</u>	24.1	<u>45,113</u>	31.2

Notes:

- (1) Steam cooking appliances refer to food steamers and baby food makers.
- (2) Others cooking appliances refer to soup makers and milk bottle warmers.
- (3) Others mainly refer to consumer electronic products, cleaning products and air purifiers.

Garment care appliances

Among our garment care appliances segment, steam generator irons, steam irons and garment steamers are the most popular products amongst households. Compared to steam irons, steam generator irons are generally equipped with larger, separate water tanks and boilers that heat up water quickly and create higher steam pressure with longer ironing time, faster ironing and avoid inconvenience for refilling water frequently. In addition, advanced and high-end steam generator iron has benefits for users, such as (i) suitable for a wide range of materials such as wool, cotton, silk and linen; (ii) better ironing effect offered by its high-pressure, high-temperature and high steam generating features; and (iii) better sanitisation, dust removal and sterilisation effect. Compared to steam irons, some steam generator irons have additional functions and features such as built-in cleaning function for irons during heating process, vertical ironing option for items such as curtains and coats, as well as safety features (e.g. built-in auto shut off).



Steam generator iron



Steam iron



Garment steamer

For FY2016, FY2017, FY2018 and 4M2019, we sold garment care appliances with an amount of approximately HK\$234.6 million, HK\$207.0 million, HK\$171.6 million and HK\$47.6 million, representing approximately 65.0%, 57.7%, 45.9% and 32.9% of our total revenue, respectively. For the same periods, the sales volume of garment care appliances was approximately 1.5 million units, 1.4 million units, 1.0 million units and 289,000 units, respectively, and the average selling price per unit of our garment care appliances was HK\$153.3, HK\$150.2, HK\$176.3 and HK\$164.4, respectively.

Cooking appliances

According to the F&S Report, electrothermic household appliances are widely applied in kitchens. A lot of unhealthy or even toxic substances are generated during the cooking process with the increasing use of plant oil in frying, deep frying and pan frying. As plant oil would produce a large amount of free radicals under high temperature which would affect human bodies, steaming is considered the healthiest amongst other cooking methods. In addition, steaming helps killing the germs while retaining nutrition in food.



Coffee machine



Soup maker



Food steamer

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For FY2016, FY2017, FY2018 and 4M2019, we sold cooking appliances with an amount of approximately HK\$123.2 million, HK\$151.2 million, HK\$201.7 million and HK\$96.9 million, representing approximately 34.1%, 42.1%, 54.0% and 67.0% of our total revenue, respectively. For the same periods, the sales volume of cooking appliances was approximately 552,000 units, 619,000 units, 526,000 units and 173,000 units, respectively, and the average selling price per unit of our cooking appliances was HK\$223.1, HK\$244.2, HK\$383.3 and HK\$559.4, respectively.

During the Track Record Period, our revenue from the sales of coffee machines experienced a significant increment from approximately HK\$21.5 million for FY2016 to approximately HK\$38.9 million for FY2017, further increased to approximately HK\$115.2 million for FY2018. For 4M2019, our sales of coffee machines was approximately HK\$72.4 million. For the same periods, the sales volume of coffee machines was approximately 30,000 units, 40,000 units, 94,000 units and 61,000 units, respectively, and the average selling price per unit of our coffee machines was HK\$713.2, HK\$965.3, HK\$1,228.7 and HK\$1,190.3, respectively.

Our Directors are of the view that the demand of coffee machine is expected to continue growing in the future due to higher spending propensity and a rising demand for coffee in emerging regions, such as in the PRC. Opportunities for coffee machine market also abound in the region owing to the rising disposable incomes, increased adoption of Western consumption habits, and the growing preference of youngsters, according to the F&S Report, and consumers have tendency to make premium coffee at home or office by using coffee machine with user friendly features, e.g. one-touch and compact design.

Seasonality

Our Directors consider that neither our business nor our revenue is subject to any material seasonality. During the Track Record Period, we experienced a relatively lower revenue and gross profit during the period of Chinese New Year. We believe that it was mainly due to the closure of our Huizhou Factory in festive season, where we still incurred certain fixed costs such as depreciation and overhead, during the same period. As a result, we recorded a lower gross profit margin for 4M2018 of approximately 24.1%. As such, any comparison of gross profit margin and results of operations between periods within a full financial year for our Group may not be meaningful and should not be relied upon as an indicator of our Group's performance. For 4M2019, the impact of Chinese New Year holiday was outweighed by the increase in the sales of coffee machines, which has a relatively higher gross profit margin.

Pricing policy

The prices of our products charged to our customers are based on the product requirements and liaison with our customers. We take into account a number of factors including order volume, cost of raw materials and accessories, uniqueness of the product, labour costs, processing costs, product specifications and production lead time. Our quotations to customers are with a mark-up margin on (i) the technical requirements; (ii) product specifications; and (iii) the expected sales volumes. In general, we do not offer discount to our customers.

RESEARCH AND DEVELOPMENT

Our Directors are of the view that the electrothermic household appliances rely on rapid technological advancements and susceptible to changes in market trends and demands. In order to keep ourselves abreast of the evolving technological advancements and obtain up-to-date market information, our Group has invested in research and development, which has enabled us to respond to and anticipate changes in the electrothermic household appliances manufacturing industry and the market environment in a timely manner and enhance our competitiveness. According to the record of a consumer-oriented online search tool in Europe financed by the European Commission, the coffee machine produced by us ranked top in energy class in July 2018.

Our research and development department of over 40 members, including our engineers, designers and technicians, and is led by Mr. Chu Ming Tak, our engineering director, Mr. Lee Pak Man, our research and development director and Mr. Poon Ching Ching, Kelvin, our design director. All of them have at least 20 years of experience in product engineering, inspection and development or relevant fields. For details of the qualifications and working experience of our senior management in research and development, please refer to the section headed “Directors and senior management” in this prospectus.

Most of our designers and engineers are graduated from either universities or technical colleges in their respective fields in mechanical engineering, electronic engineering and graphic design or related disciplines and are experienced in either hardware or software designs for electrothermic household appliances.

Our research and development activities include developing or applying new technology in electrothermic household appliances, enhancing the existing products, investigating end-user needs, conducting market visits and exploring new technology etc. We place strong emphasis on product development, improvement in electrothermic household appliances and production process of plants and machinery to cope with the change of customers’ requirements. We work on the technical feasibility of designs provided by our customers or developed by us to transform design concepts into physical products. Our design team utilises advanced design software to assist our product development process, such as CAD drawing, industrial design drawing, 3D rendering, electronic and PCB layout design.

We primarily focus on the development and/or application of new technology and products to expand our product portfolio, and the improvement of our existing products in terms of appearance, dimensions, capabilities, functionalities and production cost. As at the Latest Practicable Date, we had at least 20 new products or upgraded models to be developed or launched in the market in FY2019, including but not limited to steam generator irons, steam irons, garment steamers, coffee machines, baby food makers and food steamers. Some of our new technology, such as easy-change accessories, micro pump, two-way valve, LED touch display, TFT LCD and double NTC control, will be applied to these new products or upgraded models.

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With over 10 years of operating history, we have developed technology in different aspects to create and produce advanced products to our customers. The key technology that we use in our operations include the following:

Category	Technology	Details
Thermodynamics	<i>Steam and temperature control</i> (Patent no. ZL201720306305.4)	The steam iron body has a set of evaporators and temperature sensors to adjust the steam volume according to temperature, including an extra steam button for activating higher steam rate
	<i>Heating element disconnection trigger</i> (Patent no. ZL201721256003.7)	Once the temperature of boiler exceeds the preset temperature, the heating element will be disconnected to avoid fuse blow
	<i>Anti-overheating device</i> (Patent no. ZL201720988109.X)	A temperature control system monitors and controls the heating element to stop or slow down the heating process when the soleplate is heated to a preset temperature so as to prevent overshoot
Pump pressure	<i>Direct current electromagnetic pump</i> (Patent no. ZL201621491748.7)	A steam iron with direct current electromagnetic pump can reduce vibration and noise
	<i>Right angle design</i> (Patent no. ZL201721042805.8)	The direct current motor and electromagnetic pump are set at a right angle to reduce the installation space and product size
Motor-driven	<i>Anti-overflow system</i> (Patent no. ZL201420815956.2)	For our cooking blender, a detector is set at the upper side of the container, which will stop heating process of the heating element once any overflow detected
Coffee brewing system	<i>Brewing system</i> (Patent no. ZL200910174566.5)	A brewing unit of a coffee machine includes a brewing plug part, a brewing base and a buckling subassembly. In the brewing unit of the coffee machine, the brewing base and the brewing plug part are separately arranged, and the buckling subassembly is located therebetween, so that the brewing base and the brewing plug bracket are in tightly buckled state while brewing the coffee, the coffee cannot leak out, and the coffee machine can be safely used
	<i>Filter pressure control system</i> (Patent no. ZL200880017144.0)	Such system can control on the pressure during the brewing process to avoid over-extrusion

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Category	Technology	Details
Electronic control	<i>Magic steam</i> (Patent no. ZL201420177619.5)	A temperature controlling device for monitoring the temperature of the bottom plate and confine the temperature to 100°C to 150°C, in which the vapour releasing speed should be no more than 50g/minute. This patent allows user to apply on a vast majority of clothes safely and handily under the standard level and there is no need to add extra heat barrier device still with excellent effect of vapour output
	<i>Water filling system</i> (Patent no. ZL201721113745.4)	The valve connects the main body and the base, whereby users do not need to insert any water pipes in between. The two devices can be separately used that favours users' daily operation and increases the level of convenience
User-interface programming	<i>Temperature control panel</i> (Patent no. ZL201621389907.2)	For our steam iron, the control panel is provided with a light touch button for continuous and cyclic selection of the temperature level, which has higher flexibility with less space
	<i>LED control panel</i> (Patent no. ZL201721191995.X)	The control panel is provided with transparent control area. When the power is turned on, the light of control panel will be switched so that the users can easily identify the buttons on the control panel

Moreover, various know-how and crafts are applied to our production process of electrothermic household appliances in our Huizhou Factory. The key know-how and crafts that we use in our production process include the following:

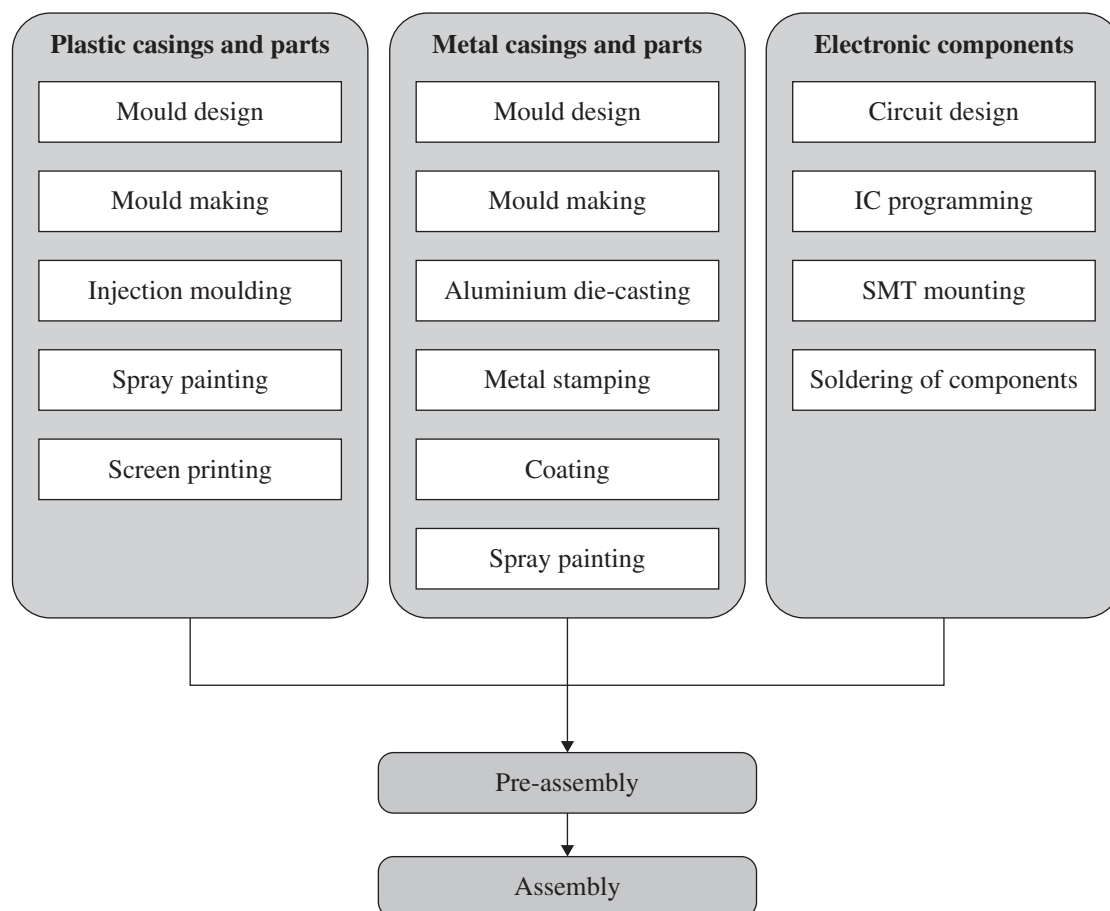
Know-how/crafts	Function
Injection moulding	Manufacturing of plastic casings and parts
Metal stamping	Manufacturing of metal parts
Aluminium die-casting	Manufacturing of soleplates and boilers
Hot plate/Induction welding	Manufacturing of steam iron water tanks
Automatic electrostatic spraying system	Spray paint for cosmetic parts
Automatic glue dispenser system	Manufacturing of soleplates
Automatic steam promotor spraying system	Spraying steam promotor for soleplates
Laser etching	Cleaning or logo etching
Automatic testing system	Quality control process during mass production for coffee machine

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During the Track Record Period, the research and development expenses amounted to approximately HK\$4.5 million, HK\$9.6 million, HK\$8.0 million and HK\$2.7 million respectively, representing approximately 1.3%, 2.7%, 2.1% and 1.9% of our total revenue, respectively.

OUR PRODUCTION AND PRODUCTION FACILITIES

For a typical production process, it usually takes approximately 60 to 90 days to deliver the finished products to our customers. The diagram below is the flow chart summarising the key workflow of a typical production process of our Group:



Plastic casings and parts

With reference to the blueprint provided by our customer or designed by our research and development department, we will prepare a mould design and pass the design to external moulding manufacturers to produce a mould. Such mould will then be used in the injection moulding. Plastic or phenolic materials will be heated up and reshaped into the desired form by injecting into the designed mould to manufacture plastic housings (the external casings of appliances), casings and parts of different sizes and specifications. To enhance our production quality and keep our workers safe, we use automated robots to assist the plastic injection moulding process.

Spray painting and screen printing may be used as the decoration technique to cover the surface of the products with specified colour, logo and brand.

Metal casings and parts

Similar to the plastic casings and parts, we will prepare the mould design and request the external moulding manufacturers to produce a mould, based on the design, for aluminium die-casting and metal stamping procedures. For aluminium die-casting, our production department prepares the metal parts by heating aluminium ingots to its molten point in the aluminium oven and injecting the molten aluminium into a desired steel mould under high pressure. For metal stamping, we place a flat sheet metal into a stamping press where a tool and surface forms the metal into a net shape physically.

If the customers require us to produce non-stick, low friction and high heat resistance surface of our products, we may coat ceramic onto our materials before assembly. We will then decorate the metal parts by spraying based on the specifications and requirements from customers.

Electronic components

To allow our products to operate with the desired functionality, our engineers are responsible to design the software and transfer a computer programme into an integrated circuit. Our engineers collaborate with our customers and perform extensive testing on the products, obtaining detailed feedback and communicating regularly with our customers to bring the products in line with their requirements and specifications.

For the soldering process, we mount the electronic components onto a PCB by SMT mounting machines. Our workers will then insert large components onto the PCB by soldering and fitting components with wire leads into holes in the PCB. After the above process, we spray insulating oil on the PCB to ensure it can be functioning stably. Our quality assurance department will further use optical inspection machines to test the electrical properties of the electronic components on PCB and the electronic connections between such components.

Pre-assembly

We collect the above parts and components, especially electrical components, and put together to form a larger unit. Our quality assurance staff members are responsible to conduct in-progress quality control inspection on the pre-assembled units.

Assembly

The above pre-assembled units, with casings and other components, will be transferred to assembly lines for final assembly and checking. Parts and accessories will be assembled into finished products in accordance with the customer's specifications and requirements.

To ensure the quality of our products, our quality assurance department will conduct appearance, safety and performance testing as well as quality assurance check on each of our finished products before packaging. For details, please refer to the paragraph headed "Quality assurance and control" in this section.

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Production facilities and warehouse

Our production facilities and warehouse are located in our Huizhou Factory, which consists of eight buildings with a total gross floor area of 73,650.04 sq.m. For details of our properties, please refer to the paragraph headed “Properties” in this section.

Various machines such as plastic injection moulding machines, die-casting machines, SMT mounting machines, stamping machines, phenolic injection moulding machines and automated optical inspection machines were in place which cater for different stages of the production process. We also have bridge cranes to transfer the moulds and parts in our production workshops. According to the accounting policy of our Group, the expected useful life of our machines is approximately 10 years. Some of the major machinery we purchased were second-handed ones which had been used for more than 10 years as at the Latest Practicable Date despite the expected useful life is 10 years. The table below sets forth the details of the major machinery used in our production process as at the Latest Practicable Date:

Type of machine	Function	Average year(s) of service	Quantity (units)
Plastic injection moulding machine	Manufacturing of plastic housings, casings and parts	More than 10 years	119
Phenolic injection moulding machine	Manufacturing of phenolic plastic parts	More than 10 years	8
Bridge crane	Transferring of moulds and parts to and from production processes or storage locations	7	10
Die-casting machine	Manufacturing of soleplates and boilers	More than 10 years	7
Aluminium oven	Melting of aluminium alloys	5	7
Stamping machine	Stamping and embossing flat sheet- materials to produce form-features	More than 10 years	64
SMT mounting machine	Mounting of surface mount device (SMD) components onto PCB semi-finished products	More than 10 years	4
Automated optical inspection machine	Automated visual inspection of semi- finished products	3	2
Automatic paint spraying system	Spraying coating materials to the surface of phenolic plastic parts, plastic housings as well as plastic casings and parts	More than 10 years	1

Production capacity

During the Track Record Period, we manufactured 14 major types of electrothermic household appliances and other products with a wide range of different models in every major type, each of which comprised a number of plastic casings and parts, metal casings and parts, as well as electronic components, to be assembled together to form a single product. Due to the diversity of our product portfolio, and given that a majority of our machines, particularly plastic injection moulding machines (excluding certain large plastic housing and casings which can only be manufactured by certain large-scale plastic injection moulding machines), are flexible and can be used to produce different parts and components with different specifications, our Directors are of the view that it is difficult to accurately estimate our production capacity as well as utilisation rate of our production capacity for each of our products during the Track Record Period.

Among our product portfolio, steam generator irons and coffee machines are the products that are largest in size in each of our main product categories, namely, garment care appliances and cooking appliances, respectively. Due to their respective functionalities and features, our coffee machines and steam generator irons comprise relatively more parts and components. For instance, a typical coffee machine comprises approximately 50 sub-assembled units with over 300 parts and components in total to be assembled together throughout the entire production process, whilst a typical steam generator iron comprises over 180 parts and components in total.

Although our large-scale plastic injection moulding machine could be used to manufacture a wide variety of housings and parts of different products, in order to optimise our production capacity, we only used it to produce the plastic housings for steam generator irons and coffee machines during the Track Record Period because they can only be manufactured by our large-scale plastic injection moulding machine as steam generator irons and coffee machines are relatively larger in size and their plastic housings are manufactured in one-piece, which cannot be assembled by several smaller plastic casings as compared to that of other appliances. We then used our medium and small-scale plastic injection moulding machines to manufacture the plastic housings for our other products and all the parts and components for all our products during the Track Record Period.

Given the aforesaid limitation of our plastic injection moulding machines, our production department always puts priority to the production of plastic housings for steam generator irons and coffee machines when we design our production planning. As such, our Directors consider that the bottlenecks in our production are the manufacturing of plastic housings for steam generator irons and coffee machines because the capacity of such processes largely determines the output of the relevant products and it is impossible for us to process further in our production or utilise the idle capacity of other non-bottleneck production processes unless we increase the capacity of these bottleneck production processes.

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As our overall production capacity is limited by the bottlenecks as explained above, we use the production volume of large-scale plastic injection moulding machines for plastic housings as the indicator of our production capacity and production utilisation rate. For illustrative purposes only, the following table sets out our theoretical maximum production capacity, actual production volume and utilisation rate for FY2016, FY2017, FY2018 and 4M2019 respectively:

	FY2016	FY2017	FY2018	4M2019
Coffee machines				
Theoretical maximum production capacity (units)	38,123	45,747	117,683	77,350
Actual production volume (units)	31,208	38,574	101,619	69,809
Production utilisation rate (%)	81.9	84.3	86.4	90.3
Steam generator irons				
Theoretical maximum production capacity (units)	259,233	250,084	201,201	72,800
Actual production volume (units)	241,392	180,256	188,776	39,458
Production utilisation rate (%)	93.1	72.1	93.8	54.2

Notes:

1. Production capacity is calculated by multiplying the theoretical maximum daily production capacity for plastic housings by planned production days (26 days x 11.5 months) for the year taking into account the effect of Chinese New Year holiday. The theoretical maximum daily production capacity is computed on the basis on the number of output at the optimal production speed of plastic housing for coffee machine by the large-scale plastic injection moulding machines of approximately 38 pieces per hour for 22 hours a day, taking into account that the outputs of plastic housing for steam generator iron is on average 1.2 times of that for coffee machine manufactured by the same plastic injection moulding machine within a fixed time period.
2. Production utilisation rate is calculated by dividing the actual production volume for the year by the theoretical maximum production capacity for the year.
3. While certain large-scale plastic injection moulding machines can be used to manufacture plastic housings for both steam generator irons and coffee machines, the theoretical maximum production capacity of coffee machines and steam generator irons respectively are calculated based on the allocation of machine time for each of the product as determined by the management based on the then latest confirmed orders received from our customers.

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Alternatively, for further illustrative purpose only, the following table sets out our theoretical maximum production capacity, actual production volume and utilisation rate of large-scale plastic injection moulding machine for FY2016, FY2017, FY2018 and 4M2019, respectively, based on information available on man hours and machine hours:

	FY2016			FY2017			FY2018			4M2019		
	Theoretical maximum production capacity (hours)	Actual usage (hours)	Production utilisation rate (%)	Theoretical maximum production capacity (hours)	Actual usage (hours)	Production utilisation rate (%)	Theoretical maximum production capacity (hours)	Actual usage (hours)	Production utilisation rate (%)	Theoretical maximum production capacity (hours)	Actual usage (hours)	Production utilisation rate (%)
Large-scale plastic injection moulding machine	6,578	6,067	92.2	6,578	4,906	74.6	7,722	7,134	92.4	4,004	2,940	73.4

Notes:

1. Theoretical maximum production capacity is measured by machine hours, which is calculated by multiplying total number of machines in use by daily machine hours (10 to 11 hours x 2 shifts) and by planned production days (26 days x 11.5 months) for the year/26 days x 3.5 months for 4M2019 taking into account the effect of Chinese New Year holiday and the movements total number of machines during the year.
2. Actual usage is measured by man hours, which is calculated by multiplying total number of workers operating the relevant machines by daily working hours (10 to 11 hours x 2 shifts) and by planned production days (26 days x 11.5 months) for the year/26 days x 3.5 months for 4M2019 taking into account the effect of Chinese New Year holiday and the movements total number of workers operating the relevant machines during the year given one worker operates one machine on average.
3. Production utilisation rate is calculated by dividing the actual production volume (in hours) for the year by the theoretical maximum production capacity (in hours) for the year.

As shown above, the utilisation rate calculated by way of man hours and machine hours were similar to those calculated by way of actual production volumes during the Track Record Period. The decrease in utilisation rate of large-scale plastic injection moulding machine from approximately 92.2% in FY2016 to approximately 74.6% in FY2017 was aligned with the lower utilisation rate for production capacity of steam generator irons during the same period because we still reserved certain buffer for producing steam generator irons while shifting our production capacity from steam generator irons to coffee machines in view of the increasing trend in demand for coffee machines.

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As explained above, our Directors are of the view that it is difficult to accurately estimate our production capacity and utilisation rate of our machines for each of our products by counting the quantity of outputs during the Track Record Period due to the diversity of our product portfolio and flexibility of our machines in manufacturing different parts and components with different specifications. Alternatively, for further illustrative purpose only, the following table sets out our theoretical maximum production capacity, actual production volume and utilisation rate of the major machinery used in our non-bottleneck production processes for FY2016, FY2017, FY2018 and 4M2019, respectively, based on information available on man hours and machine hours:

Major machinery used in our non-bottleneck production processes	FY2016			FY2017			FY2018			4M2019		
	Theoretical	Actual	Production utilisation rate	Theoretical	Actual	Production utilisation rate	Theoretical	Actual	Production utilisation rate	Theoretical	Actual	Production utilisation rate
	maximum			maximum			maximum			maximum		
	production capacity (hours)			production capacity (hours)			production capacity (hours)			production capacity (hours)		
Plastic injection moulding machine (non-bottleneck process)	703,846	577,320	82.0	721,578	600,811	83.3	740,168	620,592	83.8	232,232	203,202	87.5
Phenolic injection moulding machine	32,890	23,887	72.6	32,890	24,404	74.2	32,890	24,760	75.3	10,010	7,550	75.4
Die-casting machine	46,046	35,944	78.1	46,046	36,467	79.2	46,046	37,963	82.4	14,014	11,689	83.4
Stamping machine	364,780	268,118	73.5	366,340	276,752	75.5	382,720	298,613	78.0	116,480	91,583	78.6
SMT mounting machine	23,920	19,459	81.4	23,920	19,577	81.8	23,920	20,027	83.7	7,280	6,099	83.8

Notes:

1. Theoretical maximum production capacity is measured by machine hours, which is calculated by multiplying total number of machines in use by daily machine hours (10 to 11 hours x 2 shifts) and by planned production days (26 days x 11.5 months) for the year/26 days x 3.5 months for 4M2019 taking into account the effect of Chinese New Year holiday and the movements total number of machines during the year.
2. Actual usage is measured by man hours, which is calculated by multiplying total number of workers operating the relevant machines by daily working hours (10 to 11 hours x 2 shifts) and by planned production days (26 days x 11.5 months) for the year/26 days x 3.5 months for 4M2019 taking into account the effect of Chinese New Year holiday and the movements total number of workers operating the relevant machines during the year given one worker operates one machine on average.
3. Production utilisation rate is calculated by dividing the actual production volume (in hours) for the year by the theoretical maximum production capacity (in hours) for the year.

Our production utilisation rate for coffee machines remained at a relatively high level during the Track Record Period and continued to increase from approximately 81.9% in FY2016 to approximately 84.3% in FY2017, further to approximately 86.4% in FY2018 and further to approximately 90.3% for 4M2019. In response to the significant increase in the sales of coffee machines mainly as a result of the launch of new models of fully automatic coffee machine which was well recognised by our customers, we acquired additional machinery and reallocated more production resources to coffee machine production with the theoretical maximum production capacity increased from 38,123 units in FY2016 to 45,747 units in FY2017, further to 117,683 units in FY2018, and reached 77,350 units for 4M2019.

Our production utilisation rate for steam generator irons decreased from approximately 93.1% in FY2016 to approximately 72.1% in FY2017 as we experienced an increasing trend in demand for coffee machines. To cater for this market demand, our Group had shifted our efforts to focus on manufacturing more coffee machines. On the other hand, we manufactured fewer steam generator irons as a result of our adjustment of focus from steam generator irons to coffee machines in FY2017. Given that we had

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allocated more resources including our production capacity to coffee machines, which were of higher gross profit margin as compared to garment care appliances, production capacity for garment care appliances was correspondingly reduced where the actual production volume decreased from approximately 241,392 units in FY2016 to approximately 180,256 units in FY2017. The actual production volume for steam generator irons in FY2016 was higher because one of our major customers launched a special promotion campaign for steam generator irons during FY2016, resulting in the increased demand for steam generator irons in FY2016. Our actual production volume for steam generator irons recorded a steady growth in FY2018 as compared to that in FY2017.

While we started shifting our production capacity from steam generator irons to coffee machines, we still reserved certain buffer for producing steam generator irons during the transitional period, which resulted in the lower utilisation rate for production capacity of steam generator irons for FY2017. Furthermore, some of the product specifications of steam generator irons provided by our customers were relatively complex whilst the relevant targeted unit prices were relatively low, our Directors were of the view that handling such sales orders with relatively narrow profit margin would likely be costly and time-consuming, and might significantly divert the efforts and resources of our management.

Against such background, we were more selective in securing sales orders for steam generator irons. Therefore, we experienced an increase in average unit price of steam generator irons from approximately HK\$294.7 in FY2016 to approximately HK\$315.4 in FY2017 and a decrease in its sales volume from approximately 242,000 units in FY2016 to approximately 177,000 units in FY2017.

Our production utilisation rate for steam generator irons increased from approximately 72.1% in FY2017 to approximately 93.8% in FY2018 because we had reduced the production capacity for steam generator irons. Given the significant increase in the sales of coffee machines in FY2018, we reallocated our production resources from steam generator irons to coffee machines to support the production of coffee machines in order to expand the potential market of coffee machines. The theoretical maximum production capacity of steam generator irons thus decreased from 250,084 units in FY2017 to 201,201 units in FY2018. Our production utilisation rate for steam generator irons decreased to approximately 54.2% for 4M2019 given that (i) we reallocated our production resources with the arrival of an additional large-scale plastic injection moulding machine in second half of 2018, resulting in the increase in the production capacity for both steam generator irons and coffee machines; and (ii) we experienced a decrease in sales of steam generator irons during the same period because certain models of our steam generator irons had been launched in the market for several years, resulting in a relatively weaker demand from customers for these models.

In view of the increasing number of customer enquiries received by our Group from both existing and potential customers for new ODM models of steam generator irons and coffee machines during the Track Record Period and up to the Latest Practicable Date, we would continue to devote more efforts in research and development of new ODM models for steam generator irons and coffee machines to cater for customers' needs in the overseas markets.

Repair and maintenance

Machines that are discovered to be malfunctioning would be examined by our repair and maintenance team. We would then decide to repair or dispose of such machines based on their damage level, value and year of service. Our repair and maintenance team also carries out regular inspection and

maintenance for certain machines on an on-going basis. Our repair and maintenance costs for plant and machinery amounted to approximately HK\$0.6 million, HK\$0.7 million, HK\$0.5 million and HK\$0.2 million for FY2016, FY2017, FY2018 and 4M2019 respectively.

Our Group had not experienced any material disruption to our production in connection with the machines during the Track Record Period and up to the Latest Practicable Date.

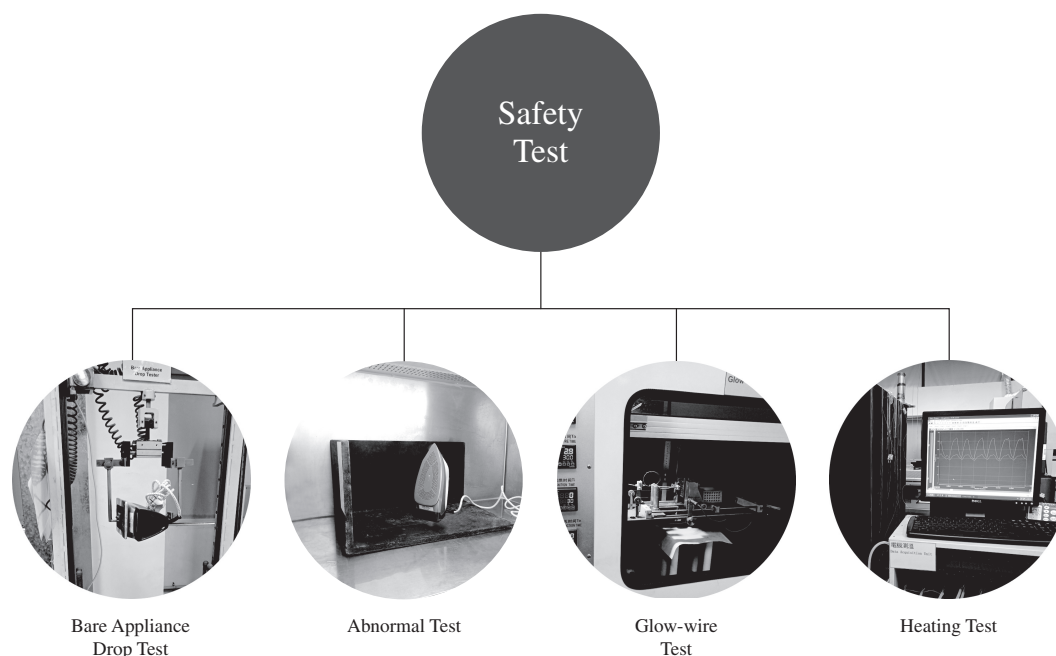
QUALITY ASSURANCE AND CONTROL

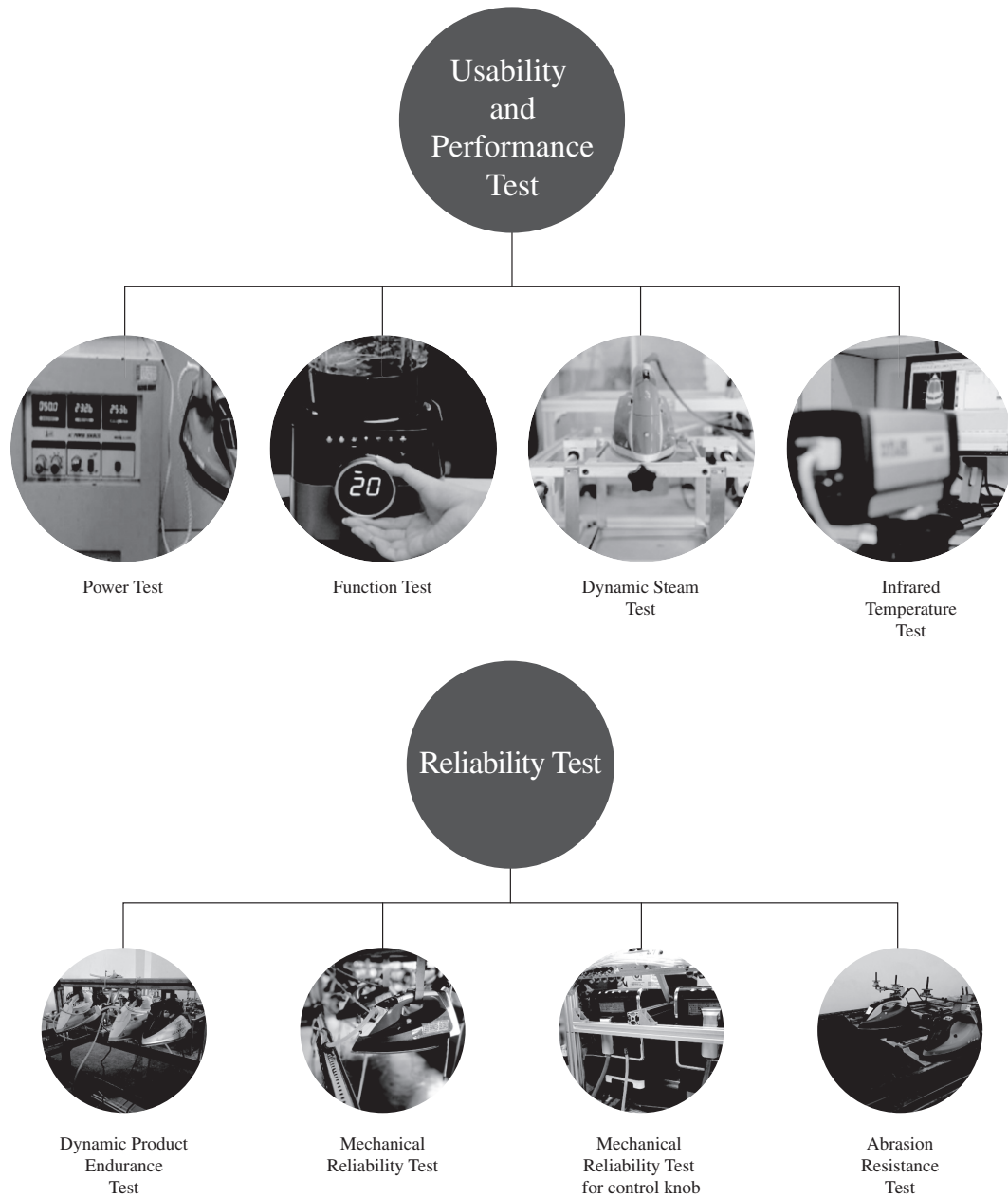
We believe that our commitment to quality, which has been consistently reflected in our production processes and our products, is one of our competitive strengths. We strongly emphasise quality assurance and control over our products and have implemented a comprehensive quality assurance and control system.

To prevent and identify the product defects, our quality assurance department is responsible for maintaining and operating our quality assurance and control system. As at the Latest Practicable Date, we had over 90 quality assurance and control personnel. Our quality assurance department is led by Mr. Albert Leung who has over 35 years of experience in the electrothermic household appliances manufacturing industry and is familiar with the application of quality assurance and control management techniques and methods.

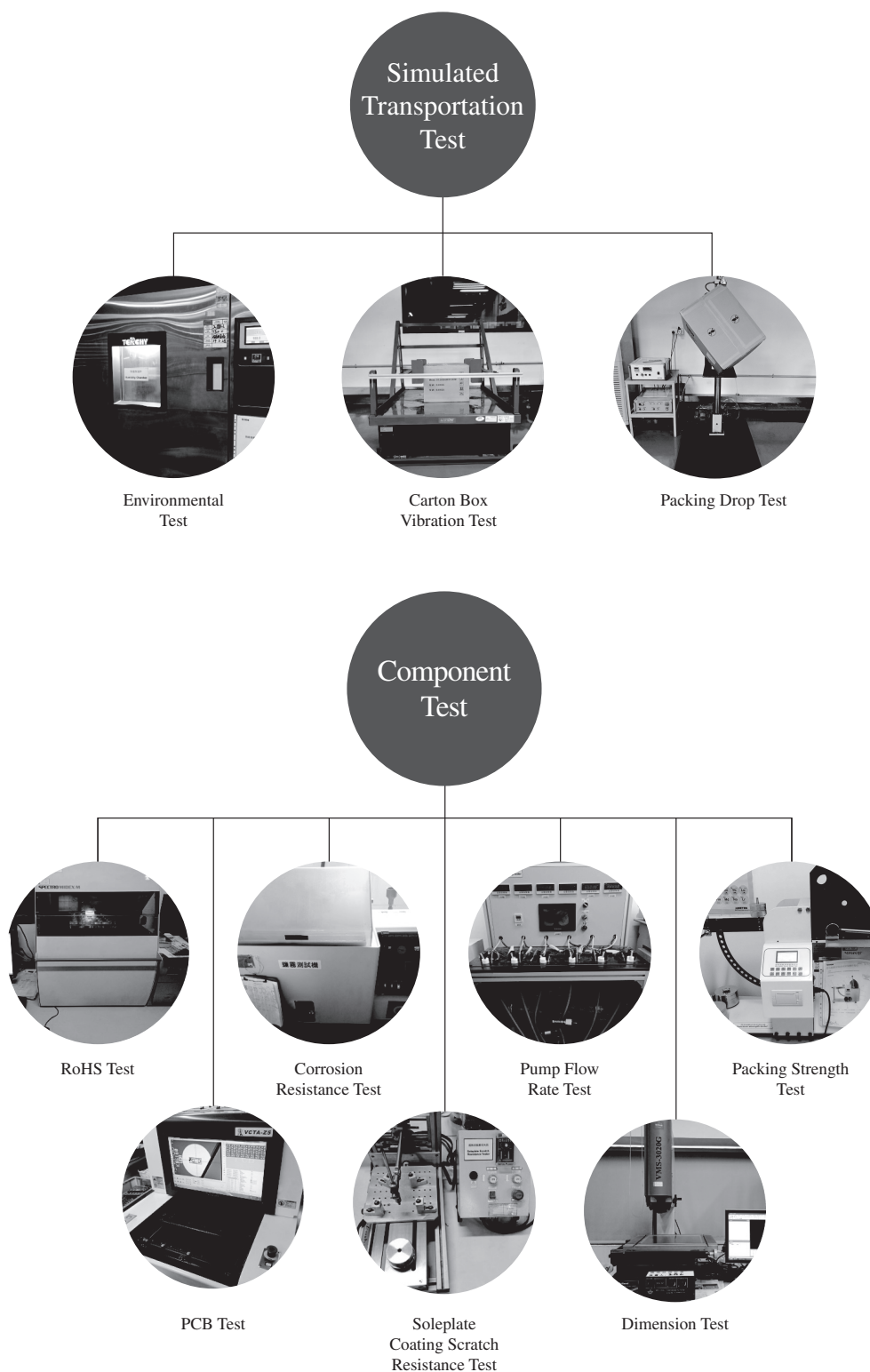
Quality assurance

We believe quality assurance ensures that the approaches, techniques, methods and processes are designed for the products being implemented correctly. Our quality assurance activities monitor and verify that the processes used to manage and create our products have been followed and are operative. Our quality assurance system includes the following processes for different aspects:





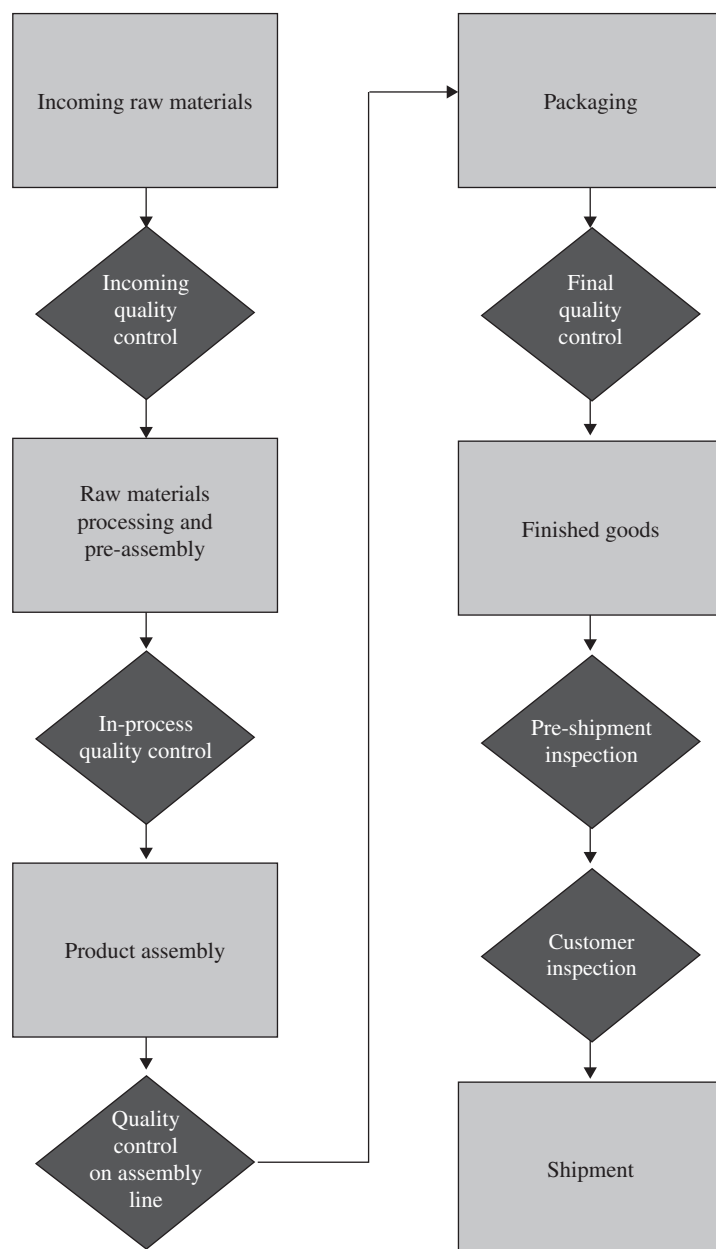
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We aim to prevent the product defects and produce reliable products to our customers. Apart from the above testing, we may also conduct testing on abnormal usage of the products.

Quality control

We have implemented quality control measures throughout our production process from incoming material quality control to delivery of finished products in accordance with the requirements of ISO 9001 standards. Our production quality control system includes the following processes:



a. Incoming quality control

We usually select our suppliers on our approved list. In order to ensure that the quality of the incoming raw materials comply with our standards and requirements, our incoming quality control team requires our suppliers to provide us testing report and relevant certification on the supplied raw materials and also conducts the testing in relation to its appearance, performance and safety as well as quality assurance of the incoming raw materials based on our quality control standards on a sampling basis. We also perform RoHS compliance testing on the electrical and electronic components by XRF detective machine, to inspect any hazardous chemicals contained in the components. A test result report will be issued by our quality assurance department. For the packaging materials, our incoming quality control team conducts durability tests to ensure the materials are stable for transportation.

Raw materials passed the quality control tests will be delivered to our warehouse for use in the production process. For the substandard or defective raw materials, we will notify our suppliers and return the same to them. To effectively monitor the quality of our raw materials, we perform audit on the production and quality systems of our suppliers in aspects such as quality of raw materials, timeliness of delivery, research and development capability and technical support.

Our incoming quality control team also inspects the quality of the processing works conducted by our subcontractors once those parts and components are delivered to our Huizhou Factory before they undergo further processes in our production lines.

b. In-process quality control

During the mass production stage, our workers at each production workshop have an operating instruction for them to follow. We will monitor and perform regular checks to ensure that the raw materials are used and applied correctly and the production process is in compliance with applicable requirements and standards. Any abnormality or irregularity in the production process will be identified and reported to our production department and corrective actions will be taken. After pre-assembly process, our in-process quality control team will check on the functionality of each of the assembled units on a sampling basis before the assembled units are transferred to the assembly line.

During the production cycle, our customers may visit our production site from time to time and inspect the quality of our production process and work environment to our workers.

c. Quality control on assembly line

We conduct appearance and performance checks and safety and reliability tests on all our assembled products. For instance, our in-house engineers have developed a testing programme for our quality assurance department to test the performance of our coffee machine. A test result report will be issued to our quality control on assembly line team.

d. Final quality control

Our final quality control team performs comprehensive product testing to each assembly line every two hours according to the production progress. Tests include temperature test, safety test, functional test and packaging information check, etc. The procedures of sample check follow the ISO 2859-1 standards. These tests act as an early inspection to find out any defective problems so that we are able to solve such problems as early as possible.

e. Pre-shipment inspection

Once the products have been packaged by batch, we will sample check the products in each batch according to ISO 2859-1 standards. Our pre-shipment inspection team is required to maintain the sample check records of each batch of our products. We only accept the finished goods to be inspected by customer after passing our pre-shipment inspection. Unsatisfactory products will be reworked until they reached the requisite standards.

f. Customer inspection

Our customers will probably send their own quality inspectors or engage independent inspectors to our production plant to conduct quality inspection before we arrange the shipment.

To strengthen our quality control capability, we established our own testing laboratory in our Huizhou Factory and the testing laboratory has been accredited by NCB as CTF (Stage 1) in 2016 which the laboratory personnel can thereby conduct testing at manufacturer's premises. Our testing laboratory is equipped with advanced testing equipment and machinery and is able to perform reliability and safety tests. We have also implemented a quality control system that complies with IEC standards and other international standards in the EU (e.g. CE Marking, GS Marking, LFGB Certification and DGCCRF), U.S. (e.g. ETL Certification, UL Certification and FDA approved) and the PRC (e.g. CCC Certification), to ensure that our products can comply with not only the PRC standards as required by the PRC law and regulations as well as international standards that may be imposed upon our relevant customers.

During the Track Record Period and up to the Latest Practicable Date, our Group did not receive any material complaints relating to the quality of our products from our customers.

AWARDS AND CERTIFICATIONS

Over the past years, we have received various awards and certifications, among which are the following:

Awards and certifications	Valid period/ Grant date	Awarding entity	Entity awarded
Asia International Innovative Invention Award 2019 — Silver Award* (亞洲國際創新發明大獎 2019 — 銀獎)	November 2019 <i>(Note 1)</i>	Hong Kong Federation of Innovative Technologies and Manufacturing Industries	Tunbow Group
Asia International Innovative Invention Award 2019* (亞洲國際創新發明大獎2019) — Innovative Smart Iron Invention Award — Special Award* (創新智能熨斗發明大獎 — 特別大獎)	November 2019 <i>(Note 1)</i>	Hong Kong Federation of Innovative Technologies and Manufacturing Industries	Tunbow Group
Certificate of approval for customer's testing facility (IECEE CTF Stage 1)	19 March 2019 to 18 March 2020	DEKRA Certification B.V.	Town Ray (Huizhou)
Certificate of appointment (suitable CTF Stage 1 Testing Laboratory under IEC standards)	23 April 2018 until the next scheduled audit or up to 18 months <i>(Note 2)</i>	TÜV Rheinland	Town Ray (Huizhou)
Certificate of China compulsory product certification (For certain models of fully automatic coffee machine)	22 June 2018 to 21 June 2023	Vkan Certification & Testing Co., Ltd.	Town Ray (Huizhou)
ISO 9001:2015 (Sales and marketing of small electrical appliances of household use and electronic consumer products)	15 October 2018 to 30 September 2019 <i>(Note 3)</i>	TÜV Rheinland	Tunbow Group

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Awards and certifications	Valid period/ Grant date	Awarding entity	Entity awarded
ISO 9001:2015 (Design and manufacturing of small electrical appliances of household use; Manufacturing electronic consumer products)	15 October 2018 to 30 September 2019 <i>(Note 3)</i>	TÜV Rheinland	Town Ray (Huizhou)

Notes:

- (1) Notification letter received from the awarding entity that this award will be granted on 25 November 2019.
- (2) Our Directors plan to apply for the renewal of the certificate in the end of October 2019. Based on our Directors' best estimation, we do not foresee any material difficulty in the renewal of such certificate.
- (3) We have applied for the renewal of the certificate and based on our Directors' best estimation, the renewed certificate is expected to be issued by the end of October 2019. We do not foresee any material difficulty in the renewal of such certificate.

PRODUCT RETURNS, WARRANTY AND LIABILITY

Under our quality control system, our finished products are subject to sample checking and testing by our quality assurance department to ensure that they comply with the product specifications and requirements provided by our customers. We generally offer guarantee period of one to two years to our customers.

In the event that we receive complaints from our customers about the quality of our products, we will obtain the relevant information from our customers and conduct an investigation. Our quality assurance department will be responsible for examining and analysing the defective products and completing a report stating the details of the complaint, particulars of the defects, reasons for such defects and details of any proposed corrective and precautionary measures to be taken by us. We will arrange for product return or replacement if our customer's complaint is determined to be valid and justifiable. If the defects are caused by our suppliers, we would ask them for compensation.

There were no material product recalls, major complaints against our products, or any material amount of sales return during the Track Record Period and up to the Latest Practicable Date. Our Directors consider that the number of returned products was insignificant and no provision for product return had to be made during the Track Record Period.

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SALES AND MARKETING

We obtain our business opportunities upon request for quotations from our existing and potential customers and/or referrals from our existing customers. Our sales and marketing department focuses primarily on the promotion of business relationship with our existing and potential customers including brand companies. As at the Latest Practicable Date, we had sales and marketing teams based in Hong Kong and the PRC which were dedicated to sales and marketing of our products.

We actively explore new business opportunities by identifying potential customers in the industry and liaising with existing and potential customers from time to time. We visit our existing customers regularly to secure purchase orders for our products and keep our customers informed of our new products. It enables us to improve our understanding of our customers' needs and keep ourselves abreast of the latest market trend. We communicate with our customers on a continuous basis to collect their feedbacks on our products and advice on technical feasibility of design and material usage of the products. Our sales and marketing department also works closely with other departments such as production, procurement, warehouse, quality assurance and logistics departments to ensure consistent delivery of quality products.

We regularly exhibit in or visit local and international market exhibitions, such as Hong Kong Electronics Fair (Spring Edition), Hong Kong Electronics Fair (Autumn Edition), Lifestyle Expo in Dubai, IFA (Internationale Funkausstellung Berlin) in Berlin, Germany and Canton Fair in Guangzhou, the PRC, to promote our electrothermic household appliances to explore new customers. Participation in market exhibitions is one of our primary modes of marketing to the potential overseas customers.

OUR CUSTOMERS

During the Track Record Period, we had over 100 customers contributed revenue to us. Some of them are reputable and internationally recognised brand companies headquartered in Europe (e.g. Germany, France, the United Kingdom and the Netherlands). The table below sets out a breakdown of our Group's revenue by the geographical locations for FY2016, FY2017, FY2018 and 4M2019:

	FY2016		FY2017		FY2018		4M2018		4M2019	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Europe ^(Note 1)	271,143	75.1	261,361	72.9	308,373	82.6	79,276	74.4	126,132	87.3
Asia ^(Note 2)	51,201	14.2	53,541	14.9	32,148	8.6	15,226	14.3	7,845	5.4
United States ^(Note 3)	21,583	6.0	33,444	9.3	28,802	7.7	8,800	8.2	9,971	6.9
Others ^(Note 4)	17,144	4.7	10,455	2.9	4,139	1.1	3,261	3.1	614	0.4
Total	361,071	100.0	358,801	100.0	373,462	100.0	106,563	100.0	144,562	100.0

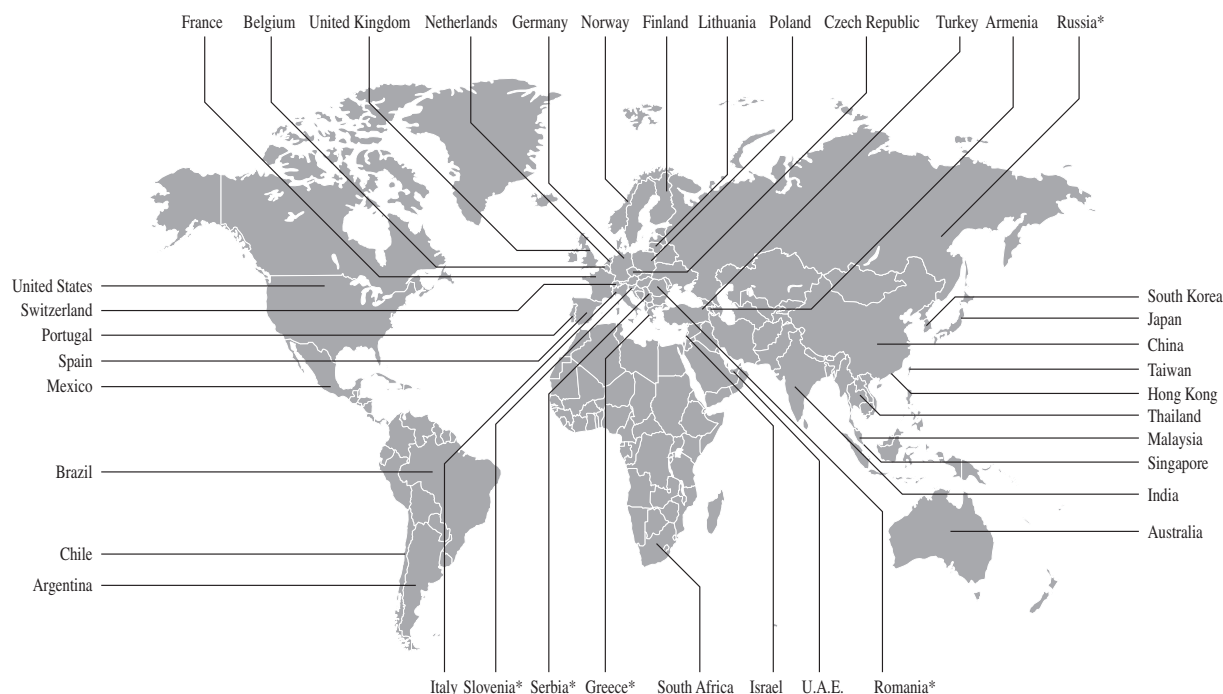
Notes:

1. It mainly includes Germany, France, the United Kingdom, the Netherlands, Turkey, Italy, Czech Republic and Switzerland. The major product sold for FY2016, FY2017 and 4M2018 was steam cooking appliances, while for FY2018 and 4M2019 was coffee machines.
2. It mainly includes Hong Kong, India, South Korea, the PRC, Taiwan, Thailand, Singapore, Israel and United Arab Emirates. The major product sold for FY2016, FY2017, FY2018 and 4M2018 was steam irons, while for 4M2019 was coffee machines.
3. The major product sold was steam irons.

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4. It mainly includes Argentina and Australia. The major product sold for FY2016 and 4M2019 was steam irons, while for FY2017, FY2018 and 4M2018 was steam cooking appliances.

During the Track Record Period, we sold our products to overseas companies, covering over 30 countries and regions, to cater for the requirements of different regions. The following map illustrates the geographical coverage of our sales in the world during the Track Record Period:



* During the Track Record Period, we had sales and deliveries of our electrothermic household appliances to customers located in Russia and the Balkans (including Greece, Romania, Serbia and Slovenia).

In general, our customers place us purchase orders on an order-by-order basis. Upon receiving request from our customers, we may enter into a cooperation agreement with our customers, which govern our relationships with our respective customers. Our Directors consider that such arrangement is in line with the industry practise. During the Track Record Period and up to the Latest Practicable Date, we entered into cooperation agreements with two of our five largest customers, Customer A and Customer D. In addition, we also entered into a long-term agreement with Customer G, pursuant to which Customer G agreed to purchase fully automatic coffee machines from our Group for an intended purchase quantity of 250,000 units with a minimum purchase commitment of 100,000 units by 31 December 2020. The major terms of these cooperation or long-term agreements are as follows:

	Customer A	Customer D	Customer G
Nature	: Cooperation agreement	Cooperation agreement	Long-term agreement
First agreement date	: 2 February 2015	12 August 2017	14 December 2018
Duration	: 12 months with clause automatic renewal	30 months till 1 January 2020	14 December 2018 till 31 December 2020

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	Customer A	Customer D	Customer G
Geographic exclusivity	: The customer has the exclusivity of the products within the United Kingdom as a minimum. For market outside the United Kingdom, product exclusivity is to be agreed by the parties	The customer has the exclusivity to market and sell certain products in Turkey and Germany The customer has the exclusivity to market and sell certain OEM products for all countries	Our Group is not entitled to sell certain models of coffee machines in Germany, Austria and Switzerland
Purchase commitment	: Nil	Nil	Intended purchase quantity of 250,000 units with a minimum purchase commitment of 100,000 units
Product liability insurance/warranty	: Our Group is responsible for arranging product liability insurance at a minimum liability of US\$2 million	Our Group is responsible for arranging adequate product liability insurance at a minimum liability of EUR1 million	24 months, starting from the FOB shipment date
Renewal of agreement	: The agreement will be automatically extended for a further 12 months unless both parties agree to renegotiate	The agreement will be extended for successive contract periods of 12 months, if the parties mutually agree on the renewal in writing at least three months prior to the expiration of the relevant term The customer also has the right to extend the agreement for six months if the parties fail to reach an agreement to extend	The customer is entitled to extend the agreement at least six months before end of the contract period

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	Customer A	Customer D	Customer G
Conditions of termination	<p>: Both parties can terminate the agreement by giving a notice of 90 days in writing</p> <p>If our Group fails to supply good quality product in a timely manner after being advised in writing by the customer, the customer is allowed to immediately terminate the agreement</p>	<p>The customer shall have the right to terminate the agreement in the event of a heavy violation of the conditions thereof</p> <p>The agreement does not contain any provisions enabling our Group to terminate the agreement</p>	<p>The agreement contains exclusivity provisions and our Group is obliged to take steps to protect customer's interests in the abovementioned markets.</p> <p>In the event of such violation of exclusivity provisions, the customer can terminate the agreement if the parties are unable to reach an amicable solution in good faith</p> <p>The agreement does not contain any provisions enabling our Group to terminate the agreement</p>

The cooperation agreement with Customer D merely contains general terms and conditions governing the supply of our products. Given the established business relationship with Customer D for over 11 years, our Directors consider the likelihood that the cooperation agreement with Customer D be terminated is low. In addition, details of ordering including price, quantity, dispatch and receipt of our products will be governed by separate sales contracts and agreements to be entered into between the parties and resources will only be allocated to Customer D afterwards. As such, our Directors are of the view that the potential impact in respect of the termination of cooperation agreement by Customer D on our Group's business, financial performance and position will be minimal in long run.

The long-term agreement with Customer G contains exclusivity provisions restricting our Group to sell the agreed models to certain countries, violation of which may result in termination of the agreement by Customer G. In return, our Group will receive compensation for such exclusivity and tooling cost from Customer G for unshipped quantity fall short of the agreed 250,000 units at an agreed price. As such, our Directors are of the view that the potential impact in respect of the termination of long-term agreement by Customer G on our Group's business, financial performance and position will be minimal.

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Pursuant to the long-term agreement with Customer G, the tentative delivery schedule for the 250,000 units of coffee machines is set out as follows:

Estimated shipment date	Quantity <i>(Units)</i>
Between March 2019 and June 2019	65,985
Between July 2019 and December 2019	123,500
Between January 2020 and April 2020	60,515

Our Directors believe that demand for coffee machines from Customer G will continue and more orders are expected from Customer G in FY2020 and FY2021 given that (i) Customer G has been selling our coffee machines alongside with its existing sales of coffee beans to its customers, indirectly promoting our coffee machine to the customers who are the end users of the coffee machines; (ii) Customer G is developing new models of coffee machine with us, and is planning to expand selling the fully automatic coffee machine to more markets; and (iii) in addition to the existing markets such as Germany, Switzerland and Austria, Customer G intends to expand its business into more markets including countries in Central and Eastern Europe.

Some of our customers regard our Group as their long term business partners and co-develop their future products together with us in early stage of their product development. They would communicate their sales plans of such new products with us around two years in advance. Depending on the internal policy of the respective customers, some of our customers will provide sales forecast to us up to 12 months in advance and our Directors believe that the indicative demand from our customers in FY2020 and FY2021 will substantially be confirmed on the following basis:

- (a) the positive market outlook of electrothermic household appliance manufacturing industry, in particular, the estimated retail sales value of coffee machines and electric smoothing irons (including steam generator irons and steam irons) in Europe is expected to increase at a CAGR of 9.0% and 1.7%, respectively, during 2019 to 2023 according to the F&S Report;
- (b) our Group's revenue growth driven by, among other things, the significant increase in sales of coffee machines during the Track Record Period, which our coffee machines are well-received in the market such that our Directors believe our customers are likely to confirm their orders;
- (c) the increasing number of customer enquiries received by our Group from both existing and potential customers for new ODM models of our Group's coffee machines and steam generator irons during the Track Record Period;
- (d) our Group's continuous efforts in research and development of new ODM models for steam generator irons and coffee machines featuring new design concepts and functions to cater for customers' needs in the overseas markets;
- (e) our latest correspondences with certain major customers which indicate that (i) the sales of our products in the existing markets is increasing; (ii) our customers focus on market penetration with strong execution in pricing, promotion and distribution in order to increase

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the market share; (iii) our customers intend to expand their businesses in more markets or countries; and /or (iv) our customers intend to launch more new models in the market, in particular Customer G as mentioned above; and

- (f) the long-established business relationships with customers, and the track record that most of the customers can confirm their purchase order substantially similar to their sales forecast provided to our Group in advance. In particular, Customer G has been able to take delivery of coffee machine according to the tentative delivery schedule stipulated in the contracts.

Our Directors therefore consider there is nothing prompt us that these customers may deviate from their respective indicative demand, bar for unforeseen circumstances.

For greater flexibility in production capacity management, the actual transaction between our customers and us are effected by way of purchase orders placed by our customers to us. Our Group is also in a better position to minimise the inventory of raw materials and optimise resources allocation to meet our customers' demands and expectations in the most efficient on cost based on the quarterly sales forecast provided by our customers. A typical purchase order includes the following salient terms:

(i) Product description:

A brief description of the products, including the type of product, raw materials required, quality requirements, etc.

(ii) Order details:

The quantity, unit price and total amount are also specified.

(iii) Payment terms:

Payment is normally settled by letter of credit or bank transfer and there is usually a credit period, details of which are set out in the paragraph headed "Our customers — Credit policy" in this section. Most of our customers settle their payment in USD and RMB.

(iv) Delivery details:

The date of delivery, which is usually 60 to 90 days from the date of the purchase order. The delivery term is normally FOB and FCA.

At the beginning of our business relationships with our customers, we may also request our customers to enter into a non-disclosure agreement with us for new launched products. A typical non-disclosure agreement usually contains clauses such as (i) all non-public information disclosed by one party, including all drawings or technical documents, shall remain as the property of the disclosing party; and (ii) any technical data or design is not allowed to be disclosed to third parties without the prior written consents of the disclosing party. Any breach of the non-disclosure agreement will cause a party liable for any cost or expense suffered or incurred by the disclosing party.

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Credit policy

We generally offer credit terms to customers ranging from 30 to 90 days following our issuance of invoice. Our trade receivables were approximately HK\$61.5 million, HK\$69.0 million, HK\$79.8 million and HK\$64.9 million as at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019, respectively. For FY2016, FY2017, FY2018 and 4M2019, our trade receivables turnover days were approximately 62.2 days, 70.2 days, 78.0 days and 53.9 days respectively.

We continuously monitor and assess long-overdue trade receivables on individual basis and consider a range of factors, including the customer's background, past payment history and our relationship with the customer in determining the follow-up actions to be taken by us. We maintain active communications with the customers with an aim to recover long-overdue trade receivables. Please also refer to the section headed "Financial information — Description of selected items of consolidated balance sheets — Trade receivables" in this prospectus for a further discussion and analysis on our trade receivables and our trade receivables turnover days during the Track Record Period.

Five largest customers

We have maintained stable relationships with most of our five largest customers for the Track Record Period ranging from seven years to 11 years. Our sales to our five largest customers for FY2016, FY2017, FY2018 and 4M2019 accounted for approximately 70.9%, 67.5%, 59.0% and 71.1% of our total revenue, respectively, while our sales to our largest customer accounted for approximately 23.5%, 20.7%, 15.5% and 33.7% of our total revenue of the corresponding years, respectively. During the Track Record Period, our customers generally paid us by letter of credit and bank transfer and the credit period granted to our customers were generally ranging from 30 to 90 days.

We set out below is a breakdown of our Group's revenue by five largest customers:

For FY2016

Rank	Customer	Main products/ services provided by our Group	Number of years of relationship	Approximate amount of Revenue (HK\$'000)	Approximate percentage of revenue of our Group (%)	Settlement method	Credit terms
1	Customer A ^(Note 1)	Steam iron	11	84,778	23.5	Telegraphic transfer	60 days
2	Customer B ^(Note 2)	Steam cooking appliance	11	65,149	18.0	Letter of credit	60 days
3	Customer C ^(Note 3)	Food steamer	11	60,021	16.6	Telegraphic transfer	60 days
4	Customer D ^(Note 4)	Steam iron	11	29,461	8.2	Telegraphic transfer	45 days
5	Customer E ^(Note 5)	Coffee machine	7	16,622	4.6	Letter of credit	0 day
Total				<u>256,031</u>	<u>70.9</u>		

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For FY2017

Rank	Customer	Main products/ services provided by our Group	Number of years of relationship	Approximate amount of Revenue (HK\$'000)	Approximate percentage of revenue of our Group (%)	Settlement method	Credit terms
1	Customer B ^(Note 2)	Steam cooking appliance	11	74,425	20.7	Letter of credit	60 days
2	Customer C ^(Note 3)	Food steamer	11	57,699	16.1	Telegraphic transfer	60 days
3	Customer D ^(Note 4)	Steam iron	11	52,551	14.7	Telegraphic transfer	45 days
4	Customer A ^(Note 1)	Steam iron	11	36,236	10.1	Telegraphic transfer	60 days
5	Customer F ^(Note 6)	Steam generator iron	10	21,076	5.9	Letter of credit	0 day
Total				<u>241,987</u>	<u>67.5</u>		

For FY2018

Rank	Customer	Main products/ services provided by our Group	Number of years of relationship	Approximate amount of Revenue (HK\$'000)	Approximate percentage of revenue of our Group (%)	Settlement method	Credit terms
1	Customer B ^(Note 2)	Steam cooking appliance	11	57,899	15.5	Letter of credit	60 days
2	Customer G ^(Note 7)	Coffee machine	8	55,191	14.8	Letter of credit	0 day
						Telegraphic transfer	60 days
3	Customer A ^(Note 1)	Steam iron	11	45,803	12.3	Telegraphic transfer	60 days
4	Customer D ^(Note 4)	Steam iron	11	37,859	10.1	Telegraphic transfer	70 days
5	Customer C ^(Note 3)	Food steamer	11	<u>23,640</u>	<u>6.3</u>	Telegraphic transfer	60 days
Total				<u>220,392</u>	<u>59.0</u>		

For 4M2019

Rank	Customer	Main products/ services provided by our Group	Number of years of relationship	Approximate amount of Revenue (HK\$'000)	Approximate percentage of revenue of our Group (%)	Settlement method	Credit terms
1	Customer G ^(Note 7)	Coffee machine	8	48,645	33.7	Letter of credit	0 day
						Telegraphic transfer	60 days
2	Customer D ^(Note 4)	Steam iron	11	20,421	14.1	Telegraphic transfer	70 days
3	Customer B ^(Note 2)	Steam cooking appliance	11	17,063	11.8	Letter of credit	60 days
4	Customer H ^(Note 8)	Coffee machine	1	9,359	6.5	Telegraphic transfer	0 day
5	Customer A ^(Note 1)	Steam iron	11	<u>7,302</u>	<u>5.0</u>	Telegraphic transfer	60 days
Total				<u>102,790</u>	<u>71.1</u>		

Notes:

- Customer A is a private company based in the United Kingdom, which supplies various household appliances as well as spare parts and accessories for appliances.

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2. Customer B is a group of private companies headquartered in France, the principal activities of which include sales of baby related products.
3. Customer C is a group of subsidiaries owned by a company listed on the European Stock Exchange and New York Stock Exchange, which is one of the leading health technology companies in the world. According to the public information, its revenue recorded approximately EUR18.1 billion in 2018.
4. Customer D is a group of subsidiaries owned by a company listed on the Istanbul Stock Exchange, which engages in the production, sales and marketing, customer services after sales, exportation and importation of customer durable goods and consumer electronics. According to the public information, its net sales recorded approximately TRY26,904 million in 2018.
5. Customer E is a private company headquartered in Argentina, of which the principal activities are manufacturing of cell phones and small appliances.
6. Customer F is a private company headquartered in Germany, of which the principal activities are supply of home appliances.
7. Customer G is a private company headquartered in Germany, the principal activities of which include retail sales of coffee related products. According to the information on Customer G's website, its revenue recorded approximately EUR3.2 billion in 2018.
8. Customer H is a private company headquarter in Switzerland, of which the principal business activities include retail of coffee related products and kitchen appliances.

As at the Latest Practicable Date, all of our customers were independent third parties. None of our Directors or Shareholders (which to the knowledge of our Directors owns more than 5% of the issued share capital of our Company), or their respective close associates, had any interest in any of our five largest customers for the Track Record Period.

Customer concentration

For FY2016, FY2017, FY2018 and 4M2019, our Group's five largest customers aggregately accounted for approximately 70.9%, 67.5%, 59.0% and 71.1% of our total revenue respectively. Our Directors are of the view that, the extent of customer concentration on our five largest customers for the Track Record Period is not any extreme case and will not affect our sustainability of business based on the following factors:

- (i) according to the F&S Report, customer concentration is not uncommon in the electrothermic household appliances manufacturing industry in the PRC when a manufacturer's customers are reputable and internationally recognised brand companies like our Group's customers. In particular, some of our customers have significant presence in the household appliances market in their respective countries;
- (ii) we experienced a strong demand for our products from a wide range of customers during the Track Record Period as evidenced by our business growth. Besides, our business relationships with our major customers, industry experience and proven track record are essential to our customers to ensure that we are capable of delivery the products on time and in accordance with their requirement. In view of the above, our Directors believe that, in the event that any of our major customers reduce the number of purchase orders placed to us, our Directors consider that we could still obtain purchase orders from other customers;

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- (iii) our Directors manage to reduce idle capacity of our Group during the Track Record Period by getting engaged by customers that generate recurring purchase orders. In light of the considerable production scale, it is an ordinary market practise for sizable market players, including but not limited to our five largest customers for the Track Record Period, to place recurring purchase orders on the same products in the stage of mass production. Our Directors are of the view that annual demand for our Group's products could be secured by soliciting sales to several sizable customers;
- (iv) our Customer A, Customer B and Customer D confirmed that we were one of their major electrothermic household appliances suppliers in the PRC in FY2018. Our Directors believe that we are positioned as one of the approved electrothermic household appliances manufacturers to serve the reputable and internationally recognised brand companies due to our safety and quality products and value-added services to our customers;
- (v) as at the Latest Practicable Date, we have maintained business relationships with most of our five largest customers for FY2016, FY2017, FY2018 and 4M2019 ranging from seven years to 11 years which our Directors believe that we have established stable and long-term business relationships with them.

OUR SUPPLIERS

Our suppliers

During the Track Record Period, we engaged not fewer than 400 suppliers, most of which were located in the PRC. The primary raw materials used in our production process are electrical parts, plastic raw materials and parts, metal raw materials and parts, power cords and lead wires, and electronic parts. For FY2016, FY2017, FY2018 and 4M2019 our material costs represented 63.2%, 64.1%, 65.5% and 68.1% of our cost of sales, respectively.

We select our suppliers taking into account quality of the raw materials, delivery time, pricing, past experience with us, production capacity, reliability and creditworthiness. Our customer may appoint one or more suppliers for a particular production order. Our procurement department conduct annual evaluation for existing and potential suppliers. After the proposed supplier is approved, we will add the supplier to our approved supplier list, and only those suppliers from our approved list will be placed procurement orders by us.

We generally place procurement orders in large volume that are sufficient for two months of production and obtain quotations from a few suppliers before we placed procurement orders to negotiate with a better price. With our diverse base of suppliers, we did not experience a shortage or delay in the supply of raw materials which had imposed a material impact on us during the Track Record Period and up to the Latest Practicable Date.

Salient terms of a typical purchase transaction

Our Group has not entered into long-term contracts with any of our suppliers for the Track Record Period. Instead, we would issue a procurement order to the supplier in a typical purchase transaction for the procurement of raw materials. For common raw materials, we generally place procurement orders every month. For specific parts and components, we may place procurement orders every month. A typical procurement order contains the following salient terms:

(i) *Product description:*

A brief description of the products, including technical specification of raw materials and design, main material required and size of accessories.

(ii) *Order details:*

The quantity, unit price and total amount are required.

(iii) *Payment terms:*

Payment is normally settled by telegraphic transfer or bank transfer and there is usually a credit period of 30 to 60 days. The payments made to our suppliers are primarily in RMB.

(iv) *Delivery details:*

We generally require our suppliers to deliver the goods to our Huizhou Factory. The transportation fee is normally covered by our suppliers.

Pursuant to the purchase order, our suppliers shall be responsible for all claims arising on account of inferior quality and/or other non-conformities with the specifications.

Five largest suppliers

We have maintained stable relationships with our five largest suppliers for the Track Record Period. As at the Latest Practicable Date, we had business relationships ranging from two to 13 years with our five largest suppliers. We consider that it is not difficult to replace any of our suppliers in the market with comparable quality and prices. Our Directors confirmed that each of our five largest suppliers is an independent third party and none of them is a customer of our Group.

For FY2016, FY2017, FY2018 and 4M2019, the total purchases from our Group's largest supplier amounted to approximately 6.4%, 4.1%, 4.5% and 7.3% of our Group's total material costs, respectively, while the total purchases from our Group's five largest suppliers amounted to approximately 19.4%, 16.6%, 14.2% and 20.0% of our Group's total purchase, respectively.

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The table below sets out the details of our five largest suppliers for the Track Record Period:

For FY2016

Rank	Supplier	Main products/ services provided to our Group	Number of years of relationship	Approximate amount of purchase (HK\$'000)	Approximate percentage of total purchase of our Group (%)	Settlement method	Credit terms
1	Abundance Thermo Control (Shenzhen) Limited ^(Note 1)	Electrical parts	5	9,998	6.4	Bank transfer	60 days
2	Plastech (China) Co., Ltd. ^(Note 2)	Plastic raw materials and parts	4	6,265	4.0	Telegraphic transfer	30 days
3	Guangzhou Zhiyuan New Material Technology Co., Ltd. ^(Note 3)	Metal raw materials and parts	10	5,124	3.3	Bank transfer	60 days
4	Dong Guan Ta Tun Electric Wire & Cable Co., Ltd. ^(Note 4)	Power cords and lead wires	13	4,737	3.1	Telegraphic transfer	60 days
5	Dongguan Qiaozi Chau's Electrical Co., Ltd. ^(Note 5)	Power cords and lead wires	11	4,081	2.6	Bank transfer	60 days
Total				<u>30,205</u>	<u>19.4</u>		

For FY2017

Rank	Supplier	Main products/ services provided to our Group	Number of years of relationship	Approximate amount of purchase (HK\$'000)	Approximate percentage of total purchase of our Group (%)	Settlement method	Credit terms
1	Abundance Thermo Control (Shenzhen) Limited ^(Note 1)	Electrical parts	5	7,220	4.1	Bank transfer	60 days
2	Shenzhen Keli Motor Co., Ltd. ^(Note 6)	Electrical parts	6	5,820	3.3	Bank transfer	60 days
3	Dongguan Qiaozi Chau's Electrical Co., Ltd. ^(Note 5)	Power cords and lead wires	11	5,740	3.3	Bank transfer	60 days
4	Golden Electrical Trading Co., Ltd. ^(Note 7)	Plastic raw materials and parts	13	5,309	3.0	Cheque	30 days
5	Dong Guan Ta Tun Electrical Wire & Cable Co., Ltd. ^(Note 4)	Power cords and lead wires	13	5,079	2.9	Telegraphic transfer	60 days
Total				<u>29,168</u>	<u>16.6</u>		

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For FY2018

Rank	Supplier	Main products/ services provided to our Group	Number of years of relationship	Approximate amount of purchase (HK\$'000)	Approximate percentage of total purchase of our Group (%)	Settlement method	Credit terms
1	ODE (HK) Company Limited ^(Note 8)	Electrical parts	7	8,130	4.5	Telegraphic transfer	30 days
2	China Union Industrial (Asia) Limited ^(Note 9)	Plastic raw materials and parts	2	4,639	2.6	Telegraphic transfer	30 days
3	Guangzhou Zhiyuan New Material Technology Co., Ltd. ^(Note 3)	Metal raw materials	10	4,445	2.5	Bank transfer	30 days
4	Shenzhen Shangyang Technology Co., Ltd. ^(Note 10)	Plastic raw materials and parts	7	4,178	2.3	Bank transfer	30 days
5	Dongguan Qiaozi Chau's Electrical Co., Ltd. ^(Note 5)	Power cords and lead wires	11	4,122	2.3	Bank transfer	60 days
Total				<u>25,514</u>	<u>14.2</u>		

For 4M2019

Rank	Supplier	Main products/ services provided to our Group	Number of years of relationship	Approximate amount of purchase (HK\$'000)	Approximate percentage of total purchase of our Group (%)	Settlement method	Credit terms
1	ODE (HK) Company Limited ^(Note 8)	Electrical parts	7	6,390	7.3	Telegraphic transfer	30 days
2	Johnson Electric Industrial Manufactory, Limited ^(Note 11)	Electrical parts	10	3,553	4.1	Letter of credit	30 days
3	Shenzhen Shangyang Technology Co., Ltd. ^(Note 10)	Plastic raw materials and parts	7	2,811	3.2	Bank transfer	30 days
4	Shenzhen Power Motor Industrial Co., Ltd. ^(Note 12)	Electrical parts	3	2,646	3.0	Bank transfer	30 days
5	Kingfa Sci.&Tech. Co., Ltd. ^(Note 13)	Plastic raw materials and parts	8	2,103	2.4	Bank transfer	60 days
Total				<u>17,503</u>	<u>20.0</u>		

Notes:

1. Abundance Thermo Control (Shenzhen) Limited is a limited company located in the PRC, of which the principal business activities include manufacturing and sales of hardware accessories.
2. Plastech (China) Co., Ltd. is a limited company located in Hong Kong, of which the principal business activities include trading of commodity plastic resins and engineering plastics.

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3. Guangzhou Zhiyuan New Material Technology Co., Ltd. is a limited company located in the PRC, of which the principal business activities include manufacturing and processing of aluminum alloy, zinc alloy and other hardware accessories.
4. Dong Guan Ta Tun Electrical Wire & Cable Co., Ltd. is a limited company located in the PRC, of which the principal business activities include manufacturing and sales of electrical hardware.
5. Dongguan Qiaozi Chau's Electrical Co., Ltd. is a limited company located in the PRC, of which the principal business activities include manufacturing and sales of hardware accessories.
6. Shenzhen Keli Motor Co., Ltd. is a limited company located in the PRC, of which the principal business activities include design, manufacturing and sales of various electronic appliances.
7. Golden Electrical Trading Co., Ltd. is a limited company located in Hong Kong, of which the principal business activities include sales of raw materials and accessories, hardware and engineering plastics.
8. ODE(HK) Company Limited is a limited company located in Hong Kong, of which the principal business activities include design and trading of solenoid pump, valve and mechanical and electrical materials.
9. China Union Industrial (Asia) Limited is a limited company located in Hong Kong, of which the principal business activities include trading of plastic material.
10. Shenzhen Shangyang Technology Co., Ltd. is a limited company located in the PRC, of which the principal business activities include sales of chemical products, plastic products and electronic products.
11. Johnson Electric Industrial Manufactory, Limited is a subsidiary owned by a company listed on the Stock Exchange, of which the principal business activities include manufacturing and sales of motion products, industrial equipment, power equipment and power tools.
12. Shenzhen Power Motor Industrial Co., Ltd, is a limited company located in the PRC, of which the principal business activities include sales of motor and hardware accessories.
13. Kingfa Sci.&Tech. Co., Ltd is a company listed on the Shanghai Stock Exchange, which engages in sale of plastics compounds, special engineering plastics, fine chemical materials, fully biodegradable plastics, wood-plastic materials, carbon fiber and their composites. According to public information, its revenue recorded approximately RMB25.3 billion in 2018.

None of our Directors or Shareholders (which to the knowledge of our Directors owns more than 5% of the issued share capital of our Company), or their respective close associates, had any interest in any of our five largest suppliers for the Track Record Period. To the best knowledge and belief of our Directors, none of our suppliers during the Track Record Period was also a customer of our Group. During the Track Record Period, we had not received any material claims or complaints by our customers in respect of the quality of raw materials purchased from our suppliers.

HEDGING

During the Track Record Period, our Group did not engage in any hedging activity.

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INVENTORY

Our inventory includes raw materials, work in progress and finished goods. The table below sets out the breakdown of our inventories as at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019:

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Raw materials	14,677	21,956	21,786	33,517
Work in progress	7,346	12,145	9,757	13,701
Finished goods	<u>9,005</u>	<u>12,076</u>	<u>11,570</u>	<u>17,336</u>
Total	<u><u>31,028</u></u>	<u><u>46,177</u></u>	<u><u>43,113</u></u>	<u><u>64,554</u></u>

Inventories control

To avoid excessive procurement and wastage, we generally source raw materials when our customers place their purchase orders. We prefer to procure raw materials in bulk and it allows us to negotiate with a better price from our suppliers. We mainly procure the raw materials and accessories from the suppliers located in Hong Kong or Guangdong Province, the PRC to minimise the delivery time. Our inventory is stored in the warehouse of the Huizhou Factory.

For FY2016, FY2017, FY2018 and 4M2019, our inventory turnover days were approximately 44.6 days, 66.6 days, 58.7 days and 77.9 days respectively. For details of inventory analysis, please refer to the section headed “Financial information — Description of selected items of consolidated balance sheets — Inventories” in this prospectus.

We monitor our inventory levels regularly through our ERP system. We also conduct physical stock take from time to time to ensure the accuracy of our inventory records. This information will be reviewed by our senior management to ensure that we are adequately funded and appropriately stocked with inventory. With the support of ERP system, an enormous amount of information is collected to our warehouse, production department, sales and marketing department and procurement department, including names of suppliers, quantities and specifications of materials, dates of production, names of customers and the relevant purchase orders.

Once raw materials go through our quality inspection, our warehouse staff would attach a bar code on the materials. After we scanned the bar code, the information of the materials would then be saved to our system. By searching the bar code, our warehouse staff could track the location of the raw materials stored when our production department places a pick-up list to request for the raw materials. Our procurement department monitors storage of raw materials and places procurement orders to our suppliers when the stored raw materials are not enough for our production. Our sales and marketing department also monitor the progress of the production and report to our customers from time to time.

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In addition, in order to ensure the quality of our raw materials, work in progress and finished goods, we retrieve our inventory on a first-in-first-out basis and closely control and monitor the temperature and humidity inside our warehouses.

COMPETITION

The electrothermic household appliances manufacturing industry in the PRC is highly fragmented, comprising more than 5,000 small and medium enterprises and large enterprises principally engaging in the manufacture of different types of electrothermic household appliances in 2018. According to the F&S Report, our Group is one of the participants in the electrothermic household appliances market in the PRC and there is no single participant dominating the market. In terms of total export value in the PRC for (i) electric smoothing irons (include steam generator irons and steam irons), (ii) pump driven coffee machines and (iii) baby food makers, soup makers and food steamers, our Group has a market share of approximately 2.3%, 1.5% and 0.4% in 2018, respectively.

The entry barriers for the PRC electrothermic household appliance manufacturing industry are (i) capital requirement; (ii) relationship with key customers; and (iii) industry know-how and development capabilities. We believe that our Group is well-positioned to capture the increasing demand for electrothermic household appliance manufacturing industry in the PRC given our stable business relationship with major customers, strong design and development capability, diversified product offering and experienced management team with good understanding of market trend and potential business opportunities in the market. For details, please refer to the section headed “Industry overview” in this prospectus.

ENVIRONMENTAL PROTECTION

We are subject to various laws and regulations regarding environment protection, health and workplace safety in the PRC. Our Directors review the environmental protection laws and regulations on a regular basis to ensure due compliance with the applicable laws and regulations. For instance, enterprises shall adopt effective measures to prevent and control any pollutions and harms caused to the environment pursuant to the applicable laws and regulations, including but not limited to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》). For details, please refer to the section headed “Regulatory overview” in this prospectus.

During the production process of our products, there are certain wastage generated including waste, noise, solid waste and polluted air. Our Group has in place an environmental management system to manage and review emission of wastage. Our Group has standard procedures to manage, treat and reduce the pollution and wastage in accordance with national and local environmental laws and regulations.

In addition, the industrial waste water would be recycled after being treated by sewage environmental protection equipment. We have engaged an external monitoring company to monitor the waste problems in workplace, canteen and waste pipes. As at the Latest Practicable Date, we had the pollutant discharge license of Guangdong Province, the PRC for disposing waste with a term from 20 April 2019 to 18 October 2019. As mentioned in the section headed “Regulatory overview — The PRC — Laws and regulations on environmental protection and hazardous substances — Pollutant discharge license and environmental protection tax” in this prospectus, such license will not be issued anymore since 13 August 2019. The enterprises whose production processes involve industrial furnaces shall apply for national pollutant discharge license by the year of 2020. Our PRC Legal Advisers are of the

view that the non-renewal of the pollutant discharge license of Guangdong Province for Town Ray (Huizhou) does not violate the laws and regulations of the PRC. Our Group can continue production after the expiration of the pollutant discharge license of Guangdong Province, and there is no legal impediment to obtain national pollutant discharge license if our Group legally submits the required application materials according to the relevant laws and regulations of the PRC. Our Directors confirmed that we plan to submit the application for national pollutant discharge license after the expiration of the pollutant discharge license of Guangdong Province and based on the current information available to us, we do not foresee any material difficulty in applying for the national pollutant discharge license.

The Group has taken necessary measures to protect the environment. Our Directors believe such certification ensure that our Group's operations could continuously satisfy the legal requirements and customers' needs in respect of business ethics and environmental protection.

For FY2016, FY2017, FY2018 and 4M2019, we incurred approximately HK\$65,000, HK\$69,000, HK\$77,000 and nil respectively, for environment compliance matters.

RISK MANAGEMENT AND INTERNAL CONTROL

Our Board is responsible for establishing our internal control and risk management systems and reviewing their effectiveness. We have procedures for maintaining our internal control and risk management systems, covering areas such as business operations, corporate governance, management, legal matters, finance and audit. We believe that our internal control and risk management systems are sufficient in terms of comprehensiveness, practicability and effectiveness.

In order to strengthen our internal control and risk management systems, ensure compliance with the applicable laws and regulations (including the Listing Rules) upon Listing, we have adopted the following additional measures:

- (i) our Board and our audit committee of the Board will continuously monitor, evaluate and review our internal control and risk management systems to ensure compliance with the applicable legal and regulatory requirements and will refine and enhance our internal control and risk management systems as appropriate;
- (ii) Mr. Chiu, our executive Director, will be responsible for overseeing our internal control and risk management systems in general and will act as the chief coordinator of matters relating to legal, regulatory and financial reporting compliance. Upon receipt of any query or report relating to legal, regulatory and financial reporting compliance, Mr. Chiu will look into the matter and, if considered necessary or appropriate, seek advice, guidance or recommendation from professional advisers and report to our Board. For the qualifications and experience of Mr. Chiu, please refer to the section headed "Directors and senior management" in this prospectus;
- (iii) we have appointed Alliance Capital Partners Limited as our compliance adviser upon Listing to advise us on matters relating to compliance with the Listing Rules;
- (iv) we will continue to identify and assess our operational, business and financial risks on an on-going basis, implement sufficient measures to minimise and mitigate such risks, and ensure that all such measures remain effective;

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- (v) if necessary, we may arrange our Directors, members of our senior management and relevant employees to attend training on the legal and regulatory requirements applicable to our business operations from time to time; and

if necessary, we may consider appointing external Hong Kong legal advisers to advise us on matters relating to compliance with the Listing Rules and the applicable Hong Kong laws and regulations.

EMPLOYEES

As at the Latest Practicable Date, we had 821 full-time employees in the PRC and 41 full time employees in Hong Kong. The following table sets out a breakdown of our employees by function as at the Latest Practicable Date:

	As at the Latest Practicable Date
<i>Hong Kong</i>	
Finance	6
Human resources and administration	8
Procurement	5
Quality assurance	2
Research and development	7
Sales and marketing	<u>13</u>
Sub-total	41
<i>The PRC</i>	
Finance	23
Human resources and administration	51
Procurement	31
Production	569
Quality assurance	97
Research and development	39
Sales and marketing	<u>11</u>
Sub-total	821
Total	<u><u>862</u></u>

Training and recruitment policies

We generally recruit our employees through job advertisements on recruitment platforms, job fairs as well as internal referrals. We seek to remunerate our employees on a market-competitive basis. The remuneration package of our employees generally includes basic salary and overtime allowance as well as performance-related bonus. We review the remuneration package and performance of our employees regularly.

BUSINESS

We provide induction and on-the-job training to our employees to enhance their technical and product knowledge including safety standards, quality assurance and control and job related skills. We also assess the available human resources on a continuous basis and will determine whether additional personnel are required to cope with our Group's business development.

Welfare contribution

PRC

Pursuant to the applicable PRC laws and regulations, we are required to contribute to various social security insurances including pension contributing plans, medical insurance, work-related injury insurance, maternity insurance and unemployment insurance, and housing provident fund for our employees in the PRC.

The salary level of the production workers has been steadily increasing in recent years owing to changes in labour law and the local labour market trends. We also provide a performance bonus and attendance bonus to the production workers with great performance and attendance record.

Hong Kong

We maintain employees' compensation insurance as required under the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) for our employees in Hong Kong and medical insurance for all of our employees.

We also participate in a provident fund scheme (the "**MPF Scheme**") registered under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all our eligible employees in Hong Kong. As required under the ordinance, 5% of our employees' relevant income per month is contributed to the provident fund, subject to a maximum of HK\$1,500 per employee per month.

Employee relationship

Our Group believes that we have maintained good relationship with the employees, and have not experienced any significant labour dispute over the Track Record Period.

During the Track Record Period, our Group has not experienced any work stoppage or labour strike and has not experienced any significant difficulty in recruiting or retaining qualified staff. Our employees in the PRC have established a labour union for fostering our relationship with employees.

Health and work safety

We carry out our production in the PRC. We provide internal guidelines on work safety for our employees. We also make necessary arrangements to ensure safety and health.

During the Track Record Period, we did not breach any work safety related laws and regulations in the PRC. During the Track Record Period and up to the Latest Practicable Date, we did not receive any material claims of work-related injuries of our employees or ex-employees.

BUSINESS

Share Option Scheme

Our Group has conditionally adopted the Share Option Scheme under employees of our Group, including executive Directors and other eligible participants, may be granted options to subscribe for Shares. The principal terms of the Share Option Scheme are summarised the paragraph headed “D. Share Option Scheme” in Appendix IV to this prospectus.

PROPERTIES

As at the Latest Practicable Date, we did not own any properties. Our Group leased certain premises as set out below:

Premises	Usage	Key terms of the tenancy	Approximate gross floor area
<i>PRC</i>			
Dunzilipian (Jiangbei 84) Community, Qingtang Village, Xiaojinkou Town, Huicheng District, Huizhou City, Guangdong Province, PRC	Production and related operation	Monthly rental of RMB810,150.44 from 1 April 2019 to 31 December 2021	73,650.04 sq.m.
<i>Hong Kong</i>			
10th Floor, Block A, Chung Mei Centre, 15 Hing Yip Street, Kwun Tong, Kowloon, Hong Kong	Workshop, godown and ancillary office	Monthly rental of HK\$83,790 from 1 April 2019 to 31 December 2021	5,985 sq.ft.

We rent the above properties from Tunbow (Huizhou) and Tunbow Properties Limited, respectively. Both are connected persons of our Group. For details, please refer to the section headed “Relationship with our Controlling Shareholders — Transactions entered into before the Listing which would otherwise constitute connected transactions” in this prospectus.

BUSINESS

LICENCES, PERMITS AND APPROVALS

We are subject to various laws, rules and regulations with regard to our business operations, and are required to obtain certain licences, approvals and permits from relevant government entities to operate our business. For details, please refer to the section headed “Regulatory overview” in this prospectus. The table below sets forth the key licences, permits and approvals necessary for our operations.

Licences, permits and approvals	Valid period/issuance date	Issuing authority	Entity granted
Business license	14 December 2017 to 31 December 2037	Huizhou Administration for Industry and Commerce	Town Ray (Huizhou)
Registration certificate of the customs of the PRC for customs declaration entities	29 December 2017	Shenzhen Customs District PRC	Town Ray (Huizhou)

As confirmed by our PRC Legal Advisers, Town Ray (Huizhou) had obtained the requisite licences, permits and approvals in all material aspects which are necessary for its respective operations. Our Directors confirm, and our PRC Legal Advisers concur, that during the Track Record Period and up to the Latest Practicable Date, our Group has not experienced any difficulties in renewing any of our licences, permits and approvals necessary for our operations.

INTELLECTUAL PROPERTY RIGHTS

We value our research and development efforts and achievements and therefore consider the protection of intellectual property rights crucial to the success of our business. As at the Latest Practicable Date, our Group has registered over 50 patents (including invention patents and utility patents), over 40 designs and over 10 trademarks in the PRC, Hong Kong, the EU, Turkey and Hungary. We have applied for registration of over 30 patents and five trademarks in the PRC. For details of the trademark and patents which are material to the business of our Group and the domain names, please refer to the paragraph headed “B. Further information about the business of our Group — 2. Intellectual property rights” in Appendix IV to this prospectus.

In order to protect our intellectual property rights of our customers and us, information pertaining to our or our customers’ design is generally kept confidential from any third parties or general public. We only allow authorised person to export files from our server. We may also require our customers to sign a non-disclosure agreement to keep confidential our commercial secrets including design and specifications of our products.

During the Track Record Period and up to the Latest Practicable Date, no material claims or dispute was brought against us in relation to any infringement of trademarks or other intellectual property rights. Our Directors are not aware of any use of our logo or brand by any third-party, and believe that there has been no infringement of our intellectual property rights that would result in a significant potential impact to our business.

INSURANCE

We have maintained product liability insurance to mitigate our product liability risks. We are also subject to the social insurance system of the PRC and are required to make contributions for our PRC employees towards five categories of insurance, including basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance.

We also maintained insurance policies to protect us against product liability, property all risks insurance for our inventories, property, plant and equipment, employees' compensation insurance and medical insurance for our employees.

For FY2016, FY2017, FY2018 and 4M2019, we paid an aggregate of approximately HK\$0.4 million, HK\$0.4 million, HK\$0.4 million and HK\$0.1 million, respectively, as insurance premium payment for our various insurance policies.

During the Track Record Period, we had not made any material insurance claims. Our Directors consider that the above insurance plans and amounts insured are sufficient to cover the operational risks and protect us from any potential loss or damage and are in line with the industry norm.

LEGAL PROCEEDINGS

During the Track Record Period and up to the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance. In addition, our Directors are not aware of any litigation, arbitration or claim pending or threatened by or against us which may have a material adverse effect on our business, financial condition or results of operations.

REGULATORY COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that we had complied with all major applicable laws and regulations in Hong Kong and the PRC in all material respects.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

BACKGROUND OF OUR CONTROLLING SHAREHOLDERS

Immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares that may be allotted and issued upon the exercise of the Over-allotment Option and any option that may be granted under the Share Option Scheme), our Company will be owned as to 53.41% by Modern Expression. Dr. Chan and Ms. Cheng, being the joint legal and beneficial owners of the entire issued share capital of Modern Expression, are indirectly holding 53.41% of the issued share capital of our Company. Accordingly, Modern Expression, Dr. Chan and Ms. Cheng are regarded as our Controlling Shareholders under the Listing Rules.

Modern Expression is an investment holding company incorporated in BVI. Dr. Chan and Ms. Cheng are two of the founders of our Group and had been leading the development of and strategic planning of our Group throughout the years. Ms. Cheng is the spouse of Dr. Chan. Dr. Chan and Ms. Cheng are both non-executive Directors and Dr. Chan is the chairman of our Board. For details of their background and experience, please refer to the section headed “Directors and senior management — Directors” in this prospectus.

Apart from engaging in the business of development, design, manufacture and sale of electrothermic household appliances through our Group, Dr. Chan and Ms. Cheng also engage in property holding and investment activities through a number of companies controlled by them and these companies will not form part of our Group after the Listing. The properties held by those companies involve residential, commercial, industrial properties as well as car parking spaces and the properties are located in the PRC, Hong Kong, Canada and the United Kingdom. As our Group is positioned to focus on the business of manufacturing and sale of household appliances, the property holding and investment business of Dr. Chan and Ms. Cheng was not injected into our Group and it will not have any direct or indirect competition with the business of our Group.

RULE 8.10 OF THE LISTING RULES

Each of our Controlling Shareholders, Directors and their respective close associates does not have any interest apart from the business of our Group which competes or is likely to compete, directly or indirectly with the business of our Group and which requires disclosure pursuant to Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Our Directors do not expect that there will be any significant transaction between our Group and our Controlling Shareholders upon or shortly after the Listing.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our Directors believe that our Group is capable of carrying on its business independently of, and does not place undue reliance on, our Controlling Shareholders or their respective close associates, taking into consideration the following factors:

Management independence

Our Group has an independent management team comprising its executive Directors and its senior management who have substantial experience in the business of our Group. Our management team is able to implement the policies and strategies of our Group and performs its roles in our Company independently.

Our Group aims at establishing and maintaining a strong and independent Board to oversee our Group's business. Our Board consists of nine Directors, comprising four executive Directors, two non-executive Directors and three independent non-executive Directors. The three independent non-executive Directors have extensive experience in different areas or professions. The main functions of our Board include the approval of our Group's overall business plans and strategies, monitoring the implementation of these plans and strategies and the management of our Group.

Further, each of our Directors is aware of his or her fiduciary duties as a Director which requires, among other things, that he or she acts for the benefit and in the best interests of our Company and our Shareholders as a whole, and does not allow any conflict between his or her duties as a Director and his or her personal interest to exist. In the event that there is a potential conflict of 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) shall abstain from voting at the relevant Board meetings in respect of such transactions and shall not be counted in the quorum. In case Mr. Chan, Ms. Tang, Mr. Yu, Mr. Chiu, Dr. Chan and Ms. Cheng are required to abstain from voting at Board meetings due to potential conflict(s) of interest, our independent non-executive Directors will be able to form a quorum and ensure that the decisions of our Board are made after due consideration of independent and impartial opinion.

In view of the aforesaid, our Directors are of the view that our Group is capable of managing its business independently of our Controlling Shareholders and their respective close associates after the Listing.

Operational independence

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

Further, our Group holds all relevant licences necessary to carry on businesses and has sufficient capital, equipment and employees to operate its businesses independently. Our Group has also established various internal controls procedures to facilitate the effective operation of its business.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Save for the transactions which would otherwise constitute connected transactions should our Company be listed on the Stock Exchange at the time of the relevant transactions as disclosed in the paragraph headed “Transactions entered into before the Listing which would otherwise constitute connected transactions” in this section, our Group has not entered into any connected transaction with any of our Controlling Shareholders that will continue after the Listing.

Financial independence

Our Group has its own accounting systems, accounting and finance department and independent treasury function for cash receipts and payments. Our Group makes financial decisions according to its own business needs.

The accounting and finance department of our Group will be responsible for the financial reporting, liaising with its auditors, reviewing its cash position and negotiating and monitoring its bank loan facilities and drawdowns.

During the Track Record Period, each of Dr. Chan and Ms. Cheng and their respective close associates had provided personal and corporate guarantees and collateral security for the banking facilities granted to our Group. As at the Latest Practicable Date, based on the communications between our Group and the relevant bank, our Directors confirm that all such personal and corporate guarantees and collateral security provided to our Group by Dr. Chan, Ms. Cheng and their respective close associates will be released and replaced by a corporate guarantee provided by our Company upon the Listing.

Our Directors are of the view that our Group is not financially dependent on our Controlling Shareholders or their respective close associates in the business operations of our Group and our Group is able to obtain external financing on market terms and conditions for its business operations as and when required.

Independence from major suppliers

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

Independence from major customers

Our Directors have confirmed that none of our Controlling Shareholders, our Directors and their respective close associates, had any relationship with the major customers of our Group (other than the business contacts in the ordinary and usual course of business of our Group) during the Track Record Period and up to the Latest Practicable Date.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

TRANSACTIONS ENTERED INTO BEFORE THE LISTING WHICH WOULD OTHERWISE CONSTITUTE CONNECTED TRANSACTIONS

We have entered into the following transactions with Tunbow Properties Limited (“**Tunbow Properties**”) and Tunbow (Huizhou) who will, upon the Listing, become our connected persons. These transactions were entered into before the Listing and are accounted as one-off in nature under HKFRS 16. If these transactions were entered into after the Listing, such transactions would have constituted connected transactions of our Group. Details of such transactions are set out below in order to facilitate potential investors to anticipate that we have, before the Listing, entered into transactions which would otherwise be considered as connected transactions should our Company be listed on the Stock Exchange at the time of the relevant transactions.

Connected Persons

Upon the Listing, Tunbow Properties and Tunbow (Huizhou), which have entered into the following tenancy agreements with our Group, will be our connected persons. Tunbow Properties is owned as to 100% by Tunbow Limited. Tunbow (Huizhou) is owned as to 100% by Tunbow Electrical (BVI) Limited. Tunbow Limited and Tunbow Electrical (BVI) Limited are owned as to 100% by Tunbow Investments (BVI). Tunbow Investments (BVI) is owned as to 78.23% by Modern Expression (which is wholly-owned by Dr. Chan and Ms. Cheng jointly), 10.61% by Capital Fortress Limited, 8.16% by Bestresult Assets Limited, 1.67% by Innoinvest Limited, 0.67% by Mr. Lee Pak Man, 0.33% by Mr. Chiu and 0.33% by Mr. Poon Ching Ching, Kelvin. Therefore, Tunbow Properties and Tunbow (Huizhou) are subsidiaries of a 30%-controlled company (as defined under the Listing Rules) of Dr. Chan and Ms. Cheng, and our connected persons under Rule 14A.07(4) of the Listing Rules.

Tenancy Agreements

As at the Latest Practicable Date, our Group has leased two properties from Tunbow Properties and Tunbow (Huizhou) under the respective tenancy agreements (the “**Tenancy Agreements**”), details of which are set out as follows:

	Date of tenancy agreement	Property address	Parties	Gross floor area under the tenancy agreement	Monthly rental	Total rental	Term	Use of the property
1.	1 April 2019	10th Floor, Block A, Chung Mei Centre, 15 Hing Yip Street, Kwun Tong, Kowloon, Hong Kong (“ Property 1 ”)	Landlord: Tunbow Properties Tenant: Tunbow Group	5,985 sq.ft.	HK\$83,790	HK\$2,765,070	1 April 2019 to 31 December 2021 (with an option to renew for a further term of three years, subject to the compliance with the applicable provisions of the Listing Rules)	Workshop, godown and ancillary office
2.	1 April 2019	Dunzilipian (Jiangbei 84) Community, Qingtang Village, Xiaojinkou Town, Huicheng District, Huizhou City, Guangdong Province, PRC (“ Property 2 ”)	Landlord: Tunbow (Huizhou) Tenant: Town Ray (Huizhou)	73,650.04 sq.m.	RMB810,150.44	RMB26,734,964.52	1 April 2019 to 31 December 2021 (with an option to renew)	Production and related operation

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Historical transaction amounts

The aggregate amounts paid by Tunbow Group and Town Ray (Huizhou) for leasing Property 1 and Property 2 during the Track Record Period are set out below:

	Historical transaction amounts			
	FY2016	FY2017	FY2018	4M2019
Rent paid by Tunbow Group in relation to Property 1	HK\$540,000	HK\$540,000	HK\$1,005,480	HK\$335,160
Rent paid by Town Ray (Huizhou) in relation to Property 2	—	—	RMB2,430,451.32	RMB3,240,601.76

Basis in determining the rental payable

The rents were on normal commercial terms determined after arm's length negotiations based on the prevailing market rents no less favourable to those offered by independent third parties for comparable properties in similar locations.

Reasons for the transactions

Our Group has historically been using the properties under the Tenancy Agreements as our workshop, godown and ancillary office and for production and related operation. Having considered that the rents of the properties under the Tenancy Agreements are comparable to the prevailing market rents of comparable properties in similar locations, and the Tenancy Agreements have been entered into in the ordinary and usual course of business, on terms no less favourable to us than from those available to independent third parties, our Directors consider that the terms of the Tenancy Agreements are fair and reasonable and it is in the interests of our Company and our Shareholders as a whole to continue using the properties under the Tenancy Agreements as our workshop, godown and ancillary office and for production and related operation.

Accounting treatment of the Tenancy Agreements

Our Group has early adopted HKFRS 16 in the preparation of the financial information of our Group during the Track Record Period, pursuant to which, at the commencement date of a lease, our Group as lessee shall recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Accordingly, the lease transactions under the Tenancy Agreements would be regarded as acquisitions of assets by the tenants for the purpose of the Listing Rules.

Listing Rules implications

Although the Tenancy Agreements were subsisting as at the Latest Practicable Date, and we expect to make further payments to Tunbow Properties and Tunbow (Huizhou) after the Listing pursuant to the terms of the Tenancy Agreements, given the Tenancy Agreements were entered into prior to the Listing and the transactions thereunder are accounted as one-off in nature under HKFRS 16, these transactions

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

(including further rental payments to be made by us pursuant to the terms of the Tenancy Agreements) will not be classified as notifiable transactions under Chapter 14 of the Listing Rules or connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules, and will not be subject to any of the reporting, announcement, circular and independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules. In the event that there are any material changes to the terms and conditions of any of such Tenancy Agreements, we shall comply with Chapters 14 and 14A of the Listing Rules (as the case may be) in respect of such changes as and when appropriate, including, where required, seeking independent Shareholders' approval prior to effecting such changes. Following the Listing, we may renew the Tenancy Agreements with Tunbow Properties and/or Tunbow (Huizhou). In such event, we shall also comply with Chapters 14 and 14A of the Listing Rules (as the case may be) as and when appropriate.

DIRECTORS AND SENIOR MANAGEMENT

SUMMARY OF DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Present position	Date of appointment as Director/senior management	Date of joining our Group	Roles and responsibilities	Relationship with other Director(s), and/or senior management
Executive Directors						
Mr. Chan Wai Ming (陳偉明先生)	50	Chief executive officer of our Group and Executive Director	28 September 2017	December 2005	Overall management and formulation of business strategies of our Group	Nil
Mr. Chiu Wai Kwong (趙維光先生)	55	Executive Director and company secretary of our Company	28 September 2017	December 2005	Overall management, formulation of business strategies and financial management of our Group	Nil
Ms. Tang Mei Wah (鄧美華女士)	45	Executive Director	28 September 2017	December 2005	Overall management, formulation of business strategies and administration of our Group	Nil
Mr. Yu Kwok Wai (俞國偉先生)	42	Executive Director	28 September 2017	December 2005	Overall management, formulation of business strategies and marketing management of our Group	Nil
Non-executive Directors						
Dr. Chan Kam Kwong Charles (陳鑑光博士)	61	Chairman of our Board and non-executive Director	28 September 2017	December 2005	Providing strategic advice to our Board	Spouse of Ms. Cheng
Ms. Cheng Yuk Sim Connie (鄭玉嬋女士) (also known as Ms. Cheng Yuk Yee Connie (鄭玉而女士))	62	Non-executive Director	28 September 2017	December 2005	Providing strategic advice to our Board	Spouse of Dr. Chan and aunt of Mr. Lee Kwok Ho
Independent non-executive Directors						
Mr. Chan Ping Yim (陳炳炎先生)	72	Independent non-executive Director	3 October 2019	3 October 2019	Providing independent advice to our Board	Nil
Mr. Choi Chi Leung Danny (蔡志良先生)	65	Independent non-executive Director	3 October 2019	3 October 2019	Providing independent advice to our Board	Nil
Mr. Chan Shing Jee (陳承志先生)	33	Independent non-executive Director	3 October 2019	3 October 2019	Providing independent advice to our Board	Nil

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Present position	Date of appointment as Director/senior management	Date of joining our Group	Roles and responsibilities	Relationship with other Director(s), and/or senior management
Senior management						
Mr. Leung Yat Cheong, Albert (梁鑑昌先生)	57	Quality director of our Group	April 2014	December 2005	Quality management of our Group	Nil
Mr. Lee Pak Man (李伯文先生)	48	Research and development director of our Group	March 2013	December 2005	Research and development of our Group	Nil
Mr. Chu Ming Tak (朱明德先生)	56	Engineering director of our Group	April 2013	December 2005	Product development of our Group	Nil
Mr. Poon Ching Ching, Kelvin (潘正正先生)	51	Design director of our Group	April 2013	December 2005	Product design development of our Group	Nil
Mr. Tong Wai Hung (湯偉雄先生)	55	Sales and marketing director of our Group	April 2013	April 2007	Sales and marketing of our Group	Nil
Mr. Lee Kwok Ho (李國豪先生)	38	Engineering sales manager of our Group	September 2015	December 2005	Product development and project management of our Group	Nephew of Ms. Cheng

DIRECTORS

Our Board consists of nine Directors, comprising four executive Directors, two non-executive Directors and three independent non-executive Directors.

Executive Directors

Mr. Chan Wai Ming (陳偉明先生), aged 50, was appointed as a Director on 28 September 2017 and was re-designated as an executive Director on 28 February 2019. He also serves as the chief executive officer of our Group. He is primarily responsible for the overall management and formulation of business strategies of our Group. He is also a director of all our subsidiaries, namely Town Ray Investments (BVI), Town Ray Development, Town Ray Enterprises, Town Ray Hong Kong, Tunbow Group and Town Ray (Huizhou).

Mr. Chan has over 20 years of experience in accounting. He was a staff accountant at Ernst & Young, certified public accountants in Hong Kong, from October 1997 to January 2000. He was an accountant from February 2000 to December 2000 and the chief accountant from January 2001 to March 2002 of China Sci-Tech Holdings Limited (currently known as CST Group Limited) (stock code: 985), a company listed on the Stock Exchange, respectively. He was also the financial controller of Full Apex (Holdings) Limited, a company listed on the Singapore Exchange Limited, from March 2002 to

DIRECTORS AND SENIOR MANAGEMENT

September 2004. He worked as the financial controller of Tunbow Industries Limited from August 2004 to December 2004 and Tunbow Electrical Limited from January 2005 to April 2016. Mr. Chan joined Tunbow Group as corporate finance and business development officer in May 2016.

Mr. Chan graduated from the University of Hawaii, Honolulu in December 1995 with a bachelor's degree in business administration with a major in accounting. He has been a member of the Hong Kong Institute of Certified Public Accountants since January 1999. He also became a certified public accountant of the Washington State Board of Accountancy in April 1998 and is currently an inactive certified public accountant. Mr. Chan has been awarded an associateship (electrical appliance industry) of The Professional Validation Council of Hong Kong Industries since November 2012. He is currently a member of the American Institute of Certified Public Accountants.

Further, Mr. Chan was the vice president of the 6th council and has been the executive vice president of the 7th council of the Huizhou City Huicheng District Foreign Investment Enterprise Association (惠州市惠城區外商投資企業協會) from November 2015 to October 2016 and since November 2016, respectively. He has been the vice president of the 6th and 7th council of the Huizhou City Foreign Investment Enterprise Association (惠州市外商投資企業協會) since July 2015. He was the executive vice president of the management committee of the 1st council and has been the executive vice president of the management committee of the 2nd council of the Huizhou Ganghui Love Foundation (惠州市港惠愛心基金會) from March 2016 to March 2019 and since March 2019, respectively. He has been an executive committee member of the Huizhou Division of the Federation of Hong Kong Industries of Pearl River Delta Council (香港工業總會珠三角工業協會惠州分部) since September 2015.

Mr. Chiu Wai Kwong (趙維光先生), aged 55, was appointed as a Director on 28 September 2017 and was re-designated as an executive Director on 28 February 2019. He is the company secretary of our Company and also serves as the finance director of our Group. He is primarily responsible for the overall management, formulation of business strategies and overall financial management of our Group. He is also a director of all our subsidiaries, namely Town Ray Investments (BVI), Town Ray Development, Town Ray Enterprises, Town Ray Hong Kong, Tunbow Group and Town Ray (Huizhou).

Mr. Chiu has over 30 years of experience in accounting and finance. He worked at the Inland Revenue Department as an assistant assessor from June 1987 to July 1991. He was the financial controller of Oceania Brothers Manufacturing Co., Ltd from August 1991 to November 1997. He worked at Tunbow Industries Limited as the financial controller from January 1998 to December 2004 and Tunbow Electrical Limited as the finance director from January 2005 to March 2009. He joined Tunbow Group as a director in November 2007 and as finance director in April 2009.

Mr. Chiu graduated from the University of Hong Kong in November 1987 with a bachelor's degree of social sciences. He has been a fellow of the Association of Chartered Certified Accountants (formerly known as the Chartered Association of Certified Accountants) since May 1996, a fellow of the Hong Kong Institute of Certified Public Accountants since October 2004 and a chartered financial analyst of the CFA Institute since September 2006.

Mr. Chiu has been awarded an associateship (electrical appliance industry) of The Professional Validation Council of Hong Kong Industries since November 2012.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Tang Mei Wah (鄧美華女士), aged 45, was appointed as a Director on 28 September 2017 and was re-designated as an executive Director on 28 February 2019. She also serves as the managing director of our Group. She is primarily responsible for the overall management, formulation of business strategies and overall administration of our Group. She is also a director of Tunbow Group and Town Ray (Huizhou).

Ms. Tang has over 20 years of experience in the household appliances industry. From September 1998 to January 2005, Ms. Tang worked at Tunbow Industries Limited with the last position as account manager. From January 2005 to April 2009, Ms. Tang worked at Tunbow Electrical Limited with the last position as marketing manager. She joined Tunbow Group as a director in November 2007 and was promoted to managing director in March 2013.

Ms. Tang graduated from Hong Kong Shue Yan College in July 1998 with a diploma in business administration. She subsequently obtained a master's degree in business administration from the University of Louisiana at Monroe through long distance learning in December 2001.

Ms. Tang was one of the 16 recipients of the Outstanding Businesswomen Award 2018 awarded in December 2018 by Hong Kong Commercial Daily.

Mr. Yu Kwok Wai (俞國偉先生), aged 42, was appointed as a Director on 28 September 2017 and was re-designated as an executive Director on 28 February 2019. He also serves as the marketing director of our Group. He is primarily responsible for the overall management, formulation of business strategies and overall marketing management of our Group. He is also a director of Tunbow Group and Town Ray (Huizhou).

Mr. Yu has over 15 years of experience in the sales and marketing of household appliances. Mr. Yu was a sales executive of Sweda Limited from October 1994 to September 1995, a marketing and sales executive of Hon Hing Computer and Machinery Company Limited from February 1996 to May 1997 and a marketing assistant of Joint Publishing (Hong Kong) Company Limited from August 1997 to July 1998. He joined Tunbow Industries Limited as a sales executive from July 2002 to December 2004 and Tunbow Electrical Limited as a marketing manager from January 2005 to March 2009. He joined Tunbow Group as a director in November 2007 and as a marketing director in April 2009.

Mr. Yu graduated from Bond University in June 2002 with a bachelor's degree of arts. He subsequently obtained a master's degree of social sciences in applied psychology from the City University of Hong Kong in October 2013. Mr. Yu further obtained an international award in barista skills (Chinese) from The City and Guilds of London Institute in December 2016 and a certification in barista skills intermediate from The Specialty Coffee Association in July 2017. Since July 2017 and September 2019, Mr. Yu has been appointed as a committee member of the Hong Kong Mould and Product Technology Association and a member of the 12th council of the Hong Kong Federation of Innovative Technologies and Manufacturing Industries, respectively.

Non-executive Directors

Dr. Chan Kam Kwong Charles (陳鑑光博士), aged 61, is one of the founders of our Group. He was appointed as a Director on 28 September 2017 and was re-designated as a non-executive Director on 28 February 2019. He also serves as the chairman of our Board. He is primarily responsible for

DIRECTORS AND SENIOR MANAGEMENT

providing strategic advice to our Board. He is also a director of all our subsidiaries, namely Town Ray Investments (BVI), Town Ray Development, Town Ray Enterprises, Town Ray Hong Kong, Tunbow Group and Town Ray (Huizhou). Dr. Chan is the husband of Ms. Cheng, a non-executive Director.

Dr. Chan has over 40 years of experience in the household appliances industry. He worked at Dixons Stores Group (Far East) Limited from January 1977 to October 1993 with the first position as assistant buyer and last positions as senior buyer and director. He was a director of Town Ray International Limited from July 1994 to April 2015. He was a director of Tunbow Limited from July 1992 to November 1993 and rejoined as a director since March 1994. He has been a director of Tunbow Industries Limited and Tunbow Electrical Limited since November 1993 and July 1995, respectively. He has been a director of Tunbow (Huizhou) and Tunbow Electronics Limited since December 2005 and April 2007, respectively. He became a director of Tunbow Group in September 2017.

Dr. Chan became a fellow of the Hong Kong Institute of Directors in January 2007 and of the Canadian Chartered Institute of Business Administration in September 2009. In May 2010, Dr. Chan was awarded the 12th World Outstanding Chinese Award (世界傑出華人獎) by the World Chinese Business Investment Foundation (世界華商投資基金會). He also won the Outstanding Entrepreneurship Award at the Asia Pacific Entrepreneurship Awards 2011 organised by Enterprise Asia in July 2011. Since July 2019 and September 2019, Dr. Chan has been appointed as the president of the committee of the Hong Kong Mould and Product Technology Association and the vice president of the 12th council of the Hong Kong Federation of Innovative Technologies and Manufacturing Industries, respectively. Dr. Chan was conferred an honorary doctorate degree in engineering from Lincoln University in September 2009. Dr. Chan attended secondary education till 1977.

Ms. Cheng Yuk Sim Connie (鄭玉嫻女士) (also known as Ms. Cheng Yuk Yee Connie (鄭玉而女士)), aged 62, is one of the founders of our Group. She was appointed as a Director on 28 September 2017 and was re-designated as a non-executive Director on 28 February 2019. She is primarily responsible for providing strategic advice to our Board. She is also a director of all our subsidiaries, namely Town Ray Investments (BVI), Town Ray Development, Town Ray Enterprises, Town Ray Hong Kong, Tunbow Group and Town Ray (Huizhou). Ms. Cheng is the spouse of Dr. Chan, chairman of our Board and a non-executive Director, and the aunt of Mr. Lee Kwok Ho, a member of our senior management.

Ms. Cheng has over 35 years of experience in management and marketing in the household appliances industry. Ms. Cheng joined Goodway Electrical Company, Limited in 1978 as a quality inspector and was a director from April 1989 to June 1994. She has been a director of Tunbow Electrical Limited since September 1994. She has been a director of Tunbow (Huizhou) and Tunbow Electronics Limited since December 2005 and April 2007, respectively. She became a director of Tunbow Group in September 2017.

In May 2010, Ms. Cheng was awarded the 12th World Outstanding Chinese Award (世界傑出華人獎) by the World Chinese Business Investment Foundation (世界華商投資基金會). Since October 2010, Ms. Cheng has been appointed as an honorary vice president of the Hong Kong Electrical Appliance Industries Association (formerly known as the Hong Kong Electrical Appliances Manufacturers Association). She was awarded with the Medal of Honor by the Hong Kong Government in 2014. Ms. Cheng attended secondary education till 1979.

DIRECTORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Mr. Chan Ping Yim (陳炳炎先生), aged 72, was appointed as an independent non-executive Director on 3 October 2019. He is the chairman of our audit committee and a member of our remuneration committee and nomination committee.

Mr. Chan has over 40 years of experience in accounting. From May 1969 to September 1974, Mr. Chan worked at Ling-McCann Erickson Limited (currently known as McCann-Erickson (HK) Limited) as an account executive. He worked at Arthur Young & Company as a junior audit assistant from October 1974 and as a semi-senior auditor from April 1976 to August 1976, at John Leung & Company as an audit senior from September 1976 to May 1977 and at Andrew Ma & Company as a senior audit assistant from June 1977 to September 1981. Mr. Chan joined Investment Consolidated Limited as an accountant from September 1981 to December 1984. He practised as a principal of Dominic P.Y. Chan & Co. from January 1985 to March 1999 and as a partner of W.Y. Lam, Dominic Chan & Co. Certified Public Accountants from July 1998 to September 2007 before practising as the principal of Dominic P.Y. Chan, Certified Public Accountant since October 2007. He has also been the chief risk officer of Euto Capital Partners Limited since July 2017.

Mr. Chan completed his secondary education in 1967. He has been an associate of the Association of Chartered Certified Accountants (formerly known as the Chartered Association of Certified Accountants) since November 1984 and of the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants) since January 1985. In July 2010, Mr. Chan became an associate and a certified tax adviser of the Taxation Institute of Hong Kong.

Mr. Choi Chi Leung Danny (蔡志良先生), aged 65, was appointed as an independent non-executive Director on 3 October 2019. He is the chairman of our nomination committee and a member of our audit committee and remuneration committee.

Mr. Choi has approximately 35 years of experience in the electrical products industry. He worked as a clerk at Electrical & Electronics Limited from September 1973 to February 1979. He was a founder and director of Ronford Industrial Limited, a company engaging in manufacturing and sale of electrical products, from January 1981 to July 1984 and of Neumax Industrial Limited, a company engaging in manufacturing and sale of electrical products, from September 1984 to September 2018. From October 2014 to August 2019, he was a director of Naree International Limited, a company providing environmental consulting services.

Mr. Choi completed his secondary education in 1972.

Mr. Chan Shing Jee (陳承志先生), aged 33, was appointed as an independent non-executive Director on 3 October 2019. He is the chairman of our remuneration committee and a member of our audit committee and nomination committee.

Mr. Chan has over 5 years of work experience. He was a junior client service associate of Morgan Stanley from January 2010 to March 2011 and a client servicing officer of Bank of East Asia from March 2011 to March 2013. He also works as a business manager of Prudential Hong Kong Limited since March 2015. He worked at Mega Marketing & Media Company Limited as senior project director from March 2016 to August 2016 and at Cobot Business Strategy Limited as an investment manager from September 2016 to April 2017. He was a project director of Vibes Management Company Limited

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from November 2016 to July 2018. He has been an administration executive of Fleming International Limited, a wholly-owned subsidiary of Hyfusin Group Holdings Limited (stock code: 8512) since August 2018.

Mr. Chan graduated from University College London with a bachelor's degree in chemical engineering in August 2008 and obtained a level 4 foundation diploma in art and design from the University of the Arts London in August 2008. He subsequently obtained a master's degree of science in technology entrepreneurship in November 2009.

In addition, Mr. Chan is active in charitable activities. Mr. Chan has been an executive committee member of The Yuen Yuen Institute since February 2005 and a director of Yan Chai Hospital since April 2017. He has also been a director of The Hong Kong Taoist Association since January 2015, a school manager of Hong Kong Taoist Association The Yuen Yuen Institute No. 1 Secondary School since May 2014, a school manager of Hong Kong Taoist Association The Yuen Yuen Institute No. 2 Secondary School from May 2014 to May 2019, a school manager of Hong Kong Taoist Association The Yuen Yuen Institute No. 3 Secondary School since May 2014, a school manager of The Yuen Yuen Institute MFBM Nei Ming Chan Lui Chung Tak Memorial College since July 2013, a school manager of Hong Kong Taoist Association The Yuen Yuen Institute Chan Lui Chung Tak Memorial School since September 2013, a school manager of Hong Kong Taoist Association Yuen Yuen Kindergarten (Fu Shin Estate) since July 2016 and a school manager of Hong Kong Taoist Association Yuen Yuen Kindergarten since July 2016. Mr. Chan also acted as a director of Lifeline Express Hong Kong Foundation from January 2013 to December 2018.

Each of our Directors has not held any directorship in the last three years in any public company the securities of which is listed on any securities market in Hong Kong or overseas.

DISCLOSURE REQUIRED UNDER RULE 13.51(2) OF THE LISTING RULES

Our Directors were directors of the following companies prior to their respective dissolution. Each of the relevant Directors confirmed that the companies were solvent and inactive at the time of their dissolution and that their dissolution had not resulted in any liability or obligation against them. The following are details of the aforementioned dissolved companies:

Relevant Directors	Name of company	Place of incorporation	Principal business activity prior to cessation of business	Date of dissolution	Means of dissolution
Mr. Chan, Dr. Chan	Bright Sky Properties Limited	Hong Kong	Dormant	3 October 2008	Deregistration
Mr. Chan	Oriental Purchasing Limited	Hong Kong	Logistics services and trading of raw materials	14 December 2018	Deregistration
Mr. Chan	RHT Life Products Limited	Hong Kong	Trading of environmental improvement products and materials	20 March 2015	Deregistration
Mr. Chan, Mr. Chiu	Wealth Global Finance Limited	Hong Kong	Dormant	29 June 2012	Deregistration

DIRECTORS AND SENIOR MANAGEMENT

Relevant Directors	Name of company	Place of incorporation	Principal business activity prior to cessation of business	Date of dissolution	Means of dissolution
Mr. Chan, Mr. Chiu	維可高貿易(深圳) 有限公司	PRC	Trading of consumer electronics	5 March 2015	Deregistration
Mr. Yu	Top Design & Innovation Limited	Hong Kong	Product graphic design	22 July 2016	Deregistration
Dr. Chan, Ms. Cheng	Wylie Corporation Limited	Hong Kong	Property holding	9 June 2006	Deregistration
Dr. Chan, Ms. Cheng	Tunbow Electronics Limited	Hong Kong	Dormant	6 June 2019	Deregistration
Dr. Chan, Ms. Cheng	東保橋電器(惠州) 有限公司	PRC	Manufacturing and sale of electrothermic household appliances	28 March 2013	Deregistration
Ms. Cheng	Sky Team Ventures Limited	BVI	Investment in securities	2 May 2017	Striking off
Ms. Cheng	Tiara (BVI) Limited	BVI	Investment in securities	3 May 2016	Striking off
Ms. Cheng	Blessing Star Entertainment Limited	Hong Kong	Entertainment business	22 August 2014	Deregistration
Mr. Chan Ping Yim	Wifi Hotel Management Limited	Hong Kong	Hotel management	15 September 2016	Deregistration
Mr. Chan Ping Yim	Royal Star Hotel Limited	Hong Kong	Hotel business	12 May 2017	Deregistration
Mr. Chan Ping Yim	Jade Shine Investment Limited	Hong Kong	Dormant	4 April 2003	Striking off
Mr. Chan Ping Yim	Gateway Alliance Limited	British Virgin Islands	Investment holding	1 November 2016	Striking off
Mr. Choi Chi Leung Danny	Conmax International Holdings Limited	Hong Kong	Sale of shampoo and conditioner	8 April 2009	Members' voluntary winding up
Mr. Choi Chi Leung Danny	Rusk (China) Limited	Hong Kong	Sale of shampoo and conditioner	8 April 2009	Members' voluntary winding up

Save as disclosed above, each of our Directors confirms with respect to him/her that: (a) he/she does not hold other positions in our Company or other members of our Group as at the Latest Practicable Date; (b) he/she does not have any relationship with any other Directors, senior management, Substantial Shareholder or Controlling Shareholder of our Company as at the Latest Practicable Date; (c) he/she does not have any interest in our Shares within the meaning of Part XV of the SFO, save as disclosed in the paragraph headed “C. Further information about our Directors and Substantial Shareholders — 1. Disclosure of interests” in Appendix IV to this prospectus; (d) he/she does not have any interest in any business which competes or is likely to compete, directly or indirectly, with our

DIRECTORS AND SENIOR MANAGEMENT

Group, which is disclosable under the Listing Rules; and (e) to the best knowledge, information and belief of our Directors having made all reasonable enquiries, there is no additional information relating to our Directors or senior management that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and no other matter with respect to their appointments that needs to be brought to the attention of our Shareholders as at the Latest Practicable Date.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Our Company will comply with the Corporate Governance Code after the Listing. Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code each financial year and comply with the “comply or explain” principle in our corporate governance report, which will be included in our annual reports subsequent to the Listing.

SENIOR MANAGEMENT

Mr. Leung Yat Cheong, Albert (梁鑑昌先生), aged 57, is the quality director of our Group. He is responsible for the quality management of our Group. He is also the legal representative of Town Ray (Huizhou).

Mr. Leung has over 35 years of experience in engineering and factory management. Mr. Leung worked at Yangtzekiang Garment Manufacturing Company Limited (currently known as Yangtzekiang Garment Limited) (stock code: 294) from June 1979 to April 1981 as a despatch in its suits production department. He was an inspector at McRink Surveyors Company Limited from April 1981 to April 1982, a technician at Wirley Electrical Manufacturing Company Limited from May 1982 to October 1983 and a technical engineering inspector at Roy Fair Manufacturing Company Limited from November 1983 to August 1985. He was an engineer at Goodway Electrical Company, Limited from September 1985 to June 1988, at Ngai Leung Electrical Limited from July 1988 to December 1989 and rejoined Goodway Electrical Company, Limited from January 1990 to August 1994 as chief engineer and production manager. He worked at Tunbow Electrical Limited from September 1994 as factory manager and left in March 2009 as general manager. He joined Tunbow Group as general manager in March 2009 and became our quality director in April 2014.

Mr. Leung completed his secondary education in 1979. He completed the ISO9000 its contents and application training course and the logistics and supply chain management course held by the Hong Kong Productivity Council in March 1992 and June 2002, respectively. He has been awarded an associateship (electrical appliance industry) of The Professional Validation Council of Hong Kong Industries since November 2010.

Mr. Lee Pak Man (李伯文先生), aged 48, is the research and development director of our Group. He is responsible for the research and development of our Group.

Mr. Lee has over 25 years of experience in product engineering, inspection and development. He joined our Group as research and development director in March 2013. Mr. Lee was an engineer of Yi Kyun Electronics Company Limited* (二權電子有限公司) from March 1992 to April 1993 and an inspector of Dixons Stores Group (Far East) Limited from April 1993 to June 1996. He worked at Tunbow Electrical Limited as an inspector from June 1996 to June 1998, as an engineer from June 1998

DIRECTORS AND SENIOR MANAGEMENT

to June 2003 and as a senior engineer from June 2003 to April 2009. From April 2009 to March 2013, he was the research and development director of Young Tigers R&D Limited. He joined Tunbow Group as research and development director in March 2013.

Mr. Lee completed his secondary vocational education in 1991.

Mr. Chu Ming Tak (朱明德先生), aged 56, is the engineering director of our Group. He is responsible for the product development of our Group.

Mr. Chu has over 25 years of experience in product engineering, inspection and development. Mr. Chu was a project engineer of Yip Tat Industrial Limited from March 1989 to March 1990, a senior engineer of Goodway Electrical Company, Limited from March 1991 to March 1994 and a senior project engineer of Nice Win Electrical Limited from March 1994 to October 1994. He worked at Tunbow Electrical Limited as engineer director from October 1994 to March 2009. From April 2009 to March 2013, he was the engineer director of Young Tigers R&D Limited. He joined Tunbow Group as engineering director in April 2013.

Mr. Chu was granted a diploma in business management by the Hong Kong Polytechnic University and the Hong Kong Management Association in September 1997. He has been awarded an associateship (electrical appliance industry) of The Professional Validation Council of Hong Kong Industries since November 2010.

Mr. Poon Ching Ching, Kelvin (潘正正先生), aged 51, is the design director of our Group. He is responsible for the product design development of our Group.

Mr. Poon has over 25 years of experience in product design development. He worked at Willas International Limited as a product designer from September 1992 to September 1994. He worked at Moulin Optical Manufactory Limited (currently known as Moulin Global Eyecare Trading Limited) from September 1994 and left as new product development manager in August 2000. He worked at Tunbow Electrical Limited as design director from September 2000 to March 2013. He joined Tunbow Group as a director in July 2010 and as design director in April 2013.

Mr. Poon was granted a high diploma in industrial design by the Tokyo Designer Gakuin College in March 1992, with a distinction award in his graduation project. He further obtained merit awards for Tunbow Electrical Limited at the 9th and 10th Hong Kong Household Electrical Appliances Design and Innovation Competition organised by the Hong Kong Electrical Appliances Manufacturers Association and the Hong Kong Productivity Council in November 2007 and November 2008, respectively. He has been awarded an associateship (electrical appliance industry) and a fellowship (electrical appliance industry) of The Professional Validation Council of Hong Kong Industries since November 2010 and December 2014, respectively.

Mr. Tong Wai Hung (湯偉雄先生), aged 55, is the sales and marketing director of our Group. He is responsible for the sales and marketing of our Group. He is also a director of Tunbow Group.

Mr. Tong has over 25 years of experience in product sourcing and sales and marketing. Mr. Tong was a commercial trainee of Dixons Stores Group in the United Kingdom from November 1991 to July 1992. He worked in Dixons Stores Group (Far East) Limited from July 1992 to June 1997 with his last position as senior product manager. From July 1997 to March 1999, he was the vice president-

DIRECTORS AND SENIOR MANAGEMENT

households of Pricerite Stores Limited. He was a senior product manager of Polyconcept Hong Kong Limited from April 1999 to August 2006. He worked at Tunbow Electronics Limited as sales and marketing director from April 2007 to March 2013. He joined Tunbow Group as sales and marketing director in April 2013.

Mr. Tong graduated from the Middlesex Polytechnic with a bachelor of science in mathematics for business degree in June 1990 and further obtained a master's degree of science in operational research and information systems from the London School of Economics and Political Science in July 1991.

Mr. Lee Kwok Ho (李國豪先生), aged 38, is the engineering sales manager of our Group. He is responsible for the product development and project management of our Group. He is a nephew of Ms. Cheng, a non-executive Director.

Mr. Lee has over 5 years of experience in product development and project management. He worked at Tunbow Electrical Limited as a management trainee from June 2003 to June 2004 and an operation officer from June 2004 to March 2008. He worked as an operation officer of Young Tigers R&D Limited from April 2009 to March 2013. He joined Tunbow Group as project manager in April 2013 and has been promoted to engineering sales manager since September 2015.

Mr. Lee graduated from the Hong Kong University of Science and Technology with a bachelor of engineering in industrial engineering and engineering management (with a minor in information technology) degree in November 2003 and further obtained a master's degree of science in technology management from the Hong Kong Polytechnic University in October 2011.

Each of the senior management has not held any directorship in the last three years in any public company the securities of which is listed on any securities market in Hong Kong or overseas.

COMPANY SECRETARY

Mr. Chiu is our company secretary for the purposes of Rule 8.17 of the Listing Rules. For details of his background, please refer to the paragraph headed "Directors" above in this section.

BOARD COMMITTEES

Audit committee

Our Company established an audit committee with written terms of reference in compliance with Rule 3.22 of the Listing Rules and paragraph C.3.3 of the Corporate Governance Code pursuant to a resolution of our Directors passed on 3 October 2019. The primary duties of the audit committee are, among others, to make recommendations to our Board on the appointment, reappointment and removal of external auditors, review the financial statements and provide material advice in respect of financial reporting, oversee the financial reporting process, internal control, risk management systems and audit process of our Group and perform other duties and responsibilities assigned by our Board.

At present, the audit committee comprises of Mr. Chan Ping Yim, Mr. Choi Chi Leung Danny and Mr. Chan Shing Jee, all being independent non-executive Directors. Mr. Chan Ping Yim is the chairman of the audit committee.

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Remuneration committee

Our Company established a remuneration committee on 3 October 2019 with written terms of reference in compliance with Rule 3.26 of the Listing Rules and paragraph B.1.2 of the Corporate Governance Code. The primary duties of the remuneration committee are to review and approve the management's remuneration proposals, make recommendations to our Board on the remuneration package of our Directors and senior management and ensure none of our Directors determines his/her own remuneration.

At present, the remuneration committee comprises Mr. Chan Ping Yim, Mr. Choi Chi Leung Danny and Mr. Chan Shing Jee, all being independent non-executive Directors. Mr. Chan Shing Jee is the chairman of the remuneration committee.

Nomination committee

Our Company established a nomination committee on 3 October 2019 with written terms of reference in compliance with paragraph A.5.2 of the Corporate Governance Code. The primary duties of the nomination committee are, among others, to review the structure, size and composition of our Board, and select or make recommendations on the selection of individuals nominated for directorships.

At present, the nomination committee comprises Mr. Chan Ping Yim, Mr. Choi Chi Leung Danny and Mr. Chan Shing Jee, all being independent non-executive Directors. Mr. Choi Chi Leung Danny is the chairman of the nomination committee.

COMPLIANCE ADVISER

Our Company has appointed Alliance Capital Partners Limited as the compliance adviser pursuant to Rule 3A.19 of the Listing Rules for the term commencing on the Listing Date and ending on the date on which our Company distributes our annual report in respect of our financial results for the first full financial year commencing after the Listing Date.

Pursuant to Rule 3A.23 of the Listing Rules, our Company shall seek advice from the compliance adviser on a timely basis in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- where we propose to use the proceeds of the Listing in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate to a material extent from any forecast, estimate, or other information in this prospectus; and
- where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

DIRECTORS AND SENIOR MANAGEMENT

REMUNERATION POLICY

Our Directors and senior management receive compensation in the form of salaries and discretionary bonuses related to their performance. Our Group also reimburses them for expenses which are necessarily and reasonably incurred in relation to all business and affairs carried out by our Group from time to time or for providing services to our Group or executing their functions in relation to our Group's business and operations. Our Group regularly reviews and determines the remuneration and compensation package of our Directors and senior management by reference to, among other things, market level of salaries paid by comparable companies, the respective responsibilities of our Directors and performance of our Group.

After the Listing, our Directors and senior management may also receive options to be granted under the Share Option Scheme.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

For FY2016, FY2017, FY2018 and 4M2019, the aggregate remuneration including basic salaries, allowance, other benefits and contribution to retirement benefit scheme, paid to our Directors by our Group was approximately HK\$4.6 million, HK\$12.6 million, HK\$5.6 million and HK\$1.8 million, respectively.

For FY2016, FY2017, FY2018 and 4M2019, the aggregate remuneration including basic salaries, allowance, other benefits and contribution to retirement benefit scheme, paid to the five highest paid individuals (including our Directors) by our Group was approximately HK\$5.4 million (including one Director), HK\$13.4 million (including four Directors), HK\$6.0 million (including two Directors) and HK\$2.0 million (including two Directors), respectively.

Save as disclosed in this prospectus, no other emoluments have been paid, or are payable, by our Group to our Directors and the five highest paid individuals in respect of each of FY2016, FY2017, FY2018 and 4M2019.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding discretionary bonus) for FY2019 will be approximately HK\$6.8 million. Upon completion of the Listing, the remuneration committee will make recommendations on the remuneration of our Directors taking into account the performance of our Directors and market standards and the remuneration will be subject to approval by our Shareholders. Accordingly, the historical remuneration to our Directors during the Track Record Period may not reflect the future levels of remuneration of our Directors.

During the Track Record Period, no remuneration was paid by our Group to, or received by, our Directors or the five highest individuals as an inducement to join or upon joining our Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Track Record Period.

For additional information on Directors' remuneration during the Track Record Period as well as information on the five highest paid individuals, please refer to the Accountants' Report set out in Appendix I to this prospectus.

DIRECTORS AND SENIOR MANAGEMENT
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SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. Further information on the Share Option Scheme is set forth in the paragraph headed “D. Share Option Scheme” in Appendix IV to this prospectus.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as is known to our Directors or chief executive of our Company, immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Over-allotment Option or any option that may be granted under the Share Option Scheme), the following persons will have an interest or short position in our Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who/which is expected, directly or indirectly, to be interested in 10% or more of the issued voting shares of any other member of our Group:

Person/corporation	Capacity/nature of interest	Number of Shares held as at the Latest Practicable Date	Number of Shares held immediately prior to the Capitalisation Issue and the Share Offer	Number of Shares held immediately after completion of the Capitalisation Issue and the Share Offer (Note 1)	Percentage of interests in our Company immediately after completion of the Capitalisation Issue and the Share Offer
Modern Expression (Note 2)	Beneficial owner	7,960 Shares	7,960 Shares	213,640,000 (L)	53.41%
Dr. Chan	Interest in controlled corporation/ interest of spouse (Notes 2 and 3)	7,960 Shares	7,960 Shares	213,640,000 (L)	53.41%
Ms. Cheng	Interest in controlled corporation/ interest of spouse (Notes 2 and 3)	7,960 Shares	7,960 Shares	213,640,000 (L)	53.41%

Notes:

1. The letter “L” denotes a person’s/corporation’s “long position” (as defined under Part XV of the SFO) in our Shares.
2. Our Company will be owned as to 53.41% by Modern Expression immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Over-allotment Option and any option that may be granted under the Share Option Scheme). Modern Expression is wholly-owned by Dr. Chan and Ms. Cheng jointly. By virtue of the SFO, Dr. Chan and Ms. Cheng are deemed to be interested in the same number of Shares held by Modern Expression.
3. Ms. Cheng is the spouse of Dr. Chan. Each of Dr. Chan and Ms. Cheng is deemed to be interested in all our Shares in which his or her spouse is interested under the SFO.

Save as disclosed above, our Directors are not aware of any person/corporation who/which will, immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme), have an interest or short position in our Shares or underlying Shares which fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who/which is expected, directly or indirectly, to be interested in 10% or more of the issued voting shares of any other member of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

SHARE CAPITAL

SHARE CAPITAL

The tables below set forth information with respect to the share capital of our Company after completion of the Capitalisation Issue and the Share Offer.

Authorised share capital:

HK\$

4,000,000,000	Shares of HK\$0.01 each	40,000,000
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Assuming the Over-allotment Option is not exercised and without taking into account any Share that may be allotted and issued upon the exercise of any option that may be granted under the Share Option Scheme, our Company's issued share capital immediately after completion of the Capitalisation Issue and the Share Offer will be as follows:

Shares		HK\$
11,178	Shares in issue as at the Latest Practicable Date	111.78
299,988,822	Shares to be issued pursuant to the Capitalisation Issue	2,999,888.22
100,000,000	Shares to be issued pursuant to the Share Offer	1,000,000
400,000,000	Total	4,000,000

Assuming the Over-allotment Option is exercised in full and without taking into any Share that may be allotted and issued upon the exercise of any option that may be granted under the Share Option Scheme, the issued share capital of our Company immediately after completion of the Capitalisation Issue and the Share Offer will be as follows:

Shares		HK\$
11,178	Shares in issue as at the Latest Practicable Date	111.78
299,988,822	Shares to be issued pursuant to the Capitalisation Issue	2,999,888.22
100,000,000	Shares to be issued pursuant to the Share Offer	1,000,000
15,000,000	Shares to be issued upon exercise of the Over-allotment Option	150,000
415,000,000	Total	4,150,000

ASSUMPTIONS

The above tables assume that the Share Offer becomes unconditional and Shares are issued pursuant to the Share Offer. It takes no account of any Share that may be issued or repurchased by our Company pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

SHARE CAPITAL

MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08(1)(a) of the Listing Rules, at the time of Listing and at all times thereafter, our Company must maintain the minimum prescribed percentage of at least 25% of the total number of issued Shares in the hands of the public.

RANKING

The Offer Shares are ordinary Shares and rank equally with all Shares currently in issue or to be issued and, in particular, will rank equally for all dividends or other distributions declared, made or paid on our Shares in respect of a record date which falls after the date of this prospectus.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarised in the paragraph headed “D. Share Option Scheme” in Appendix IV to this prospectus.

Our Company did not have any outstanding share option, warrant, convertible instrument or similar right convertible into our Shares as at the Latest Practicable Date.

GENERAL MANDATE TO ISSUE SHARES

Subject to the Share offer becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares in aggregate not exceeding:

- (a) 20% of the total number of Shares in issue immediately after completion of the Capitalisation Issue and the Share Offer (assuming the Over-allotment Option is not exercised and without taking into account any Share that may be allotted and issued upon the exercise of any option which may be granted under the Share Option Scheme); and
- (b) the aggregate number of issued Shares which may be repurchased by our Company (if any) under the mandate to repurchase Shares referred to below.

Our Directors may, in addition to our Shares which they are authorised to issue under the general mandate, allot, issue and deal in our Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of the subscription rights attaching to any warrant of our Company, scrip dividends or similar arrangements or options providing for the allotment and issue of Shares in lieu of the whole or in any part of any cash dividends or options to be granted under the Share Option Scheme and any option scheme or similar arrangement for the time being adopted.

This general mandate to issue Shares will remain in effect until whichever is the earliest of:

- (a) the conclusion of our next annual general meeting; or
- (b) the date by which our next annual general meeting is required by the Articles or any applicable law to be held; or

SHARE CAPITAL

- (c) the passing of an ordinary resolution of our Shareholders in a general meeting revoking, renewing or varying the authority given to our Directors.

Further details of this general mandate are set out in the paragraph headed “A. Further information about our Group — 6. Written resolutions of our Shareholders passed on 3 October 2019” in Appendix IV to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Share Offer becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all powers of our Company to repurchase, on the Stock Exchange and/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 in accordance with applicable laws and requirements of the Stock Exchange (or of such other stock exchange), Shares in the number not exceeding 10% of the total number of Shares in issue immediately after completion of the Capitalisation Issue and the Share Offer (assuming the Over-allotment Option is not exercised and without taking into account any Share that may be allotted and issued upon the exercise of any option which may be granted under the Share Option Scheme).

This general mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange which is recognised by the SFC and the Stock Exchange for this purpose in accordance with the applicable laws and requirements of the Stock Exchange (or such other stock exchange). A summary of the relevant Listing Rules is set out in the paragraph headed “A. Further information about our Group — 7. Repurchase of our Shares” in Appendix IV to this prospectus.

This general mandate to repurchase Shares will remain in effect until whichever is the earliest of:

- (a) the conclusion of our next annual general meeting; or
- (b) the date by which our next annual general meeting is required by the Articles or any applicable law to be held; or
- (c) the passing of an ordinary resolution of our Shareholders in a general meeting revoking, renewing or varying the authority given to our Directors.

Further details of this repurchase mandate are set out in the paragraph headed “A. Further information about our Group — 7. Repurchase of our Shares” in Appendix IV to this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

As a matter of the Companies Law, an exempted company is not required by law to hold any general meeting or class meeting. The holding of a general meeting or class meeting is prescribed for under the articles of association of a company. Accordingly, our Company will hold general meetings as prescribed for under the Articles, a summary of which is set out in Appendix III to this prospectus.

FINANCIAL INFORMATION

You should read the following discussion and analysis in conjunction with our consolidated financial information and notes thereto set forth in the Accountants' Report included as Appendix I to this prospectus and our selected historical consolidated financial information and operating data included elsewhere in this prospectus. Our consolidated financial information has been prepared in accordance with HKFRSs issued by Hong Kong Institute of Certified Public Accountants. Our financial information and the discussion and analysis below assume that our current structure had been in existence throughout the Track Record Period. For further information in relation to our Group's structure, please refer to the section headed "History, development and Reorganisation" in this prospectus.

The following discussion and analysis contain certain forward-looking statements that reflect our current views with respect to future events and our financial performance. 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. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. Please refer to the sections headed "Risk factors" and "Forward-looking statements" in this prospectus for discussions of those risks and uncertainties.

Our financial year begins from 1 January and ends on 31 December. All references to "FY2016", "FY2017" and "FY2018" mean the financial years ended 31 December 2016, 31 December 2017 and 31 December 2018, respectively, while "4M2018" and "4M2019" mean the four months ended 30 April 2018 and 30 April 2019, respectively.

OVERVIEW

We are an advanced product developer and industrial designer as well as manufacturer and supplier for a broad range of electrothermic household appliances mainly to overseas markets, covering over 30 countries and regions, to cater for the requirements of different customers. Most of our revenue during the Track Record Period was generated from our customers in developed countries, such as Germany, France, the United Kingdom and the Netherlands. Our Directors are of view that our products are able to meet the strict quality and safety standards in the developed countries, which allow us to stand out from other competitors.

Our electrothermic household products can be grouped into two categories, namely: (i) garment care appliances, including steam generator irons, garment steamers and steam irons; and (ii) cooking appliances, including coffee machines, steam cooking appliances and other cooking appliances. Substantially all of these products are rooted on thermodynamics technology which involves the measurement and physics of converting thermal energy to and from other forms of energy and the way it affects the state of matter (e.g. water and steam).

With over 10 years of operating history, our Group has developed a unique set of production know-hows to achieve the quality, functionality, appearance and price points of our products that have captured the loyalty of our customers. We offer our customers with "one-stop" production solutions

FINANCIAL INFORMATION

which mainly comprises product design and development, raw material sourcing and procurement, manufacturing, quality assurance, packaging and delivery. Where our design and development capability would be required by our customers, our business model can be divided to ODM and OEM businesses.

For the ODM business, our products are designed and developed by our research and development department based on our customers' general concept and our own design capacity. For the OEM business, we manufacture our products based on our customers' design with their requirements and specifications.

Business Transfer

As our Group is positioned to focus on the business of sale and manufacturing of electrothermic household appliances, as part of the Reorganisation, Town Ray (Huizhou) was established in 2017 and Tunbow (Huizhou) transferred its design, manufacture and sale of electrothermic household appliances business to Town Ray (Huizhou) in 2018.

On 21 August 2018, Tunbow (Huizhou) and Town Ray (Huizhou) entered into a business transfer agreement, pursuant to which Tunbow (Huizhou) agreed to transfer its design, manufacture and sale of electrothermic household appliances business including, amongst others, its customers, suppliers and information relating to its customers and suppliers, to Town Ray (Huizhou). The Business Transfer was completed on 31 December 2018. There is no material change in business operation before and after the Business Transfer, and our Directors do not anticipate any significant impact on our Group's financial performance from the business of manufacture and sales of electrothermic household appliances before and after the Business Transfer, where the Business Transfer had been assumed to have taken place at the beginning of the Track Record Period. For details, please refer to the paragraph headed "Basis of presentation" in this section.

FACTORS AFFECTING OUR GROUP'S RESULTS OF OPERATIONS

Our results of operations and financial performance are subject to the influence of numerous factors, including those set out below and in the section headed "Risk factors" in this prospectus:

Our Group relies on a few major customers and our performance will be materially and adversely affected if our Group's relationship with any one of them deteriorates

For FY2016, FY2017, FY2018 and 4M2019, sales to our Group's five largest customers accounted for approximately 70.9%, 67.5%, 59.0% and 71.1%, respectively, of our total revenue, and sales to our Group's largest customer accounted for approximately 23.5%, 20.7%, 15.5% and 33.7%, respectively, of our total revenue during the same periods. Although we have entered into cooperation or long-term agreements with some of our major customers, we could not guarantee that our customers will place us purchase orders on a sufficient amount.

If our Group's major customers cease to purchase or reduce substantially their order size in the future, whether due to their decision to change supplier or any other reason, our Group may not be able to seek alternative customers within a short period of time, the business and financial performance of our Group will be materially adversely affected.

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Furthermore, there is no assurance that these customers will not purchase from other suppliers whom offer lower prices than us or are believed to offer equal or superior products or services. Therefore, there is no certainty that we will continue to generate revenue from these customers.

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

Our Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer, rather than the industry or country in which the customers operate, and therefore significant concentrations of credit risk primarily arise when our Group has significant exposure to individual customers.

During the Track Record Period, our Group's credit term granted to our customers is 30 to 90 days in general. As at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019, the trade receivables of our Group amounted to approximately HK\$61.5 million, HK\$69.0 million, HK\$79.8 million and HK\$64.9 million, respectively, while the trade receivables turnover days were approximately 62.2 days, 70.2 days, 78.0 days and 53.9 days, respectively. Up to 31 August 2019, approximately 98.0% of trade receivables as at 30 April 2019 had been settled. Approximately 70.3%, 80.6%, 76.7% and 71.0% of the total trade receivables as at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019 were attributable to our Group's five largest customers of the respective years/period. The financial position, profitability and cash flow of our Group depend on whether customers will be able to settle the outstanding balances owed to our Group in a timely manner. If there is any delay or default in payments made by the customers, the financial position, profitability and cash flow of our Group may be materially and adversely affected.

We are subject to risk of fluctuations in the exchange rate

During the Track Record Period, approximately 98.3%, 92.9%, 92.9% and 93.2% of our Group's revenue was denominated in USD, while approximately 95.7%, 87.5%, 90.3% and 82.2% of our costs were denominated in RMB. Our profit margins will be adversely affected to the extent that we are unable to increase the USD denominated selling prices of our products sold to overseas customers or shift the exchange risk to our customers to account for the appreciation of the RMB against the USD. Any significant fluctuation in the exchange rates between the RMB and USD may result in increases or decreases in our reported costs and earnings, and may also materially affect our business and results of operations.

Our foreign exchange gains in FY2016 and FY2018 were approximately HK\$3.3 million and HK\$4.3 million, respectively; while our foreign exchange losses in FY2017 and 4M2019 were approximately HK\$3.7 million and HK\$1.9 million, respectively.

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The following table demonstrates the sensitivity at the end of each of the financial year/period to a reasonable possible change in the RMB and USD exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities). The hypothetical fluctuation rates are set at 5%, 10% and 15%, respectively.

	HKD weakens/strengthens against					
	RMB	USD	RMB	USD	RMB	USD
Hypotheticals fluctuations	+/-5%		+/-10%		+/-15%	
Increase/decrease in profit before tax						
FY2016 (HK\$'000)	+/-187	+/-5,085	+/-374	+/-10,171	+/-561	+/-15,256
FY2017 (HK\$'000)	+/-447	+/-3,134	+/-893	+/-6,267	+/-1,340	+/-9,401
FY2018 (HK\$'000)	-/+434	+/-2,379	-/+869	+/-4,759	-/+1,303	+/-7,138
4M2019 (HK\$'000)	+/-473	+/-3,363	+/-945	+/-6,726	+/-1,418	+/-10,089

Our Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure closely to keep the net exposure to an acceptable level.

We are subject to risks of fluctuations in the prices of labour costs and materials

Our direct labour costs primarily consist of wages and salaries, other allowances and welfares. For each of FY2016, FY2017, FY2018 and 4M2019, our direct labour costs amounted to approximately HK\$50.3 million, HK\$48.3 million, HK\$50.6 million and HK\$18.9 million, respectively. In the event that there is any significant increase in the staff costs, our operating expenses and pressure on our operating cash flows will increase, thereby materially and adversely affecting our business, results of operations, financial position and prospects.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the direct labour costs on our profits during the Track Record Period. The hypothetical fluctuation rate is set at 4.8%, which corresponds to the largest historical change in direct labour cost for our production during FY2016, FY2017 and FY2018 and our Directors consider it reasonable for the purpose of this sensitivity analysis:

Hypothetical fluctuations	+4.8%	-4.8%
Increase/decrease in net profit before tax		
	HK\$'000	HK\$'000
FY2016	(2,415)	2,415
FY2017	(2,319)	2,319
FY2018	(2,431)	2,431
4M2018	(777)	777
4M2019	(906)	906

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During the Track Record Period, the primary raw materials used in our production process are mainly electrical parts, plastic raw materials and parts, metal raw materials and parts, power cords and lead wires, and electronic parts. For FY2016, FY2017, FY2018 and 4M2019, our direct material costs represented 63.2%, 64.1%, 65.5% and 68.1% of our cost of sales, respectively. If prices of our material supply substantially increase, we may incur additional costs to acquire sufficient quantity of these materials to meet our production needs. In addition, if we cannot identify alternative sources of quality materials when needed, at acceptable prices or with the required quantity and quality, or at all, the resulting loss of production volume may materially and adversely affect our ability to deliver products to our customers in a timely manner, or at all, and therefore our business, financial condition, results of operations and prospects could be materially and adversely affected. The impact of any volatility in the prices of materials we rely on or the reduction in the demand for certain products caused by such price volatility of materials could result in a loss of revenue and profitability and could adversely affect our results of operations.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the material costs on our profits during the Track Record Period. The hypothetical fluctuation rate is set at 8.3%, which corresponds to the largest historical change in direct material costs for our production during FY2016, FY2017 and FY2018, our Directors considered it reasonable for the purpose of this sensitivity analysis:

Hypothetical fluctuations	+8.3%	-8.3%
Increase/decrease in net profit before tax		
	<i>HK\$'000</i>	<i>HK\$'000</i>
FY2016	(13,325)	13,325
FY2017	(13,464)	13,464
FY2018	(14,581)	14,581
4M2018	(4,251)	4,251
4M2019	(5,622)	5,622

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands on 28 September 2017 as an exempted company with limited liability under the Companies Law.

In preparation for the Listing of our Company's shares on the Stock Exchange, a business transfer agreement was entered into between Tunbow (Huizhou) and Town Ray (Huizhou), pursuant to which the business of manufacture and sale of electrothermic household products formerly operated by Tunbow (Huizhou) (the "**PRC Manufacture and Sale Business**") was transferred to Town Ray (Huizhou) and the Business Transfer was completed on 31 December 2018.

Our companies now comprising our Group and the PRC Manufacture and Sale Business were under the common control of Tunbow Investments (BVI) before and after the Reorganisation. Accordingly, the financial information has been prepared on a consolidated basis by applying the principles of merger accounting as if the Reorganisation and the Business Transfer had been completed at the beginning of the Track Record Period.

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The results and cash flows of the PRC Manufacture and Sale Business are included in the consolidated financial statements of our Group since the date when the PRC Manufacture and Sale Business first came under the common control of Tunbow Investments (BVI). The assets and liabilities of the PRC Manufacture and Sale Business are included in the consolidated statements of financial position of our Group using the existing book values from Tunbow Investments (BVI)'s perspective. The assets and liabilities which were not transferred, assigned or novated to Town Ray (Huizhou) as at 31 December 2018 were accounted for as a deemed distribution to Tunbow Investments (BVI).

The assets and liabilities of Tunbow (Huizhou) set out below were not transferred, assigned or novated to Town Ray (Huizhou) as at 31 December 2018 and were treated as a deemed distribution to Tunbow Investments (BVI) in connection with the Reorganisation:

	31 December 2018 <i>HK\$'000</i>
Net assets distributed:	
Property, plant and equipment	104,505
Right-of-use assets	14,985
Deferred tax assets	987
Prepayments, deposits and other receivables	829
Due from related companies	81,080
Tax recoverable	1,455
Pledged deposit	37,891
Cash and cash equivalents	61,764
Trade payables	(2,091)
Other payables and accruals	(8,406)
Due to related companies	(98,401)
Deferred tax liabilities	(656)
	193,942

Upon completion of the Reorganisation before the Listing, our Company became the holding company of the companies now comprising our Group. For further details of our Reorganisation, please refer to the section headed "History, development and Reorganisation" in this prospectus.

The consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of our Group for the Track Record Period include the results and cash flows of all companies now comprising our Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of Tunbow Investments (BVI), where this is a shorter period, i.e. the income and expenses and cash flow of the business relevant to the PRC Manufacture and Sale Business were included in, and there were no income and expenses and cash flow of Tunbow (Huizhou) which had been excluded from, the financial information of our Group throughout the Track Record Period. The consolidated statements of financial position of our Group as at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019 have been prepared to present the assets and liabilities of our subsidiaries and/or businesses using the existing book values from Tunbow Investments (BVI)'s perspective.

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Our consolidated financial statements were prepared in accordance with the HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2019, together with the relevant transitional provisions, have been early adopted by our Group in the preparation of our consolidated financial statements throughout the Track Record Period.

Our consolidated financial statements were prepared under the historical cost convention, except for structured deposits which have been measured at fair value.

For more information on the basis of presentation of the financial information included in this section, please refer to notes 2.1 and 2.2 of the Accountants’ Report as set out in Appendix I to this prospectus.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

The discussion and analysis of our financial position and results of operations are based on the consolidated financial statements prepared using the significant accounting policies, estimates and judgements set forth in notes 2.4 and 3 of the Accountants’ Report as set out in Appendix I to this prospectus, which conform with HKFRS.

Below is a summary of certain significant accounting policies that we believe are important to the presentation of our financial results and positions. We also have other accounting policies, estimates and judgements that we consider important, details of which are set forth in notes 2.4 and 3 of the Accountants’ Report as set out in Appendix I to this prospectus.

Revenue recognition

Our revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which our Group expects to be entitled in exchange for those goods or services.

Sales of electrothermic household appliances

Our revenue from the sale of electrothermic household appliances is recognised at the point in time when control of the asset is transferred to our customer, generally on delivery of the electrothermic household appliances.

We had adopted HKFRS 15 on a consistent basis throughout the whole Track Record Period. Based on the assessment by our Directors, the adoption of HKFRS 15 did not have any material impact on our financial position and performance when compared to that of HKAS 18.

Property, plant and equipment

Our property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4.5%
Leasehold improvements	Over the shorter of the lease terms and 4.5%
Plant and machinery	9%
Furniture, fixtures and equipment	18% to 20%
Moulds	18% to 20%

Impairment of financial assets

Our Group recognises an allowance for expected credit losses (“ECLs”) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that our Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each financial period end date, our Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, our Group compares the risk of a default occurring on the financial instrument as at the financial period end date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

We had adopted HKFRS 9 on a consistent basis throughout the whole Track Record Period. Based on the assessment by our Directors, the adoption of HKFRS 9 did not have any material impact on our financial position and performance when compared to that of HKAS 39.

Inventories

Our inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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Right-of-use assets

Our Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Lease liabilities

At the commencement date of the lease, our Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

Early adoption of HKFRS 16

HKFRS 16 replaced HKAS 17 “Leases” and related interpretations. Under HKAS 17, operating lease commitments are disclosed separately in notes to the consolidated financial statement and are recognised outside of the consolidated statement of financial position. Under HKFRS 16, all leases (except for those with lease term of less than 12 months or of low value) must be recognised in the form of an asset (being the right-of-use assets in our financial statements) and a financial liability (being the lease liabilities in our financial statements), and, accordingly, each lease will be mapped in our consolidated statements of financial position.

Following our early adoption of HKFRS 16, leases are recognised in the form of an asset (being the right-of-use assets) together with financial liabilities (being lease liabilities) and in respect of which depreciation of right-of-use assets and finance costs are charged instead of rental expenses. Accordingly, certain financial ratios are also affected. The table set forth below summarised the impacts of the adoption of HKFRS 16 on certain key items of our consolidated financial statements:

	Net profit (loss)			
	FY2016	FY2017	FY2018	4M2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As if reported under HKAS 17	22,971	49,460	38,077	5,496
Currently reported under HKFRS 16	<u>22,967</u>	<u>49,464</u>	<u>38,039</u>	<u>5,248</u>
Difference	<u>(4)</u>	<u>4</u>	<u>(38)</u>	<u>(248)</u>

	Total assets				Total liabilities			
	As at 31 December			As at 30 April	As at 31 December			As at 30 April
	2016	2017	2018	2019	2016	2017	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As if reported under HKAS 17	425,230	495,967	239,688	272,524	175,159	224,103	103,178	129,708
Currently reported under HKFRS 16	<u>425,763</u>	<u>495,967</u>	<u>269,899</u>	<u>302,913</u>	<u>175,696</u>	<u>224,103</u>	<u>133,427</u>	<u>160,383</u>
Difference	<u>533</u>	<u>—</u>	<u>30,211</u>	<u>30,389</u>	<u>537</u>	<u>—</u>	<u>30,249</u>	<u>30,675</u>

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In particular, the above-mentioned differences are principally due to the differences in our rights-of-use assets, lease liabilities, depreciation and rental and related expenses for workshop, godown and ancillary office during the Track Record Period as a result of the early adoption of HKFRS 16, and the impact of which are further summarised below:

	Rights-of-use assets							
	As at 31 December			As at				
	2016	2017	2018	30 April				
	HK\$'000	HK\$'000	HK\$'000	2019				
				HK\$'000				
As if reported under HKAS 17	—	—	—	—				
Currently reported under HKFRS 16								
Prepaid land lease payments	15,459	16,125	—	—				
Leased properties	533	—	30,211	30,389				
Difference	15,992	16,125	30,211	30,389				
	Lease liabilities							
	As at 31 December			As at				
	2016	2017	2018	30 April				
	HK\$'000	HK\$'000	HK\$'000	2019				
				HK\$'000				
As if reported under HKAS 17	—	—	—	—				
Currently reported under HKFRS 16	537	—	30,249	30,675				
Difference	537	—	30,249	30,675				
	Rental and related expenses for workshop, godown and ancillary office							
	Depreciation							
	FY2016	FY2017	FY2018	4M2019	FY2016	FY2017	FY2018	4M2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As if reported under HKAS 17	21,213	17,114	16,486	2,814	540	540	1,005	4,123
Currently reported under HKFRS 16	21,746	17,647	17,435	6,639	—	—	—	—
Difference	533	533	949	3,825	(540)	(540)	(1,005)	(4,123)

Certain financial ratios would also be affected following the early adoption of HKFRS 16. In particular, (i) our current ratio and quick ratio were slightly reduced in FY2018 and 4M2019 as a result of the recognition of the current portion of the lease liabilities; (ii) our return on total assets were slightly reduced in FY2018 and 4M2019 as a results of the recognition of right-of-use assets; (iii) our interest coverage ratios were reduced during the Track Record Period as a result of the increase in interest expenses on lease liabilities; (iv) our gearing ratio was slightly increased for 4M2019 as a result of the reduction in total equity; and (v) our return on equity was reduced slightly for 4M2019 as a result of the decrease in profit following the adoption of HKFRS 16.

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Taking into account and apart from the abovementioned impact, our Directors consider that the adoption of HKFRS 16 has no significant impact on our financial position and performance when compared to that of HKAS 17.

The tables below set out our Group's (i) consolidated statements of profit or loss; and (ii) consolidated statements of comprehensive income during the Track Record Period, which was derived from the Accountants' Report as set out in Appendix I in this prospectus:

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	FY2016	FY2017	FY2018	4M2018	4M2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	361,071	358,801	373,462	106,563	144,562
Cost of sales	<u>(253,916)</u>	<u>(253,210)</u>	<u>(268,117)</u>	<u>(80,834)</u>	<u>(99,449)</u>
Gross profit	107,155	105,591	105,345	25,729	45,113
Other income and gains, net	4,888	32,605	8,202	1,009	1,778
Selling and distribution costs	(10,121)	(7,711)	(8,691)	(2,665)	(2,426)
General and administrative expenses	(58,424)	(65,746)	(57,176)	(18,026)	(30,082)
Other expenses, net	(8,394)	(5,430)	(865)	(2,627)	(2,987)
Finance costs	<u>(1,046)</u>	<u>(294)</u>	<u>(885)</u>	<u>(293)</u>	<u>(1,093)</u>
Profit before tax	34,058	59,015	45,930	3,127	10,303
Income tax expense	<u>(11,091)</u>	<u>(9,551)</u>	<u>(7,891)</u>	<u>(236)</u>	<u>(5,055)</u>
Profit for the year/period	<u>22,967</u>	<u>49,464</u>	<u>38,039</u>	<u>2,891</u>	<u>5,248</u>
Non-HKFRS measure:					
Profit for the year/period	22,967	49,464	38,039	2,891	5,248
<i>After adjustment of one-off gain/loss</i>					
Less: Gain on disposal of held for sales assets (net of tax effect)	—	(22,522)	—	—	—
Add: Loss on disposal of property, plant and equipment, and associated expenses (net of tax effect)	6,474	1,268	65	—	—
Add: Listing expenses	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>11,826</u>
Adjusted net profit for the year/period	<u>29,441</u>	<u>28,210</u>	<u>38,104</u>	<u>2,891</u>	<u>17,074</u>

We believe that the presentation of non-HKFRS measure in conjunction with the corresponding HKFRS measures provides useful information to investor regarding financial and business trends and results of operations, by eliminating (i) one-off gain on disposal of held for sales assets; (ii) loss on

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disposal of property, plant and equipment, and associated expenses; and (iii) Listing expenses, which our Directors consider irrelevant to our operating performance. We also believe that such non-HKFRS measure is appropriate for evaluating our Group's operating performance.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	FY2016 <i>HK\$'000</i>	FY2017 <i>HK\$'000</i>	FY2018 <i>HK\$'000</i>	4M2018 <i>HK\$'000</i>	4M2019 <i>HK\$'000</i>
Profit for the year/period	22,967	49,464	38,039	2,891	5,248
Other comprehensive income/(loss)					
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations	<u>(12,955)</u>	<u>14,023</u>	<u>(10,260)</u>	<u>7,778</u>	<u>810</u>
Total comprehensive income for the year/period	<u><u>10,012</u></u>	<u><u>63,487</u></u>	<u><u>27,779</u></u>	<u><u>10,669</u></u>	<u><u>6,058</u></u>

Exchange differences on translation of foreign operations

Our financial information is presented in Hong Kong dollars. Each entity in our Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in our Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

The functional currency of our operating PRC subsidiaries is RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into HKD at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into HKD at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve.

For details, please refer to notes 2.4 of the Accountants' Report as set out in Appendix I to this prospectus.

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DESCRIPTION OF SELECTED ITEMS FROM CONSOLIDATED STATEMENTS OF PROFITS OR LOSS

Revenue

During the Track Record Period, our revenue was mainly generated from manufacturing and selling of electrothermic household appliances. Our total revenue amounted to approximately HK\$361.1 million, HK\$358.8 million, HK\$373.5 million and HK\$144.6 million for FY2016, FY2017, FY2018 and 4M2019, respectively.

By product category

Our products can be grouped into two categories, namely: (i) garment care appliances, including steam generator irons, garment steamers and steam irons; and (ii) cooking appliances, including coffee machines, food steamers, soup makers, baby food makers and milk bottle warmers. The below table sets forth the breakdown of our revenue attributable to products under different categories:

	FY2016		FY2017		FY2018		4M2018		4M2019	
	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total
Garment care appliances										
— Steam generator irons	71,210	19.7	55,791	15.6	70,745	18.9	23,605	22.2	15,232	10.5
— Garment steamers	44,025	12.2	44,988	12.5	11,970	3.2	7,562	7.1	2,117	1.5
— Steam irons	119,383	33.1	106,251	29.6	88,853	23.8	29,777	27.9	30,240	20.9
Sub-total of garment care appliances	234,618	65.0	207,030	57.7	171,568	45.9	60,944	57.2	47,589	32.9
Cooking appliances										
— Coffee machines	21,499	6.0	38,924	10.8	115,155	30.8	7,450	7.0	72,444	50.1
— Steam cooking appliances ^(Note 1)	87,342	24.1	97,879	27.3	74,904	20.1	31,995	30.0	17,951	12.4
— Other cooking appliances ^(Note 2)	14,383	4.0	14,372	4.0	11,656	3.1	6,020	5.7	6,487	4.5
Sub-total of cooking appliances	123,224	34.1	151,175	42.1	201,715	54.0	45,465	42.7	96,882	67.0
Others ^(Note 3)	3,229	0.9	596	0.2	179	0.1	154	0.1	91	0.1
Total	361,071	100.0	358,801	100.0	373,462	100.0	106,563	100.0	144,562	100.0

Notes:

- (1) Steam cooking appliances refer to food steamers and baby food makers.
- (2) Others cooking appliances refer to soup makers and milk bottle warmers.
- (3) Others mainly refer to consumer electronics products, cleaning products and air purifiers.

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During the Track Record Period, our business has experienced a stable growth. For FY2016, FY2017, FY2018 and 4M2019, our revenue was approximately HK\$361.1 million, HK\$358.8 million, HK\$373.5 million and HK\$144.6 million, respectively. Revenue from the sales of garment care appliances accounted for approximately HK\$234.6 million, HK\$207.0 million, HK\$171.6 million and HK\$47.6 million for FY2016, FY2017, FY2018 and 4M2019, respectively, representing 65.0%, 57.7%, 45.9% and 32.9% of total revenue of the corresponding periods. Revenue from the sales of cooking appliances accounted for approximately HK\$123.2 million, HK\$151.2 million, HK\$201.7 million and HK\$96.9 million for FY2016, FY2017, FY2018 and 4M2019, respectively, representing 34.1%, 42.1%, 54.0% and 67.0% of total revenue of the corresponding periods. The increase during the Track Record Period was attributable to the significant increase in the sales of coffee machines mainly as a result of the launch of new models of automatic coffee machine (third generation) which was well recognised by our customers.

By business segments

Where the design plan of a product would be provided by our customers, our business can be divided to two business models, namely ODM and OEM. For the ODM business, our products are designed and developed by our research and development department based on our customers' general concept and our own design capacity. For the OEM business, we in general manufacture our products based on our customers' design with their requirements and specifications. In some cases if the customers do not provide us with detailed specifications, requirements, and/or design concepts of the products necessary for formulating the production plans, our research and development department will work closely with the customers to adjust, modify or alternate the relevant specifications, requirements, and/or design concepts. The following table sets forth a breakdown of our revenue by business segments during the Track Record Period:

	FY2016		FY2017		FY2018		4M2018		4M2019	
	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	% of total
ODM business	166,328	46.1	151,145	42.1	213,911	57.3	48,307	45.3	94,807	65.6
OEM business	194,743	53.9	207,656	57.9	159,551	42.7	58,256	54.7	49,755	34.4
Total	361,071	100.0	358,801	100.0	373,462	100.0	106,563	100.0	144,562	100.0

For FY2016, FY2017, FY2018 and 4M2019, our revenue from ODM business was approximately HK\$166.3 million, HK\$151.1 million, HK\$213.9 million and HK\$94.8 million, respectively, representing 46.1%, 42.1%, 57.3% and 65.6% of total revenue of the corresponding periods. Revenue from our OEM business accounted for approximately HK\$194.7 million, HK\$207.7 million, HK\$159.6 million and HK\$49.8 million for FY2016, FY2017, FY2018 and 4M2019, respectively, representing 53.9%, 57.9%, 42.7% and 34.4% of total revenue of the corresponding periods.

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By geographical locations

The following table sets forth our revenue from different geographic locations for the period indicated:

	FY2016		FY2017		FY2018		4M2018		4M2019	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Europe ^(Note 1)	271,143	75.1	261,361	72.9	308,373	82.6	79,276	74.4	126,132	87.3
Asia ^(Note 2)	51,201	14.2	53,541	14.9	32,148	8.6	15,226	14.3	7,845	5.4
United States	21,583	6.0	33,444	9.3	28,802	7.7	8,800	8.2	9,971	6.9
Others ^(Note 3)	17,144	4.7	10,455	2.9	4,139	1.1	3,261	3.1	614	0.4
Total	361,071	100.0	358,801	100.0	373,462	100.0	106,563	100.0	144,562	100.0

Notes:

1. It mainly includes Germany, France, the United Kingdom, the Netherlands, Turkey, Italy, Czech Republic and Switzerland.
2. It mainly includes Hong Kong, India, South Korea, the PRC, Taiwan, Thailand, Singapore, Israel and United Arab Emirates.
3. It mainly includes Argentina and Australia.

Please refer to the paragraph headed “Period to period comparison of results of operations” in this section for a discussion of changes in our revenue during the Track Record Period.

Cost of sales

Our cost of sales primarily consists of direct material, direct labour costs, depreciation, overhead and utilities. During the Track Record Period, the breakdown of our cost of sales were as follows:

	FY2016		FY2017		FY2018		4M2018		4M2019	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Direct material	160,541	63.2	162,217	64.1	175,671	65.5	51,221	63.4	67,738	68.1
Direct labour costs	50,318	19.8	48,322	19.1	50,641	18.9	16,184	20.0	18,872	19.0
Depreciation	18,568	7.3	14,659	5.8	14,474	5.4	5,903	7.3	5,919	5.9
Overhead	15,452	6.1	19,292	7.6	19,120	7.1	4,909	6.1	4,478	4.5
Utilities	9,037	3.6	8,720	3.4	8,211	3.1	2,617	3.2	2,442	2.5
	253,916	100.0	253,210	100.0	268,117	100.0	80,834	100.0	99,449	100.0

Direct material

The largest component of our cost of sales was direct material, which amounted to approximately HK\$160.5 million, HK\$162.2 million, HK\$175.7 million and HK\$67.7 million, representing 63.2%, 64.1%, 65.5% and 68.1% of our cost of sales for FY2016, FY2017, FY2018 and 4M2019, respectively. Our direct material costs mainly represent the cost of our principal raw materials used in the production of our products, which are mainly electrical parts, plastic raw materials and parts, metal raw materials and parts, power cords and lead wires, and electronic parts.

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Direct labour costs

Direct labour costs mainly comprise salaries, wages, bonus and allowance provided for our workers who are directly involved in the production.

Depreciation

Depreciation represents depreciation charges in respect of our property, plant and equipment which are directly being used in the production and right-of-use assets.

Utilities

Utilities represent the electricity and water charges for our Group's production during the Track Record Period.

Overhead

Overhead represents the transportation fees of raw materials, repair and maintenance, and customs declaration.

Please refer to the paragraph headed "Period to period comparison of results of operations" in this section for a discussion of the material changes in the amount of our costs of sales during the Track Record Period.

Gross profit and gross profit margin

The table below set forth a breakdown of our Group's gross profit and gross profit margin during the Track Record Period by products under different categories:

	FY2016		FY2017		FY2018		4M2018		4M2019	
	<i>Gross</i>	<i>Gross</i>	<i>Gross</i>	<i>Gross</i>	<i>Gross</i>	<i>Gross</i>	<i>Gross</i>	<i>Gross</i>	<i>Gross</i>	
	<i>profit</i>	<i>profit</i>	<i>profit</i>	<i>profit</i>	<i>profit</i>	<i>profit</i>	<i>profit</i>	<i>profit</i>	<i>profit</i>	
	<i>margin</i>	<i>margin</i>	<i>margin</i>	<i>margin</i>	<i>margin</i>	<i>margin</i>	<i>margin</i>	<i>margin</i>	<i>margin</i>	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Garment care appliances										
— Steam generator irons	22,738	31.9	16,618	29.8	20,867	29.5	6,014	25.5	4,750	31.2
— Garment steamers	12,235	27.8	12,313	27.4	3,010	25.1	1,704	22.5	552	26.1
— Steam irons	<u>35,452</u>	29.7	<u>30,399</u>	28.6	<u>22,433</u>	25.2	<u>6,857</u>	23.0	<u>8,720</u>	28.8
Sub-total of garment care appliances	70,425	30.0	59,330	28.7	46,310	27.0	14,575	23.9	14,022	29.5
Cooking appliances										
— Coffee machines	6,106	28.4	11,588	29.8	35,420	30.8	1,974	26.5	23,736	32.8
— Steam cooking appliances ^(Note 1)	25,916	29.7	30,637	31.3	20,546	27.4	7,736	24.2	5,562	31.0
— Others cooking appliances ^(Note 2)	<u>3,923</u>	27.3	<u>3,896</u>	27.1	<u>3,032</u>	26.0	<u>1,414</u>	23.5	<u>1,773</u>	27.3
Sub-total of cooking appliances	35,945	29.2	46,121	30.5	58,998	29.2	11,124	24.5	31,071	32.1
Others ^(Note 3)	<u>785</u>	24.3	<u>140</u>	23.5	<u>37</u>	20.7	<u>30</u>	19.6	<u>20</u>	21.7
Total	<u><u>107,155</u></u>	29.7	<u><u>105,591</u></u>	29.4	<u><u>105,345</u></u>	28.2	<u><u>25,729</u></u>	24.1	<u><u>45,113</u></u>	31.2

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Notes:

- (1) Steam cooking appliances refer to food steamers and baby food makers.
- (2) Others cooking appliances refer to soup makers and milk bottle warmers.
- (3) Others mainly refer to consumer electronic products, cleaning products and air purifiers.

For FY2016, FY2017, FY2018 and 4M2019, our gross profit was approximately HK\$107.2 million, HK\$105.6 million, HK\$105.3 million and HK\$45.1 million, respectively. Gross profit from the sale of garment care appliances accounted for approximately HK\$70.4 million, HK\$59.3 million, HK\$46.3 million and HK\$14.0 million for FY2016, FY2017, FY2018 and 4M2019, respectively. Gross profit from the sale of cooking appliances accounted for approximately HK\$35.9 million, HK\$46.1 million, HK\$59.0 million and HK\$31.1 million for FY2016, FY2017, FY2018 and 4M2019, respectively.

The table below set forth a breakdown of our Group's gross profit and gross profit margin during the Track Record Period by business segment:

	FY2016		FY2017		FY2018		4M2018		4M2019	
	<i>Gross profit</i>	<i>Gross profit</i>	<i>Gross profit</i>	<i>Gross profit</i>	<i>Gross profit</i>	<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>
ODM business	49,296	29.6	46,191	30.6	61,909	28.9	11,833	24.5	29,718	31.3
OEM business	<u>57,859</u>	29.7	<u>59,400</u>	28.6	<u>43,436</u>	27.2	<u>13,896</u>	23.9	<u>15,395</u>	30.9
Total	<u>107,155</u>	29.7	<u>105,591</u>	29.4	<u>105,345</u>	28.2	<u>25,729</u>	24.1	<u>45,113</u>	31.2

For FY2016, FY2017, FY2018 and 4M2019, our gross profit from ODM business was approximately HK\$49.3 million, HK\$46.2 million, HK\$61.9 million and HK\$29.7 million, respectively. Gross profit from our OEM business accounted for approximately HK\$57.9 million, HK\$59.4 million, HK\$43.4 million and HK\$15.4 million for FY2016, FY2017, FY2018 and 4M2019, respectively. The gross profit margin of OEM business has been, in general, at similar level as the gross profit margin of ODM business during the Track Record Period because our Group had high involvement in product development for the OEM products.

Please refer to the paragraph headed "Period to period comparison of results of operations" in this section for a discussion of the material changes in our Group's gross profit and gross profit margin during the Track Record Period.

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Other income and gains

The table below sets forth a breakdown of our Group's other income and gains by nature during the Track Record Period:

	FY2016		FY2017		FY2018		4M2018		4M2019	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Bank interest income	44	0.9	69	0.2	1,066	13.0	339	33.6	77	4.4
Foreign exchange difference, net	3,298	67.5	—	—	4,332	52.8	—	—	—	—
Fair value gains on structured deposits	70	1.4	1,038	3.2	333	4.1	141	14.0	8	0.4
Gain on disposal of assets held for sale	—	—	30,029	92.1	—	—	—	—	—	—
Consultancy income	575	11.8	890	2.7	1,243	15.1	259	25.7	295	16.6
Others	901	18.4	579	1.8	1,228	15.0	270	26.7	1,398	78.6
	<u>4,888</u>	<u>100.0</u>	<u>32,605</u>	<u>100.0</u>	<u>8,202</u>	<u>100.0</u>	<u>1,009</u>	<u>100.0</u>	<u>1,778</u>	<u>100.0</u>

Our Group's other income and gains mainly comprise bank interest income, exchange gain, fair value gains from structured deposit, gain on disposal of assets held for sale and consultancy income for obtaining the certificates for our customers' products upon their request.

Please refer to the paragraph headed "Period to period comparison of results of operations — FY2017 compared to FY2016" in this section for a discussion of the material changes in our Group's other income and gains during the Track Record Period.

Selling and distribution expenses

The table below sets forth a breakdown of our Group's selling and distribution expenses by nature during the Track Record Period:

	FY2016		FY2017		FY2018		4M2018		4M2019	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Advertising and promotion expenses	2,635	26.0	785	10.2	1,482	17.0	468	17.5	176	7.2
Commission	495	4.9	6	0.1	—	—	—	—	—	—
Transportation and custom costs	3,164	31.3	2,916	37.8	3,042	35.0	915	34.3	1,013	41.8
Staff costs	3,814	37.7	3,996	51.8	4,160	47.9	1,281	48.1	1,235	50.9
Others	13	0.1	8	0.1	7	0.1	1	0.1	2	0.1
	<u>10,121</u>	<u>100.0</u>	<u>7,711</u>	<u>100.0</u>	<u>8,691</u>	<u>100.0</u>	<u>2,665</u>	<u>100.0</u>	<u>2,426</u>	<u>100.0</u>

Our Group's selling and distribution expenses mainly comprise advertising and promotion expenses, commission for referral of new products, transportation and custom costs for delivery of our products to our customers, and staff costs of our sales and marketing department.

Please refer to the paragraph headed "Period to period comparison of results of operations" in this section for a discussion of the material changes in our Group's selling and distribution expenses during the Track Record Period.

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General and administrative expenses

General and administrative expenses mainly include audit fee, staff costs and benefits, directors' remuneration and benefits, depreciation, office expenses, donations, entertainment expenses and staff welfare, legal and professional fees, property tax, land use tax and other taxes, share-based payment, transportation cost, and other administrative expenses. The following table sets out a breakdown of our general and administrative expenses for the years indicated:

	FY2016		FY2017		FY2018		4M2018		4M2019	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Audit fee	540	0.9	732	1.1	773	1.4	205	1.2	400	1.3
Staff costs and benefits	28,518	48.8	29,747	45.2	30,241	52.8	9,698	53.8	10,412	34.6
Directors' remuneration	4,579	7.9	5,406	8.2	5,598	9.8	1,665	9.2	1,807	6.0
Depreciation (excluding depreciation for plant and machinery)	3,178	5.4	2,988	4.5	2,961	5.2	1,070	5.9	720	2.4
Office expenses	5,773	9.9	3,481	5.3	3,811	6.7	1,052	5.8	1,166	3.9
Donations	2,827	4.8	293	0.5	63	0.1	2	0.1	—	—
Entertainment expenses and staff welfare	5,491	9.4	5,876	8.9	6,328	11.1	2,045	11.3	2,200	7.3
Legal and professional fees	881	1.5	977	1.5	1,230	2.1	166	0.9	199	0.7
Property tax, land use tax and other taxes	2,573	4.4	2,102	3.2	1,932	3.4	631	3.5	75	0.2
Share-based payment	—	—	10,050	15.3	—	—	—	—	—	—
Transportation cost	2,979	5.1	2,926	4.5	2,646	4.6	952	5.3	735	2.5
Listing expenses	—	—	—	—	—	—	—	—	11,826	39.3
Others	1,085	1.9	1,168	1.8	1,593	2.8	540	3.0	542	1.8
	<u>58,424</u>	<u>100.0</u>	<u>65,746</u>	<u>100.0</u>	<u>57,176</u>	<u>100.0</u>	<u>18,026</u>	<u>100.0</u>	<u>30,082</u>	<u>100.0</u>

Staff costs and benefits

Staff costs in administrative expenses include management, administrative and operational staff costs.

Directors' remuneration

Directors' remuneration and benefits include directors' salaries, allowance, bonus, mandatory provident fund contribution. For FY2016, FY2017, FY2018 and 4M2019, directors' remuneration and benefits (excluding share-based payment expense), which amounted to approximately HK\$4.6 million, HK\$5.4 million, HK\$5.6 million and HK\$1.8 million respectively, were recorded in administrative expenses under staff costs.

Depreciation

Depreciation in administrative expenses mainly represents depreciation of our leasehold improvement and right-of-use assets, office equipment and furnitures and fixtures.

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Office expenses

Office expenses mainly include catering expenses, rental and rates and utilities.

Please refer to the paragraph headed “Period to period comparison of results of operations” in this section for a discussion of the material changes in our Group’s administrative expenses during the Track Record Period.

Other expenses

Other expenses mainly include loss on disposal of property, plant and equipment, impairment losses recognised, exchange loss and others. The following table sets out a breakdown of our other expenses for the years indicated:

	FY2016		FY2017		FY2018		4M2018		4M2019	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Loss on disposal of property, plant and equipment	8,632	102.8	355	6.6	87	10.1	—	—	—	—
Impairment losses recognised	(238)	(2.8)	51	0.9	615	71.1	389	14.8	1,103	36.9
Exchange loss	—	—	3,682	67.8	—	—	2,238	85.2	1,884	63.1
Others	—	—	1,342	24.7	163	18.8	—	—	—	—
	<u>8,394</u>	<u>100.0</u>	<u>5,430</u>	<u>100.0</u>	<u>865</u>	<u>100.0</u>	<u>2,627</u>	<u>100.0</u>	<u>2,987</u>	<u>100.0</u>

Income tax expenses

Our Group is subject to Hong Kong profits tax at a rate of 16.5% on the estimated assessable profits arising in Hong Kong and the PRC Enterprise Income Tax (“**PRC EIT**”) at a rate of 25% and dividend withholding tax at a rate of 5% for the Track Record Period.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

4M2019 compared to 4M2018

Revenue

Our revenue increased from approximately HK\$106.6 million for 4M2018 to approximately HK\$144.6 million for 4M2019, representing a growth of approximately HK\$38.0 million or 35.7%. Such increase was mainly attributable to an almost tenfold increase in the sales of coffee machine following the trend in FY2018. The increase in the sales of coffee machine for FY2018 was concentrated in the second half of FY2018.

Cost of sales

The cost of sales increased from approximately HK\$80.8 million for 4M2018 to approximately HK\$99.4 million for 4M2019, representing an increase of 23.0% or approximately HK\$18.6 million. Such increase was mainly due to the increase in sales volume of coffee machine.

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Gross profit and gross profit margin

As a result of the increase in revenue, our gross profit increased from approximately HK\$25.7 million for 4M2018 to approximately HK\$45.1 million for 4M2019. Our gross profit margin increased from 24.1% for 4M2018 to 31.2% for 4M2019. The increase in the gross profit margin for cooking appliances from approximately 24.5% for 4M2018 to 32.1% for 4M2019 was mainly a result of (i) the increase in the sales of coffee machines, which was driven by increase in number of unit sold and relatively higher gross profit margin of approximately 32.8%; and (ii) the depreciation of RMB against USD during the corresponding period. The increase in our gross profit margin for garment care appliances from approximately 23.9% for 4M2018 to approximately 29.5% for 4M2019 was mainly attributable to the depreciation of RMB during the corresponding period as mentioned above.

Other income and gains

Our other income and gains increased from approximately HK\$1.0 million for 4M2018 to approximately HK\$1.8 million for 4M2019 because one of our customers reimbursed the cost of the unused raw materials of approximately HK\$1.2 million, which were procured based on customer's instruction.

Selling and distribution expenses

Our selling and distribution expenses remained relatively stable at approximately HK\$2.7 million for 4M2018 and approximately HK\$2.4 million for 4M2019, respectively.

General and administrative expenses

Our general and administrative expenses increased from approximately HK\$18.0 million for 4M2018 to approximately HK\$30.1 million for 4M2019. Such increase was mainly due to the Listing expenses of approximately HK\$11.8 million in connection with the professional fees incurred for the Listing in FY2019.

Other expenses

Our other expenses remained relatively stable at approximately HK\$2.6 million for 4M2018 and approximately HK\$3.0 million for 4M2019, respectively.

Income tax expenses

Income tax expense of approximately HK\$0.2 million and HK\$5.1 million was recognised for 4M2018 and 4M2019, respectively. Our effective tax rate was approximately 7.5% and 49.1% for 4M2018 and 4M2019, respectively. Our effective tax rate in 4M2018 was lower because we recognised accounting tax credit for our PRC subsidiary as we recorded a loss during the corresponding period. While we generated profit in our subsidiary in Hong Kong, such tax credit has resulted in a lower income tax expenses for 4M2018.

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With adding back the Listing expenses of approximately HK\$11.8 million, the adjusted effective tax rate was approximately 22.8% for 4M2019. Our Group is subject to Hong Kong profits tax at a rate of 16.5% on the estimated assessable profits arising in Hong Kong and the PRC EIT at a rate of 25% and dividend withholding tax at a rate of 5% for the Track Record Period.

Profit after tax and net profit margin

As a result of the foregoing, our profit for 4M2018 and 4M2019 was approximately HK\$2.9 million and HK\$5.2 million respectively. Our net profit margin for 4M2018 and 4M2019 was approximately 2.7% and 3.6% respectively.

FY2018 compared to FY2017

Revenue

Our revenue increased from approximately HK\$358.8 million for FY2017 to approximately HK\$373.5 million for FY2018, representing a growth of approximately HK\$14.7 million or 4.1%. Such increase was mainly attributable to the significant increase in the sales of coffee machines mainly because a model of our automatic coffee machines was well recognised by our customers during FY2018. Although such increase was partly offset by the decrease in both the quantity of steam cooking appliances and garment care appliances sold, the overall revenue for FY2018 increased.

Cost of sales

The cost of sales increased from approximately HK\$253.2 million for FY2017 to approximately HK\$268.1 million for FY2018, representing an increase of 5.9% or approximately HK\$14.9 million. Such slight increase was mainly due to increase in the price of plastics, which was one of our major raw material components.

Gross profit and gross profit margin

Our gross profit remained relatively stable at approximately HK\$105.6 million for FY2017 and approximately HK\$105.3 million for FY2018, while our gross profit margin decreased from 29.4% for FY2017 to 28.2% for FY2018. Such slight decrease was mainly due to the increase in unit price of plastic which was one of our major raw material components, and time was required to renegotiate contract terms with our customers for price adjustment to cover the increased cost.

Other income and gains

Our other income and gains decreased from approximately HK\$32.6 million for FY2017 to approximately HK\$8.2 million for FY2018 as a result of the gain on the disposal of a piece of land to the local government in Huizhou, the PRC, in FY2017. The decrease in other income and gains in FY2018 was partially offsets by the exchange gains in FY2018 as a result of depreciation in RMB.

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Selling and distribution expenses

Our selling and distribution expenses increased by approximately HK\$1.0 million, or 12.7%, from HK\$7.7 million for FY2017 to approximately HK\$8.7 million for FY2018. The increase in selling and distribution expenses during the year was mainly attributable to increase in marketing activities for promoting our coffee machines.

General and administrative expenses

Our general and administrative expenses decreased from approximately HK\$65.7 million for FY2017 to approximately HK\$57.2 million for FY2018. Such decrease was mainly because we allotted and issued shares of our Company to some of our Directors and senior management members that was accounted as share-based payment of approximately HK\$10.1 million in FY2017.

Other expenses

Our other expenses decreased from approximately HK\$5.4 million for FY2017 to approximately HK\$0.9 million for FY2018. Other expenses for FY2017 was higher because our Group had (i) the exchange loss in FY2017 as a result of appreciation in RMB; and (ii) the expenses related to the disposal of a piece of land to the local government in Huizhou PRC.

Income tax expenses

Income tax expense of approximately HK\$9.6 million and HK\$7.9 million was recognised for FY2017 and FY2018, respectively. Our effective tax rate was relatively stable at approximately 16.2% and 17.2% for FY2017 and FY2018, respectively. Our Group is subject to Hong Kong profits tax at a rate of 16.5% on the estimated assessable profits arising in Hong Kong and the PRC EIT at a rate of 25% and dividend withholding tax at a rate of 5% for the Track Record Period.

Profit after tax and net profit margin

As a result of the foregoing, our profit for FY2017 and FY2018 was approximately HK\$49.5 million and HK\$38.0 million respectively. Our net profit margin for FY2017 and FY2018 was approximately 13.8% and 10.2% respectively.

FY2017 compared to FY2016

Revenue

Our revenue remained relatively stable at approximately HK\$361.1 million for FY2016 and approximately HK\$358.8 million for FY2017, respectively.

Cost of sales

The cost of sales remained relatively stable at approximately HK\$253.9 million for FY2016 and approximately HK\$253.2 million for FY2017, respectively.

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Gross profit and gross profit margin

Our gross profit remained relatively stable at approximately HK\$107.2 million for FY2016 and approximately HK\$105.6 million for FY2017.

Our gross profit margin remained relatively stable at approximately 29.7% for FY2016 and approximately 29.4% for FY2017, respectively.

Other income and gains

Our other income and gains increased from approximately HK\$4.9 million for FY2016 to approximately HK\$32.6 million for FY2017. Such increase was mainly driven by the gain of approximately HK\$30.0 million on disposal of a piece of land, which was under construction prior to the disposal, to the local government in Huizhou, the PRC, in FY2017.

In view of the local city development, the local government in Huizhou, the PRC, approached us and gave us the option of either continue to develop or to dispose this piece of land to the government. Having considered the substantial amount of resources involved in developing this piece of land, we decided to dispose this piece of land to the local government in Huizhou, the PRC, and retained our financial resources in developing our business of sale and manufacture of electrothermic household appliances.

Selling and distribution expenses

Our selling and distribution expenses decreased by approximately HK\$2.4 million, or 23.8%, from HK\$10.1 million for FY2016 to approximately HK\$7.7 million for FY2017. Our selling and distribution expenses in FY2016 was higher than that in FY2017 mainly because we launched a marketing campaign in France in FY2016.

General and administrative expenses

Our general and administrative expenses increased from approximately HK\$58.4 million for FY2016 to approximately HK\$65.7 million for FY2017. Such increase was mainly due to the share-based payment to our Directors and senior management members in FY2017.

Other expenses

Our other expenses decreased from approximately HK\$8.4 million for FY2016 to approximately HK\$5.4 million for FY2017. The decrease was mainly due to the loss on disposal of moulds in FY2016 that were no longer used in production.

Income tax expenses

Income tax expense of approximately HK\$11.1 million and HK\$9.6 million was recognised for FY2016 and FY2017, respectively. Our effective tax rate was approximately 32.6% and 16.2% for FY2016 and FY2017, respectively. Our Group is subject to Hong Kong profits tax at a rate of 16.5% on the estimated assessable profits arising in Hong Kong and the PRC EIT at a rate of 25% and dividend withholding tax at a rate of 5% for the Track Record Period. Our effective tax rate of 32.6% for FY2016 was higher than the Hong Kong profits tax rate and the PRC EIT rate because our Group's profit was

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substantially generated in its subsidiary in the PRC, which we paid the PRC EIT at a rate of 25%, and we did not generate any assessable profits arising in the subsidiary in Hong Kong for FY2016, which we had further accumulated tax loss.

In FY2016, our profit was retained in the PRC, which was subject to a higher tax rate, as we entered into contract with our customers under Tunbow (Huizhou). Meanwhile, our subsidiary in Hong Kong incurred a loss from business operation accumulated from the years prior to Track Record Period mainly from the year ended 31 December 2012. Accordingly we did not generate any assessable profits arising in our subsidiary in Hong Kong. Taken as a whole, we had a higher effective tax rate for FY2016.

In subsequent year, we generated less profit in the PRC and recorded a profit from business operation for our subsidiary in Hong Kong. The overall profit attributable to the business operation in the PRC and Hong Kong resulted in a lower effective tax rate in FY2017 as compared to that in FY2016.

Given the tax arrangement as mentioned above, our Directors have engaged an independent tax consultant to review the reasonableness of the transfer pricing model and profit allocation among our subsidiaries in Hong Kong and the PRC; based on the advices of the independent tax consultant, our Directors are of the view that Tunbow (Huizhou) and Town Ray (Huizhou) were not disadvantaged by the related party transactions with Tunbow Group, and complied with the relevant transfer pricing laws and regulations, and potential tax exposure of our Group is remote.

To ensure ongoing compliance with the relevant transfer pricing laws and regulations together with the relevant transfer pricing guidelines, our Group has established the transfer pricing policies, whereby our financial director is responsible for reviewing the reasonableness of the profit range among the subsidiaries within our Group on a monthly basis. Furthermore, we will continue to engage an independent accounting firm to perform annual review on the transfer pricing model among our subsidiaries in Hong Kong and the PRC, and assist our preparation of transfer pricing documentation for the required entities in our Group. We believe such measures would help us to ensure our ongoing compliance with the relevant transfer pricing laws and regulations together with the relevant transfer pricing guidelines, and remain tax efficient.

Profit after tax and net profit margin

As a result of the foregoing, our profit for FY2016 and FY2017 was approximately HK\$23.0 million and HK\$49.5 million respectively. Our net profit margin for FY2016 and FY2017 was approximately 6.4% and 13.8% respectively.

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NET CURRENT ASSETS

We recorded net current assets of approximately HK\$83.9 million, HK\$103.5 million, HK\$88.8 million, HK\$96.3 million and HK\$129.8 million as at 31 December 2016, 31 December 2017, 31 December 2018, 30 April 2019 and 31 August 2019, respectively. The table below sets forth our current assets and current liabilities as of the dates indicated:

	As at 31 December			As at 30 April	As at 31 August
	2016	2017	2018	2019	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(Unaudited)
Current assets					
Inventories	31,028	46,177	43,113	64,554	70,047
Trade receivables	61,486	68,973	79,810	64,880	70,542
Prepayments, deposits and other receivables	6,563	11,612	14,872	40,034	45,526
Due from related companies	78,967	103,889	13,765	—	—
Structured deposits	3,357	27,541	—	—	—
Pledged deposit	—	39,478	—	—	—
Cash and bank balances	<u>60,237</u>	<u>28,287</u>	<u>51,857</u>	<u>67,749</u>	<u>73,680</u>
Assets held for sale	<u>16,202</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>257,840</u>	<u>325,957</u>	<u>203,417</u>	<u>237,217</u>	<u>259,795</u>
Current liabilities					
Trade payables	41,979	47,197	39,016	44,861	39,581
Other payables and accruals	22,761	28,163	14,248	16,716	17,940
Due to related companies	89,003	94,161	449	1,119	—
Interest-bearing bank borrowings	15,540	44,000	46,671	64,920	51,106
Lease liabilities	537	—	11,799	12,033	12,033
Tax payables	<u>4,170</u>	<u>8,908</u>	<u>2,398</u>	<u>1,262</u>	<u>9,371</u>
	<u>173,990</u>	<u>222,429</u>	<u>114,581</u>	<u>140,911</u>	<u>130,031</u>
Net current assets	<u>83,850</u>	<u>103,528</u>	<u>88,836</u>	<u>96,306</u>	<u>129,764</u>

Our net current assets increased by approximately HK\$19.7 million from approximately HK\$83.9 million as at 31 December 2016 to approximately HK\$103.5 million as at 31 December 2017 primarily due to (i) increase in our inventories of HK\$15.1 million primarily due to stocking up of raw materials in order to cater the expected production and sales volume for coffee machines in subsequent months; (ii) the increase in our structured deposits of approximately HK\$24.2 million; (iii) our increase in the current portion of prepayments, deposits and other receivables of approximately HK\$5.0 million mainly due to the receivable on the disposal of leasehold improvements, which was settled in FY2018. Such

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increase was partially offset by the (i) increase in our bank borrowings of approximately HK\$28.5 million; and (ii) increase in our tax payable of approximately HK\$4.7 million due to the gain on disposal of a piece of land and increase in our profit.

Our net current assets decreased by approximately HK\$14.7 million from approximately HK\$103.5 million as at 31 December 2017 to approximately HK\$88.8 million as at 31 December 2018 primarily because of (i) the settlement of approximately HK\$90.1 million for the amount due from related companies as at 31 December 2018; and (ii) the reduction in structured deposits of approximately HK\$27.5 million as we have redeemed it during FY2018, which outweighed (i) the settlement of approximately HK\$93.7 million for the amount due to related companies as at 31 December 2018; and (ii) the decrease in tax payables to approximately HK\$2.4 million as at 31 December 2018 because we have recorded a gain on disposal of a piece of land in FY2017, which resulted in a higher balance of tax payable as at 31 December 2017.

Our net current assets increased from approximately HK\$88.8 million as at 31 December 2018 to approximately HK\$96.3 million as at 30 April 2019. The increase of approximately HK\$7.5 million was mainly because of (i) the increase in inventories of approximately HK\$21.4 million because we had stocked up raw materials in order to cater the expected production and sales volume for coffee machines in subsequent months; (ii) the increase in our prepayments, deposits and other receivables mainly because we paid the deposits to government bureau when we began to export our products under Town Ray (Huizhou). These were partially offset by (i) our increase in trade payables of approximately HK\$5.8 million as a result of our increase in purchase of raw materials; (ii) our increase in interest-bearing bank borrowings of approximately HK\$18.2 million for our operation; and (iii) the decrease in our amount due from related companies of approximately HK\$13.8 million.

Our net current assets increased from approximately HK\$96.3 million as at 30 April 2019 to approximately HK\$129.8 million as at 31 August 2019. The increase of HK\$33.5 million was mainly because of (i) the increase in inventories of approximately HK\$5.5 million because we had stocked up raw materials in order to cater the expected production and sales volume for coffee machines in subsequent months; (ii) the increase in trade receivables of approximately HK\$5.7 million; (iii) the decrease in our interest-bearing bank borrowings of approximately HK\$13.8 million; and (iv) the decrease in trade payables of approximately HK\$5.3 million. These were partially offset by the increase in tax payables of approximately HK\$8.1 million. As at 31 August 2019, our Group had, in aggregate, bank facilities of HK\$67.0 million, of which approximately HK\$12.9 million were unutilised and were trade financing in nature.

DESCRIPTION OF SELECTED ITEMS OF CONSOLIDATED BALANCE SHEETS

Further discussion of the fluctuation in the key components of our net current assets are set forth in the following paragraphs.

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Property, plant and equipment

Property, plant and equipment of our Group represent buildings, leasehold improvements, plant and machinery, furniture, fixtures and equipment, and moulds. The following table set forth the carrying values of our property, plant and equipment as of the dates indicated:

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Buildings	89,652	90,068	—	—
Leasehold improvements	19,218	15,626	1,063	1,061
Plant and machinery	23,537	22,352	17,666	17,134
Furniture, fixtures and equipment	2,721	2,593	1,474	1,704
Moulds	<u>11,897</u>	<u>12,746</u>	<u>13,087</u>	<u>12,772</u>
Total	<u>147,025</u>	<u>143,385</u>	<u>33,290</u>	<u>32,671</u>

The overall carrying values of our property, plant and equipment as at 31 December 2017 decreased by approximately HK\$3.6 million mainly due to the decrease in carrying value of leasehold improvements of approximately HK\$3.6 million resulting from the disposal of leasehold improvements in relation to the disposal of a piece of land to the local government in Huizhou, the PRC.

The overall carrying values of our property, plant and equipment as at 31 December 2018 decreased by approximately HK\$110.1 million mainly due to the deemed distribution to Tunbow Investments (BVI) in connection with the Reorganisation.

The overall carrying values of our property, plant and equipment as at 30 April 2019 remained relatively stable at approximately HK\$32.7 million.

Inventories

Our inventories principally represent (i) raw materials which are mainly electrical parts, plastic raw materials and parts, metal raw materials and parts, power cords and lead wires, and electronic parts; (ii) work in progress and (iii) finished goods which are products ready for sale.

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As at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019, our inventories represented 12.0%, 14.1%, 21.2% and 27.2% of our current assets, respectively. The following table sets forth our ending inventory balances as of the dates indicated:

	As at 31 December			As at
	2016	2017	2018	30 April
	HK\$'000	HK\$'000	HK\$'000	2019
				HK\$'000
Raw materials	14,677	21,956	21,786	33,517
Work in progress	7,346	12,145	9,757	13,701
Finished goods	<u>9,005</u>	<u>12,076</u>	<u>11,570</u>	<u>17,336</u>
	<u>31,028</u>	<u>46,177</u>	<u>43,113</u>	<u>64,554</u>
Inventory turnover days ^(Note)	<u>44.6 days</u>	<u>66.6 days</u>	<u>58.7 days</u>	<u>77.9 days</u>

Note: Inventory turnover days is calculated based on ending inventory balances for the year/period divided by costs of sales for the year/period and multiplied by the number of days of the year/period (i.e. 365 days for FY2016, FY2017, FY2018 and 120 days for 4M2019).

Our inventories increased by 48.8% from approximately HK\$31.0 million as at 31 December 2016 to approximately HK\$46.2 million as at 31 December 2017. For FY2016 and FY2017, our inventory turnover days increased from approximately 44.6 days to 66.6 days, respectively. The increase in inventory was mainly due to stocking up of raw materials in order to cater the expected production and sales volume for coffee machines in subsequent months.

Our inventories decreased by 6.6% from approximately HK\$46.2 million as at 31 December 2017 to approximately HK\$43.1 million as at 31 December 2018. For FY2017 and FY2018, our inventory turnover days decreased from approximately 66.6 days to 58.7 days, respectively. The decrease in inventory was mainly because we have delivered more products in December 2018 to cater the request of our customers.

Our inventories increased by 49.7% from approximately HK\$43.1 million as at 31 December 2018 to approximately HK\$64.6 million as at 30 April 2019. For FY2018 and 4M2019, our inventory turnover days increased from approximately 58.7 days to 77.9 days, respectively. The increase in inventory was mainly because we had stocked up raw materials to cater the expected production and sales volume for coffee machines in subsequent months.

The increase in amount of finished goods as at 30 April 2019 was mainly as a result of our products produced in accordance with the production schedule for delivery in the subsequent months. As disclosed in the paragraph below, approximately 92.8% of the inventory as at 30 April 2019 was used by 31 August 2019. Our Directors are of the view that our risk of inventories obsolescence is not material.

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Among the inventory of approximately HK\$31.0 million, HK\$46.2 million, HK\$43.1 million and HK\$64.6 million as at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019, approximately HK\$31.0 million, HK\$46.2 million, HK\$42.6 million and HK\$59.9 million, representing approximately 100%, 100%, 98.7% and 92.8%, respectively, of which, had been subsequently utilised as at 31 August 2019.

Trade receivables

Our trade receivables were approximately HK\$61.5 million, HK\$69.0 million, HK\$79.8 million and HK\$64.9 million as at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019, respectively.

The following table sets forth the ageing analysis of our trade receivables based on invoice date as of the dates indicated:

	As at 31 December			As at
	2016	2017	2018	30 April
	HK\$'000	HK\$'000	HK\$'000	2019
				HK\$'000
Within 30 days	32,039	28,603	47,998	29,058
31–90 days	28,463	40,340	28,830	29,854
Over 90 days	<u>984</u>	<u>30</u>	<u>2,982</u>	<u>5,968</u>
	<u>61,486</u>	<u>68,973</u>	<u>79,810</u>	<u>64,880</u>

The following table sets forth our trade receivables turnover days for the years indicated:

	FY2016	FY2017	FY2018	4M2019
Trade receivables turnover days ^(Note)	<u>62.2 days</u>	<u>70.2 days</u>	<u>78.0 days</u>	<u>53.9 days</u>

Note: Trade receivables turnover days is calculated based on ending balance of trade receivables (net of allowance for doubtful debts) for the year/period, divided by revenue for the year/period, then multiplied by the number of days of the year/period (i.e. 365 days for FY2016, FY2017, FY2018 and 120 days for 4M2019).

For FY2016, FY2017, FY2018 and 4M2019, our trade receivables turnover days were approximately 62.2 days, 70.2 days, 78.0 days and 53.9 days respectively. We generally offer credit terms to customers ranging from 30 to 90 days, following our issuance of invoice.

The increase of trade receivables and trade receivables turnover days in FY2017 was mainly because we have mutually agreed with one of our major customers to extend the payment terms from 30 days to 60 days. The increase of trade receivables and trade receivables turnover days in FY2018 was mainly due to the relatively larger amount of sales towards the end of the year. The decrease of trade receivables and trade receivables turnover days in 4M2019 was mainly because of the increase in proportion of sales to Customer G, which was our largest customer for 4M2019, whose payment terms

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carried no credit period for 70% of the payment, while the remaining payment has to be settled within 60 days after the date of invoice, which, taken as a whole, was shorter than most of the other customers for 4M2019.

For the trade receivables as at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019, approximately HK\$61.5 million, HK\$69.0 million, HK\$78.7 million and HK\$63.6 million, representing approximately 100%, 100%, 98.6% and 98.0% respectively had been settled by 31 August 2019.

Prepayments, deposits and other receivables

Our total prepayments, deposits and other receivables amounted to approximately HK\$6.6 million, HK\$11.9 million, HK\$15.1 million and HK\$40.3 million as at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019, respectively. During the corresponding period, our current portion of the prepayments, deposits and other receivables amounted to approximately HK\$6.6 million, HK\$11.6 million, HK\$14.9 million and HK\$40.0 million, respectively, details of which are set out below:

	As at 31 December			As at
	2016	2017	2018	30 April
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Prepayments	1,161	1,448	1,396	6,224
Deposits	31	297	295	295
Other receivables	<u>5,371</u>	<u>10,118</u>	<u>13,432</u>	<u>33,766</u>
	6,563	11,863	15,123	40,285
Less: Portion classified as non-current assets	<u>—</u>	<u>(251)</u>	<u>(251)</u>	<u>(251)</u>
Portion classified as current assets	<u><u>6,563</u></u>	<u><u>11,612</u></u>	<u><u>14,872</u></u>	<u><u>40,034</u></u>

The portion classified as current assets of the prepayments, deposits and other receivables are mainly in relation to purchase prepayment and insurance. The higher balance of the current portion of the prepayments, deposits and other receivables as at 31 December 2017 was mainly due to the receivables on the disposal of property, plant and equipment, which was settled in FY2018. The balance of the current portion of the prepayments, deposits and other receivables as at 31 December 2018 was further increased to approximately HK\$14.9 million, which was mainly because of the increase in value-added tax receivables resulting from the time when Town Ray (Huizhou) acquired the property, plants and equipments. As at 30 April 2019, our current portion of the prepayments, deposits and other receivables increased to approximately HK\$40.0 million because we paid deposits to government bureau when we began export our products under Town Ray (Huizhou).

The portion classified as non-current assets of the prepayments, deposits and other receivables are mainly in relation to the rental deposits of the workshop, godown, together with ancillary office that our Group leased. As at 31 December 2016, our non-current portion of the prepayments, deposits and other

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receivables was nil. The balance of the non-current portion of the prepayments, deposits and other receivables as at 31 December 2017, 31 December 2018 and 30 April 2019 remained stable at approximately HK\$0.3 million, HK\$0.3 million and HK\$0.3 million, respectively.

Amounts due from related companies

As at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019, we had amounts due from related companies, of approximately HK\$79.0 million, HK\$103.9 million, HK\$13.8 million and nil, respectively. Such amount was unsecured, interest-free and repayable on demand, and will be settled prior to Listing.

The following table sets forth the nature of the amounts due from related companies as of the dates indicated:

Name of related companies	Nature	As at 31 December			As at
		2016	2017	2018	30 April
		HK\$'000	HK\$'000	HK\$'000	2019 HK\$'000
Tunbow Investments (BVI)	Non-trade	67,974	101,616	13,691	—
SARL Tunbow Technologies	Trade	2,487	—	—	—
東保利精密機械(惠州)有限公司 (Tunbow Precision Machinery (Huizhou) Limited)	Non-trade	8,506	—	—	—
東保達電子(惠州)有限公司 (Tunbow Electronics (Huizhou) Limited)	Non-trade	—	2,273	—	—
Dongbaoli (Shenzhen)	Non-trade	—	—	74	—
		<u>78,967</u>	<u>103,889</u>	<u>13,765</u>	<u>—</u>

Amounts due to related companies

As at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019, we had amounts due to related companies of approximately HK\$89.0 million, HK\$94.2 million, HK\$0.5 million and HK\$1.1 million, respectively. Such amount was unsecured, interest-free and repayable on demand, and will be settled prior to Listing.

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The following table sets forth the nature of the amounts due to related companies as of the dates indicated:

Name of related companies	Nature	As at 31 December			As at
		2016	2017	2018	30 April
		HK\$'000	HK\$'000	HK\$'000	2019 HK\$'000
Tunbow Investments (BVI)	Non-trade	—	6,122	—	1,035
Oriental Purchasing Limited	Trade	26,190	—	—	—
Tunbow Electrical (BVI) Limited	Non-trade	3,845	3,846	—	—
Dongbaoli (Shenzhen)	Non-trade	55,682	80,677	—	—
	Trade	3,286	3,516	—	—
東保達電子(惠州)有限公司 (Tunbow Electronics (Huizhou) Limited)	Non-trade	—	—	447	—
Tunbow (Huizhou)	Trade	—	—	2	—
Tunbow Properties Limited	Non-trade	—	—	—	84
		<u>89,003</u>	<u>94,161</u>	<u>449</u>	<u>1,119</u>

Structured deposits

Our Group entered into several contracts of structured deposits with bank during the Track Record Period as a measure to manage our cash and bank balances from time to time. These structured deposits were medium to low risk level with high liquidity and were suitable for those with limited experience in bank products, suggesting that the risk of losing the principal was low. The structured deposits could be redeemed by us at any time.

As at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019, we had structured deposits on hand in the amount of approximately HK\$3.4 million, HK\$27.5 million, nil and nil, respectively. The entire structured deposits were redeemed during FY2018. As at 30 April 2019 and up to the Latest Practicable Date, our Group did not hold structured deposits.

We may continue to invest in such structured deposits in accordance with our Group's treasury policy in the future.

Treasury policy

Our Group has adopted the treasury policy which set out the framework for managing our financial assets.

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We have implemented internal control measures to monitor and control our risk exposure. We invest in medium to low risk products and structured deposits products are taken out only when our cash balance is sufficient for our Group's capital expenditure and working capital requirements for operations. We make decisions after taking into account factors including amount, period, credibility of bank and level of risk and corresponding return of the product.

Decisions are recommended by finance department, which then have to be passed to the general manager and the Board or the designated board committee or the designated Directors for approval. Under our policies and guidelines, the finance department is charged with the responsibility of carrying out the treasury management functions including sourcing treasury options for consideration and approval by the Board, and thereafter, the on-going monitoring.

Assets held for sale

As at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019, our assets held for sale was approximately HK\$16.2 million, nil, nil and nil, respectively. The assets held for sale represented a piece of land together with its related construction in progress, which situated in Huizhou, the PRC, to be sold to the local government. Tunbow (Huizhou) entered into an agreement with the local government, on 3 November 2016 at a total consideration of approximately RMB40.1 million. This transaction was completed in FY2017 and we recorded a gain on disposal of approximately HK\$30.0 million during the same period.

Trade payables

The trade payables of our Group as of the dates indicated is as follow:

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	<u>41,979</u>	<u>47,197</u>	<u>39,016</u>	<u>44,861</u>

Trade payables mainly represent amounts payable to suppliers for direct material costs.

The following table sets forth our trade payables turnover days for the years indicated:

	FY2016	FY2017	FY2018	4M2019
Trade payables turnover days ^(Note)	<u>60.3 days</u>	<u>68.0 days</u>	<u>53.1 days</u>	<u>54.1 days</u>

Note: Trade payables turnover days is calculated based on ending balance of trade payables for the year/period, divided by cost of sales for the year/period, then multiplied by the number of days of the year/period (i.e. 365 days for FY2016, FY2017, FY2018 and 120 days for 4M2019).

Our trade payables as at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019 were approximately HK\$42.0 million, HK\$47.2 million, HK\$39.0 million and HK\$44.9 million, respectively. The increase in trade payables as at 31 December 2017 was mainly attributable to the increase in the purchase of raw materials around the end of the year in order to cater the expected

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production and sales volume of coffee machines in subsequent months. The increase in trade payables as at 30 April 2019 was mainly because we purchased more raw materials to cater the expected production and sales volume of coffee machines in subsequent months.

For FY2016, FY2017, FY2018 and 4M2019, our trade payables turnover days were approximately 60.3 days, 68.0 days, 53.1 days and 54.1 days, respectively. Our trade payables turnover days in FY2016 and FY2017 was relatively stable. The decrease in trade payables turnover days in FY2018 was mainly due to the fact that some of our suppliers required a shorter credit periods when we began to place orders with them via Town Ray (Huizhou), which was established in December 2017 and thus had short trading history with those suppliers. Our trade payables turnover days remained relatively stable in 4M2019.

Ageing analysis of our Group's trade payables based on invoice dates at the end of each reporting period is as follows:

	As at 31 December			As at
	2016	2017	2018	30 April
	HK\$'000	HK\$'000	HK\$'000	2019
				HK\$'000
Within 30 days	16,033	18,693	14,997	21,903
31–90 days	23,423	27,256	22,155	21,552
Over 90 days	<u>2,523</u>	<u>1,248</u>	<u>1,864</u>	<u>1,406</u>
	<u>41,979</u>	<u>47,197</u>	<u>39,016</u>	<u>44,861</u>

Approximately HK\$42.0 million, HK\$47.2 million, HK\$39.0 million and HK\$44.5 million or approximately 100%, 100%, 99.9% and 99.1% of the trade payables as at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019 had been subsequently settled by 31 August 2019.

Other payables and accruals

Other payables and accruals mainly represent the staff welfare payables and other accruals.

The breakdown of accruals and other payables of our Group as of the dates indicated is as follow:

	As at 31 December			As at
	2016	2017	2018	30 April
	HK\$'000	HK\$'000	HK\$'000	2019
				HK\$'000
Contract liabilities	2,795	5,848	1,338	4,586
Accruals	16,737	17,529	12,773	11,695
Other payables	<u>3,229</u>	<u>4,786</u>	<u>137</u>	<u>435</u>
	<u>22,761</u>	<u>28,163</u>	<u>14,248</u>	<u>16,716</u>

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Tax payable

Our tax payable, which represents our current income tax liabilities, was approximately HK\$4.2 million, HK\$8.9 million, HK\$2.4 million and HK\$1.3 million as at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Overview

During the Track Record Period, our Group's operations were generally financed through a combination of shareholder's equity, internally generated cash flows, amounts due to related parties and bank borrowing. Our Directors believe that in the long term, our operation will be funded by internally generated cash flows and, if necessary, additional equity financing.

Cash flows

The following table sets forth selected cash flows from our Group's consolidated statements of cash flows for the years/periods indicated:

	FY2016	FY2017	FY2018	4M2018	4M2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating cash flows before movements in working capital	66,167	56,456	63,597	10,116	18,835
Net cash flows from operating activities	53,841	7,035	106,173	45,436	3,138
Net cash flows from/(used in) investing activities	(6,586)	(16,737)	13,874	(16,336)	(1,463)
Net cash flows from/(used in) financing activities	<u>(34,545)</u>	<u>(24,111)</u>	<u>(93,118)</u>	<u>(11,592)</u>	<u>13,580</u>
Net increase/(decrease) in cash and cash equivalents	12,710	(33,813)	26,929	17,508	15,255
Cash and cash equivalents at beginning of year/period	50,178	60,237	28,287	28,287	51,857
Effect of foreign exchange rate changes, net	<u>(2,651)</u>	<u>1,863</u>	<u>(3,359)</u>	<u>498</u>	<u>637</u>
Cash and cash equivalents at end of year/period	<u><u>60,237</u></u>	<u><u>28,287</u></u>	<u><u>51,857</u></u>	<u><u>46,293</u></u>	<u><u>67,749</u></u>

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Net cash from operating activities

We derived our cash flow from operating activities primarily through receipt of payments of sales for our products. Cash outflow in operating activities primarily comprises payment for purchases of raw materials and staff costs. Our net cash from operating activities reflects our profit before taxation, as adjusted for non-cash items, such as depreciation, loss on disposal of properties, plant and equipment and gain on disposal of assets held for sale, and the effects of movements in working capital items.

Our net cash flows generated from operating activities for FY2016 was approximately HK\$53.8 million while our operating cash flows before movements in working capital was approximately HK\$66.2 million. The difference of approximately HK\$12.4 million was primarily attributable to the (i) increase in trade receivables of approximately HK\$9.7 million as a result of increase in our sales during the year; and (ii) decrease in amounts due to related companies of approximately HK\$4.7 million as a result of settlement to related company. These cash outflows were partially offset by the decrease in prepayments, deposits and other receivables of approximately HK\$5.6 million as we settled the prepayment for the raw materials in previous year.

Our net cash flows generated from operating activities for FY2017 was approximately HK\$7.0 million while our operating cash flows before movements in working capital was approximately HK\$56.5 million. The difference of approximately HK\$49.4 million was primarily attributable to the (i) increase in inventories of approximately HK\$14.7 million as we purchased more raw materials to cater the expected production and sales volume; (ii) increase in prepayments, deposits and other receivables of approximately HK\$4.7 million because of the receivables on the disposal of property, plant and equipment, which was settled in FY2018; and (iii) increase in amounts due from related companies of approximately HK\$22.6 million as a result of payment on behalf of related company.

Our net cash flows generated from operating activities for FY2018 was approximately HK\$106.2 million while our operating cash flows before movements in working capital was approximately HK\$63.6 million. The difference of approximately HK\$42.6 million was primarily attributable to the (i) increase in trade receivables of approximately HK\$11.8 million due to increase in sales; (ii) decrease in amounts due from related companies of approximately HK\$32.3 million as a result of settlement with related companies; (iii) increase in amounts due to related companies of approximately HK\$46.8 million, of which approximately HK\$30.0 million was used to establish Town Ray (Huizhou) as its registered capital, and was subsequently used for Town Ray (Huizhou)'s operation including acquisition of property, plant and equipment and inventories and approximately HK\$16.8 million was used as working capital.

Our net cash flows generated from operating activities for 4M2018 was approximately HK\$45.4 million while our operating cash flows before movements in working capital was approximately HK\$10.1 million. The difference of approximately HK\$35.3 million was primarily attributable to the (i) decrease in trade receivables of approximately HK\$25.2 million; (ii) decrease in trade payables of approximately HK\$11.5 million as we settled the payment to our suppliers; and (iii) decrease of amounts due from related companies of approximately HK\$17.1 million.

Our net cash flows generated from operating activities for 4M2019 was approximately HK\$3.1 million while our operating cash flows before movements in working capital was approximately HK\$18.8 million. The difference of approximately HK\$15.7 million was primarily attributable to the (i) increase in inventories of approximately HK\$20.4 million as we purchased more raw materials to cater

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the expected production and sales volume; (ii) decrease in trade receivables of approximately HK\$13.8 million; and (iii) increase in prepayments, deposits and other receivables of approximately HK\$24.9 million as we paid the deposits to government bureau when we began to export our products under Town Ray (Huizhou).

Net cash flows from/(used in) investing activities

Our cash inflow from investing activities primarily comprises proceeds from disposal of items of property, plant and equipment, proceeds from disposal of assets held for sale, and proceeds from redemption of structured deposits. Cash outflow in investing activities primarily comprises purchases of property, plant and equipment, purchases of structured deposits, increase in deposits paid for the purchases of property, plant and equipment.

For FY2016, we had net cash outflow in investing activities of approximately HK\$6.6 million. This amount primarily represents (i) our purchase of items of property, plant and equipment of approximately HK\$5.1 million; and (ii) our purchase of structured deposits of approximately HK\$75.1 million. These cash outflow was largely offset by the proceeds received from the redemption of structured deposits of approximately HK\$73.7 million.

For FY2017, we had net cash outflow in investing activities of approximately HK\$16.7 million. This amount primarily represents (i) our purchase of structured deposits of approximately HK\$173.7 million; and (ii) our increase in pledged deposits of approximately HK\$38.2 million. These cash outflow was partially offset by (i) the proceeds received from disposal of the piece of land to the local government in Huizhou, the PRC, of approximately HK\$47.1 million; and (ii) the proceeds received from the redemption of the structured deposits of approximately HK\$152.7 million.

For FY2018, we had net cash inflow in investing activities of approximately HK\$13.9 million. This amount primarily represents (i) the proceeds received from the redemption of the structured deposits of approximately HK\$130.7 million; and (ii) the proceeds received from the disposal of property, plant and equipment of approximately HK\$3.7 million. These cash inflow was partially offset by (i) our payment for the purchase of property, plant and equipment of approximately HK\$20.6 million; and (ii) our purchase of structured deposits of approximately HK\$103.7 million.

For 4M2018, we had net cash outflow in investing activities of approximately HK\$16.3 million. This amount primarily represents our payment for the purchase of property, plant and equipment of approximately HK\$18.6 million. These cash outflow was partially offset by the decrease in our deposits paid for our purchase of property, plant and equipment of approximately HK\$3.2 million.

For 4M2019, we had net cash outflow in investing activities of approximately HK\$1.5 million. This amount primarily represents our payment for the purchase of property, plant and equipment of approximately HK\$1.4 million.

Net cash flows from/(used in) financing activities

Our net cash flows used in financing activities for FY2016 was approximately HK\$34.5 million, which was attributable to the increase in our bank loans of approximately HK\$57.7 million, which was offset by our repayment of bank loans of approximately HK\$50.7 million, and our repayment of loan to a related company of approximately HK\$40.0 million

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Our net cash used in financing activities for FY2017 was approximately HK\$24.1 million, which was attributable to our repayment of bank loans of approximately HK\$34.5 million and the dividend payment of approximately HK\$51.7 million, which was partially offset by the increase in bank loans of approximately HK\$63.0 million.

Our net cash used in financing activities for FY2018 was approximately HK\$93.1 million, which was attributable to (i) our repayment of bank borrowings of approximately HK\$47.1 million; (ii) the dividend payment of approximately HK\$32.2 million; and (iii) the effect of deemed distribution to Tunbow Investments (BVI) of approximately HK\$61.8 million, which was offset by the increase in bank loans of approximately HK\$49.8 million.

Our net cash used in financing activities for 4M2018 was approximately HK\$11.6 million, which was attributable to our repayment for bank borrowings of approximately HK\$11.0 million.

Our net cash generated from financing activities for 4M2019 was approximately HK\$13.6 million, which was attributable to the increase in bank loans of approximately HK\$49.4 million, which was partially offset by our repayment of bank borrowings of approximately HK\$31.2 million.

INDEBTEDNESS

The following table sets out our Group's indebtedness as at the respective financial position dates:

	As at 31 December			As at 30 April	As at 31 August
	2016	2017	2018	2019	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(Unaudited)
Current liabilities					
Due to related companies	89,003	94,161	449	1,119	—
Interest-bearing bank borrowings	15,540	44,000	46,671	64,920	51,106
Lease liabilities	537	—	11,799	12,033	12,033
Non-current liabilities					
Lease liabilities	—	—	18,450	18,642	13,799
	<u>105,080</u>	<u>138,161</u>	<u>77,369</u>	<u>96,714</u>	<u>76,938</u>

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Bank borrowings

Interest-bearing bank borrowings

	As at 31 December			As at 30 April	As at 31 August
	2016	2017	2018	2019	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(Unaudited)
Secured bank loans repayable:					
Within one year	15,540	37,000	33,671	53,420	41,106
In the second year	—	2,000	4,000	4,000	4,000
In the third to fifth years, inclusive	—	5,000	9,000	7,500	6,000
	<u>15,540</u>	<u>44,000</u>	<u>46,671</u>	<u>64,920</u>	<u>51,106</u>

The bank borrowings bear interest of Hong Kong Interbank Offered Rate (“**HIBOR**”) plus 1.2% and London Interbank Offered Rate (“**LIBOR**”) plus 1.2% as at 31 December 2016; HIBOR plus 0.8% to 1.75% as at 31 December 2017; LIBOR plus 1.2% and HIBOR plus 1.75% as at 31 December 2018; LIBOR plus 1.2% and HIBOR plus 1.75% as at 30 April 2019; and LIBOR plus 1.2% and HIBOR plus 1.75% as at 31 August 2019.

As at 31 December 2016, 31 December 2017, 31 December 2018 and 28 February 2019, our bank borrowings were secured by (i) the pledge of investment properties of a related company controlled by Tunbow Investments (BVI); (ii) the corporate guarantee by Tunbow Investments (BVI); (iii) the pledge of time deposits of Tunbow (Huizhou); and (iv) the personal guarantee from Dr. Chan and Ms. Cheng.

As at 31 December 2016, our bank borrowings were also secured by corporate guarantee by certain related companies controlled by Tunbow Investments (BVI). Such guarantee was released during FY2017.

Our Directors confirm that the guarantee mentioned above and the security given by the properties will be released upon Listing.

Our Directors confirm that there was no material delay or default in the repayment of bank borrowings and our Group did not have any difficulties in obtaining bank borrowings during the Track Record Period and up to the Latest Practicable Date.

Contingent liabilities

As at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019, we did not have any contingent liabilities, respectively.

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OFF-BALANCE SHEET ARRANGEMENTS AND COMMITMENTS

Our Directors confirm that our Group did not have any material off-balance sheet transactions or arrangements during the Track Record Period.

SELECTED KEY FINANCIAL RATIOS

	FY2016/As at 31 December 2016	FY2017/As at 31 December 2017	FY2018/As at 31 December 2018	4M2019/As at 30 April 2019
Current ratio ^(Note 1)	1.5 times	1.5 times	1.8 times	1.7 times
Quick ratio ^(Note 2)	1.3 times	1.3 times	1.4 times	1.2 times
Return on total assets ^(Note 3)	5.4%	10.0%	14.1%	17.1%
Return on equity ^(Note 4)	9.2%	18.2%	27.9%	36.4%
Gearing ratio ^(Note 5)	41.8%	50.8%	34.5%	46.3%
Debt to equity ratio ^(Note 6)	17.7%	40.4%	Net cash	Net cash
Interest coverage ^(Note 7)	33.6 times	201.7 times	52.9 times	21.2 times

Notes:

1. Current ratio is calculated based on the current assets divided by current liabilities as at the respective year/period end.
2. Quick ratio is calculated based on the current assets less inventories, divided by current liabilities as at the respective year/period end.
3. Return on total assets is calculated based on the profit (after adding back the Listing expenses) for the year/period divided by total assets multiplied by 100%. Return on total assets for 4M2019 is annualised for illustrative purpose.
4. Return on equity is calculated based on the profit (after adding back the Listing expenses) for the year/period divided by total equity multiplied by 100%. Return on equity for 4M2019 is annualised for illustrative purpose.
5. Gearing ratio is calculated based on the total debt (being our bank borrowing and amounts due to related companies) divided by the total equity as at the respective year/period end.
6. Debt to equity ratio is calculated based on the net debt (being our total debts net of cash and cash equivalents) divided by the total equity as at the respective year/period end.
7. Interest coverage ratio is calculated based on the profit before finance costs and income tax (after adding back the Listing expenses) divided by the finance costs for the respective year/period.

Current and quick ratio

Our current ratio as at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019 were approximately 1.5 times, 1.5 times, 1.8 times and 1.7 times, respectively, while the quick ratio as at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019 were approximately 1.3 times, 1.3 times, 1.4 times and 1.2 times, respectively.

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Our current ratio and quick ratio remained stable as at 31 December 2016 and 31 December 2017. The increase in our current ratio and quick ratio as at 31 December 2018 was mainly due to the decrease in the amount due to related companies of approximately HK\$93.7 million. The slight decrease in our current ratio and quick ratio as at 30 April 2019 was mainly due to the increase in bank borrowings of approximately HK\$18.2 million for operation.

Return on total assets

Our return on total assets increased from approximately 5.4% for FY2016 to approximately 10.0% for FY2017, primarily due to our gain on disposal of the piece of land to the local government in Huizhou, the PRC, in FY2017.

Our return on total assets further increased to approximately 14.1% for FY2018, primarily due to the decrease in totals assets as a result of the deemed distribution to Tunbow Investments (BVI) in FY2018.

Our return on total assets (after adding back the Listing expenses) increased to approximately 17.1% for 4M2019 as a result of the growth in net profit for 4M2019.

Return on equity

Our return on equity increased from approximately 9.2% for FY2016 to approximately 18.2% for FY2017, which was attributable to our gain on disposal of the piece of land in FY2017 as discussed above.

Our return on equity further increased to approximately 27.9% for FY2018, primarily due to (i) the deemed distribution to Tunbow Investments (BVI); and (ii) the declaration of dividends of approximately HK\$32.2 million during FY2018, both led to the decrease in equity.

Our return on equity (after adding back the Listing expenses) increased to approximately 36.4% for 4M2019 as a result of the growth in net profit for 4M2019.

Gearing ratio

Our gearing ratio increased from approximately 41.8% for FY2016 to approximately 50.8% for FY2017, as a result of the increase in bank borrowings from approximately HK\$15.5 million as at 31 December 2016 to approximately HK\$44.0 million as at 31 December 2017 for our business expansion.

Our gearing ratio decreased from approximately 50.8% for FY2017 to approximately 34.5% for FY2018, primarily due to the decrease in the amounts due to related companies of approximately HK\$93.7 million, which was partially offset by (i) the deemed distribution to Tunbow Investments (BVI); and (ii) the declaration of dividends of approximately HK\$32.2 million during FY2018, both led to the decrease in equity.

Our gearing ratio increased from approximately 34.5% for FY2018 to approximately 46.3% for 4M2019, primarily due to the increase in bank borrowings from approximately HK\$46.7 million as at 31 December 2018 to approximately HK\$64.9 million as at 30 April 2019 for operation.

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Debt to equity ratio

Our debt to equity ratio increased from approximately 17.7% as at 31 December 2016 to approximately 40.4% as at 31 December 2017, primarily due to the increase in bank borrowings of approximately HK\$28.5 million as at 31 December 2017 for our business expansion.

No debt to equity ratio was calculated as at 31 December 2018 and 30 April 2019 because our Group was in net cash position.

Interest coverage

Our Group's interest coverage increased from approximately 33.6 times for FY2016 to approximately 201.7 times for FY2017, primarily due to the surge in profit before interest and tax from approximately HK\$35.1 million for FY2016, to approximately HK\$59.3 million for FY2017, which was mainly attributable to the gain on disposal of a piece of land to the local government in Huizhou, the PRC, of approximately HK\$30.0 million.

Our Group's interest coverage decreased significantly from approximately 201.7 times for FY2017 to approximately 52.9 times for FY2018, primarily due to the drop in profit before interest and tax as the gain on disposal of a piece of land was recorded in FY2017, while our finance cost increased in FY2018 as a result of increase in bank borrowings towards the end of FY2017.

Our Group's interest coverage (after adding back the Listing expenses) decreased to approximately 21.2 times for 4M2019, primarily due to the increase in our finance cost as a result of our increase in bank borrowings for 4M2019 for operation.

CAPITAL COMMITMENTS

The following table sets out the capital commitments of our Group during the Track Record Period:

	As at 31 December			As at
	2016	2017	2018	30 April
	HK\$'000	HK\$'000	HK\$'000	2019
				HK\$'000
Contracted, but not provided for:				
Plant and machinery	718	1,223	342	545
Moulds	1,869	6,022	650	188
Construction in progress	4,514	4,831	—	—
	<u>7,101</u>	<u>12,076</u>	<u>992</u>	<u>733</u>

Our capital commitments primarily comprise purchase of plant and machinery, moulds and construction in progress. The construction in progress was related to an agreement that we entered into with a construction company for the construction work on the piece of land that was then disposed to the local government in Huizhou, the PRC. Having considered the substantial amount of resources involved

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in developing this piece of land, we did not proceed on the relevant construction work, and this agreement was terminated in FY2018 and ceased to be recorded as capital commitment as at 31 December 2018 and 30 April 2019, respectively.

LISTING EXPENSES

Our Directors expect that our total Listing expenses, which are non-recurring in nature, will amount to approximately HK\$40.5 million (assuming the Offer Price of HK\$1.40 per Offer Share; being the mid-point of the indicative Offer Price range stated in this prospectus). Out of the total HK\$40.5 million of Listing expenses, approximately HK\$11.8 million had been recognised in profit or loss accounts in 4M2019, our Directors expect to further recognise approximately HK\$8.7 million in our Group's profit and loss accounts for FY2019 and the remaining estimated Listing expenses in the amount of approximately HK\$20.0 million will be deducted from equity upon the Listing.

Accordingly, the financial results of our Group for FY2019 are expected to be significantly affected by the estimated expenses in relation to the Listing, as a result, it is expected that there will be a significant decrease in net profit for FY2019. Our Directors would like to emphasise that this predicted cost of Listing is a current estimate for reference only. As such, the actual amount may differ from these estimates and the final amount to be recognised in the consolidated statement of comprehensive income of our Group for FY2019 is subject to adjustment based on audit and the then changes in variables and assumptions.

NO MATERIAL ADVERSE CHANGE

Save for the total expenses for the Listing estimated to be approximately HK\$40.5 million, of which approximately HK\$20.5 million will be recorded in our Group's profit and loss for FY2019, our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in the financial or trading position or prospects of our Group since 30 April 2019 (being the date to which the latest audited consolidated financial statements of our Group were prepared), and there is no event since 30 April 2019 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

WORKING CAPITAL

Our Directors are of the opinion that, taking into consideration our Group's internal resources, available banking facilities and the estimated net proceeds from the Share Offer, our Group has sufficient working capital for its present requirements, for at least the next 12 months from the date of this prospectus.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 28 September 2017. As at 30 April 2019, our Company had no distributable reserves available for distribution to the Shareholders.

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RELATED PARTY TRANSACTIONS

During the Track Record Period, our Group entered into certain related party transactions, details of which are set out in note 32 to the Accountants' Report set out in Appendix I to this prospectus. Our Directors confirmed that these related party transactions were conducted on arm's length negotiations, and would not distort our results of operations over the Track Record Period or make our historical results over the Track Record Period not reflective of our future performance.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The major financial risks arising from our Group's normal course of business include interest rate risk, credit risk, liquidity risk and foreign currency risk. For details, please refer to note 35 — "Accountants' Report — Financial risk management objectives and policies" to the Appendix I of this prospectus.

DIVIDEND

No dividends were declared for FY2016 and 4M2019. During FY2017, subsidiaries of our Company declared an interim and final dividends in aggregate amounted to HK\$51,740,000 to Tunbow Electrical (BVI) Limited and Tunbow Investments (BVI), and were fully settled in FY2017. During FY2018, a subsidiary of our Company declared a final dividend amounted to HK\$32,229,000 to Tunbow Electrical (BVI) Limited. The said dividend was fully settled in FY2018.

Our Directors consider that there is no material adverse impact on our Group's financial and liquidity position arising out of the dividend payment.

Our Group currently does not have any specific dividend policy. Dividends may be paid out by way of cash or by other means that our Directors consider appropriate. The declaration of future dividends will be subject to the discretion of our Board and the approval of our Shareholders and will depend on our earnings, financial condition, cash requirement and availability and any other factors our Directors may deem relevant. As such factors and the payment of dividends are at the discretion of our Board, there can be no assurance that any particular dividend amount or any dividend at all, will be declared and paid in the future. Prospective investors should note that historical dividend payments should not be regarded as an indication of our future dividend.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, save as disclosed above, as at the Latest Practicable Date, there are no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

RECENT DEVELOPMENT

We continued to focus on principal business of manufacturing and supplying of a board range of electrothermic household appliances, in particular garment care and cooking appliances. Based on our unaudited financial information, our Group's revenue for the eight months ended 31 August 2019 as compared to the corresponding period in prior year followed the similar upward trend as recorded in

FINANCIAL INFORMATION

FY2018 and 4M2019. Subsequent to the Track Record Period and up to the Latest Practicable Date, our business and revenue model remained unchanged, and there was no material change in our cost structure.

Having considered that our production utilisation rate for coffee machines and steam generator irons reached a relatively high level of approximately 86.4% and 93.8% in FY2018, an additional machinery has been in use since June 2019 mainly for the manufacturing of plastic housings for steam generator irons as well as other plastic casings and parts.

Our Directors confirm that up to the date in this prospectus, other than the non-recurring Listing expenses incurred/estimated, there has been no material adverse change in our financial or trading position since 30 April 2019 (being the date to which our Company's latest consolidated audited financial results were prepared), and there has been no events since 30 April 2019 which would materially affect the information shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

Please refer to the paragraph headed "A. Unaudited pro forma adjusted consolidated net tangible assets" set out in Appendix II to this prospectus for details.

FUTURE PLANS AND USE OF PROCEEDS

BUSINESS STRATEGIES AND FUTURE PLANS

Our principal business objective is to strengthen our position in electrothermic household appliances manufacturing market. For details of our business strategies and future plans, please refer to the section headed “Business — Business strategies and future plans” in this prospectus.

USE OF PROCEEDS

Assuming an Offer Price of HK\$1.40, being the mid-point of the indicative Offer Price range, and after deducting related underwriting fees and estimated expenses in connection with the Share Offer and the Over-allotment Option is not exercised, our Group estimates that the aggregate net proceeds to our Company from the Share Offer will be approximately HK\$99.5 million. Our Directors presently intend to apply such net proceeds as follows:

- approximately HK\$50.4 million (or approximately 50.7% of the proceeds) will be used for upgrading our production facilities and enhancing our production capacity, in particular (i) approximately HK\$32.5 million will be earmarked for acquiring additional units of machinery for new production facilities and upgrading existing production facilities in our Huizhou Factory; (ii) approximately HK\$9.3 million will be earmarked for increasing the level of automation in our production process by acquiring more automated robots to assist us in the manufacturing of plastic casings and parts, metal casings and parts, electronic components and quality control; (iii) approximately HK\$6.7 million will be earmarked for upgrading our existing factory building facilities; and (iv) approximately HK\$1.9 million will be earmarked for acquiring additional power transformer for our production facilities in view of the increase in production scale in our Huizhou Factory.
- approximately HK\$31.6 million (or approximately 31.8% of the proceeds) will be used for strengthening our product design and development capabilities and increasing our product offerings, in particular (i) approximately HK\$29.9 million for expanding and enhancing our product range by developing new ODM models; (ii) approximately HK\$1.5 million for recruiting additional engineers and designers; and (iii) approximately HK\$0.2 million for strengthening our product design and development capabilities by purchasing and implementing additional equipment and software.
- approximately HK\$8.6 million (or approximately 8.6% of the proceeds) will be used for strengthening our customer base, in particular (i) approximately HK\$7.1 million will be earmarked for attending the exhibitions held in Europe, Hong Kong and Latin America, conducting site visits to both existing and potential overseas customers to enhance our market presence in the international market and to expand the geographic coverage of our products and our customers base, and subscribing for market data to enhance our sales activities; (ii) approximately HK\$1.2 million will be earmarked for recruiting sales executives who will be responsible for identifying the potential customers; and (iii) approximately HK\$0.3 million will be earmarked for providing product samples to existing and potential customers for marketing purpose.
- approximately HK\$5.7 million (or approximately 5.7% of the proceeds) will be used for upgrading our information technology systems, in particular (i) approximately HK\$4.4 million will be earmarked for purchasing a new version of ERP system to cover wider aspects

FUTURE PLANS AND USE OF PROCEEDS

in our daily operations and enhance electronic data interchange and data direct linkage; (ii) approximately HK\$1.3 million will be earmarked for provision of staff training on the usage and system infrastructure, as well as provision of system maintenance and system development after the system upgrade.

- approximately HK\$3.2 million (or approximately 3.2% of the proceeds) will be used for general working capital purpose.

If the Offer Price is set at the high-end or low-end of the indicative Offer Price range, being HK\$1.50 and HK\$1.30 per Offer Share, respectively (assuming the Over-allotment Option is not exercised), the net proceeds from the Share Offer will correspondingly increase to approximately HK\$108.5 million or decrease to approximately HK\$90.5 million, respectively. Our Directors intend to adjust the above allocation of the net proceeds on a pro-rata basis if the Offer Price is set above HK\$1.40 per Offer Share, being the mid-point of the indicative Offer Price range. If the Offer Price is set below HK\$1.40 per Offer Share, our Directors intend to adjust the above allocation of the net proceeds by first reducing the amount to be used for general working capital purpose; then, if the adjustment is more than approximately HK\$3.2 million (the amount allocated for the general working capital purpose based on the mid-point of the indicative Offer Price range), reducing the amount to be used for strengthening our customer base purpose accordingly.

If the Over-allotment Option is exercised, the net proceeds from the Share Offer will increase by approximately HK\$18.9 million (assuming an Offer Price of HK\$1.40 being the mid-point of the indicative Offer Price range). Our Directors intend to adjust the above allocation of the net proceeds on a pro-rata basis.

Should there be any material change in the intended use of the net proceeds from the Share Offer as described above, our Group will make appropriate announcement(s) in due course.

To the extent that the net proceeds from the Share Offer are not immediately applied for the above purposes, our Directors intend that such net proceeds will be placed on short-term deposits with financial institutions in Hong Kong.

REASONS FOR THE LISTING

(i) Funding our expansion plan

Our Directors consider that our expansion plan as detailed in the section headed “Future plans and use of proceeds — Use of proceeds” in this prospectus is capital intensive. We currently expect that the total capital expenditure of our expansion plan to be incurred up to the year ending 31 December 2021 would be approximately HK\$61.1 million, of which approximately HK\$50.4 million will be financed by net proceeds from the Share Offer and remainder of approximately HK\$10.7 million, primarily for the upgrade of other existing machinery, will be financed by internal resources. While our business generated net operating cash inflow, it is insufficient for the immediate implementation of our business strategies and would place undue financial burden on our Group in terms of cashflow if we are to use all our cash on hand for business growth purposes. Our Directors believe our Group may have insufficient internally generated funds to finance our expansion plan while at the same time maintaining sufficient working capital for our Group’s operations.

FUTURE PLANS AND USE OF PROCEEDS

As at 30 April 2019, we had (a) unutilised banking facilities of approximately HK\$0.6 million, primarily comprising import and export facilities with specific purposes; and (b) cash balance of approximately HK\$67.7 million.

As disclosed in the section headed “Future plans and use of proceeds — Use of proceeds” in this prospectus, the implementation of our production enhancement requires a substantial amount of cash as we are to acquire new machinery and equipment. Such expansion plan as detailed in the section headed “Future plans and use of proceeds — Use of proceeds” in this prospectus will equip our Group with sufficient resources to maintain our competitiveness in the electrothermic household appliances manufacturing industry to cater for our business growth opportunities in the next three years.

Based on our expansion plan, we are expected to utilise its net proceeds from the Share Offer of approximately HK\$8.9 million, HK\$66.1 million and HK\$21.3 million, respectively, in aggregate for each of the three years ending 31 December 2021 for our expansion plan. Without the proceeds from the Share Offer, we will be unable to fund our expansion plan solely on the unutilised banking facilities and cash balance of approximately HK\$0.6 million and HK\$67.7 million as at 30 April 2019, respectively.

Therefore, we consider that our expansion plan is not feasible to be financed with further debt financing and that equity financing can provide additional funding on top of our available financial resources as at the Latest Practicable Date and is essential to our expansion plan and future development, taking into account the following factors:

- (a) Having considered our Group’s average gearing ratio at approximately 43.4% during the Track Record Period, our Directors consider that further undue reliance on debt financing to finance our Group’s capital and cash flow requirements would not be commercially feasible as it would place considerable financial burden on our Group as well as our Controlling Shareholders, which would in turn curtail our long-term sustainability and room for business development.

As at 30 April 2019, we have unutilised banking facilities of approximately HK\$0.6 million, primarily comprising import and export facilities which can only be drawn under conditions specified in the relevant facility letters, for instance, import/export transactions with customers and suppliers, and cannot be utilised by us for other purposes. Furthermore, our current banking facilities contain certain clauses, for instance, the repayment on demand clause, by which the banks have the rights to call back our bank loans at any time should they consider individual circumstances or market condition unfavourable. We are subject to the risk that we will fail to renew or obtain bank borrowings, which our business operation and expansion plans will be materially and adversely affected.

We have approached our certain banks which we or our Controlling Shareholders have business relationship with. As at the Latest Practicable Date, these banks indicated that it would be unlikely for our Group to obtain any new or incremental facility without additional collaterals. Given that the our Group do not have available assets which can be pledged to bank, and further debt financing will only be available when our Group can provide other collateral as security, our Directors are of the view that further debt financing is not feasible for our Group’s long-term business expansion. Therefore, equity financing is the only available option to obtain capital for our business expansion;

FUTURE PLANS AND USE OF PROCEEDS

- (b) if we raise additional funds by incurring debt financing, we may be subject to various covenants under the relevant debt instruments that may, among other things, restrict our ability to obtain additional financing. If we fail to service such debt obligations or are unable to comply with any of these covenants, we could be in default under such debt obligations and our liquidity and financial condition could be materially and adversely affected;
- (c) our Directors consider that our Company, without a listing status, would be difficult to obtain debt financing without guarantees or other collateral to be provided by our Controlling Shareholders. It is anticipated that additional bank borrowings to our Group would require our Controlling Shareholders to provide additional guarantees and/or fixed assets as collateral if our Company were not listed. This is supported by the fact that the lending bank was willing to release the guarantees provided by our Controlling Shareholders, subject to, among other things, our Company being successfully listed on the Stock Exchange. Furthermore, the continuous reliance on our Controlling Shareholders for provision of personal guarantee and other form of financial assistance is a hindrance to our Group's future development and to our Group in achieving financial independence;
- (d) after consultation with the machine vendors and banks in the PRC, our Directors are of the view that leasing of similar machinery is unavailable in the market. Further, our Directors do not consider sub-contracting is an alternative given the stringent requirement over production process in order to ensure various product quality and safety standards that our customers are subject to can be complied with;
- (e) the regular financial reporting requirement under the Listing Rules can enable the bank to evaluate and monitor our Group's financial position more effectively and therefore is expected to smoothen the approval process for any future additional bank borrowings. The better accessibility to banking facilities allow us more flexibility in management of the cash flow of our business that can be affected by factors including those set out in the section headed "Risk factors" in this prospectus; and
- (f) our Directors consider that our customers and suppliers will give preference to company who has little debt burden, and hence at a lower risk of defaulting and becoming financially vulnerable.

Therefore, our Directors believe that there is a genuine funding need to support our production enhancement through the Listing.

In view of the long-term objective of our Group to pursue such business growth, our Directors consider that it is in the best interest of our Group to seek further investments from a broad shareholders' base instead of from our Controlling Shareholders. Accordingly, our Directors consider the Listing provides an avenue to our Group to raise capital through equity infusion to fund our continuous growth, and enable us to grow faster than we could if we were to remain private by relying solely on our limited internal resources.

FUTURE PLANS AND USE OF PROCEEDS

(ii) Strengthen our competitiveness in the market through the Listing

It is expected that the brand recognition of our Group can be broadened through the Listing and our corporate profile will be enhanced, which in turn will help attract more customers. We believe that our potential customers tend to give preference to a manufacturer which has a public listing status with a sound reputation. Furthermore, the listing status will also enhance our Group's credibility, which would increase our Group's bargaining power in negotiating terms and earn us more favourable terms from our suppliers.

(iii) Meaningful incentive scheme to retain talents

In addition, a public listing status may also enable us to attract and retain talents. We have, as part of the Listing, adopted the Share Option Scheme to incentivise our employees. As our business requires the support of experienced engineers and skilled personnel who have experience in the electrothermic household appliances manufacturing industry, the Listing enables us to adopt a meaningful stock options programme for our employees to be fairly compensated in line with their contributions and performance. This is because when our Shares are publicly traded, the share price hinges on our performance, which is indirectly attributable to the employees' efforts. Employees who exercise their share options are then able to trade our Shares freely in an open market.

(iv) Broader shareholder base to enhance long-term continuity and business succession

A public listing status on the Stock Exchange helps to unlock the real hidden value of our Group through market-driven mechanism as compared to when we were a private company where there was no market available for trading of shares of an unlisted company, the fair market value of our Group is difficult to arrive at. A public listing status may also offer our Company a broader shareholder base which can potentially lead to a more liquid market in the trading of our Shares. In view of our long and reputable history, our executive Directors and Controlling Shareholders believe that the Listing is a natural progression of our corporate history and the broader shareholder base will enhance the long-term continuity of our Group and business succession. Furthermore, capital market provides a well-organised risk distribution system for risk transfer from one person to another through well-organised market forces.

(v) Other commercial benefits arising from a public listing status

We believe that through the Listing, our internal control and corporate governance practises would be further enhanced. The Share Offer will strengthen the liquidity of the Shares by achieving the listing status of the Shares which will be freely traded on the Stock Exchange when compared to the limited liquidity of the Shares that are privately held before the Listing.

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PUBLIC OFFER UNDERWRITERS

Alliance Capital Partners Limited
Sun International Securities Limited
SPDB International Capital Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

The Public Offer

Public Offer Underwriting Agreement

Pursuant to the Public Offer Underwriting Agreement, our Company is initially offering for subscription by the public in Hong Kong of 10,000,000 Public Offer Shares at the Offer Price under the Public Offer, on and subject to the terms and conditions set forth in this prospectus and the Application Forms. The Public Offer Underwriters have agreed, on and subject to the terms and conditions in the Public Offer Underwriting Agreement, to procure subscribers for, or failing which they shall subscribe for, the Public Offer Shares.

The Public Offer Underwriting Agreement is subject to various conditions, which include, without limitation:

- (a) the Listing Committee granting listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus; and
- (b) the Placing Underwriting Agreement having been executed, becoming unconditional and not having been terminated.

Grounds for termination

The obligations of the Public Offer Underwriters to subscribe for, or procure subscribers for, the Public Offer Shares under the Public Offer Underwriting Agreement are subject to termination. The Sponsor and the Joint Global Coordinators (for themselves and on behalf of the Public Offer Underwriters) may in their absolute discretion terminate the Public Offer Underwriting Agreement with immediate effect by written notice to our Company at any time at or before 8:00 a.m. (Hong Kong time) on the Listing Date if:

- (i) there shall develop, occur, exist or come into effect:
 - (a) any change or prospective change (whether or not permanent) in the business or in the financial or trading position of our Group; or
 - (b) any change or development involving a prospective change or development, or any event or series of event resulting or representing or likely to result in any change or development involving a prospective change or deterioration (whether or not permanent) in local, national, regional or international financial, political, military, industrial,

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economic, legal framework, regulatory, fiscal, currency, credit or market conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets) in or affecting any of Hong Kong, BVI, Cayman Islands or any other jurisdictions where any member of our Group is incorporated or operates (collectively, the “**Relevant Jurisdictions**”); or

- (c) any deterioration of any pre-existing local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions in or affecting any of the Relevant Jurisdictions; or
- (d) any new laws or any change or development involving a prospective change in existing laws or any change or development involving a prospective change in the interpretation or application thereof by any court or governmental authority in or affecting any of the Relevant Jurisdictions; or
- (e) a change or development or event involving a prospective change in taxation or exchange control (or in the implementation of any exchange control) or foreign investment regulations in or affecting any of the Relevant Jurisdictions adversely affecting an investment in shares; or
- (f) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or crisis involving or affecting any of the Relevant Jurisdictions; or
- (g) any event, act or omission which gives rise or is likely to give rise to any liability of any of our Company, Controlling Shareholders and executive Directors under the Public Offer Underwriting Agreement pursuant to the indemnities contained therein; or
- (h) (i) any suspension or restriction on dealings in shares or securities generally on the Stock Exchange or (ii) any moratorium on commercial banking activities or disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any of the Relevant Jurisdictions; or
- (i) the imposition of economic or other sanctions, in whatever form, directly or indirectly, in or affecting any of the Relevant Jurisdictions; or
- (j) any event, or series of events, in the nature of force majeure (including without limitation, any acts of God, acts of government, declaration of a national or international emergency or war, acts or threat of war, calamity, crisis, economic sanction, riot, public disorder, civil commotion, fire, flooding, explosion, epidemic (including but not limited to the severe acute respiratory syndrome or avian flu), pandemic, outbreak of disease, terrorism, strike or lockout) in or affecting any of the Relevant Jurisdictions; or
- (k) any change or development involving a prospective change, or a materialisation of any of the risks set out in the section headed “Risk factors” in this prospectus; or

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- (l) any change in the system under which the value of the Hong Kong dollar is linked to that of the U.S. dollar or a material devaluation of Hong Kong dollar against any foreign currency; or
- (m) any 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
- (n) save as disclosed in this prospectus, a contravention by any member of our Group of the Listing Rules or applicable laws; or
- (o) a prohibition on our Company for whatever reason from allotting the Shares pursuant to the terms of the Share Offer; or
- (p) non-compliance of any of this prospectus or any aspect of the Share Offer with the Listing Rules or any other applicable laws; or
- (q) an order or a petition is presented for the winding-up or liquidation of any member of our Group or any member of our Group making any composition or arrangement with its creditors or entering into a scheme of arrangement or any resolution being passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager being appointed over all or part of the assets or undertaking of any member of our Group or anything analogous thereto in respect of any member of our Group; or
- (r) any loss or damage sustained by any member of our Group; or
- (s) save as disclosed in this prospectus, any litigation or claim of material importance of any third party being threatened or instigated against any member of our Group; or
- (t) a Director being charged with an indictable offence or prohibited by the operation of law or is otherwise disqualified from taking part in the management of a company; or
- (u) the chairman or president of our Company vacating his office; or
- (v) the commencement by any governmental, regulatory or judicial body or organisation of any action against a Director or an announcement by any governmental, regulatory or judicial body or organisation that it intends to take any such action; or
- (w) any matter or event resulting in a breach of any of the warranties, representations or undertakings contained in the Public Offer Underwriting Agreement or there has been a material breach of any other provisions thereof; or
- (x) the issue or requirement to issue by our Company of a supplement or amendment to this prospectus (or any other documents used in connection with the contemplated subscription of the Offer Shares) pursuant to the Companies Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (y) any adverse change (whether or not permanent) in local, national or international stock market conditions,

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which in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the Public Offer Underwriters):

- (a) is or will or may individually or in the aggregate have a material adverse effect on the business, financial, trading or other condition or prospect of our Group taken as a whole; or
 - (b) has or will or may have a material adverse effect on the success of the Share Offer or the level of Offer Shares being applied for or accepted or the distribution of Offer Shares; or
 - (c) is or will or may make it impracticable, inadvisable, inexpedient or not commercially viable (i) for any material part of the Public Offer Underwriting Agreement, Placing Underwriting Agreement and/or the Share Offer to be performed or implemented in accordance with its terms or (ii) to proceed with or to market the Share Offer on the terms and in the manner contemplated in this prospectus; or
- (ii) the Joint Global Coordinators or the Public Offer Underwriters shall become aware of the fact that, or have cause to believe that:
- (a) any of the warranties given by our Company, Controlling Shareholders and executive Directors under the Public Offer Underwriting Agreement or pursuant to the Placing Underwriting Agreement is untrue, inaccurate, misleading or breached in any material respect when given or as repeated as determined by the Joint Global Coordinators, or has been declared or determined by any court or governmental authorities to be illegal, invalid or unenforceable in any material respect; or
 - (b) any statement contained in this prospectus, the Application Forms, the formal notice or any announcement or advertisement issued by or on behalf of our Company in connection with the Public Offer (including any supplemental or amendment thereto) was or is untrue, incorrect or misleading in any material respect, or any matter arises or is discovered which would, if such document was to be issued at that time, constitute a material omission therefrom, or that any forecasts, expressions of opinion, intention or expectation expressed in such document are not, in all material aspects, fair and honest and based on reasonable assumptions, when taken as a whole; or
 - (c) there has been a material breach on the part of any of our Company, Controlling Shareholders and executive Directors of any of the provisions of the Public Offer Underwriting Agreement or the Placing Underwriting Agreement; or
 - (d) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus and not having been discovered in this prospectus, constitute a material omission therefrom; or
 - (e) any material adverse change or development involving a prospective change in the assets, liabilities, conditions, business affairs, prospect, profits, losses or financial or trading position or performance of any member of our Group; or

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- (f) approval by the Listing Committee of the listing of, and permission to deal in, the Offer Shares to be issued (including any additional Offer Shares that may be issued pursuant to the exercise of the Over-allotment Option) under the Share Offer is refused or not granted, 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
- (g) we withdraw this prospectus (and/or any other documents issued or used in connection with the Share Offer) or the Share Offer.

Undertakings to the Public Offer Underwriters

Undertakings by our Company

Our Company has undertaken to the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, and the Public Offer Underwriters, and each of our Controlling Shareholders and executive Directors has undertaken to and covenants with the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, and the Public Offer Underwriters that he/she/it will procure our Company that:

- (a) except pursuant to the Share Offer, the Capitalisation Issue, the exercise of the subscription rights attaching to the Over-allotment Option or any options to be granted under the Share Option Scheme or under the circumstances provided under Rules 10.08(1) to 10.08(4) of the Listing Rules, not without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Public Offer Underwriters), and subject always to the provisions of the Listing Rules, offer, allot, issue or sell, or agree to allot, issue or sell, grant or agree to grant any option, right or warrant over, or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by our Company or any of its affiliates (as defined in the Public Offer Underwriting Agreement)), either directly or indirectly, conditionally or unconditionally, any Shares or any securities convertible into or exchangeable for such Shares or any voting right or any other right attaching thereto or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of Shares or such securities or any voting right or any other right attaching thereto, whether any of the foregoing transactions is to be settled by delivery of Shares or such securities, in cash or otherwise or announce any intention to effect any such transaction during the period commencing from the date of the Public Offer Underwriting Agreement up to and including the date falling six months after the Listing Date (the “**First Six-month Period**”);
- (b) not at any time during the First Six-month Period, issue or create any mortgage, pledge, charge or other security interest or any rights in favour of any other person over, directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, any Shares or securities of our Company) or repurchase any Shares or securities of our Company or grant any options, warrants or other rights to subscribe for any Shares or other securities of our Company or

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agree to do any of the foregoing, except pursuant to the Share Offer, the Capitalisation Issue or the exercise of the subscription rights attaching to the Over-allotment Option or any option to be granted under the Share Option Scheme or under the circumstances provided under Rules 10.08(1) to 10.08(4) of the Listing Rules or under Note (2) to Rule 10.07 of the Listing Rules;

- (c) not at any time within the period of six months immediately following the expiry of the First Six-month Period (the “**Second Six-month Period**”) do any of the acts set out in (a) and (b) above such that our Controlling Shareholders, directly or indirectly, would cease to be a group of controlling shareholders of our Company (within the meaning defined in the Listing Rules); and
- (d) in the event that our Company does any of the acts set out in clause (a) or (b) after the expiry of the First Six-month Period or the Second Six-month Period, as the case may be, take all steps to ensure that any such act, if done, shall not create a disorderly or false market for any Shares or other securities of our Company or any interest therein.

Provided that none of the above undertakings shall (a) restrict our Company’s ability to sell, pledge, mortgage or charge any share capital or other securities of or any other interest in any of the subsidiaries provided that such sale or any enforcement of such pledge, mortgage or charge will not result in such subsidiaries ceasing to be a subsidiary of our Company; or (b) restrict any of the subsidiaries from issuing any share capital or other securities thereof or any other interests therein provided that any such issue will not result in that subsidiary ceasing to be a subsidiary of our Company.

Undertakings by our Controlling Shareholders

Each of our Controlling Shareholders has represented, warranted and undertaken to the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Public Offer Underwriters and our Company that, except pursuant to the Share Offer and unless in compliance with the Listing Rules, he/she/it shall not, without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Public Offer Underwriters), directly or indirectly, and shall procure that none of his/her/its close associates (as defined in the Listing Rules) or companies controlled by him/her/it or any nominee or trustee holding in trust for him/her/it shall, during the First Six-month Period:

- (a) offer for sale, sell, transfer, contract to sell, or otherwise dispose of (including without limitation by the creation of any option, right, warrant to purchase or otherwise transfer or dispose of, or any lending, charges, pledges or encumbrances over, or by entering into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise)) any of the Shares (or any interest therein or any of the voting or other rights attaching thereto) in respect of which he/she/it is shown in this prospectus to be the beneficial owner (directly or indirectly) or any other securities convertible into or exchangeable for or which carry a right to subscribe, purchase or acquire any such Shares (or any interest therein or any of the voting or other rights attaching thereto); or

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- (b) enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any of the economic consequences of the acquisition or ownership of any such Shares (or any interest therein or any of the voting or other rights attaching thereto) or such securities, at any time during the First Six-month Period, save as provided under note (2) to Rule 10.07(2) of the Listing Rules and subject always to compliance with the provisions of the Listing Rules, and in the event of a disposal of any Shares (or any interest therein or any of the voting or other rights attaching thereto) or such securities at any time during the Second Six-month period, (1) such disposal shall not result in our Controlling Shareholders ceasing to be a group of controlling shareholders (as defined in the Listing Rules) of our Company at any time during the Second Six-month Period; and (2) he/she/it shall take all steps to ensure that any such act, if done, shall not create a disorderly or false market for any Shares or other securities of our Company or any interest therein.

Without prejudice to our Controlling Shareholders' undertaking above, each of our Controlling Shareholders undertakes to the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Public Offer Underwriters and our Company that within the First Six-month Period and the Second Six-month Period he/she/it shall:

- (a) if and when he/she/it pledges or charges, directly or indirectly, any Shares (or any interest therein or any of the voting or other rights attaching thereto) or other securities of our Company beneficially owned by him/her/it (or any beneficial interest therein), immediately inform our Company, the Sponsor and the Joint Global Coordinators in writing of such pledge or charge together with the number of such Shares or other securities so pledged or charged; and
- (b) if and when he/she/it receives indications, either verbal or written, from any pledgee or chargee that any Shares (or any interest therein or any of the voting or other rights attaching thereto) or other securities in our Company (or any beneficial interest therein) pledged or charged by him/her/it will be disposed of, immediately inform our Company, the Sponsor and the Joint Global Coordinators in writing of such indications.

Our Company shall notify the Stock Exchange as soon as our Company has been informed of such event and shall make a public disclosure by way of announcement in accordance with the Listing Rules.

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by our Controlling Shareholders

In accordance with Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and our Company that except pursuant to the Share Offer or unless in compliance with the requirements of the Listing Rules, he/she/it shall not, and shall procure that the relevant registered holder(s) shall not, (i) at any time during the period commencing on the date by reference to which disclosure of its or his shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or other securities of our Company in respect of which he/she/it is shown by this prospectus to be the beneficial owner; and (ii) at any time during the period of six months from the date on which the period referred to in paragraph (i) above expires, dispose of, nor enter into any agreement to dispose of

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or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, they would cease to be a group of controlling shareholders (as defined in the Listing Rules) of our Company.

Each of our Controlling Shareholders has further undertaken to us and the Stock Exchange that he/she/it will, within a period of commencing on the date by reference to which disclosure of its or his shareholding is made in this prospectus and ending on the date which is 12 months from the Listing Date, immediately inform us of: (a) any pledges or charges of any Shares or other securities of our Company beneficially owned by any of our Controlling Shareholders in favour of any authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) pursuant to Note 2 to Rule 10.07(2) of the Listing Rules for a bona fide commercial loan, and the number of such Shares or other securities of our Company so pledged or charged; and (b) when he/she/it or the relevant requested holders receive indication, either verbal or written, from any pledgee or chargee of any Shares or other securities of our Company pledged or charged that any of such securities will be disposed of.

Our Company shall inform the Stock Exchange in writing as soon as it has been informed of any of the matters referred to above (if any) by our Controlling Shareholders and disclose such matters by way of an announcement to be published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

Undertaking by our Company

Pursuant to Rule 10.08 of the Listing Rules, our Company has undertaken to the Stock Exchange that no further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued or form the subject of any agreement or arrangement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except pursuant to the Share Offer (including the exercise of the Over-allotment Option) and the Capitalisation Issue or in certain circumstances prescribed by Rule 10.08 of the Listing Rules which includes the grant of options and the issue of Shares pursuant to the Share Option Scheme.

The Placing

In connection with the Placing, it is expected that our Company, our Controlling Shareholders and executive Directors will enter into the Placing Underwriting Agreement with the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Placing Underwriters and other parties (if any) on terms and conditions that are substantially similar to the Public Offer Underwriting Agreement as described above and on the additional terms described below.

Under the Placing Underwriting Agreement, subject to the conditions set forth therein, the Placing Underwriters are expected to procure subscribers and purchasers to subscribe for or purchase, or failing which they shall subscribe for or purchase, the Placing Shares initially being offered pursuant to the Placing. It is expected that the Placing Underwriting Agreement may be terminated on similar grounds as the Public Offer Underwriting Agreement. Potential investors shall be reminded that in the event that the Placing Underwriting Agreement is not entered into, the Share Offer will not proceed. The Placing Underwriting Agreement is conditional on and subject to the Public Offer Underwriting Agreement

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having been executed, becoming unconditional and not having been terminated. It is expected that pursuant to the Placing Underwriting Agreement, our Company and Controlling Shareholders will make similar undertakings as those given pursuant to the Public Offer Underwriting Agreement as described in the paragraphs headed “Undertakings to the Public Offer Underwriters” and “Undertaking to the Stock Exchange pursuant to the Listing Rules” above in this section.

Our Company is expected to grant to the Placing Underwriters the Over-allotment Option. The Joint Global Coordinators or their agent, on behalf of the Placing Underwriters, can exercise the Over-allotment Option to require our Company to allot and issue up to an aggregate of 15,000,000 additional Shares, representing 15% of the Offer Shares, at the Offer Price per Placing Share, solely to cover over allocations, if any, in the Placing.

The Over-allotment Option may be exercised by the Joint Global Coordinators at any time from the Listing Date and until the 30th day after the last day for the lodging of applications under the Public Offer. The purpose of the exercise of the Over-allotment Option is to settle any over-allocations in the Placing, if any. For further details of the Over-allotment Option, please refer to the section headed “Structure and conditions of the Share Offer” in this prospectus.

Commissions and expenses

The Underwriters will receive an underwriting commission at the rate of 10.0% of the aggregate Offer Price payable for the Offer Shares, out of which they will pay any sub-underwriting commissions. Such commission, together with the Stock Exchange listing fees, the Stock Exchange trading fees, the SFC transaction levy, legal and other professional fees, printing, and other expenses relating to the Share Offer, is currently estimated to be approximately HK\$40.5 million in aggregate (based on an Offer Price of HK\$1.40 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$1.30 per Offer Share and HK\$1.50 per Offer Shares and assuming that the Over-allotment Option is not exercised) and are payable by our Company with reference to the number of Shares under the Share Offer.

SPONSOR AND UNDERWRITERS’ INTERESTS IN OUR COMPANY

The Sponsor will receive a sponsorship fee to the Share Offer. The Underwriters will receive an underwriting commission. Particulars of these underwriting commission and expenses are set forth under the paragraph headed “Commission and expenses” above in this section.

We have appointed Alliance Capital Partners Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules for the period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the full financial year commencing after the Listing Date.

Save as disclosed above, none of the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers or the Underwriters is interested legally or beneficially in any Shares or other securities of our Company or any members of our Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase any Shares or other securities of our Company or any members of our Group or has any interest in the Share Offer.

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Following the completion of the Share Offer, the Public Offer Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their respective obligations under the Public Offer Underwriting Agreement and/or the Placing Underwriting Agreement.

The Sponsor satisfies the independence criteria applicable to sponsor set out in Rule 3A.07 of the Listing Rules.

MINIMUM PUBLIC FLOAT

Our Directors and the Joint Global Coordinators will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Share Offer.

RESTRICTIONS ON THE OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

THE SHARE OFFER

This prospectus is published in connection with the Public Offer as part of the Share Offer. The Share Offer consists of:

- (a) the Public Offer of 10,000,000 Shares (subject to reallocation as mentioned below) in Hong Kong as described below under the paragraph headed “The Public Offer” below; and
- (b) the Placing of 90,000,000 Shares (subject to reallocation and the Over-allotment Option as mentioned below) which will conditionally be placed with selected professional, institutional and other investors under the Placing.

Investors may apply for the Offer Shares under the Public Offer or indicate an interest, if qualified to do so, for the Placing Shares under the Placing, but may not do both.

The number of Offer Shares to be offered under the Public Offer and the Placing may be subject to reallocation as described in the paragraph headed “The Public Offer — Reallocation” below.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Public Offer.

THE PUBLIC OFFER

Number of Shares initially offered

Our Company is initially offering 10,000,000 Public Offer Shares for subscription (subject to reallocation) at the Offer Price by members of the public in Hong Kong under the Public Offer, representing 10% of the total number of Offer Shares initially available under the Share Offer. The Public Offer Shares initially offered under the Public Offer, subject to any reallocation of Offer Shares between the Placing and the Public Offer, will represent 2.5% of our Company’s enlarged issued share capital after completion of the Capitalisation Issue and Share Offer.

The Public Offer is open to all members of the public in Hong Kong as well as to institutional and professional investors. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Public Offer is subject to the conditions as set out in the paragraph headed “Conditions of the Share Offer” in this section.

Allocation

Allocation of the Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which could mean that some applicants may be allotted more Public Offer Shares than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

The total number of Public Offer Shares available under the Public Offer (after taking into account any reallocation as referred to below) is to be divided equally (to the nearest board lot) into two pools for allocation purposes: 5,000,000 Offer Shares for each of pool A and 5,000,000 Offer Shares for pool B. The Public Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares with an aggregate subscription price of HK\$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy payable thereon) or less. The Public Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Public Offer Shares with an aggregate subscription price of more than HK\$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy payable thereon) and up to the total value in pool B.

Investors should be aware that the allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. Where one of the pools is undersubscribed, the surplus Public Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of Public Offer Shares from either pool A or pool B and not from both pools. Multiple or suspected multiple applications under the Public Offer within either pool or between pools and any application for more than 5,000,000 Public Offer Shares, being 50% of the 10,000,000 Public Offer shares initially available under the Public Offer are liable to be rejected.

Reallocation

The allocation of Offer Shares between the Public Offer and the Placing is subject to reallocation on the following basis:

- (a) Where the Placing Shares are fully subscribed or oversubscribed:
 - (i) if the Public Offer Shares are not fully subscribed, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) will have the discretion (but shall not be under any obligation) to reallocate all or any unsubscribed Public Offer Shares to the Placing in such amount as the Joint Global Coordinators (for themselves and on behalf of the Underwriters) deems appropriate;
 - (ii) if the Public Offer Shares are not undersubscribed but the number of Offer Shares validly applied for under the Public Offer represents less than 15 times of the number of Offer Shares initially available under the Public Offer, then up to 10,000,000 Offer Shares may be reallocated to the Public Offer from the Placing, increasing the total number of Offer Shares available under the Public Offer to 20,000,000, representing 20% of the Offer Shares initially available under the Share Offer;
 - (iii) if the number of Offer Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times of the number of Offer Shares initially available under the Public Offer, then 20,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, increasing the total number of Offer Shares available under the Public Offer to 30,000,000, representing 30% of the Offer Shares initially available under the Share Offer;

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

- (iv) if the number of Offer Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times of the number of Offer Shares initially available under the Public Offer, then 30,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, increasing the total number of Offer Shares available under the Public Offer to 40,000,000, representing 40% of the Offer Shares initially available under the Share Offer; and
 - (v) if the number of Offer Shares validly applied for under the Public Offer represents 100 times or more of the number of Offer Shares initially available under the Public Offer, then 40,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, increasing the total number of Offer Shares available under the Public Offer to 50,000,000, representing 50% of the Offer Shares initially available under the Share Offer.
- (b) Where the Placing Shares are not fully subscribed:
- (i) if the Public Offer Shares are not fully subscribed, the Share Offer will not proceed unless the Underwriters would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Share Offer on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements; and
 - (ii) if the Public Offer Shares are fully subscribed irrespective of the number of times the number of Offer Shares initially available under the Public Offer, then up to 10,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, increasing the total number of Offer Shares available under the Public Offer to 20,000,000, representing 20% of the Offer Shares initially available under the Share Offer.

In addition, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) may reallocate Offer Shares from the Placing to the Public Offer to satisfy valid applications under the Public Offer. In accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, if such reallocation is done other than pursuant to Practice Note 18 of the Listing Rules, the maximum total number of Offer Shares that may be allocated to the Public Offer shall not be more than 20,000,000 Offer Shares, representing double of the initial allocation to the Public Offer and the final Offer Price shall be fixed at the bottom end of the Offer Price range (i.e. HK\$1.30 per Offer Share).

For reallocation of Offer Shares from the Placing to the Public Offer, the number of Offer Shares allocated to the Placing will correspondingly be reduced, and such additional Public Offer Shares will be reallocated to Pool A and Pool B in the Public Offer in such manner as the Joint Global Coordinators deem appropriate.

In addition, the Joint Global Coordinators may in their sole and absolute discretion reallocate Offer Shares from the Placing to the Public Offer to satisfy valid applications under the Public Offer. The Offer Shares to be offered in the Public Offer and the Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Applications

Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the application submitted by him or her that he or she and any person(s) for whose benefit he or she is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Placing Shares under the Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or if he or she has been or will be placed or allocated Placing Shares under the Placing.

The listing of the Offer Shares on the Stock Exchange is sponsored by the Sponsor. Applicants under the Public Offer are required to pay, on application, the maximum Offer Price of HK\$1.50 per Offer Share in addition to any brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share, amounting to a total of HK\$3,030.23 for one board lot of 2,000 Shares. If the Offer Price, as finally determined in the manner described in the paragraph headed "Pricing and allocation" in this section below, is less than the maximum Offer Price of HK\$1.50 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in the section headed "How to apply for the Public Offer Shares" in this prospectus.

THE PLACING

Number of the Offer Shares offered

Subject to reallocation as described above, the Placing will consist of 90,000,000 Shares, representing approximately 90% of the total number of Offer Shares initially available under the Share Offer, assuming the Over-allotment Option is not exercised. Subject to the reallocation of the Offer Shares between the Placing and the Public Offer, the number of Offer Shares initially offered under the Placing will represent approximately 22.5% of our Company's enlarged issued share capital immediately after completion of the Capitalisation Issue and Share Offer (without taking into account of any Shares which may be allotted and issued by our Company pursuant to the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme).

Allocation

Pursuant to the Placing, the Placing Shares will be conditionally placed on behalf of our Company by the Placing Underwriter or through selling agents appointed by them. The Placing Shares will be selectively placed to certain professional, institutional and other investors who 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. The Placing is subject to the Public Offer being unconditional.

Allocation of Offer Shares pursuant to the Placing will be effected in accordance with the "book-building" process based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Shares, after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit, of our Company and our Shareholders as a whole.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the Placing, and who has made an application under the Public Offer to provide sufficient information to the Joint Global Coordinators so as to allow it to identify the relevant applications under the Public Offer and to ensure that they are excluded from any application of Offer Shares under the Public Offer.

Reallocation

The total number of Offer Shares to be issued pursuant to the Placing may change as a result of the clawback arrangement described in the paragraph headed “The Public Offer — Reallocation” in this section above, and/or any reallocation of unsubscribed Offer Shares originally included in the Public Offer.

OVER-ALLOTMENT OPTION

In connection with the Share Offer, we are expected to grant the Over-allotment Option to the Placing Underwriters, exercisable by the Joint Global Coordinators on behalf of the Placing Underwriters.

Pursuant to the Over-allotment Option, the Placing Underwriters will have the right, exercisable by the Joint Global Coordinators (for themselves and on behalf of the Placing Underwriters) at any time from the Listing Date and until the 30th day after the last day for the lodging of applications under the Public Offer to require our Company to allot and issue, at the Offer Price, up to an aggregate of 15,000,000 additional Shares, representing 15% of the number of Offer Shares initially being offered under the Share Offer, on the same terms and conditions as those applicable to the Share Offer, to cover over-allocations in the Placing and/or the obligations of the Stabilising Manager to return securities borrowed under the Stock Borrowing Agreement. We will make an announcement if the Over-allotment Option is exercised.

If the Over-allotment Option is exercised in full, the additional Offer Shares allotted and issued will represent approximately 3.61% of the enlarged issued share capital of our Company immediately following the completion of the Share Offer and the exercise of the Over-allotment Option.

STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allocation in connection with the Share Offer, the Stabilising Manager may choose to borrow, whether on its own or through its affiliates and agents, up to 15,000,000 Shares from Modern Expression pursuant to a stock borrowing arrangement (being the maximum number of Shares which may be allotted and issued by our Company upon exercise of the Over-allotment Option), or acquire Shares from other sources, including the exercise of the Over-allotment Option.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

If such stock borrowing arrangement with Modern Expression is entered into, it will only be effected by the Stabilising Manager or its agent for settlement of over-allocation in the Placing and such arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set out in Rule 10.07(3) of the Listing Rules are complied with as follows:

- the stock borrowing arrangement is for the sole purpose of settlement of overallocations in connection with the Placing;
- the maximum number of Shares to be borrowed from our Controlling Shareholders shall not exceed the number of Shares that may be issued upon full exercise of the Over-allotment Option;
- the same number of Shares so borrowed will be redelivered or procured to be redelivered to our Controlling Shareholders on or before the third Business Day following the earlier of (i) the last date on which the Over-allotment Option may be exercised, (ii) the date on which the Over-allotment Option is exercised in full and the relevant Shares issued pursuant to the Over-allotment Option have been delivered to the Stabilising Manager, and (iii) such earlier time as the parties may from time to time agree in writing;
- the stock borrowing arrangement will be effected in compliance with applicable Listing Rules, the SFO and other applicable laws, rules and regulatory requirements; and
- no payments will be made to our Controlling Shareholders in relation to such stock borrowing arrangement.

STABILISATION

Stabilisation is a practise 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, 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.

In connection with the Share Offer, the Stabilising Manager and/or its affiliates and agents, 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 from the Listing Date and until the 30th day after the last day for the lodging of applications under the Public Offer. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager or its agent to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Stabilising Manager and may be discontinued at any time. Any such stabilising activity is required to be brought to an end on the 30th day after the last day for the lodging of applications under the Public Offer. The number of Shares that may be over-allocated will not exceed the number of Shares that may be allotted and issued under the Over-allotment Option, namely 15,000,000 Shares, which is 15% of the Offer Shares initially available under the Share Offer.

In Hong Kong, stabilising activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong). Stabilising actions permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules include: (i) over-allocation for the purpose of preventing or minimising any reduction in the market price of our Shares; (ii) 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; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, our Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) 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; and (v) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v) above.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Specifically, prospective applicants for and investors in our Shares should note that:

- (a) the Stabilising Manager, or any person acting for it, may, in connection with the stabilising action, maintain a long position in our Shares;
- (b) there is no certainty regarding the extent to which and the time period for which the Stabilising Manager, or any person acting for it, will maintain such a long position;
- (c) liquidation of any such long position by the Stabilising Manager may have an adverse impact on the market price of our Shares;
- (d) no stabilising action can be taken to support the price of our Shares for longer than the stabilising period which will begin on the Listing Date and until the 30th day after the last date for lodging applications under the Public Offer. After this date, when no further stabilising action may be taken, demand for our Shares, and therefore the price of our Shares, could fall;
- (e) the price of our Shares cannot be assured to stay at or above the Offer Price either during or after the stabilising period by the taking of any stabilising action; and
- (f) stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, our Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilising period.

In connection with the Share Offer, the Stabilising Manager may over-allocate up to and not more than an aggregate of 15,000,000 additional Shares and cover such over-allocations by the exercise of the Over-allotment Option, which will be exercisable by the Joint Global Coordinators, or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means. In particular, for the purpose of settlement of over-allocations in connection with the Placing, the Stabilising Manager may borrow up to 15,000,000 Shares from Modern Expression, equivalent to the maximum number of Shares to be allotted and issued by our Company on full exercise of the Over-allotment Option, under the Stock Borrowing Agreement. The same number of Shares so borrowed must be returned to Modern Expression or its nominees, as the case may be, on or before the third business day following the earlier of (i) the last day for exercising the Over-allotment Option and (ii) the day on which the Over-allotment Option is exercised in full. The stock borrowing arrangement will be effected in compliance with all applicable laws, rules and regulation requirements.

No payments or other benefit will be made to Modern Expression by the Stabilising Manager in relation to the stock borrowing arrangement.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

PRICING AND ALLOCATION

Determining the Offer Price

The Joint Global Coordinators will solicit from prospective investors the indications of interest in acquiring the Offer Shares in the Placing. Prospective investors will be required to specify the number of Offer Shares under the Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around, the last day for lodging applications under the Share Offer. Pricing for the Offer Shares for the purpose of the Share Offer will be fixed on the Price Determination Date, which is expected to be on or around Friday, 18 October 2019, and in any event on or before Monday, 21 October 2019, by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company and the number of Offer Shares to be allocated under the Share Offer will be determined shortly thereafter.

If for any reason the Price Determination Date is changed, our Company will as soon as practicable cause to be published on the website of the Stock Exchange at www.hkexnews.hk and our Company’s website at www.townray.com a notice of the change and if applicable the revised date.

Offer Price range

The Offer Price will be not more than HK\$1.50 per Offer Share and is expected to be not less than HK\$1.30 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Share Offer. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

Price payable on application

Applicants for Offer Shares under the Public Offer must pay, on application, the maximum Offer Price of HK\$1.50 for each Public Offer Share (plus the brokerage, Stock Exchange trading fee and SFC transaction levy payable on each Offer Share), amounting to a total of HK\$3,030.23 per board lot of 2,000 Offer Shares.

If the Offer Price, as finally determined in the manner described above, is lower than the maximum Offer Price of HK\$1.50 per Offer Share, appropriate refund payments (including the related brokerage, the Stock Exchange trading fee and the SFC transaction levy attributable to the excess application monies) will be made to applicants, without interest.

If, for any reason, our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) are unable to reach agreement on the Offer Price on or before 6:00 p.m., Monday, 21 October 2019, the Share Offer will not proceed and will lapse.

Further details are set out in the section headed “How to apply for the Public Offer Shares” in this prospectus.

Change of the Offer Price range

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective investors during the book-building process in respect of the Placing, and with the consent of our Company, change the indicative Offer Price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

In this case, we shall cause to be published, as soon as practicable following the decision to make such change, and in any event not later than the morning of the last day for lodging applications under the Public Offer:

- (a) a notice of the change on the website of the Stock Exchange at www.hkexnews.hk and our Company's website at www.townray.com. The notice will include a confirmation or revision, as appropriate, of the working capital statement and the Public Offering statistics and any other financial information in this prospectus which may change as a result of any such change; and
- (b) such supplemental offering documents as may be required by laws of any governmental authority to be published in such manner as the relevant laws or governmental authority may require as soon as practicable following the decision to make the change.

Upon issue of such a notice, the revised number of the Offer Shares and/or Offer Price range will be final and conclusive and the Offer Price, if agreed upon with our Company, will be fixed within such revised number of the Offer Shares and/or Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Share Offer statistics, and any other financial information in this prospectus which may change as a result of any such change.

Before submitting applications for the Public Offer Shares, applicants should have regard to the possibility that any announcement of an extension or reduction in the number of Offer Shares being offered under the Share Offer and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Public Offer. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the use of proceeds and the Share Offer statistics as currently set out in this prospectus and any other financial information which may change as a result of such reduction. In the absence of any such notice published in relation to the reduction in the Offer Price, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon by our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) will under no circumstances be set outside the Offer Price range as stated in this prospectus. If the number of Offer Shares and/or the indicative Offer Price range is reduced, applicants who have submitted an application under the Public Offer will be entitled to withdraw their applications unless positive confirmations from the applicants to proceed are received.

ANNOUNCEMENT OF OFFER PRICE AND BASIS OF ALLOCATIONS

Announcement of the final Offer Price, together with the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares are expected to be published on Thursday, 24 October 2019 on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.townray.com.

UNDERWRITING

The Public Offer is fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement. We expect to enter into the Placing Underwriting Agreement relating to the Placing on or around Friday, 18 October 2019. These underwriting arrangements and the Underwriting Agreements are summarised in the section headed "Underwriting" in this prospectus.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for the Offer Shares is conditional upon, amongst other things, the satisfaction of all the following conditions, in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 30 days after the date of this prospectus:

1. Listing

The Listing Committee granting the approval of the listing of, and permission to deal in, the Shares in issue and the Shares to be issued pursuant to the Share Offer (including the Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme) and such listing and permission not subsequently being revoked prior to the commencement of dealings in the Shares on the Stock Exchange.

2. Placing Underwriting Agreement

The execution and delivery of the Placing Underwriting Agreement on or about Friday, 18 October 2019.

3. Obligations under Underwriting Agreements

The obligations of the Underwriters under each of the Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of a waiver of any condition(s)) and such obligations not being terminated in accordance with the terms of the Underwriting Agreements.

4. Price determination

The Offer Price having been determined and the execution of the Price Determination Agreement on or before the Price Determination Date.

If, for any reason, the Offer Price is not agreed between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on or before 6:00 p.m. on Monday, 21 October 2019, the Share Offer will not proceed and will lapse.

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, the other offering becoming and remaining unconditional and not having been terminated in accordance with their respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Public Offer will be published by us on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.townray.com on the next business day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed "How to apply for the Public Offer Shares" in this prospectus. In the meantime, all application

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

monies will be held in separate bank account(s) with the receiving banks or other licenced bank(s) in Hong Kong licenced under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended from time to time).

Share certificates for the Offer Shares are expected to be issued on Thursday, 24 October 2019 but will only become valid certificates of title at 8:00 a.m. on Friday, 25 October 2019 provided that (i) the Share Offer has become unconditional in all respects, and (ii) the right of termination as described in the section headed “Underwriting — Underwriting arrangements and expenses — The Public Offer — Grounds for termination” in this prospectus has not been exercised.

SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the Shares to be admitted into CCASS. If the Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

DEALING ARRANGEMENTS

Assuming that the Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on 25 October 2019, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on 25 October 2019. The Shares will be traded in board lots of 2,000 Shares.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for Placing Shares.

To apply for Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S); and
- are not a legal or natural person of the PRC.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four for the Public Offer Shares.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Unless permitted by the Listing Rules, you cannot apply for any Public Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any of its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- a connected person of our Company or will become a connected person of our Company immediately upon completion of the Share Offer;
- an associate of any of the above; or
- have been allocated or have applied for or indicated an interest in any Placing Shares or otherwise participated in the Placing.

3. APPLYING FOR PUBLIC OFFER SHARES

Which application channel to use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form.

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 15 October 2019 to 12:00 noon on Friday, 18 October 2019 from:

- (i) any of the following offices of the Public Offer Underwriters:

Alliance Capital Partners Limited	Room 1502–1503A Wing On House 71 Des Voeux Road Central Central Hong Kong
Sun International Securities Limited	Unit 2412–13, 24/F China Merchants Tower Shun Tak Centre 168–200 Connaught Road Central Hong Kong
SPDB International Capital Limited	Suites 3207–3212, 32/F One Pacific Place 88 Queensway Hong Kong

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (ii) any of the following branches of Bank of China (Hong Kong) Limited, the receiving bank for the Public Offer:

District	Branch name	Address
Hong Kong Island	Taikoo Shing Branch	Shop G1006 Hoi Shing Mansion Taikoo Shing Hong Kong
Kowloon	Kwun Tong Plaza Branch	G1 Kwun Tong Plaza 68 Hoi Yuen Road Kwun Tong, Kowloon
	Mei Foo Mount Sterling Mall Branch	Shop N47–49, G/F Mount Sterling Mall Mei Foo Sun Chuen Kowloon
New Territories	Tai Po Branch	68–70 Po Heung Street Tai Po Market New Territories

- (iii) the following office of the Sponsor:

Alliance Capital Partners Limited at Room 1502–1503A, Wing On House, 71 Des Voeux Road Central, Central, Hong Kong

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 15 October 2019 until 12:00 noon on Friday, 18 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.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Time for lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to “**BANK OF CHINA (HONG KONG) NOMINEES LIMITED — TOWN RAY 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:

- Tuesday, 15 October 2019 — 9:00 a.m. to 5:00 p.m.
- Wednesday, 16 October 2019 — 9:00 a.m. to 5:00 p.m.
- Thursday, 17 October 2019 — 9:00 a.m. to 5:00 p.m.
- Friday, 18 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 Friday, 18 October 2019, the last application day or such later time as described in “9. Effect of bad weather on the opening of the application lists” in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (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 Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing nor participated in the Placing;
- (viii) agree to disclose to our Company, our Hong Kong Branch Share Registrar, the receiving bank, the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or our agents to send any Share certificate(s) and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the Share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company, the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC by you or by anyone as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that
 - (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC; and
 - (ii) you have due authority to sign the Application Form or give electronic application instructions on behalf of that other person as their agent.

Additional instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

5. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give electronic application instructions to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

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 Center
1/F, One & Two Exchange Square
8 Connaught Place
Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to the Joint Global Coordinators and our Hong Kong Branch Share Registrar.

Giving electronic application instructions to HKSCC via CCASS

Where you have given electronic application instructions to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- agree to accept the Public Offer Shares applied for or any lesser number allocated;
- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;
- (if the 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, the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Public Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters and/or their respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- 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 Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your electronic application instructions can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving electronic application instructions to apply for Public Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of our Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of giving electronic application instructions to HKSCC via CCASS

By giving electronic application instructions to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum purchase amount and permitted numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions for a minimum of 2,000 Public Offer Shares. Instructions for more than 2,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

Time for inputting electronic application instructions

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

- Tuesday, 15 October 2019 — 9:00 a.m. to 8:30 p.m.^(Note)
- Wednesday, 16 October 2019 — 8:00 a.m. to 8:30 p.m.^(Note)
- Thursday, 17 October 2019 — 8:00 a.m. to 8:30 p.m.^(Note)
- Friday, 18 October 2019 — 8:00 a.m.^(Note) to 12:00 noon

Note: These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Tuesday, 15 October 2019 until 12:00 noon on Friday, 18 October 2019 (24 hours daily, except on Friday, 18 October 2019, the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Friday, 18 October 2019, the last application day or such later time as described in “9. Effect of bad weather on the opening of the application lists” in this section.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

No multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any electronic application instructions to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal data

The section of the Application Form headed “Personal data” applies to any personal data held by our Company, our Hong Kong Branch Share Registrar, the receiving bank, the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

6. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of electronic application instructions, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon, Friday, 18 October 2019.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

7. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC, is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“**Unlisted company**” means a company with no equity securities listed on the Stock Exchange.

“**Statutory control**” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

8. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for the numbers of Public Offer Shares that may be applied for.

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 out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form in respect of a minimum of 2,000 Public Offer Shares. Each application or electronic application instruction in respect of more than 2,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure and conditions of the Share Offer — Pricing and allocation” in this prospectus.

9. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 18 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 Friday, 18 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.

10. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indications of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Thursday, 24 October 2019 on our Company’s website at www.townray.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 Public Offer will be available at the dates and times and in the manner specified below:

- in the announcement to be posted on our Company’s website at www.townray.com and the Stock Exchange’s website at www.hkexnews.hk by no later than 9:00 a.m., Thursday, 24 October 2019;
- from the designated results of allocations website at www.tricor.com.hk/IPO/result or www.hkeipo.hk/IPOResult with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Thursday, 24 October 2019 to 12:00 midnight on Wednesday, 30 October 2019;
- by telephone enquiry line by calling (852) 3691 8488 between 9:00 a.m. and 6:00 p.m. from Thursday, 24 October 2019 to Tuesday, 29 October 2019 on a Business Day;
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 24 October 2019 to Monday, 28 October 2019 at all the receiving bank’s designated branches.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in the section headed “Structure and conditions of the Share Offer” in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

11. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving electronic application instructions to HKSCC, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

(ii) If our Company or our agents exercise their discretion to reject your application:

Our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

(iii) If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares will be void if the Listing Committee 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) Public Offer Shares and Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company, the Joint Global Coordinators, the Joint Bookrunners or the Joint Lead Managers believes that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Public Offer Shares initially offered under the Public Offer.

12. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the conditions of the Public Offer are not fulfilled in accordance with the section headed "Structure and conditions of the Share Offer" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Thursday, 24 October 2019.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

13. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by electronic application instructions to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of our Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or around Thursday, 24 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).

Share certificates will only become valid at 8:00 a.m., Friday, 25 October 2019 provided that the Share Offer has become unconditional and the right of termination described in the section headed “Underwriting” in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 Public Offer Shares or more and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) in person from our Hong Kong Branch Share Registrar, Tricor Investor Services

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, 24 October 2019 or such other date as notified by us on the website of our Company at www.townray.com or on the website of the Stock Exchange at www.hkexnews.hk.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or Share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on Thursday, 24 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 Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Thursday, 24 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(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, 24 October 2019, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

For Public Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS Participant.

- *If you are applying as a CCASS investor participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in "Publication of results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 24 October 2019 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

(iii) If you apply via electronic application instructions to HKSCC

Allocation of Public Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, 24 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 Public Offer in the manner specified in "11. Publication of results" above on Thursday, 24 October 2019. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 24 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 Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 24 October 2019. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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 Thursday, 24 October 2019.

14. 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, prepared for the purpose of incorporation in this prospectus, received from the Reporting Accountants, Ernst & Young, Certified Public Accountants.



22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

The Directors
Town Ray Holdings Limited
Alliance Capital Partners Limited

Dear Sirs,

We report on the historical financial information of Town Ray Holdings Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) set out on pages I-4 to I-60, which comprises the consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2016, 2017 and 2018, and the four months ended 30 April 2019 (the “**Relevant Periods**”), and the consolidated statements of financial position of the Group as at 31 December 2016, 2017 and 2018 and 30 April 2019 and the statements of financial position of the Company as at 31 December 2017 and 2018 and 30 April 2019 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-60 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 15 October 2019 (the “**Prospectus**”) in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

DIRECTORS' RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Group as at 31 December 2016, 2017 and 2018 and 30 April 2019 and of the Company as at 31 December 2017 and 2018 and 30 April 2019 and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

REVIEW OF INTERIM COMPARATIVE FINANCIAL INFORMATION

We have reviewed the interim comparative financial information of the Group which comprises the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the four months ended 30 April 2018 and other explanatory information (the "**Interim Comparative Financial Information**"). The directors of the Company are responsible for the preparation and presentation of the Interim Comparative Financial Information in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively. Our responsibility is to express a conclusion on the Interim 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 Interim Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

**REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES
ON THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS
PROVISIONS) ORDINANCE****Adjustments**

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to note 11 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Relevant Periods.

No historical financial statements for the Company

As at the date of this report, no statutory financial statements have been prepared for the Company since its date of incorporation.

Yours faithfully,

Ernst & Young

Certified Public Accountants

Hong Kong

15 October 2019

I. HISTORICAL FINANCIAL INFORMATION**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the “**Underlying Financial Statements**”).

The Historical Financial Information is presented in Hong Kong dollars (“**HK\$**”) and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

Consolidated Statements of Profit or Loss

		Years ended 31 December			Four months ended 30 April	
		2016	2017	2018	2018	2019
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(Unaudited)	
REVENUE	5	361,071	358,801	373,462	106,563	144,562
Cost of sales		<u>(253,916)</u>	<u>(253,210)</u>	<u>(268,117)</u>	<u>(80,834)</u>	<u>(99,449)</u>
Gross profit		107,155	105,591	105,345	25,729	45,113
Other income and gains, net	5	4,888	32,605	8,202	1,009	1,778
Selling and distribution expenses		(10,121)	(7,711)	(8,691)	(2,665)	(2,426)
General and administrative expenses		(58,424)	(65,746)	(57,176)	(18,026)	(30,082)
Other expenses, net		(8,394)	(5,430)	(865)	(2,627)	(2,987)
Finance costs	6	<u>(1,046)</u>	<u>(294)</u>	<u>(885)</u>	<u>(293)</u>	<u>(1,093)</u>
PROFIT BEFORE TAX	7	34,058	59,015	45,930	3,127	10,303
Income tax expense	10	<u>(11,091)</u>	<u>(9,551)</u>	<u>(7,891)</u>	<u>(236)</u>	<u>(5,055)</u>
PROFIT FOR THE YEAR/ PERIOD		<u>22,967</u>	<u>49,464</u>	<u>38,039</u>	<u>2,891</u>	<u>5,248</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Consolidated Statements of Comprehensive Income

	Years ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
PROFIT FOR THE YEAR/PERIOD	22,967	49,464	38,039	2,891	5,248
OTHER COMPREHENSIVE INCOME/(LOSS)					
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations	<u>(12,955)</u>	<u>14,023</u>	<u>(10,260)</u>	<u>7,778</u>	<u>810</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD	<u>10,012</u>	<u>63,487</u>	<u>27,779</u>	<u>10,669</u>	<u>6,058</u>

Consolidated Statements of Financial Position

		As at 31 December			As at
		2016	2017	2018	30 April
	Notes	HK\$'000	HK\$'000	HK\$'000	2019
					HK\$'000
NON-CURRENT ASSETS					
Property, plant and equipment	13	147,025	143,385	33,290	32,671
Right-of-use assets	14	15,992	16,125	30,211	30,389
Deposits paid for purchases of items of property, plant and equipment		1,763	3,495	593	789
Rental deposit	17	—	251	251	251
Deferred tax assets	25	3,143	6,754	2,137	1,596
Total non-current assets		167,923	170,010	66,482	65,696
CURRENT ASSETS					
Inventories	15	31,028	46,177	43,113	64,554
Trade receivables	16	61,486	68,973	79,810	64,880
Prepayments, deposits and other receivables	17	6,563	11,612	14,872	40,034
Due from related companies	18	78,967	103,889	13,765	—
Structured deposits	19	3,357	27,541	—	—
Pledged deposit	20	—	39,478	—	—
Cash and cash equivalents	20	60,237	28,287	51,857	67,749
		241,638	325,957	203,417	237,217
Assets held for sale	21	16,202	—	—	—
Total current assets		257,840	325,957	203,417	237,217

		As at 31 December			As at
		2016	2017	2018	30 April
	Notes	HK\$'000	HK\$'000	HK\$'000	2019
					HK\$'000
CURRENT LIABILITIES					
Trade payables	22	41,979	47,197	39,016	44,861
Other payables and accruals	23	22,761	28,163	14,248	16,716
Due to related companies	18	89,003	94,161	449	1,119
Interest-bearing bank borrowings	24	15,540	44,000	46,671	64,920
Lease liabilities	14	537	—	11,799	12,033
Tax payable		<u>4,170</u>	<u>8,908</u>	<u>2,398</u>	<u>1,262</u>
Total current liabilities		<u>173,990</u>	<u>222,429</u>	<u>114,581</u>	<u>140,911</u>
NET CURRENT ASSETS		<u>83,850</u>	<u>103,528</u>	<u>88,836</u>	<u>96,306</u>
TOTAL ASSETS LESS					
CURRENT LIABILITIES		<u>251,773</u>	<u>273,538</u>	<u>155,318</u>	<u>162,002</u>
NON-CURRENT LIABILITIES					
Lease liabilities	14	—	—	18,450	18,642
Deferred tax liabilities	25	<u>1,706</u>	<u>1,674</u>	<u>396</u>	<u>830</u>
Total non-current liabilities		<u>1,706</u>	<u>1,674</u>	<u>18,846</u>	<u>19,472</u>
Net assets		<u>250,067</u>	<u>271,864</u>	<u>136,472</u>	<u>142,530</u>
EQUITY					
Issued capital	26	—	—	—	—
Reserves	28	<u>250,067</u>	<u>271,864</u>	<u>136,472</u>	<u>142,530</u>
Total equity		<u>250,067</u>	<u>271,864</u>	<u>136,472</u>	<u>142,530</u>

Consolidated Statements of Changes in Equity

		Issued capital	Merger reserve	Capital contribution reserve	Share-based payment reserve	Statutory reserve funds	Exchange fluctuation reserve	Retained profits	Total
	Notes	HK\$'000	HK\$'000 (note 28(a))	HK\$'000 (note 28(b))	HK\$'000 (note 28(c))	HK\$'000 (note 28(d))	HK\$'000	HK\$'000	HK\$'000
At 1 January 2016		—	174,044	—	—	—	18,307	47,704	240,055
Profit for the year		—	—	—	—	—	—	22,967	22,967
Other comprehensive loss for the year:									
Exchange differences on translation of a foreign operation		—	—	—	—	—	(12,955)	—	(12,955)
Total comprehensive income for the year		—	—	—	—	—	(12,955)	22,967	10,012
At 31 December 2016 and at 1 January 2017		—	174,044*	—*	—*	—*	5,352*	70,671*	250,067
Profit for the year		—	—	—	—	—	—	49,464	49,464
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations		—	—	—	—	—	14,023	—	14,023
Total comprehensive income for the year		—	—	—	—	—	14,023	49,464	63,487
Dividends	11	—	—	—	—	—	—	(51,740)	(51,740)
Shares awarded to certain key management personnel	27	—	—	—	10,050	—	—	—	10,050
Transfer to statutory reserve funds		—	—	—	—	3,896	—	(3,896)	—
At 31 December 2017 and at 1 January 2018		—	174,044*	—*	10,050*	3,896*	19,375*	64,499*	271,864
Profit for the year		—	—	—	—	—	—	38,039	38,039
Other comprehensive loss for the year:									
Exchange differences on translation of foreign operations		—	—	—	—	—	(10,260)	—	(10,260)
Total comprehensive income for the year		—	—	—	—	—	(10,260)	38,039	27,779
Dividend	11	—	—	—	—	—	—	(32,229)	(32,229)
Deemed distribution to the controlling shareholder	29	—	(164,044)	—	—	(7,477)	(9,265)	(13,156)	(193,942)
Capital contribution from the controlling shareholder	30(a)	—	—	63,000	—	—	—	—	63,000
Transfer to statutory reserve funds		—	—	—	—	3,581	—	(3,581)	—
At 31 December 2018		—	10,000*	63,000*	10,050*	—*	(150)*	53,572*	136,472

APPENDIX I

ACCOUNTANTS' REPORT

		Issued	Merger	Capital	Share-based	Statutory	Exchange	Retained	Total
	Notes	capital	reserve	contribution	payment	reserve	fluctuation	profits	
		HK\$'000	HK\$'000	reserve	reserve	funds	reserve	HK\$'000	HK\$'000
			(note 28(a))	(note 28(b))	(note 28(c))	(note 28(d))			
At 1 January 2019		—	10,000	63,000	10,050	—	(150)	53,572	136,472
Profit for the period		—	—	—	—	—	—	5,248	5,248
Other comprehensive income									
for the period:									
Exchange differences on translation									
of a foreign operation		—	—	—	—	—	810	—	810
Total comprehensive income		—	—	—	—	—	810	5,248	6,058
for the period		—	—	—	—	—	810	5,248	6,058
At 30 April 2019		—	10,000*	63,000*	10,050*	—*	660*	58,820*	142,530
(Unaudited)									
At 1 January 2018		—	174,044	—	10,050	3,896	19,375	64,499	271,864
Profit for the period		—	—	—	—	—	—	2,891	2,891
Other comprehensive income									
for the period:									
Exchange differences on translation									
of foreign operations		—	—	—	—	—	7,778	—	7,778
Total comprehensive income		—	—	—	—	—	7,778	2,891	10,669
for the period		—	—	—	—	—	7,778	2,891	10,669
At 30 April 2018		—	174,044	—	10,050	3,896	27,153	67,390	282,533

* These reserve accounts comprise the consolidated reserves of HK\$250,067,000, HK\$271,864,000, HK\$136,472,000 and HK\$142,530,000 in the consolidated statements of financial position as at 31 December 2016, 2017 and 2018 and 30 April 2019, respectively.

Consolidated Statements of Cash Flows

		Years ended 31 December			Four months ended 30 April	
		2016	2017	2018	2018	2019
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		34,058	59,015	45,930	3,127	10,303
Adjustments for:						
Finance costs	6	1,046	294	885	293	1,093
Interest income	5	(44)	(69)	(1,066)	(339)	(77)
Fair value gains on structured deposits	5	(70)	(1,038)	(333)	(141)	(8)
Gain on disposal of assets held for sale	5	—	(30,029)	—	—	—
Depreciation of property, plant and equipment	7	20,383	16,710	16,073	6,513	2,814
Depreciation of right-of-use assets	7	1,363	937	1,362	460	3,825
Loss on disposal of items of property, plant and equipment, net	7	8,632	355	87	—	—
Write-down/(reversal of write-down) of inventories to net realisable value	7	1,037	180	44	(186)	(218)
Impairment of trade receivables, net	7	(238)	51	615	389	1,103
Equity-settled share-based payment expense	7	—	10,050	—	—	—
		66,167	56,456	63,597	10,116	18,835
Decrease/(increase) in inventories		2,577	(14,695)	1,743	828	(20,355)
Decrease/(increase) in trade receivables		(9,703)	(4,531)	(11,780)	25,193	13,837
Decrease/(increase) in prepayments, deposits and other receivables		5,575	(4,704)	(4,812)	(1,145)	(24,905)
Decrease/(increase) in amounts due from related companies		1,698	(22,613)	32,331	17,143	(20,074)
Increase/(decrease) in trade payables		(51)	2,199	(4,063)	(11,548)	5,023
Increase/(decrease) in other payables and accruals		(4,731)	4,194	(4,724)	7,950	2,304
Increase/(decrease) in amounts due to related companies		(4,678)	(520)	46,752	6,752	33,759
Cash generated from operations		56,854	15,786	119,044	55,289	8,424
Overseas tax paid		(3,013)	(8,751)	(12,871)	(9,853)	(5,286)
Net cash flows from operating activities		53,841	7,035	106,173	45,436	3,138

	Years ended 31 December			Four months ended	
	2016	2017	2018	2018	2019
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	44	69	1,066	339	77
Purchases of items of property, plant and equipment	(5,051)	(7,506)	(20,581)	(18,554)	(1,386)
Proceeds from disposal of assets held for sale	—	47,054	—	—	—
Proceeds from disposal of items of property, plant and equipment	—	4,305	3,787	—	—
Decrease/(increase) in deposits paid for purchases of items of property, plant and equipment	(216)	(1,555)	2,841	3,160	(184)
Purchases of structured deposits	(75,099)	(173,674)	(103,714)	(73,585)	(8,191)
Proceeds from redemption of structured deposits	73,736	152,738	130,710	72,304	8,221
Increase in pledged deposit	—	(38,168)	(235)	—	—
Net cash flows from/(used in) investing activities	(6,586)	(16,737)	13,874	(16,336)	(1,463)
CASH FLOWS FROM FINANCING ACTIVITIES					
New bank borrowings	57,704	62,975	49,817	—	49,420
Repayment of bank borrowings	(50,674)	(34,515)	(47,146)	(11,000)	(31,171)
Repayment of loan from a related company	(40,000)	—	—	—	—
Principal portion of lease payments	(529)	(537)	(911)	(299)	(3,576)
Dividends paid	—	(51,740)	(32,229)	—	—
Deemed distribution to the controlling shareholder	29	—	(61,764)	—	—
Interest paid	(1,046)	(294)	(885)	(293)	(1,093)
Net cash flows from/(used in) financing activities	(34,545)	(24,111)	(93,118)	(11,592)	13,580
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	12,710	(33,813)	26,929	17,508	15,255
Cash and cash equivalents at beginning of year/period	50,178	60,237	28,287	28,287	51,857
Effect of foreign exchange rate changes, net	(2,651)	1,863	(3,359)	498	637
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	<u>60,237</u>	<u>28,287</u>	<u>51,857</u>	<u>46,293</u>	<u>67,749</u>
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS					
Cash and bank balances	<u>60,237</u>	<u>28,287</u>	<u>51,857</u>	<u>46,293</u>	<u>67,749</u>

Statements of Financial Position of the Company

		As at 31 December		As at
		2017	2018	30 April
	Notes	HK\$'000	HK\$'000	2019
				HK\$'000
NON-CURRENT ASSET				
Investment in a subsidiary		—	—	—
CURRENT ASSETS				
Prepayments		—	31	3,538
Due from a subsidiary	18	—	62,870	50,870
Cash and cash equivalents	20	—	54	677
Total current assets		—	62,955	55,085
CURRENT LIABILITIES				
Other payable and accrual		—	—	574
Due to a subsidiary	18	—	—	3,500
Total current liabilities		—	—	4,074
Net assets		—	62,955	51,011
EQUITY				
Issued capital	26	—	—	—
Reserves		—	62,955	51,011
Total equity		—	62,955	51,011

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The address of the registered office of the Company is PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The principal place of business of the Company is located at 10/F., Block A, Chung Mei Centre, 15 Hing Yip Street, Kwun Tong, Kowloon.

The Company is an investment holding company. During the Relevant Periods, the Company's subsidiaries were principally engaged in the manufacture and sale of electrothermic household appliances.

In preparation for the listing of the Company's shares on the Stock Exchange, a business transfer agreement was entered into between 東保利電業(惠州)有限公司 ("Tunbow (Huizhou)") and 登輝電器(惠州)有限公司 ("Town Ray (Huizhou)"), pursuant to which the business of manufacture and sale of electrothermic household appliances formerly operated by Tunbow (Huizhou) (the "PRC Manufacture and Sale Business") was transferred to Town Ray (Huizhou) and the business transfer (the "Business Transfer") was completed on 31 December 2018. As further explained in note 2.1 to the Historical Financial Information, the results and cash flows of the PRC Manufacture and Sale Business are included in the consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group since the date when the PRC Manufacture and Sale Business first came under the common control of Tunbow Investments (BVI) (as defined in note 2.1 to the Historical Financial Information). The assets and liabilities of the PRC Manufacture and Sale Business are included in the consolidated statements of financial position of the Group using the existing book values from Tunbow Investments (BVI)'s perspective. The assets and liabilities which were not transferred, assigned or novated to Town Ray (Huizhou) as at 31 December 2018 were accounted for as a deemed distribution as detailed in note 29 to the Historical Financial Information.

The Company and its subsidiaries now comprising the Group underwent a group reorganisation (the "Reorganisation") as set out in the paragraphs headed "Reorganisation" in the section headed "History, development and Reorganisation" in the Prospectus. Apart from the Reorganisation, the Company has not commenced any business or operation since its incorporation.

In the opinion of the directors, the holding company of the Company is Modern Expression Limited, a company incorporated in the British Virgin Islands.

As at the end of the Relevant Periods, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	Place and date of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Town Ray Investments (BVI) Limited (note (a))	British Virgin Islands/ Hong Kong 27 September 2017	US\$1	100	—	Investment holding
Town Ray Development Limited (note (a))	British Virgin Islands/ Hong Kong 27 September 2017	US\$1	—	100	Investment holding
Town Ray Enterprises Limited (note (a))	British Virgin Islands/ Hong Kong 27 September 2017	US\$1	—	100	Investment holding

Name	Place and date of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Tunbow Group Limited (note (b))	Hong Kong 21 November 2007	HK\$10,000,000	—	100	Trading of electrothermic household appliances
Town Ray Hong Kong Limited (note (b))	Hong Kong 19 October 2017	HK\$1	—	100	Investment holding
Town Ray (Huizhou) (note (c))	People's Republic of China ("PRC")/ Mainland China 14 December 2017	HK\$30,000,000	—	100	Manufacture and sale of electrothermic household appliances

Notes:

- (a) No statutory financial statements have been prepared for these entities since the date of incorporation as these entities were not subject to any statutory audit requirements under the relevant rules and regulations in their jurisdiction of incorporation.
- (b) The statutory financial statements of these entities for the years ended 31 December 2016, 2017 and 2018 (or since the date of incorporation, where later than the beginning of the Relevant Periods) prepared under Hong Kong Financial Reporting Standards ("HKFRSs") were audited by Ernst & Young, Hong Kong.
- (c) Town Ray (Huizhou) is registered as a wholly-foreign-owned enterprise under the PRC law. The statutory financial statements for the year ended 31 December 2018 prepared under the PRC Generally Accepted Accounting Principles were audited by 惠州市東方會計師事務所有限公司, certified public accountants registered in the PRC.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation as more fully explained in the paragraphs headed "Reorganisation" in the section headed "History, development and Reorganisation" in the Prospectus, the Company became the holding company of the companies now comprising the Group. The companies now comprising the Group and the PRC Manufacture and Sale Business were under the common control of the controlling shareholder, Tunbow Investments (BVI) Limited ("Tunbow Investments (BVI)"), before and after the Reorganisation. Accordingly, for the purpose of this report, the Historical Financial Information has been prepared on a consolidated basis by applying the principles of merger accounting as if the Reorganisation and the Business Transfer had been completed at the beginning of the Relevant Periods.

The consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for the Relevant Periods and the four months ended 30 April 2018 include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of Tunbow Investments (BVI), where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2016, 2017 and 2018 and 30 April 2019 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from Tunbow Investments (BVI)'s perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

All intra-group transactions and balances have been eliminated on consolidation.

2.2 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2019, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods and in the period covered by the Interim Comparative Financial Information.

The Historical Financial Information has been prepared under the historical cost convention, except for structured deposits which have been measured at fair value. Assets held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 2.4.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Historical Financial Information.

Amendments to HKFRS 3	<i>Definition of a Business</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
HKFRS 17	<i>Insurance Contracts</i> ²
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after 1 January 2021

³ No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Historical Financial Information.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

Fair value measurement

The Group measures its structured deposits at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and non-current assets held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;
- or
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4.5%
Leasehold improvements	Over the shorter of the lease terms and 4.5%
Plant and machinery	9%
Furniture, fixtures and equipment	18% to 20%
Moulds	18% to 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents plant and buildings under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and prepaid land lease payments classified as held for sale are not depreciated or amortised.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially 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. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria

for debt instruments to be classified at amortised cost, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings and payables.

All financial liabilities are recognised initially at fair value and net of directly attributable transaction costs.

Subsequent measurement of loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is recognised in the statement of profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is recognised in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries/jurisdictions in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to be that which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Sale of electrothermic household appliances and tooling

Revenue from the sale of electrothermic household appliances and tooling is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the electrothermic household appliances and acceptance of the tooling.

(b) Consultancy income

Revenue from consultancy services is recognised over time as consultancy services are rendered.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Contract costs

Other than the costs which are capitalised as inventories and property, plant and equipment, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

- (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- (c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Share-based payments

Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using both the income and market approaches.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled.

Other employee benefits*Pension schemes*

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

The Historical Financial Information is presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are

recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Historical Financial Information:

Income taxes

The Group has exposure to income taxes in different jurisdictions. Significant judgement is involved in determining the provision for income taxes. Determining income tax provisions involves judgement on the future tax treatment of certain transactions and interpretation of tax rules. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation, interpretations and practices in respect thereof.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying values of deferred tax assets relating to recognised tax losses at 31 December 2017 and 2018 were HK\$3,858,000 and HK\$782,000, respectively. The amount of unrecognised tax losses at 31 December 2016 was HK\$39,250,000. Further details are contained in note 25 to the Historical Financial Information.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the electrothermic household appliance manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 16 to the Historical Financial Information.

Net realisable value of inventories

The Group performs regular review of the carrying amounts of inventories with reference to aged analyses of the Group's inventories, projections of expected future saleability of goods and management experience and judgement. Based on this review, write-down of inventories will be made when the estimated net realisable value of inventories declines below their carrying amount. Due to changes in technological, market and economic environment and customers' preference, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation. As at 31 December 2016, 2017 and 2018 and 30 April 2019, the carrying amounts of inventories were HK\$31,028,000, HK\$46,177,000, HK\$43,113,000 and HK\$64,554,000, respectively.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of electrothermic household appliances. Information reported to the Group's chief operating decision maker for the purpose of making decisions about resource allocation and performance assessment is focused on the operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

Geographical information*(a) Revenue from external customers*

	Years ended 31 December			Four months ended	
	2016	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Europe	271,143	261,361	308,373	79,276	126,132
Asia	51,201	53,541	32,148	15,226	7,845
United States	21,583	33,444	28,802	8,800	9,971
Others	17,144	10,455	4,139	3,261	614
	<u>361,071</u>	<u>358,801</u>	<u>373,462</u>	<u>106,563</u>	<u>144,562</u>

The revenue information above is based on the locations of the customers.

(b) *Non-current assets*

	As at 31 December			As at
	2016	2017	2018	30 April
	HK\$'000	HK\$'000	HK\$'000	2019
				HK\$'000
Hong Kong	693	72	1,958	2,599
Mainland China	164,087	162,933	62,136	61,250
	<u>164,780</u>	<u>163,005</u>	<u>64,094</u>	<u>63,849</u>

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about major customers

Revenue from external customers contributing over 10% of the total revenue of the Group is as follows:

	Years ended 31 December			Four months ended	
	2016	2017	2018	30 April	
	HK\$'000	HK\$'000	HK\$'000	2018	2019
				HK\$'000	HK\$'000
				(Unaudited)	
Customer I	84,778	36,236	45,803	N/A*	N/A*
Customer II	65,149	74,425	57,899	24,959	17,063
Customer III	60,021	57,699	N/A*	10,687	N/A*
Customer IV	N/A*	52,551	37,859	15,329	20,421
Customer V	<u>N/A*</u>	<u>N/A*</u>	<u>55,191</u>	<u>N/A*</u>	<u>48,645</u>

* Nil or less than 10% of revenue

5. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	Years ended 31 December			30 April	
	2016	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Revenue from contracts with customers	<u>361,071</u>	<u>358,801</u>	<u>373,462</u>	<u>106,563</u>	<u>144,562</u>

Revenue from contracts with customers**(i) Disaggregated revenue information**

	Years ended 31 December			Four months ended 30 April	
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000	2018 HK\$'000	2019 HK\$'000
				(Unaudited)	
Type of goods					
Sale of electrothermic household appliances	354,131	353,792	362,321	101,529	144,333
Sale of tooling	6,940	5,009	11,141	5,034	229
Total revenue from contracts with customers	<u>361,071</u>	<u>358,801</u>	<u>373,462</u>	<u>106,563</u>	<u>144,562</u>
Timing of revenue recognition					
Goods transferred at a point in time	<u>361,071</u>	<u>358,801</u>	<u>373,462</u>	<u>106,563</u>	<u>144,562</u>

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of electrothermic household appliances

The performance obligation is satisfied upon delivery of the electrothermic household appliances and payment is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required.

Sale of tooling

The performance obligation is satisfied upon transfer of control of the tooling and payment is generally due upon achievement of milestone and customer acceptance.

	Years ended 31 December			Four months ended 30 April	
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000	2018 HK\$'000	2019 HK\$'000
				(Unaudited)	
Other income					
Bank interest income	44	69	1,066	339	77
Consultancy income	575	890	1,243	259	295
Others	901	579	1,228	270	1,398
	<u>1,520</u>	<u>1,538</u>	<u>3,537</u>	<u>868</u>	<u>1,770</u>
Gains, net					
Fair value gains on structured deposits	70	1,038	333	141	8
Foreign exchange differences, net	3,298	—	4,332	—	—
Gain on disposal of assets held for sale	—	30,029	—	—	—
	<u>3,368</u>	<u>31,067</u>	<u>4,665</u>	<u>141</u>	<u>8</u>
	<u>4,888</u>	<u>32,605</u>	<u>8,202</u>	<u>1,009</u>	<u>1,778</u>

6. FINANCE COSTS

	Years ended 31 December			Four months ended	
	2016	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Interest on bank loans	321	291	791	257	547
Interest on loan from a related company	714	—	—	—	—
Interest on lease liabilities	11	3	94	36	546
	<u>1,046</u>	<u>294</u>	<u>885</u>	<u>293</u>	<u>1,093</u>

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	Years ended 31 December			Four months ended	
		2016	2017	2018	2018	2019
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(Unaudited)	
Cost of inventories sold		253,916	253,210	268,117	80,834	99,449
Depreciation of property, plant and equipment*	13	20,383	16,710	16,073	6,513	2,814
Depreciation of right-of-use assets*	14	1,363	937	1,362	460	3,825
Rental expenses from leases of low-value assets		16	9	18	6	6
Auditor's remuneration		540	732	773	205	400
Employee benefit expense (including directors' remuneration (note 8))*:						
Wages, salaries, bonuses and allowance		78,256	78,321	78,446	25,703	22,984
Equity-settled share-based payment expense	27	—	10,050	—	—	—
Pension scheme contributions (defined contribution schemes)		8,973	9,149	9,091	3,125	3,803
		<u>87,229</u>	<u>97,520</u>	<u>87,537</u>	<u>28,828</u>	<u>26,787</u>
Foreign exchange differences, net		(3,298)	3,682 [^]	(4,332)	2,238 [^]	1,884 [^]
Write-down/(reversal of write-down) of inventories to net realisable value*		1,037	180	44	(186)	(218)
Impairment of trade receivables, net [^]	16	(238)	51	615	389	1,103
Loss on disposal of items of property, plant and equipment, net [^]		8,632	355	87	—	—
Listing expenses		—	—	—	—	11,826

* The cost of inventories sold for the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019 included depreciation charge of property, plant and equipment of HK\$17,818,000, HK\$14,294,000, HK\$14,101,000, HK\$5,773,000 (unaudited) and HK\$2,746,000, depreciation charge of right-of-use assets of HK\$750,000, HK\$365,000, HK\$373,000, HK\$130,000 (unaudited) and HK\$3,173,000 and employee benefit expense of HK\$50,318,000, HK\$48,321,000, HK\$47,538,000, HK\$16,184,000 (unaudited) and HK\$13,333,000, respectively.

In addition, the cost of inventories sold included write-down of inventories to net realisable value of HK\$1,037,000, HK\$180,000 and HK\$44,000 for the years ended 31 December 2016, 2017 and 2018, respectively, and reversal of write-down of inventories to net realisable value of HK\$186,000 (unaudited) and HK\$218,000 for the four months ended 30 April 2018 and 2019, respectively.

[^] Included in "Other expenses, net" in the consolidated statements of profit or loss.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Mr. Chan Wai Ming, Mr. Chiu Wai Kwong, Ms. Tang Mei Wah, Mr. Yu Kwok Wai, Dr. Chan Kam Kwong Charles and Ms. Cheng Yuk Sim Connie were appointed as directors of the Company on 28 September 2017. Mr. Chan Wai Ming also serves as the chief executive of the Company.

Mr. Chan Wai Ming, Mr. Chiu Wai Kwong, Ms. Tang Mei Wah and Mr. Yu Kwok Wai were re-designated as executive directors of the Company on 28 February 2019. Dr. Chan Kam Kwong Charles and Ms. Cheng Yuk Sim Connie were re-designated as non-executive directors of the Company on 28 February 2019. Subsequent to the end of the Relevant Periods, Mr. Chan Ping Yim, Mr. Choi Chi Leung Danny and Mr. Chan Shing Jee were appointed as independent non-executive directors of the Company on 3 October 2019.

During the Relevant Periods and the four months ended 30 April 2018, certain of the directors received remuneration from the subsidiaries now comprising the Group for their appointment as directors of these subsidiaries or their capacity as employees of these subsidiaries. The remuneration of each of these directors as recorded in the financial statements of the subsidiaries is set out below:

	Fees	Salaries, bonuses and allowances	Equity-settled share-based payment expense	Pension scheme contributions	Total remuneration
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31 December 2016					
Mr. Chan Wai Ming	—	793	—	12	805
Mr. Chiu Wai Kwong	—	1,315	—	18	1,333
Ms. Tang Mei Wah	30	584	—	18	632
Mr. Yu Kwok Wai	30	777	—	18	825
Dr. Chan Kam Kwong Charles	—	480	—	12	492
Ms. Cheng Yuk Sim Connie	—	480	—	12	492
	<u>60</u>	<u>4,429</u>	<u>—</u>	<u>90</u>	<u>4,579</u>
Year ended 31 December 2017					
Mr. Chan Wai Ming	—	1,172	1,874	18	3,064
Mr. Chiu Wai Kwong	—	1,355	1,533	18	2,906
Ms. Tang Mei Wah	50	602	1,874	18	2,544
Mr. Yu Kwok Wai	50	629	1,874	18	2,571
Dr. Chan Kam Kwong Charles	—	720	—	18	738
Ms. Cheng Yuk Sim Connie	—	720	—	18	738
	<u>100</u>	<u>5,198</u>	<u>7,155</u>	<u>108</u>	<u>12,561</u>

	Fees HK\$'000	Salaries, bonuses and allowances HK\$'000	Equity-settled share-based payment expense HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
Year ended 31 December 2018					
Mr. Chan Wai Ming	—	1,207	—	18	1,225
Mr. Chiu Wai Kwong	—	1,380	—	18	1,398
Ms. Tang Mei Wah	120	639	—	18	777
Mr. Yu Kwok Wai	120	584	—	18	722
Dr. Chan Kam Kwong Charles	—	720	—	18	738
Ms. Cheng Yuk Sim Connie	—	720	—	18	738
	<u>240</u>	<u>5,250</u>	<u>—</u>	<u>108</u>	<u>5,598</u>
Four months ended 30 April 2018 (unaudited)					
Mr. Chan Wai Ming	—	366	—	6	372
Mr. Chiu Wai Kwong	—	421	—	6	427
Ms. Tang Mei Wah	—	191	—	6	197
Mr. Yu Kwok Wai	—	171	—	6	177
Dr. Chan Kam Kwong Charles	—	240	—	6	246
Ms. Cheng Yuk Sim Connie	—	240	—	6	246
	<u>—</u>	<u>1,629</u>	<u>—</u>	<u>36</u>	<u>1,665</u>
Four months ended 30 April 2019					
Mr. Chan Wai Ming	—	382	—	6	388
Mr. Chiu Wai Kwong	—	426	—	6	432
Ms. Tang Mei Wah	—	218	—	6	224
Mr. Yu Kwok Wai	—	204	—	6	210
Dr. Chan Kam Kwong Charles	—	270	—	6	276
Ms. Cheng Yuk Sim Connie	—	270	—	6	276
	<u>—</u>	<u>1,770</u>	<u>—</u>	<u>36</u>	<u>1,806</u>

During the Relevant Periods and the four months ended 30 April 2018, no remuneration was paid or payable by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

There was no arrangement under which a director or a chief executive waived or agreed to waive any remuneration during the Relevant Periods and the four months ended 30 April 2018.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2018 and 2019 included 1, 4, 2, 2 (unaudited) and 2 directors, respectively, details of whose remuneration are set out in note 8 above. Details of the remuneration for the Relevant Periods and the four months ended 30 April 2018 of the remaining highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Years ended 31 December			Four months ended	
	2016	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Salaries, bonuses and allowances	4,017	785	3,337	992	1,112
Equity-settled share-based payment expense	—	1,533	—	—	—
Pension scheme contributions (defined contribution scheme)	72	18	54	18	18
	<u>4,089</u>	<u>2,336</u>	<u>3,391</u>	<u>1,010</u>	<u>1,130</u>

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Years ended 31 December			Four months ended	
	2016	2017	2018	2018	2019
				(Unaudited)	
Nil to HK\$1,000,000	1	—	—	3	3
HK\$1,000,001 to HK\$1,500,000	3	—	3	—	—
HK\$2,000,001 to HK\$2,500,000	—	1	—	—	—
	<u>4</u>	<u>1</u>	<u>3</u>	<u>3</u>	<u>3</u>

10. INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

No provision for Hong Kong profits tax has been made during the year ended 31 December 2016 as the Group did not generate any assessable profits arising in Hong Kong during that year. No provision for Hong Kong profits tax has been made during the years ended 31 December 2017 and 2018 and the four months ended 30 April 2018 as the Group has available tax losses brought forward from prior years to offset the assessable profits generated during those years/period. Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the four months ended 30 April 2019. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Years ended 31 December			Four months ended	
	2016	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Current — Hong Kong					
Charge for the year/period	—	—	—	—	860
Current — Mainland China					
Charge for the year/period	9,679	12,996	4,880	22	3,225
Underprovision/(overprovision) in prior years	(227)	229	—	—	—
Deferred (note 25)	<u>1,639</u>	<u>(3,674)</u>	<u>3,011</u>	<u>214</u>	<u>970</u>
Total tax charge for the year/period	<u>11,091</u>	<u>9,551</u>	<u>7,891</u>	<u>236</u>	<u>5,055</u>

A reconciliation of the tax expense applicable to profit before tax at the Hong Kong statutory tax rate to the tax charge at the Group's effective tax rate is as follows:

	Years ended 31 December			Four months ended	
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000	30 April 2018 HK\$'000 (Unaudited)	2019 HK\$'000
Profit before tax	<u>34,058</u>	<u>59,015</u>	<u>45,930</u>	<u>3,127</u>	<u>10,303</u>
Tax at the Hong Kong statutory tax rate of 16.5%	5,620	9,737	7,578	516	1,700
Difference in tax rates applied for specific provinces or local authority	3,387	4,539	2,391	(363)	1,140
Adjustments in respect of current tax of previous periods	(227)	229	—	—	—
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	1,084	(146)	(565)	—	427
Effect of super deduction on eligible research and development expenses of the Group's PRC subsidiaries	—	—	(1,607)	—	(211)
Income not subject to tax	(4)	(36)	(49)	(22)	(11)
Expenses not deductible for tax	537	1,738	156	29	2,013
Tax losses utilised from previous periods	—	(2,618)	—	—	—
Tax losses recognised from previous periods	—	(3,858)	—	—	—
Tax losses not recognised	607	—	—	—	—
Others	<u>87</u>	<u>(34)</u>	<u>(13)</u>	<u>76</u>	<u>(3)</u>
Tax charge at the Group's effective tax rate	<u>11,091</u>	<u>9,551</u>	<u>7,891</u>	<u>236</u>	<u>5,055</u>

11. DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation.

The dividends declared by subsidiaries of the Company to the then shareholders during the Relevant Periods and the four months ended 30 April 2018 are as follows:

	Years ended 31 December			Four months ended	
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000	30 April 2018 HK\$'000 (Unaudited)	2019 HK\$'000
Tunbow Group Limited	—	16,675	—	—	—
Tunbow (Huizhou)	<u>—</u>	<u>35,065</u>	<u>32,229</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>51,740</u>	<u>32,229</u>	<u>—</u>	<u>—</u>

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the basis of preparation of the results of the Group for the Relevant Periods and the four months ended 30 April 2018 as disclosed in note 2.1 to the Historical Financial Information.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Moulds <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
31 December 2016							
At 1 January 2016:							
Cost	127,661	36,788	44,231	7,899	28,929	212	245,720
Accumulated depreciation	(26,193)	(12,524)	(13,769)	(3,895)	(7,439)	—	(63,820)
Net carrying amount	<u>101,468</u>	<u>24,264</u>	<u>30,462</u>	<u>4,004</u>	<u>21,490</u>	<u>212</u>	<u>181,900</u>
At 1 January 2016, net of accumulated depreciation	101,468	24,264	30,462	4,004	21,490	212	181,900
Additions	—	125	444	206	4,276	—	5,051
Disposals	—	(192)	(1,734)	(28)	(6,678)	—	(8,632)
Depreciation provided during the year	(5,618)	(3,591)	(3,364)	(1,237)	(6,573)	—	(20,383)
Transfer to assets held for sale (note 21)	—	—	—	—	—	(199)	(199)
Exchange realignment	(6,198)	(1,388)	(2,271)	(224)	(618)	(13)	(10,712)
At 31 December 2016, net of accumulated depreciation	<u>89,652</u>	<u>19,218</u>	<u>23,537</u>	<u>2,721</u>	<u>11,897</u>	<u>—</u>	<u>147,025</u>
At 31 December 2016:							
Cost	119,565	34,322	38,399	7,490	16,483	—	216,259
Accumulated depreciation	(29,913)	(15,104)	(14,862)	(4,769)	(4,586)	—	(69,234)
Net carrying amount	<u>89,652</u>	<u>19,218</u>	<u>23,537</u>	<u>2,721</u>	<u>11,897</u>	<u>—</u>	<u>147,025</u>
31 December 2017							
At 31 December 2016 and at 1 January 2017:							
Cost	119,565	34,322	38,399	7,490	16,483	—	216,259
Accumulated depreciation	(29,913)	(15,104)	(14,862)	(4,769)	(4,586)	—	(69,234)
Net carrying amount	<u>89,652</u>	<u>19,218</u>	<u>23,537</u>	<u>2,721</u>	<u>11,897</u>	<u>—</u>	<u>147,025</u>
At 1 January 2017, net of accumulated depreciation	89,652	19,218	23,537	2,721	11,897	—	147,025
Additions	—	1,108	932	883	4,583	—	7,506
Disposals	(115)	(2,536)	(791)	(6)	(1,212)	—	(4,660)
Depreciation provided during the year	(5,566)	(3,390)	(3,339)	(1,178)	(3,237)	—	(16,710)
Exchange realignment	6,097	1,226	2,013	173	715	—	10,224
At 31 December 2017, net of accumulated depreciation	<u>90,068</u>	<u>15,626</u>	<u>22,352</u>	<u>2,593</u>	<u>12,746</u>	<u>—</u>	<u>143,385</u>
At 31 December 2017:							
Cost	127,796	34,686	41,641	8,924	20,203	—	233,250
Accumulated depreciation	(37,728)	(19,060)	(19,289)	(6,331)	(7,457)	—	(89,865)
Net carrying amount	<u>90,068</u>	<u>15,626</u>	<u>22,352</u>	<u>2,593</u>	<u>12,746</u>	<u>—</u>	<u>143,385</u>

	Buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Moulds <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
31 December 2018							
At 31 December 2017 and at 1 January 2018:							
Cost	127,796	34,686	41,641	8,924	20,203	—	233,250
Accumulated depreciation	(37,728)	(19,060)	(19,289)	(6,331)	(7,457)	—	(89,865)
Net carrying amount	<u>90,068</u>	<u>15,626</u>	<u>22,352</u>	<u>2,593</u>	<u>12,746</u>	<u>—</u>	<u>143,385</u>
At 1 January 2018, net of accumulated depreciation	90,068	15,626	22,352	2,593	12,746	—	143,385
Additions	7,117	3,019	1,766	475	8,204	—	20,581
Disposals	—	(128)	(83)	(456)	(3,207)	—	(3,874)
Depreciation provided during the year	(5,853)	(1,850)	(3,231)	(921)	(4,218)	—	(16,073)
Deemed distribution to Tunbow Investments (BVI) (<i>note 29</i>)	(87,390)	(14,978)	(2,009)	(128)	—	—	(104,505)
Exchange realignment	<u>(3,942)</u>	<u>(626)</u>	<u>(1,129)</u>	<u>(89)</u>	<u>(438)</u>	<u>—</u>	<u>(6,224)</u>
At 31 December 2018, net of accumulated depreciation	<u>—</u>	<u>1,063</u>	<u>17,666</u>	<u>1,474</u>	<u>13,087</u>	<u>—</u>	<u>33,290</u>
At 31 December 2018:							
Cost	—	1,075	18,442	1,585	13,865	—	34,967
Accumulated depreciation	—	(12)	(776)	(111)	(778)	—	(1,677)
Net carrying amount	<u>—</u>	<u>1,063</u>	<u>17,666</u>	<u>1,474</u>	<u>13,087</u>	<u>—</u>	<u>33,290</u>
30 April 2019							
At 31 December 2018 and at 1 January 2019:							
Cost	—	1,075	18,442	1,585	13,865	—	34,967
Accumulated depreciation	—	(12)	(776)	(111)	(778)	—	(1,677)
Net carrying amount	<u>—</u>	<u>1,063</u>	<u>17,666</u>	<u>1,474</u>	<u>13,087</u>	<u>—</u>	<u>33,290</u>
At 1 January 2019, net of accumulated depreciation	—	1,063	17,666	1,474	13,087	—	33,290
Additions	—	—	232	316	838	—	1,386
Depreciation provided during the period	—	(24)	(1,236)	(120)	(1,434)	—	(2,814)
Exchange realignment	<u>—</u>	<u>22</u>	<u>472</u>	<u>34</u>	<u>281</u>	<u>—</u>	<u>809</u>
At 30 April 2019, net of accumulated depreciation	<u>—</u>	<u>1,061</u>	<u>17,134</u>	<u>1,704</u>	<u>12,772</u>	<u>—</u>	<u>32,671</u>
At 30 April 2019:							
Cost	—	1,098	19,158	1,937	14,987	—	37,180
Accumulated depreciation	—	(37)	(2,024)	(233)	(2,215)	—	(4,509)
Net carrying amount	<u>—</u>	<u>1,061</u>	<u>17,134</u>	<u>1,704</u>	<u>12,772</u>	<u>—</u>	<u>32,671</u>

14. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

	As at 31 December			As at
	2016	2017	2018	30 April
	HK\$'000	HK\$'000	HK\$'000	2019
				HK\$'000
Right-of-use assets				
Prepaid land lease payments	15,459	16,125	—	—
Leased properties	533	—	30,211	30,389
	<u>15,992</u>	<u>16,125</u>	<u>30,211</u>	<u>30,389</u>
Lease liabilities				
Current portion	537	—	11,799	12,033
Non-current portion	—	—	18,450	18,642
	<u>537</u>	<u>—</u>	<u>30,249</u>	<u>30,675</u>

The movements in right-of-use assets and lease liabilities during the Relevant Periods are as follows:

Right-of-use assets — Prepaid land lease payments

		As at 31 December			As at
		2016	2017	2018	30 April
		HK\$'000	HK\$'000	HK\$'000	2019
	Notes				HK\$'000
At beginning of year/period		34,441	15,459	16,125	—
Depreciation charge during the year/period		(830)	(404)	(413)	—
Transfer to assets held for sale	21	(16,003)	—	—	—
Deemed distribution to Tunbow Investments (BVI)	29	—	—	(14,985)	—
Exchange realignment		(2,149)	1,070	(727)	—
At end of year/period		<u>15,459</u>	<u>16,125</u>	<u>—</u>	<u>—</u>

Right-of-use assets — Leased properties

The Group leases its workshop, ancillary office, factory, warehouse and staff quarters from related companies under operating lease arrangements. The leases are negotiated for terms ranging from two to three years.

	As at 31 December			As at
	2016	2017	2018	30 April
	HK\$'000	HK\$'000	HK\$'000	2019
				HK\$'000
At beginning of year/period	—	533	—	30,211
Additions	1,066	—	31,160	3,388
Depreciation charge during the year/period	(533)	(533)	(949)	(3,825)
Exchange realignment	—	—	—	615
At end of year/period	<u>533</u>	<u>—</u>	<u>30,211</u>	<u>30,389</u>

Lease liabilities

	As at 31 December			As at
	2016	2017	2018	30 April
	HK\$'000	HK\$'000	HK\$'000	2019
				HK\$'000
At beginning of year/period	—	537	—	30,249
Additions	1,066	—	31,160	3,388
Interest expense during the year/period	11	3	94	546
Payments during the year/period	(540)	(540)	(1,005)	(4,122)
Exchange realignment	—	—	—	614
	<u>—</u>	<u>—</u>	<u>—</u>	<u>614</u>
At end of year/period	<u>537</u>	<u>—</u>	<u>30,249</u>	<u>30,675</u>

15. INVENTORIES

	As at 31 December			As at
	2016	2017	2018	30 April
	HK\$'000	HK\$'000	HK\$'000	2019
				HK\$'000
Raw materials	14,677	21,956	21,786	33,517
Work in progress	7,346	12,145	9,757	13,701
Finished goods	<u>9,005</u>	<u>12,076</u>	<u>11,570</u>	<u>17,336</u>
	<u>31,028</u>	<u>46,177</u>	<u>43,113</u>	<u>64,554</u>

16. TRADE RECEIVABLES

	As at 31 December			As at
	2016	2017	2018	30 April
	HK\$'000	HK\$'000	HK\$'000	2019
				HK\$'000
Trade receivables	61,608	69,145	80,572	66,745
Impairment	<u>(122)</u>	<u>(172)</u>	<u>(762)</u>	<u>(1,865)</u>
	<u>61,486</u>	<u>68,973</u>	<u>79,810</u>	<u>64,880</u>

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to three months for major customers. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of each of the Relevant Periods, based on the invoice date and net of loss allowance, is as follows:

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 30 days	32,039	28,603	47,998	29,058
31 to 90 days	28,463	40,340	28,830	29,854
Over 90 days	984	30	2,982	5,968
	<u>61,486</u>	<u>68,973</u>	<u>79,810</u>	<u>64,880</u>

The movements in the loss allowance for impairment of trade receivables are as follows:

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of year/period	380	122	172	762
Impairment losses, net (<i>note 7</i>)	(238)	51	615	1,103
Amount written off as uncollectible	(20)	(1)	(25)	—
At end of year/period	<u>122</u>	<u>172</u>	<u>762</u>	<u>1,865</u>

Impairment under HKFRS 9

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than 120 days and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2016

		Past due			
	Current	Less than 30 days	31 to 90 days	Over 90 days	Total
Expected credit loss rate	0.18%	0.18%	0.25%	28.43%	0.20%
Gross carrying amount (HK\$'000)	53,816	7,698	43	51	61,608
Expected credit loss (HK\$'000)	94	14	—	14	122

As at 31 December 2017

	Current	Past due			Total
		Less than 30 days	31 to 90 days	Over 90 days	
Expected credit loss rate	0.24%	0.25%	0.31%	7.88%	0.25%
Gross carrying amount (HK\$'000)	56,726	12,177	189	53	69,145
Expected credit loss (HK\$'000)	137	30	1	4	172

As at 31 December 2018

	Current	Past due			Total
		Less than 30 days	31 to 90 days	Over 90 days	
Expected credit loss rate	0.71%	0.73%	0.93%	20.31%	0.95%
Gross carrying amount (HK\$'000)	73,510	5,521	586	955	80,572
Expected credit loss (HK\$'000)	523	40	5	194	762

As at 30 April 2019

	Current	Past due			Total
		Less than 30 days	31 to 90 days	Over 90 days	
Expected credit loss rate	0.89%	1.43%	14.09%	93.96%	2.79%
Gross carrying amount (HK\$'000)	59,465	5,370	672	1,238	66,745
Expected credit loss (HK\$'000)	530	77	95	1,163	1,865

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December			As at
	2016	2017	2018	30 April
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Prepayments	1,161	1,448	1,396	6,224
Deposits	31	297	295	295
Other receivables	5,371	10,118	13,432	33,766
	6,563	11,863	15,123	40,285
Less: Portion classified as non-current assets	—	(251)	(251)	(251)
Portion classified as current assets	6,563	11,612	14,872	40,034

Included in the Group's deposits as at 31 December 2017 and 2018 and 30 April 2019 is an amount due from Tunbow Properties Limited, a related company controlled by Tunbow Investments (BVI), of HK\$251,000, HK\$251,000 and HK\$251,000, respectively, which is unsecured, interest-free and repayable after the expiration of the tenancy agreement entered into between the Group and Tunbow Properties Limited.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to deposits and receivables for which there was no recent history of default.

The Group has applied the general approach to measure expected credit loss for deposits and other receivables and considered the past event, current conditions and forecasts of future economic conditions in calculating the expected credit loss rate. As at 31 December 2016, 2017 and 2018 and 30 April 2019, the expected credit loss rate for deposits and other receivables was assessed to be minimal.

18. BALANCES WITH RELATED COMPANIES AND SUBSIDIARIES

The balances with related companies and subsidiaries are unsecured, interest-free and repayable on demand.

An analysis of the amounts due from related companies and a subsidiary is as follows:

Group

	As at 31 December			As at
	2016	2017	2018	30 April
	HK\$'000	HK\$'000	HK\$'000	2019
				HK\$'000
<u>Due from related companies</u>				
Tunbow Investments (BVI) [#]	67,974	101,616	13,691	—
SARL Tunbow Technologies ^{*^}	2,487	—	—	—
東保利精密機械(惠州)有限公司				
(Tunbow Precision Machinery (Huizhou) Limited) ^{*#}	8,506	—	—	—
東保達電子(惠州)有限公司				
(Tunbow Electronics (Huizhou) Limited) ^{*#}	—	2,273	—	—
東保利電業(深圳)有限公司				
(Dongbaoli Electrical (Shenzhen) Co., Ltd.)				
(“Dongbaoli (Shenzhen)”) ^{*#}	—	—	74	—
	<u>78,967</u>	<u>103,889</u>	<u>13,765</u>	<u>—</u>

Company

	As at	As at
	31 December	30 April
	2018	2019
	HK\$'000	HK\$'000
<u>Due from a subsidiary</u>		
Town Ray Hong Kong Limited [#]	<u>62,870</u>	<u>50,870</u>

An analysis of the amounts due to related companies and a subsidiary is as follows:

Group

	As at 31 December			As at
	2016	2017	2018	30 April
	HK\$'000	HK\$'000	HK\$'000	2019
				HK\$'000
<u>Due to related companies</u>				
Tunbow Investments (BVI) [#]	—	6,122	—	1,035
Oriental Purchasing Limited ^{*^}	26,190	—	—	—
Tunbow Electrical (BVI) Limited ^{*#}	3,845	3,846	—	—
Dongbaoli (Shenzhen) ^{*+}	58,968	84,193	—	—
東保達電子(惠州)有限公司				
(Tunbow Electronics (Huizhou) Limited) ^{*#}	—	—	447	—
Tunbow (Huizhou) ^{*^}	—	—	2	—
Tunbow Properties Limited ^{*#}	—	—	—	84
	<u>89,003</u>	<u>94,161</u>	<u>449</u>	<u>1,119</u>

Company

As at
30 April
2019
HK\$'000

Due to a subsidiaryTunbow Group Limited[#]

3,500

* These related companies are controlled by Tunbow Investments (BVI).

^ These balances are trade-related.

These balances are non-trade-related.

+ These balances are partly trade-related and partly non-trade-related.

19. STRUCTURED DEPOSITS

The structured deposits as at 31 December 2016 and 2017 were wealth management products issued by a bank in Mainland China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows were not solely payments of principal and interest.

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSIT**Group**

	Note	As at 31 December			As at
		2016	2017	2018	30 April
		HK\$'000	HK\$'000	HK\$'000	2019
					HK\$'000
Cash and bank balances		60,237	28,287	51,857	49,115
Time deposits		—	39,478	—	18,634
		60,237	67,765	51,857	67,749
Less: Pledged deposit for banking facilities and bank borrowings	24	—	(39,478)	—	—
Cash and cash equivalents		60,237	28,287	51,857	67,749

Company

	As at 31 December 2018 HK\$'000	As at 30 April 2019 HK\$'000
Bank balance	54	677

As at 31 December 2016, 2017 and 2018 and 30 April 2019, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK\$5,767,000, HK\$5,282,000, HK\$10,296,000 and HK\$7,940,000, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposit are deposited with creditworthy banks with no recent history of default.

21. ASSETS HELD FOR SALE

On 3 November 2016, the Group entered into an agreement (the “**Land Disposal Agreement**”) with the local government in Huizhou, the PRC in relation to the expropriation of certain land use rights of the Group by the local government for a consideration of RMB40,056,000. The Land Disposal Agreement was subject to approval by the relevant government authorities.

In the opinion of the directors, the disposal was considered highly probable and was expected to be completed within one year from the date of reclassification. Accordingly, prepaid land lease payments and the related construction in progress with a carrying amount of HK\$16,003,000 and HK\$199,000, respectively, were classified as assets held for sale as at 31 December 2016.

During the year ended 31 December 2017, the disposal was completed, resulting in a gain on disposal of assets held for sale of HK\$30,029,000.

22. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	As at 31 December			As at
	2016	2017	2018	30 April
	HK\$'000	HK\$'000	HK\$'000	2019
				HK\$'000
Within 30 days	16,033	18,693	14,997	21,903
31 to 90 days	23,423	27,256	22,155	21,552
Over 90 days	<u>2,523</u>	<u>1,248</u>	<u>1,864</u>	<u>1,406</u>
	<u>41,979</u>	<u>47,197</u>	<u>39,016</u>	<u>44,861</u>

The trade payables are non-interest-bearing and are normally settled on terms ranging from 30 to 60 days.

23. OTHER PAYABLES AND ACCRUALS

		As at 31 December			As at
		2016	2017	2018	30 April
	Notes	HK\$'000	HK\$'000	HK\$'000	2019
					HK\$'000
Contract liabilities	(a)	2,795	5,848	1,338	4,586
Other payables	(b)	3,229	4,786	137	435
Accruals		<u>16,737</u>	<u>17,529</u>	<u>12,773</u>	<u>11,695</u>
		<u>22,761</u>	<u>28,163</u>	<u>14,248</u>	<u>16,716</u>

Notes:

- (a) Contract liabilities are short-term advances received from customers for sale of goods.
- (b) Other payables are non-interest-bearing and have an average term of three months.

24. INTEREST-BEARING BANK BORROWINGS

	31 December 2016				31 December 2017				31 December 2018				30 April 2019			
	Contractual interest rate (%)	Maturity	HK\$'000		Contractual interest rate (%)	Maturity	HK\$'000		Contractual interest rate (%)	Maturity	HK\$'000		Contractual interest rate (%)	Maturity	HK\$'000	
Portions of bank loans due for repayment within one year or on demand — secured	Hong Kong Interbank Offered Rate ("HIBOR")+1.2 to London Interbank Offered Rate ("LIBOR")+1.2	2017	15,540		HIBOR+0.8 to HIBOR+1.75	2018	37,000		LIBOR+1.2 to HIBOR+1.75	2019	33,671		LIBOR+1.2 to HIBOR+1.75	2019–2020	53,420	
Portions of bank loans due for repayment after one year which contain repayment on demand clause (note) — secured	—	—	—		HIBOR+1.75	2019–2022	7,000		HIBOR+1.75	2020–2023	13,000		HIBOR+1.75	2020–2023	11,500	
			<u>15,540</u>				<u>44,000</u>				<u>46,671</u>				<u>64,920</u>	

Note:

Certain term loans of the Group containing repayment on demand clauses as at 31 December 2017 and 2018 and 30 April 2019 with carrying amounts of HK\$9,000,000, HK\$17,000,000 and HK\$15,500,000, respectively, have been classified in total as current liabilities. Accordingly, portions of the bank loans due for repayment after one year as at 31 December 2017 and 2018 and 30 April 2019 with carrying amounts of HK\$7,000,000, HK\$13,000,000 and HK\$11,500,000, respectively, have been classified as current liabilities. For the purpose of the above analysis, the loans are included within current interest-bearing bank borrowings and analysed into bank loans repayable within one year or on demand.

Ignoring the effect of any repayment on demand clause and based on the maturity terms of these term loans, the Group's bank borrowings are repayable:

	As at 31 December			As at
	2016	2017	2018	30 April
	HK\$'000	HK\$'000	HK\$'000	2019
				HK\$'000
Within one year	15,540	37,000	33,671	53,420
In the second year	—	2,000	4,000	4,000
In the third to fifth years, inclusive	—	<u>5,000</u>	<u>9,000</u>	<u>7,500</u>
	<u>15,540</u>	<u>44,000</u>	<u>46,671</u>	<u>64,920</u>

(a) The Group's bank borrowings are secured by:

- (i) the pledge of investment properties of Tunbow Properties Limited, a related company controlled by Tunbow Investments (BVI); and
- (ii) the pledge of time deposit of Tunbow (Huizhou) amounting to HK\$39,478,000 and HK\$37,891,000 as at 31 December 2017 and 2018, respectively.

(b) The Group's bank borrowings are guaranteed by:

- (i) Tunbow Investments (BVI) up to HK\$105,000,000, HK\$105,000,000 and HK\$105,000,000 as at 31 December 2017 and 2018 and 30 April 2019, respectively;

- (ii) Tunbow Electrical Limited, Oriental Purchasing Limited and Aves Digital Limited, related companies controlled by Tunbow Investments (BVI), up to HK\$50,000,000 as at 31 December 2016, which were released during the year ended 31 December 2017; and
- (iii) Dr. Chan Kam Kwong Charles and Ms. Cheng Yuk Sim Connie, directors of the Company, up to HK\$50,000,000, HK\$50,000,000, HK\$50,000,000 and HK\$50,000,000 as at 31 December 2016, 2017 and 2018 and 30 April 2019, respectively.
- (c) Except for bank borrowings of HK\$5,299,000, HK\$29,671,000 and HK\$26,585,000 as at 31 December 2016 and 2018 and 30 April 2019, respectively, which are denominated in United States dollars ("USD"), the remaining bank borrowings are denominated in Hong Kong dollars.

25. DEFERRED TAX

The movements in deferred tax liabilities and assets during the Relevant Periods are as follows:

Deferred tax liabilities

	Withholding tax HK\$'000
At 1 January 2016	713
Deferred tax charged to the consolidated statement of profit or loss during the year (<i>note 10</i>)	1,084
Exchange realignment	<u>(91)</u>
At 31 December 2016 and at 1 January 2017	1,706
Deferred tax credited to the consolidated statement of profit or loss during the year (<i>note 10</i>)	(146)
Exchange realignment	<u>114</u>
At 31 December 2017 and at 1 January 2018	1,674
Deferred tax credited to the consolidated statement of profit or loss during the year (<i>note 10</i>)	(565)
Deemed distribution to Tunbow Investments (BVI) (<i>note 29</i>)	(656)
Exchange realignment	<u>(57)</u>
At 31 December 2018 and at 1 January 2019	396
Deferred tax charged to the consolidated statement of profit or loss during the period (<i>note 10</i>)	427
Exchange realignment	<u>7</u>
At 30 April 2019	<u><u>830</u></u>

Deferred tax assets

	Depreciation in excess of related depreciation allowances HK\$'000	Losses available for offsetting against future taxable profits HK\$'000	Others HK\$'000	Total HK\$'000
At 1 January 2016	2,420	—	1,357	3,777
Deferred tax charged to the consolidated statement of profit or loss during the year (<i>note 10</i>)	(447)	—	(108)	(555)
Exchange realignment	—	—	(79)	(79)
At 31 December 2016 and at 1 January 2017	1,973	—	1,170	3,143
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (<i>note 10</i>)	(398)	3,858	68	3,528
Exchange realignment	—	—	83	83
At 31 December 2017 and at 1 January 2018	1,575	3,858	1,321	6,754
Deferred tax charged to the consolidated statement of profit or loss during the year (<i>note 10</i>)	(467)	(3,076)	(33)	(3,576)
Deemed distribution to Tunbow Investments (BVI) (<i>note 29</i>)	—	—	(987)	(987)
Exchange realignment	—	—	(54)	(54)
At 31 December 2018 and at 1 January 2019	1,108	782	247	2,137
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the period (<i>note 10</i>)	(92)	(782)	331	(543)
Exchange realignment	—	—	2	2
At 30 April 2019	1,016	—	580	1,596

The Group had tax losses arising in Hong Kong of HK\$39,250,000, HK\$23,384,000 and HK\$4,742,000 as at 31 December 2016, 2017 and 2018, respectively, subject to the agreement by the Hong Kong Inland Revenue Department, that are available indefinitely for offsetting against the future taxable profits of the companies in which the losses arose.

Deferred tax assets have been recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised based on management's forecasted future taxable profits, which are based on (i) the availability of taxable temporary differences relating to the same taxation authority and the same taxable entity; (ii) whether the unused tax losses resulted from identifiable causes which are unlikely to recur; and (iii) the likely timing and level of future taxable profits together with future tax planning strategies.

Deferred tax assets had not been recognised in respect of tax losses of HK\$39,250,000 as at 31 December 2016 as, in the opinion of the directors, it was not considered probable that future taxable profits would be available against which such tax losses could be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

26. SHARE CAPITAL

	As at 31 December			As at
	2016	2017	2018	30 April
	HK\$'000	HK\$'000	HK\$'000	2019
				HK\$'000
Authorised:				
38,000,000 ordinary shares of HK\$0.01 each	<u>—</u>	<u>380</u>	<u>380</u>	<u>380</u>
Issued and fully paid:				
11,178 ordinary shares of HK\$0.01 each	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

The Company is an exempted company with limited liability incorporated in the Cayman Islands on 28 September 2017. The authorised share capital of the Company was HK\$380,000 divided into 38,000,000 ordinary shares of HK\$0.01 each.

On 28 September 2017 (date of incorporation), 1 ordinary share of HK\$0.01 was issued at par as share capital. On the same date, 10,174 additional ordinary shares of HK\$0.01 each were issued to Tunbow Investments (BVI) at par as additional share capital.

On 9 October 2017, 1,003 additional ordinary shares of HK\$0.01 each were issued to certain key management personnel of the Group, who are directors of the Company and/or employees of the Group, at par in exchange for services rendered by them.

27. SHARE-BASED PAYMENT TRANSACTION

On 9 October 2017, the Company allotted and issued 1,003 additional ordinary shares of HK\$0.01 each (the “Awarded Shares”) to certain key management personnel of the Group, who are directors of the Company and/or employees of the Group, at par in exchange for services rendered by them.

The fair value of the Awarded Shares as at 9 October 2017 was estimated at HK\$10,050,000 using both the income and market approaches. The equity-settled share-based payment expense of HK\$10,050,000 was charged to the consolidated statement of profit or loss during the year ended 31 December 2017.

28. RESERVES

The amounts of the Group's reserves and the movements therein for the Relevant Periods and the four months ended 30 April 2018 are presented in the consolidated statements of changes in equity on pages I-8 to I-9 of this report.

(a) Merger reserve

The merger reserve represents the nominal value of the paid-up capital of the subsidiaries acquired by the Company pursuant to the Reorganisation set out in note 2.1 to the Historical Financial Information. The movement in merger reserve represented the deemed distribution of the nominal value of the paid-up capital of Tunbow (Huizhou).

(b) Capital contribution reserve

Capital contribution reserve represents capital contribution of HK\$63,000,000 from Tunbow Investments (BVI).

(c) Share-based payment reserve

The share-based payment reserve represents the fair value of the Awarded Shares awarded to certain key management personnel of the Group in exchange for services rendered by them, as further explained in the accounting policy for share-based payments in note 2.4 to the Historical Financial Information.

(d) Statutory reserve funds

Pursuant to the relevant laws and regulations in Mainland China, a portion of the profits of the Company's subsidiaries in Mainland China has been transferred to the statutory reserve funds which are restricted as to use.

29. DEEMED DISTRIBUTION TO TUNBOW INVESTMENTS (BVI)

Pursuant to the business transfer agreement entered into between Tunbow (Huizhou) and Town Ray (Huizhou) on 21 August 2018, as part of the Reorganisation, the PRC Manufacture and Sale Business formerly operated by Tunbow (Huizhou) was transferred to Town Ray (Huizhou) at a consideration of RMB1 and the transfer was completed on 31 December 2018. The assets and liabilities of Tunbow (Huizhou) set out below were not transferred, assigned or novated to Town Ray (Huizhou) as at 31 December 2018 and were treated as a deemed distribution to Tunbow Investments (BVI) in connection with the Reorganisation.

		31 December 2018
	<i>Notes</i>	<i>HK\$'000</i>
Net assets distributed:		
Property, plant and equipment	13	104,505
Right-of-use assets	14	14,985
Deferred tax assets	25	987
Prepayments, deposits and other receivables		829
Due from related companies		81,080
Tax recoverable		1,455
Pledged deposit		37,891
Cash and cash equivalents		61,764
Trade payables		(2,091)
Other payables and accruals		(8,406)
Due to related companies		(98,401)
Deferred tax liabilities	25	(656)
		<u>193,942</u>

30. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Major non-cash transaction

During the year ended 31 December 2018, Tunbow Investments (BVI) made a capital contribution of HK\$63,000,000 to the Group, which was settled through current account with Tunbow Investments (BVI).

(b) Changes in liabilities arising from financing activities

31 December 2016

	Loan from a related company HK\$'000	Interest-bearing bank borrowings HK\$'000	Lease liabilities HK\$'000
At 1 January 2016	40,000	8,510	—
Changes from financing cash flows	(40,000)	7,030	(529)
Non-cash change:			
New lease	—	—	1,066
At 31 December 2016	—	15,540	537

31 December 2017

	Interest-bearing bank borrowings HK\$'000	Lease liabilities HK\$'000
At 1 January 2017	15,540	537
Changes from financing cash flows	28,460	(537)
At 31 December 2017	44,000	—

31 December 2018

	Interest-bearing bank borrowings HK\$'000	Lease liabilities HK\$'000
At 1 January 2018	44,000	—
Changes from financing cash flows	2,671	(911)
Non-cash changes:		
New leases	—	31,160
At 31 December 2018	46,671	30,249

30 April 2019

	Interest-bearing bank borrowings HK\$'000	Lease liabilities HK\$'000
At 1 January 2019	46,671	30,249
Changes from financing cash flows	18,249	(3,576)
Non-cash changes:		
New leases	—	3,388
Foreign exchange movement	—	614
At 30 April 2019	64,920	30,675

31. COMMITMENTS

The Group had following capital commitments at the end of each of the Relevant Periods:

	As at 31 December		As at 30 April	
	2016	2017	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contracted, but not provided for:				
Plant and machinery	718	1,223	342	545
Moulds	1,869	6,022	650	188
Construction in progress	4,514	4,831	—	—
	<u>7,101</u>	<u>12,076</u>	<u>992</u>	<u>733</u>

32. RELATED PARTY TRANSACTIONS

- (a) In addition to the balances, arrangements and transactions detailed elsewhere in the Historical Financial Information, the Group had the following transactions with related parties during the Relevant Periods and the four months ended 30 April 2018:

		Years ended 31 December			Four months ended 30 April	
		2016	2017	2018	2018	2019
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(Unaudited)	
SARL Tunbow Technologies*:						
Sales of goods	(i)	3,847	5,078	—	—	—
Promotion expense	(iii)	2,176	—	—	—	—
Wecan Holdings Limited*:						
Sales of goods	(i)	1	—	—	—	—
Purchases of goods	(i)	123	—	—	—	—
Tunbow Electrical (BVI) Limited*:						
Interest expense	(ii)	714	—	—	—	—
Oriental Purchasing Limited*:						
Purchases of raw materials	(i)	209	—	—	—	—
Logistic management service fee expense	(iii)	45	—	—	—	—
東保達電子(惠州)有限公司 (Tunbow Electronics (Huizhou) Limited)*:						
Service fee expense	(iii)	3,575	—	—	—	—
Purchases of items of property, plant and equipment	(iv)	—	932	447	—	—
Tunbow Properties Limited*						
Lease payments	(v)	540	540	1,005	335	335
Tunbow (Huizhou)*:						
Lease payments	(v)	—	—	—	—	3,787
Tunbow Electrical Limited*:						
Management fee expense	(vi)	2,300	—	—	—	—
Multimax International Limited^:						
Commission expense	(vii)	401	—	—	—	—
Tunbow Charity Foundation Limited [#] :						
Charitable donations	(viii)	<u>2,300</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

* These related companies are controlled by Tunbow Investments (BVI).

^ This related company is jointly controlled by Dr. Chan Kam Kwong Charles and Ms. Cheng Yuk Sim Connie, directors of the Company.

The directors of the charity fund are also directors of the Company.

Notes:

- (i) These were related to the sales and purchases of raw materials, electrothermic household appliances to/ from the related companies at terms mutually agreed between relevant parties.
- (ii) The interest expense to the related company arose from the loan advanced therefrom, which was unsecured, bore interest at 5.5% per annum and was repaid during the year ended 31 December 2016.
- (iii) These expenses were charged by the related companies in respect of the provision of various services to the Group at terms mutually agreed between relevant parties.
- (iv) The purchases of items of property, plant and equipment from the related company were made at the net carrying amount at the date of purchase.
- (v) The lease payments were charged by the related companies at monthly fixed amounts as detailed in notes 32(b)(ii) and 32(b)(iii).
- (vi) The management fee expense was charged by the related company in respect of the provision of management services at terms mutually agreed between the relevant parties. The related company ceased to provide management services to the Group with effect from 1 May 2016.
- (vii) The commission expense was charged by the related company in respect of the introduction of customer orders to the Group based on 1% of the transaction value.
- (viii) The charitable donations were made to the charity fund, of which the directors are also directors of the Company.

(b) Other transactions with related parties:

- (i) The Group has given a guarantee to a bank in connection with banking facilities granted to certain related companies up to HK\$50,000,000 as at 31 December 2016, which were not utilised by the related companies. The guarantee was released during the year ended 31 December 2017.
- (ii) On 31 December 2015, the Group entered into a tenancy agreement with Tunbow Properties Limited, a related company controlled by Tunbow Investments (BVI), for the lease of premises for a term of 2 years ended 31 December 2017 at a monthly rent of HK\$45,000. On 22 December 2017, the tenancy agreement was renewed for another term of 3 years ending 31 December 2020 at a monthly rent of HK\$83,790. On 1 April 2019, the tenancy agreement was renewed for another term ending 31 December 2021 at a monthly rent of HK\$83,790.
- (iii) On 1 October 2018, the Group entered into a tenancy agreement with Tunbow (Huizhou) for the lease of premises for a term of 3 years ending 30 September 2021 at a monthly rent of RMB810,150. On 1 April 2019, the tenancy agreement was renewed for another term ending 31 December 2021 at a monthly rent of RMB810,150.

(c) Compensation of key management personnel of the Group

Remuneration for key management personnel of the Group, including directors' and chief executive's remuneration as disclosed in note 8 to the Historical Financial Information, is as follows:

	Years ended 31 December			Four months ended	
	2016	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Short term employee benefits	9,569	10,558	11,057	3,257	3,655
Post-employment benefits	195	214	215	71	72
Equity-settled share-based payment expense	—	10,050	—	—	—
Total compensation paid to key management personnel	<u>9,764</u>	<u>20,822</u>	<u>11,272</u>	<u>3,328</u>	<u>3,727</u>

33. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Financial assets

	As at 31 December			As at
	2016	2017	2018	30 April
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets at fair value through profit or loss:				
Structured deposits	<u>3,357</u>	<u>27,541</u>	—	—
Financial assets at amortised cost:				
Trade receivables	61,486	68,973	79,810	64,880
Financial assets included in prepayments, deposits and other receivables	956	5,715	1,795	27,772
Due from related companies	78,967	103,889	13,765	—
Pledged deposit	—	39,478	—	—
Cash and cash equivalents	<u>60,237</u>	<u>28,287</u>	<u>51,857</u>	<u>67,749</u>
	<u>201,646</u>	<u>246,342</u>	<u>147,227</u>	<u>160,401</u>
	<u>205,003</u>	<u>273,883</u>	<u>147,227</u>	<u>160,401</u>

Financial liabilities

	As at 31 December			As at
	2016	2017	2018	30 April
	HK\$'000	HK\$'000	HK\$'000	2019
				HK\$'000
Financial liabilities at amortised cost:				
Trade payables	41,979	47,197	39,016	44,861
Financial liabilities included in other payables and accruals	5,636	7,749	4,476	5,030
Due to related companies	89,003	94,161	449	1,119
Interest-bearing bank borrowings	15,540	44,000	46,671	64,920
Lease liabilities	537	—	30,249	30,675
	<u>152,695</u>	<u>193,107</u>	<u>120,861</u>	<u>146,605</u>

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged deposit, trade receivables, the current portion of financial assets included in prepayments, deposits and other receivables, balances with related companies, trade payables, financial liabilities included in other payables and accruals, interest-bearing bank borrowings and the current portion of lease liabilities approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portions of financial assets included in prepayments, deposits and other receivables, and lease liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The Group invests in structured deposits, which represent wealth management products issued by a bank in Mainland China. The Group has estimated the fair value of these structured deposits by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Structured deposits	—	3,357	—	3,357

As at 31 December 2017

	Fair value measurement using			Total <i>HK\$'000</i>
	Quoted prices in active markets (Level 1) <i>HK\$'000</i>	Significant observable inputs (Level 2) <i>HK\$'000</i>	Significant unobservable inputs (Level 3) <i>HK\$'000</i>	
Structured deposits	—	27,541	—	27,541

The Group did not have any financial assets measured at fair value as at 31 December 2018 and 30 April 2019 or any financial liabilities measured at fair value as at 31 December 2016, 2017 and 2018 and 30 April 2019.

During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents and interest-bearing bank borrowings. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, financial assets included in prepayments, deposits and other receivables, balances with related companies, structured deposits, pledged deposit, trade payables, financial liabilities included in other payables and accruals, and lease liabilities, which mainly arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings with floating interest rates. The Group does not use derivative financial instruments to hedge its interest rate risk. The Group mitigates this risk by closely monitoring the movements in interest rates and reviewing its available credit facilities and their utilisation regularly.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax <i>HK\$'000</i>
31 December 2016		
Hong Kong dollar	25	(26)
Hong Kong dollar	(25)	26
United States dollar	25	(13)
United States dollar	<u>(25)</u>	<u>13</u>
31 December 2017		
Hong Kong dollar	25	(110)
Hong Kong dollar	<u>(25)</u>	<u>110</u>
31 December 2018		
Hong Kong dollar	25	(43)
Hong Kong dollar	(25)	43
United States dollar	25	(74)
United States dollar	<u>(25)</u>	<u>74</u>
30 April 2019		
Hong Kong dollar	25	(96)
Hong Kong dollar	(25)	96
United States dollar	25	(66)
United States dollar	<u>(25)</u>	<u>66</u>

Foreign currency risk

The Group has transactional currency exposures. Such exposures mainly arise from sales or purchases by operating units in currencies other than the units' functional currencies.

The following table demonstrates the sensitivity at the end of each of the Relevant Periods to a reasonably possible change in the RMB and USD exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities).

	Increase/ (decrease) in RMB/USD rate %	Increase/ (decrease) in profit before tax HK\$'000
31 December 2016		
If the Hong Kong dollar weakens against the RMB	5.0	187
If the Hong Kong dollar strengthens against the RMB	(5.0)	(187)
 If the Hong Kong dollar weakens against the USD	 5.0	 5,085
If the Hong Kong dollar strengthens against the USD	<u>(5.0)</u>	<u>(5,085)</u>
31 December 2017		
If the Hong Kong dollar weakens against the RMB	5.0	447
If the Hong Kong dollar strengthens against the RMB	(5.0)	(447)
 If the Hong Kong dollar weakens against the USD	 5.0	 3,134
If the Hong Kong dollar strengthens against the USD	<u>(5.0)</u>	<u>(3,134)</u>
31 December 2018		
If the Hong Kong dollar weakens against the RMB	5.0	(434)
If the Hong Kong dollar strengthens against the RMB	(5.0)	434
 If the Hong Kong dollar weakens against the USD	 5.0	 2,379
If the Hong Kong dollar strengthens against the USD	<u>(5.0)</u>	<u>(2,379)</u>
30 April 2019		
If the Hong Kong dollar weakens against the RMB	5.0	473
If the Hong Kong dollar strengthens against the RMB	(5.0)	(473)
 If the Hong Kong dollar weakens against the USD	 5.0	 3,363
If the Hong Kong dollar strengthens against the USD	<u>(5.0)</u>	<u>(3,363)</u>

Credit risk

The Group mainly transacts with recognised and creditworthy third parties. Receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at the end of each of the Relevant Periods. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2016

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Simplified approach HK\$'000	HK\$'000
Trade receivables*	—	—	—	61,608	61,608
Financial assets included in prepayments, deposits and other receivables					
— Normal**	956	—	—	—	956
Due from related companies					
— Not yet past due	78,967	—	—	—	78,967
Cash and cash equivalents					
— Not yet past due	60,237	—	—	—	60,237
	<u>140,160</u>	<u>—</u>	<u>—</u>	<u>61,608</u>	<u>201,768</u>

As at 31 December 2017

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Simplified approach HK\$'000	HK\$'000
Trade receivables*	—	—	—	69,145	69,145
Financial assets included in prepayments, deposits and other receivables					
— Normal**	5,715	—	—	—	5,715
Due from related companies					
— Not yet past due	103,889	—	—	—	103,889
Pledged deposit					
— Not yet past due	39,478	—	—	—	39,478
Cash and cash equivalents					
— Not yet past due	28,287	—	—	—	28,287
	<u>177,369</u>	<u>—</u>	<u>—</u>	<u>69,145</u>	<u>246,514</u>

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Simplified approach HK\$'000	HK\$'000
Trade receivables*	—	—	—	80,572	80,572
Financial assets included in prepayments, deposits and other receivables					
— Normal**	1,795	—	—	—	1,795
Due from related companies					
— Not yet past due	13,765	—	—	—	13,765
Cash and cash equivalents					
— Not yet past due	51,857	—	—	—	51,857
	<u>67,417</u>	<u>—</u>	<u>—</u>	<u>80,572</u>	<u>147,989</u>

As at 30 April 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Simplified approach HK\$'000	HK\$'000
Trade receivables*	—	—	—	66,745	66,745
Financial assets included in prepayments, deposits and other receivables					
— Normal**	27,772	—	—	—	27,772
Cash and cash equivalents					
— Not yet past due	67,749	—	—	—	67,749
	<u>95,521</u>	<u>—</u>	<u>—</u>	<u>66,745</u>	<u>162,266</u>

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 16 to the Historical Financial Information.

** The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be “normal” when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be “doubtful”.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty. At the end of each of the Relevant Periods, the Group had certain concentrations of credit risk as 23%, 22%, 23% and 26%, and 83%, 80%, 77% and 71% of the Group's trade receivables as at 31 December 2016, 2017 and 2018 and 30 April 2019 were due from the Group's largest customer and the five largest customers, respectively.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group monitors its risk to a shortage of funds by considering the maturities of both its financial liabilities and financial assets.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. The Group aims to maintain sufficient cash and cash equivalents to meet its liquidity requirements.

The maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

31 December 2016				
	On demand	Less than 1 year	Total	
	HK\$'000	HK\$'000	HK\$'000	
Trade payables	—	41,979	41,979	
Financial liabilities included in other payables and accruals	—	5,636	5,636	
Due to related companies	89,003	—	89,003	
Interest-bearing bank borrowings (<i>note</i>)	15,540	—	15,540	
Lease liabilities	—	540	540	
	<u>104,543</u>	<u>48,155</u>	<u>152,698</u>	
31 December 2017				
	On demand	Less than 1 year	Total	
	HK\$'000	HK\$'000	HK\$'000	
Trade payables	—	47,197	47,197	
Financial liabilities included in other payables and accruals	—	7,749	7,749	
Due to related companies	94,161	—	94,161	
Interest-bearing bank borrowings (<i>note</i>)	44,000	—	44,000	
	<u>138,161</u>	<u>54,946</u>	<u>193,107</u>	
31 December 2018				
	On demand	Less than 1 year	1 to 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	—	39,016	—	39,016
Financial liabilities included in other payables and accruals	—	4,476	—	4,476
Due to related companies	449	—	—	449
Interest-bearing bank borrowings (<i>note</i>)	46,671	—	—	46,671
Lease liabilities	—	12,101	20,422	32,523
	<u>47,120</u>	<u>55,593</u>	<u>20,422</u>	<u>123,135</u>
30 April 2019				
	On demand	Less than 1 year	1 to 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	—	44,861	—	44,861
Financial liabilities included in other payables and accruals	—	5,030	—	5,030
Due to related companies	1,119	—	—	1,119
Interest-bearing bank borrowings (<i>note</i>)	64,920	—	—	64,920
Lease liabilities	—	12,338	20,564	32,902
	<u>66,039</u>	<u>62,229</u>	<u>20,564</u>	<u>148,832</u>

Note:

Included in the above interest-bearing bank borrowings of the Group as at 31 December 2017 and 2018 and 30 April 2019 are term loans with carrying amounts of HK\$9,000,000, HK\$17,000,000 and HK\$15,500,000, respectively. The loan agreements contain a repayment on demand clause giving the bank the unconditional right to call in the loans at any time and therefore, for the purpose of the above maturity profile, the total amount is classified as “on demand”.

Notwithstanding the above clause, the directors do not believe that the loans will be called in their entirety within 12 months from the end of each of the Relevant Periods, and they consider that the loans will be repaid in accordance with the maturity dates as set out in the loan agreements. This evaluation was made considering: the financial position of the Group at the date of approval of the Historical Financial Information; the lack of events of default; and the fact that the Group has made all previously scheduled repayments on time.

In accordance with the terms of the loans which contain a repayment on demand clause, the maturity profile of those loans as at the end of each of the Relevant Periods, based on the contractual undiscounted payments and ignoring the effect of any repayment on demand clause, is as follows:

	Less than 1 year HK\$'000	1 to 5 years HK\$'000	Total HK\$'000
As at 31 December 2017	<u>2,230</u>	<u>7,381</u>	<u>9,611</u>
As at 31 December 2018	<u>4,522</u>	<u>13,757</u>	<u>18,279</u>
As at 30 April 2019	<u>4,568</u>	<u>12,284</u>	<u>16,852</u>

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

Capital of the Group comprises all components of shareholder's equity.

36. EVENT AFTER THE RELEVANT PERIODS

There were no significant events of the Group after the Relevant Periods.

37. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company, the Group or any of the companies now comprising the Group in respect of any period subsequent to 30 April 2019.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information sets out in this appendix does not form part of the Accountants' Report prepared by Ernst & Young, Certified Public Accountants, the reporting accountants of our Company, as set forth in Appendix I to this prospectus, and is included herein for illustrative purpose only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial information" in this prospectus and the Accountants' Report set forth in Appendix I to this document.

A. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative unaudited pro forma adjusted consolidated net tangible assets of the Group which has been prepared in accordance with paragraph 4.29 of the Listing Rules and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants and on the basis of the notes set out below for the purpose of illustrating the effect of the Share Offer on the consolidated net tangible assets of the Group as at 30 April 2019 as if the Share Offer had taken place on 30 April 2019.

The unaudited pro forma adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group had the Share Offer been completed as at 30 April 2019 or any future dates.

	Consolidated net tangible assets of the Group as at 30 April 2019 <i>HK\$'000</i> <i>(note 1)</i>	Estimated net proceeds from the Share Offer <i>HK\$'000</i> <i>(note 2)</i>	Unaudited pro forma adjusted consolidated net tangible assets <i>HK\$'000</i>	Unaudited pro forma adjusted consolidated net tangible assets per Share <i>HK\$</i> <i>(notes 3 and 4)</i>
Based on an Offer Price of HK\$1.30 per Share	142,530	102,326	244,856	0.61
Based on an Offer Price of HK\$1.50 per Share	142,530	120,326	262,856	0.66

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

1. The consolidated net tangible assets of the Group as at 30 April 2019 is based on the audited consolidated net assets of the Group as at 30 April 2019 of HK\$142,530,000, extracted from the Accountants' Report set out in Appendix I to this prospectus.
2. The estimated net proceeds from the Share Offer are based on 100,000,000 Shares at the Offer Price of HK\$1.30 and HK\$1.50 per Share, being the minimum and maximum of the indicative range of the Offer Price, respectively, after deduction of the estimated underwriting fees and other listing related expenses expected to be incurred by the Group subsequent to 30 April 2019 and without taking into account of any Shares which may be issued upon the exercise of the Over-allotment Option or of any options that may be granted under the Share Option Scheme.
3. The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 400,000,000 Shares, being the number of Shares expected to be in issue immediately following the completion of the Share Offer without taking into account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or of any options that may be granted under the Share Option Scheme.
4. No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets per Share to reflect any trading results or other transactions of the Group entered into subsequent to 30 April 2019.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Reporting Accountants, Ernst & Young, Certified Public Accountants.



22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

To the Directors of Town Ray Holdings Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of Town Ray Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated net tangible assets as at 30 April 2019, and related notes as set out on pages II-1 to II-2 of the prospectus dated 15 October 2019 (the “Prospectus”) issued by the Company (the “Pro Forma Financial Information”). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described on page II-2.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the public offer and placing of shares of the Company on the Group’s financial position as at 30 April 2019 as if the transaction had taken place at 30 April 2019. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s financial statements for the four months ended 30 April 2019, on which an accountants’ report has been published.

Directors’ responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the 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 (“AG”) 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the 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 Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the 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 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 Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the public offer and placing of shares of the Company on unadjusted financial information of the Group as if 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 transaction would have been as presented.

A reasonable assurance engagement to report on whether the 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 Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the 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 Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young

Certified Public Accountants

Hong Kong

15 October 2019

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 28 September 2017 under the Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (**Memorandum**) and its Amended and Restated Articles of Association (**Articles**).

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since 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) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 3 October 2019. A summary of certain provisions of the Articles is set out below.

(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 any class of shares may (unless otherwise provided for by the terms of issue of the shares 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. The provisions of the Articles relating to general meetings shall *mutatis mutandis* apply to every such separate general meeting, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a

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member being a corporation, by its duly authorised representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

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 an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; and (g) change the currency of denomination of its share capital.

(iv) Transfer of shares

Subject to the Companies Law and the requirements of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be 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 transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register. Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

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The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided 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 register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

(v) Power of the Company to purchase its own shares

The Company may 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 requirement imposed from time to time by the Articles or any, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be 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 the 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 as it thinks fit 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) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one 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 20% per annum as the Board

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shall fix from the day appointed for payment 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 money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, 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, nevertheless, 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 payment at such rate not exceeding 20% per annum as the Board may prescribe.

(b) Directors

(i) Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

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At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest 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 shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term 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 the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the “retirement by rotation” provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

- (aa) resign;
- (bb) dies;
- (cc) is declared to be of unsound mind and the Board resolves that his office be vacated;
- (dd) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) he is prohibited from being or ceases to be a director by operation of law;
- (ff) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (gg) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or

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(hh) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time 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 also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also 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 shall, in the exercise of the powers 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, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) 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 shall be 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 shall be 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 whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other

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special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall 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

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may 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, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(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 uncalled capital of the Company and, subject to the Companies Law, to issue debentures, debenture stock, 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 Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, pro rata. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, 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 shall be in addition to his ordinary remuneration as a Director.

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The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make 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 former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, 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

Payments to any present 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 or statutorily entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more of the Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(viii) Disclosure of interest in contracts with the Company or any of its subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with 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 for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of 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 or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or

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owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, 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 for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (aa) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) 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/have 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 proposal concerning an offer of shares, 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 proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its

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subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

- (ee) 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, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

(ix) Proceedings of the Board

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. 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 a second or casting vote.

(c) Alterations to the constitutional documents and the Company's name

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

(d) Meetings of member

(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 by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is 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 members which 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.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

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(ii) Voting rights and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) 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 share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

- (A) at least two members;
- (B) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (C) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorised 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 in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

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(iii) Annual general meetings

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

(iv) Requisition of general meetings

Extraordinary general meetings may be convened on the requisition of one or more members 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 of the Company 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 two 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 (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.

(v) Notices of meetings and business to be conducted

An annual general meeting of the Company shall be called by at least 21 days' notice in writing, and any other general meeting of the Company shall be called by at least 14 days' notice in writing. The notice shall be 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, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Companies Law and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

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- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

(vi) 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, and continues to be present until the conclusion of the meeting.

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.

(vii) 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 shall be 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 shall be 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. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(e) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company 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 account, book or document of the Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarised financial statements to members who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarised financial statements instead of the full financial statements. The summarised financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those members that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The members may, at a general meeting remove the auditor(s) by a special resolution at any time before the expiration of the term of office of the auditor(s) and shall, by an ordinary resolution, at that meeting appoint new auditor(s) in place of the removed auditor(s) for the remainder of the term.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(f) 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.

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 of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;
- (ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and
- (iii) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

- (aa) 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 members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (bb) that the members 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.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' 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 monies payable or property distributable in respect of the shares held by such joint holders.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used 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, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, 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.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

(g) Inspection of corporate records

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

(h) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(i) 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, the surplus assets remaining after payment to all creditors shall be divided among the members in proportion to the capital paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the surplus assets available for distribution among the members are insufficient to repay the whole of the paid-up capital, such assets shall be distributed, subject to the rights of any shares which may be issued on special terms and conditions, so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction 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 consist of property of one kind or 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 so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(j) Subscription rights reserve

Provided that it is not prohibited by and is otherwise 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 the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on 28 September 2017 subject to the Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company operations

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also 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

Under Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or 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 arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (i) paying distributions or dividends to members;
- (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (iii) any manner provided in section 37 of the Companies Law;
- (iv) writing-off the preliminary expenses of the company; and
- (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, 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.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so 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 are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. 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 member and, for the avoidance of doubt, 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; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, 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. In addition, 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 that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(e) Dividends and distributions

Subject to a solvency test, as prescribed in the Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, 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, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has 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 the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member 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.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(g) Disposal of assets

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

(h) Accounting and auditing requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Financial Secretary that:

- (i) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (ii) no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (aa) on or in respect of the shares, debentures or other obligations of the Company; or
 - (bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2018 Revision).

The undertaking for the Company is for a period of 20 years from 19 October 2017.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(l) Loans to directors

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of a company have no general right 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 of association.

(n) Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in 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 member, 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 (2013 Revision) of the Cayman Islands.

(o) Register of Directors and officers

Pursuant to the Companies Law, the Company is required to maintain at its registered office a register of directors, alternate 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 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

(p) Winding up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a 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 the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall 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.

(q) Reconstructions

Reconstructions and amalgamations may be approved by a majority in number representing 75% in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(r) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member 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 members.

(s) 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, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

(t) 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

Appleby, the Company's legal adviser on Cayman Islands law, has sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix V. 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 as an exempted company with limited liability on 28 September 2017.

Our Company was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 20 March 2019 and the principal place of business in Hong Kong is 10th Floor, Block A, Chung Mei Centre, 15 Hing Yip Street, Kwun Tong, Kowloon, Hong Kong. In connection with such registration, our Company has appointed Mr. Chan and Mr. Chiu as the authorised representatives for the acceptance of service of process and notices on our Company's behalf in Hong Kong.

As our Company was incorporated in the Cayman Islands, it is subject to the Companies Law and our constitution, which comprises the Memorandum and the Articles. A summary of the relevant aspects of the Companies Law and certain provisions of the Articles is set out in Appendix III to this prospectus.

2. Changes in the share capital of our Company

- (a) As at the date of incorporation, the authorised share capital of our Company was HK\$380,000 divided into 38,000,000 Shares with a par value of HK\$0.01 each. Upon incorporation, one subscriber Share in our Company with a par value of HK\$0.01 was allotted and issued as fully paid to a nominee subscriber, who on the same day transferred the said one Share to Tunbow Investments (BVI) for a consideration of HK\$0.01.
- (b) On 28 September 2017, our Company allotted and issued 10,174 Shares as fully paid to Tunbow Investments (BVI). Tunbow Investments (BVI) then held 10,175 Shares, representing the entire issued share capital of our Company.
- (c) On 9 October 2017, our Company allotted and issued 17 Shares, 119 Shares, 153 Shares, 153 Shares, 187 Shares, 187 Shares and 187 Shares as fully paid to Innoinvest Limited, Mr. Lee Pak Man, Mr. Poon Ching Ching, Kelvin, Mr. Chiu, Mr. Chan, Ms. Tang and Mr. Yu respectively. After such allotment, our Company was owned as to 91.03% by Tunbow Investments (BVI), 0.15% by Innoinvest Limited, 1.07% by Mr. Lee Pak Man, 1.37% by Mr. Poon Ching Ching, Kelvin, 1.37% by Mr. Chiu, 1.67% by Mr. Chan, 1.67% by Ms. Tang and 1.67% by Mr. Yu, respectively.
- (d) On 3 October 2019, the authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares to HK\$40,000,000 divided into 4,000,000,000 Shares by the creation of an additional 3,962,000,000 Shares. Each Share shall rank equally in respect of all the existing Shares in issue.

Immediately after completion of the Capitalisation Issue and the Share Offer, the authorised share capital of our Company will be HK\$40,000,000 divided into 4,000,000,000 Shares, of which 400,000,000 Shares will be allotted and issued fully paid or credited as fully paid and

3,600,000,000 Shares will remain unissued (without taking into account any Share to be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme).

Other than pursuant to the general mandate to allot and issue Shares as referred to in the paragraphs headed “6. Written resolutions of our Shareholders passed on 3 October 2019” and “7. Repurchase of our Shares” under this appendix, the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme, our Directors do not have any present intention to allot and issue any of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in a general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this appendix and the section headed “History, development and Reorganisation — Reorganisation” in this prospectus, there has been no alteration in our Company’s share capital since its incorporation.

3. Reorganisation

Our Group underwent the Reorganisation in preparation for the Listing. Further details are set out in the section headed “History, development and Reorganisation — Reorganisation” in this prospectus.

4. Changes in the share capital of the subsidiaries of our Company

The subsidiaries of our Company are listed in the Accountants’ Report, the text of which is set out in Appendix I to this prospectus.

Save as disclosed in the section headed “History, development and Reorganisation — Reorganisation” in this prospectus, there has been no alteration in the share capital or registered capital of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

5. Further information about our Group’s PRC establishment

We have interests in the registered capital of one PRC subsidiary. A summary of the corporate information of such PRC subsidiary as at the Latest Practicable Date is set out as follows:

登輝電器(惠州)有限公司(Town Ray (Huizhou))

(i)	Date of establishment:	14 December 2017
(ii)	Nature:	Wholly foreign-owned enterprise
(iii)	Registered owner:	Town Ray Hong Kong
(iv)	Total investment:	HK\$30,000,000
(v)	Registered capital:	HK\$30,000,000
(vi)	Attributable interests to our Group:	100%
(vii)	Term of operation:	14 December 2017 to 31 December 2037

6. Written resolutions of our Shareholders passed on 3 October 2019

Written resolutions of our Shareholders were passed on 3 October 2019 approving, amongst others, the following:

- (a) the Memorandum and the Articles were adopted as the memorandum of association and articles of association of our Company;
- (b) the authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each to HK\$40,000,000 divided into 4,000,000,000 Shares of HK\$0.01 each by the creation of additional 3,962,000,000 Shares of HK\$0.01 each, all of which shall rank equally in all respects with the existing Shares in issue; and
- (c) conditional upon the same conditions to be satisfied and/or waived as stated in the section headed “Structure and conditions of the Share Offer” in this prospectus:
 - (i) the Share Offer and the grant of the Over-allotment Option by our Company were approved and our Directors were authorised to (aa) allot and issue the Offer Shares and the Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option on and subject to the terms and conditions stated in this prospectus and in the relevant Application Forms; (bb) implement the Share Offer and the listing of Shares on the Main Board; and (cc) do all things and execute all documents in connection with or incidental to the Share Offer and the Listing with such amendments or modifications (if any) as our Directors may consider necessary or appropriate;
 - (ii) conditional upon the share premium account of our Company being credited as a result of the Share Offer, our Directors were authorised to capitalise the amount of HK\$2,999,888.22 from the amount standing to the credit of the share premium account of our Company by applying such sum to pay up in full at par a total of 299,988,822 Shares for allotment and issue to the holders of Shares whose names appear on the register of members of our Company at the close of business on 3 October 2019, or as each of them may direct in writing, in proportion (or as near as possible without involving the issue of fractions of Shares) to their then existing respective shareholdings in our Company and the Shares to be allotted and issued pursuant to this resolution shall rank equally in all respects with the then existing Shares in issue;
 - (iii) the rules of the Share Option Scheme were approved and adopted and our Board or any committee thereof established by our Board was authorised, at its sole discretion, to (aa) administer the Share Option Scheme; (bb) modify or amend the rules of the Share Option Scheme from time to time as may be acceptable or not objected to by the Stock Exchange; (cc) grant options to subscribe for the Shares thereunder and to allot, issue and deal with the Shares pursuant to the exercise of subscription rights attaching to any option(s) granted thereunder; and (dd) take all such actions as it considers necessary or desirable to implement or give effect to the Share Option Scheme;

- (iv) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment and issue of Shares in lieu of the whole or in part of any cash dividend in accordance with the Articles, or pursuant to, or in consequence of, the Capitalisation Issue, the Share Offer, the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme Shares in aggregate not exceeding (1) 20% of the total number of Shares in issue immediately after completion of the Capitalisation Issue and the Share Offer (assuming the Over-allotment Option is not exercised) and without taking into account any Share that may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme); and (2) the total number of Shares in issue which may be purchased by our Company pursuant to the authority granted to our Directors as referred to in sub-paragraph (v) below, until the conclusion of the next annual general meeting, or the date by which the next annual general meeting is required by the Articles or any applicable law(s) to be held, or the passing of an ordinary resolution by our Shareholders in a general meeting revoking, renewing or varying the mandate given to our Directors, whichever occurs first; and
- (v) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to repurchase, on the Stock Exchange and/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 in accordance with all applicable laws and requirements of the Stock Exchange (or of such other stock exchange), Shares in aggregate not exceeding 10% of the total number of Shares in issue immediately after completion of the Capitalisation Issue and the Share Offer (assuming the Over-allotment Option is not exercised and without taking into account any Share that may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme), until the conclusion of our Company's next annual general meeting, or the date by which the next annual general meeting is required by the Articles or any applicable law(s) to be held, or the passing of an ordinary resolution by Shareholders in a general meeting revoking, renewing or varying the mandate given to our Directors, whichever occurs first;
- (vi) a general unconditional mandate mentioned in sub-paragraph (iv) above was extended by the addition to the total number of Shares in issue which may be allotted and issued or agreed (conditionally or unconditionally) to be allotted or issued by our Directors pursuant to such general mandate of an amount representing the total number of Shares repurchased by our Company pursuant to the mandate to repurchase Shares referred to in sub-paragraph (v) above, provided that such extended amount shall not exceed 10% of the total number of Shares in issue immediately after completion of the Capitalisation Issue and the Share Offer

(assuming the Over-allotment Option is not exercised and without taking into account any Share to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme).

7. Repurchase of our Shares

This paragraph sets out information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of its own securities.

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies with a primary listing on the Stock Exchange to purchase their own securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) *Shareholders' approval*

All proposed repurchases of securities (which must be fully paid in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note:

Pursuant to the written resolutions of all Shareholders passed on 3 October 2019, conditional upon the same conditions to be satisfied and/or waived as stated in the section headed “Structure and conditions of the Share Offer” in this prospectus, a general unconditional mandate (the “**Repurchase Mandate**”) was given to our Directors to exercise all the powers of our Company to repurchase, on the Stock Exchange and/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 in accordance with all applicable laws and requirements of the Stock Exchange (or of such other stock exchange), Shares in aggregate not exceeding 10% of the total number of Shares in issue immediately after completion of the Capitalisation Issue and the Share Offer (assuming the Over-allotment Option is not exercised and without taking into account any Share to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme). The Repurchase Mandate will remain effective until the conclusion of the next annual general meeting of our Company, or the date by which our next annual general meeting is required by the Articles or any applicable law(s) to be held, or the passing of an ordinary resolution by our Shareholders in a general meeting revoking, renewing or varying the mandate given to our Directors, whichever occurs first.

(ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum, the Articles, the Listing Rules and the applicable laws of Hong Kong and the Companies Law. A listed company must not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, any repurchases by our Company may be made out of profits of our Company, out of share premium, or out of the proceeds of a fresh issue of shares made for the purpose of the repurchase or, subject to the Companies Law, out of capital. Any amount of premium payable on the purchase over the par value of the

shares to be repurchased must be out of profits of our Company, out of our share premium account before or at the time our Shares are repurchased, or, subject to the Companies Law, out of capital.

(iii) Trading restrictions

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange.

Further, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding days on which its shares were traded on the Stock Exchange.

In addition, the Listing Rules prohibits a listed company from repurchasing its securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(iv) Status of repurchased shares

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed. Under the Companies Law, a company's repurchased shares may be treated as cancelled and, if so cancelled, the amount of that company's issued share capital shall be reduced by the aggregate nominal value of the repurchased shares accordingly although the authorised share capital of the company will not be reduced.

(v) Suspension of repurchase

A listed company may not make any repurchase of securities after inside information has come to its knowledge until the inside information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of: (aa) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (bb) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of the results announcement, the listed company

may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(vi) Reporting requirements

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid.

(vii) Connected parties

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a "core connected person", which includes a director, chief executive or substantial shareholder of the company or any of its subsidiaries or an associate of any of them and a core connected person shall not knowingly sell his securities to the company.

(b) Reasons for repurchase

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have a general authority from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) Funding of repurchase

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws of Hong Kong and the Cayman Islands.

On the basis of our Company's current financial position as disclosed in this prospectus and taking into account the current working capital position, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(d) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Share to our Company or our Company's subsidiaries. Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Articles and the applicable laws of Hong Kong and the Cayman Islands.

If, as a result of a repurchase of Shares, a Shareholder's proportionate interest in our Company's voting rights increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert (within the meaning of the Takeovers Code), depending on the level of increase of our Shareholders' interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequence which would arise under the Takeovers Code as a result of any repurchase pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

Our Company have not made any repurchases of its securities since its incorporation.

No core connected person has notified our Company that he has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of our Group within the two years immediately preceding the date of this prospectus and are or may be material:


- (a) a sale and purchase agreement dated 28 December 2017 entered into between Tunbow Investments (BVI) (as vendor) and Town Ray Development (as purchaser) relating to the sale and purchase of the entire issued share capital of Tunbow Group in consideration of HK\$1.00 from Tunbow Investments (BVI);
- (b) a business transfer agreement dated 21 August 2018 entered into between Tunbow (Huizhou) and Town Ray (Huizhou) relating to the transfer of design, manufacture and sale of household appliances business including, amongst others, customers, suppliers and information relating to customers and suppliers from Tunbow (Huizhou) to Town Ray (Huizhou) at a consideration of RMB1.00;

- (c) a transfer agreement dated 1 October 2018 entered into between Tunbow (Huizhou) and Town Ray (Huizhou) relating to the transfer of machines from Tunbow (Huizhou) to Town Ray (Huizhou) at a total consideration of RMB20,822,063.37;
- (d) a transfer agreement dated 1 November 2018 entered into between Tunbow (Huizhou) and Town Ray (Huizhou) relating to the transfer of moulds from Tunbow (Huizhou) to Town Ray (Huizhou) at a total consideration of RMB12,630,090.80;
- (e) a transfer agreement dated 1 November 2018 entered into between Tunbow (Huizhou) and Town Ray (Huizhou) relating to the transfer of machines from Tunbow (Huizhou) to Town Ray (Huizhou) at a total consideration of RMB396,957.74;
- (f) the Deed of Indemnity;
- (g) the deed of non-competition dated 3 October 2019 executed by our Controlling Shareholders in favour of our Company (for itself and as trustee for our subsidiaries) regarding certain non-competition undertakings; and
- (h) the Public Offer Underwriting Agreement.

2. Intellectual property rights

(a) Trademark

As at the Latest Practicable Date, our Group had registered the following trademark in Hong Kong which is, in the opinion of our Directors, material to our Group's business:

Trademark	Registered owner	Classes	Trademark number	Registration date	Expiry date
	Town Ray Hong Kong	7, 8 and 11	304747195	26 November 2018	25 November 2028

(b) Patents

As at the Latest Practicable Date, our Group had been granted the following patents which are, in the opinion of our Directors, material to our Group's business:

No.	Patent	Registered owner	Type	Place of registration	Patent number	Application date	Expiry date
1.	Flatiron (一種熨斗)	Tunbow Group	Utility model	PRC	ZL201720306305.4	27 March 2017	26 March 2027
2.	Cooking ware (一種煮食器)	Tunbow Group	Utility model	PRC	ZL201420815956.2	18 December 2014	17 December 2024
3.	A prevent superheater for electrical equipment and electrical equipment thereof (一種用於電器設備的防過熱裝置及其電器設備)	Tunbow Group	Utility model	PRC	ZL201720988109.X	8 August 2017	7 August 2027
4.	Steam ironing equipment (一種蒸氣熨衣設備)	Tunbow Group	Utility model	PRC	ZL201621491748.7	30 December 2016	29 December 2026

No.	Patent	Registered owner	Type	Place of registration	Patent number	Application date	Expiry date
5.	Steam clothes ironing equipment and water pump thereof (蒸氣熨衣設備及其水泵)	Tunbow Group	Utility model	PRC	ZL201721042805.8	18 August 2017	17 August 2027
6.	Vapour equipment (一種蒸氣設備)	Tunbow Group	Utility model	PRC	ZL201721256003.7	27 September 2017	26 September 2027
7.	Brewing unit of coffee machine (咖啡機的沖泡單元)	Tunbow Group	Invention	PRC	ZL200910174566.5	30 September 2009	29 September 2029
8.	Filter assembly for an espresso coffee machine, and method (濃縮咖啡機的過濾裝置和方法)	Tunbow Group	Invention	PRC	ZL200880017144.0	7 July 2008	6 July 2028
9.	Steam electric iron device (蒸氣電熨斗設備)	Tunbow Group	Utility model	PRC	ZL201420177619.5	11 April 2014	10 April 2024
10.	Flatiron (一種熨斗)	Tunbow Group	Utility model	PRC	ZL201721113745.4	31 August 2017	30 August 2027
11.	Steam iron (熨斗)	Tunbow Group	Utility model	PRC	ZL201621389907.2	16 December 2016	15 December 2026
12.	Electrical apparatus and control panel thereof (一種電器及其控制面板)	Tunbow Group	Utility model	PRC	ZL201721191995.X	15 September 2017	14 September 2027
13.	Iron and locking device (一種燙斗及鎖扣裝置)	Tunbow Group	Utility model	PRC	ZL201520039714.3	20 January 2015	19 January 2025
14.	Liquid heating device (一種液體加熱裝置)	Tunbow Group	Utility model	PRC	ZL201520714949.8	15 September 2015	14 September 2025
15.	Hand-held type flatiron (手持式熨斗)	Tunbow Group	Utility model	PRC	ZL201621037240.X	5 September 2016	4 September 2026
16.	Flatiron (一種熨斗)	Tunbow Group	Utility model	PRC	ZL201621120021.8	13 October 2016	12 October 2026
17.	Steam clothes ironing equipment and evaporimeter thereof (蒸氣熨衣設備及其蒸發器)	Tunbow Group	Utility model	PRC	ZL201621491733.0	30 December 2016	29 December 2026
18.	Clothes ironing board and cross line frame thereof (熨衣板及其過線架)	Tunbow Group	Utility model	PRC	ZL201720285644.9	22 March 2017	21 March 2027
19.	Beverage machine and outlet device thereof (一種飲料機及其出口裝置)	Tunbow Group	Utility model	PRC	ZL201720429111.3	21 April 2017	20 April 2027
20.	Full-automatic coffee maker (一種全自動咖啡機)	Tunbow Group	Utility model	PRC	ZL201720515026.9	10 May 2017	9 May 2027
21.	Steam generator iron (一種蒸氣發生器)	Tunbow Group	Utility model	PRC	ZL201721102895.5	30 August 2017	29 August 2027
22.	Garment steamer (一種掛燙機)	Tunbow Group	Utility model	PRC	ZL201721311597.7	11 October 2017	10 October 2027
23.	Flatiron with function is collected to incrustation scale (一種具有水垢收集功能的熨斗)	Tunbow Group	Utility model	PRC	ZL201721430503.8	31 October 2017	30 October 2027
24.	Adjustable steam volume steam iron (一種可調蒸氣量蒸氣熨斗)	Tunbow Group	Utility model	PRC	ZL201721441594.5	1 November 2017	31 October 2027
25.	Flatiron (一種熨斗)	Tunbow Group	Utility model	PRC	ZL201721565942.X	16 November 2017	15 November 2027
26.	Iron and bottom plate thereof (一種燙斗及其底板)	Tunbow Group	Utility model	PRC	ZL201721589011.3	23 November 2017	22 November 2027
27.	Iron (一種燙斗)	Tunbow Group	Invention	PRC	ZL201510053719.6	2 February 2015	1 February 2035

(c) Domain names

As at the Latest Practicable Date, our Group had registered the following domain names which are, in the opinion of our Directors, material to our Group's business:

No.	Domain name	Registered owner	Registration date	Expiry date
1.	townray.com	Town Ray Hong Kong	10 September 2018	10 September 2020
2.	tunbow.com	Tunbow Group	14 May 1998	13 May 2022

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interests

(a) Interests and short positions of our Directors and chief executives of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations after completion of the Capitalisation Issue and the Share Offer

Immediately after the completion of the Capitalisation Issue and the Share Offer (without taking into account any Share to be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme), the interests or short positions of our Directors and chief executives of our Company in the Shares, underlying Shares or debentures of our Company or any of the associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

Name of Director/ chief executive	Capacity/Nature of interest	Number of Shares (Note 1)	Approximate percentage of shareholding
Dr. Chan	Interest in a controlled corporation (Note 2) Interest of spouse (Note 3)	213,640,000 (L)	53.41%
Ms. Cheng	Interest in a controlled corporation (Note 2) Interest of spouse (Note 3)	213,640,000 (L)	53.41%
Mr. Chan	Beneficial owner	5,000,000 (L)	1.25%
Mr. Chiu	Beneficial owner	5,000,000 (L)	1.25%
Ms. Tang	Beneficial owner	5,000,000 (L)	1.25%
Mr. Yu	Beneficial owner	5,000,000 (L)	1.25%

Notes:

- (1) The letter “L” denotes a person’s “long position” (as defined under Part XV of the SFO) in such Shares.
- (2) 213,640,000 Shares will be registered in the name of Modern Expression, which is wholly-owned by Dr. Chan and Ms. Cheng jointly. Under the SFO, each of Dr. Chan and Ms. Cheng is deemed to be interested in all the Shares registered in the name of Modern Expression.
- (3) Ms. Cheng is the spouse of Dr. Chan. Each of Dr. Chan and Ms. Cheng is deemed to be interested in all the Shares in which his or her spouse is interested under the SFO.

(b) Interests and/or short positions of our Substantial Shareholders under the SFO.

Please refer to the section headed “Substantial Shareholders” in this prospectus for details of the persons (other than a Director or a chief executive of our Company)/corporations who/which will have an interest or short position in our Shares and underlying Shares which would fall to be disclosed to our Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or who/which is, directly or indirectly, to be interested in 10% or more of the issued voting shares of any other member of our Group.

Our Directors are not aware of any persons who will immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the Over-allotment Option and any option that may be granted under the Share Option Scheme) have a notifiable interest (for the purposes of the SFO) in our Shares or, having such a notifiable interest, have any short positions (within the meaning of the SFO) in our Shares, other than those as disclosed above.

2. Particulars of Directors’ service agreements and appointment letters

(a) Executive Directors

Each of our executive Directors has entered into a service agreement with our Company for an initial fixed term of three years commencing from the Listing Date. The term of service shall be renewed and extended automatically by three years on the expiry of such initial term and on the expiry of every successive period of three years thereafter, unless terminated by either party thereto giving at least six months’ written notice of non-renewal before the expiry of the then existing term.

(b) Non-executive Director and Independent non-executive Directors

Each of the non-executive Directors has entered into an appointment letter with our Company for an initial fixed term of one year commencing from the Listing Date. The term of service shall be renewed and extended automatically by one year on the expiry of such initial term and on the expiry of every successive period of one year thereafter, unless terminated by either party thereto giving at least two months’ written notice of non-renewal before the expiry of the then existing term. Save as disclosed in this prospectus, none of our Directors has or is proposed to have entered into any service agreement or letter of appointment with any member of our Group (excluding agreements expiring or determinable by any member of our Group within one year without the payment of compensation other than statutory compensation).

3. Remuneration of our Directors

During FY2016, FY2017, FY2018 and 4M2019, the aggregate emoluments paid and benefits in kind granted by our Group to our Directors were approximately HK\$4.6 million, HK\$12.6 million, HK\$5.6 million and HK\$1.8 million, respectively.

During each of FY2016, FY2017, FY2018 and 4M2019, the aggregate of contributions to pension schemes for our Directors were approximately HK\$0.1 million, HK\$0.1 million, HK\$0.1 million and HK\$36,000, respectively.

During each of FY2016, FY2017, FY2018 and 4M2019, the aggregate of bonuses paid to or receivable by our Directors which are discretionary or are based on our Company's, our Group's or any member of our Group's performance were approximately HK\$0.3 million, HK\$0.3 million, HK\$0.3 million and nil, respectively.

Under the arrangements currently in force, our Company estimates that the aggregate remuneration (excluding discretionary bonus) payable to, and benefits in kind receivable by, our Directors for FY2019 will be approximately HK\$6.8 million.

None of our Directors or any past director(s) of any member of our Group has been paid any sum of money for each of FY2016, FY2017, FY2018 and 4M2019 (a) as an inducement to join or upon joining our Company; or (b) 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.

There has been no arrangement under which a Director has waived or agreed to waive any emolument for each of FY2016, FY2017, FY2018 and 4M2019.

Under the arrangements currently proposed, conditional upon the Listing, the basic annual remuneration (excluding payment pursuant to any discretionary benefit or bonus or other fringe benefits) payable by our Company to each of our Directors will be as follows:

	<i>HK\$'000</i>
Executive Directors	
Mr. Chan	1,340
Mr. Chiu	1,400
Ms. Tang	920
Mr. Yu	880
Non-executive Directors	
Dr. Chan	1,080
Ms. Cheng	1,080
Independent non-executive Directors	
Mr. Chan Ping Yim	180
Mr. Choi Chi Leung Danny	180
Mr. Chan Shing Jee	180

Each of the executive Directors and non-executive Directors is entitled to reimbursement of all necessary and reasonable out-of-pocket expenses properly incurred in relation to all business and affairs carried out by our Company from time to time or for providing services to our Company or executing their functions in relation to our Company's business and operations. Save as disclosed in this prospectus, no other emoluments have been paid or are payable, in respect of each of FY2016, FY2017, FY2018 and 4M2019 by our Company to our Directors.

4. Related Party Transactions

Details of the related party transactions are set out under Note 33 to the Accountants' Report set out in Appendix I to this prospectus.

5. Disclaimers

Save as disclosed in this prospectus:

- (a) none of our Directors or chief executive has any interest or short position in any of the Shares, underlying Shares or debentures of our Company or any of the associated corporation (within the meaning of Part XV of the SFO), immediately after the completion of the Capitalisation Issue and the Share Offer, without taking into account any Share to be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any of them is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, in each case once our Shares are listed;
- (b) our Directors are not aware of any person (other than our Directors or the chief executive of our Company) who will, immediately after the completion of the Capitalisation Issue and the Share Offer (without taking into account any Share to be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme) have an interest or short position in the Shares or underlying Shares which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;
- (c) none of our Directors or the experts under the paragraph headed "E. Other information — 7. Qualifications of experts" in this appendix below has been directly or indirectly interested in the promotion of, or in any asset(s) which has or have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

- (d) none of our Directors nor the experts named under the paragraph headed “E. Other information — 7. Qualifications of experts” in this appendix below is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our Company’s business;
- (e) none of the experts named under the paragraph headed “E. Other information — 7. Qualifications of experts” in this appendix below has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and
- (f) so far as is known to our Directors, none of our Directors, their respective close associates or Shareholders who are interested in more than 5% of the share capital have any interests in the five largest customers or the five largest suppliers of our Group.

D. SHARE OPTION SCHEME

1. Summary of terms of the Share Option Scheme

(a) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to enable our Group to grant options to the eligible participants as incentive or rewards for their contribution to our Group and/or to enable our Group to recruit and retain high-calibre employees and attract human resources that are valuable to our Group or any entity in which any member of our Group holds any equity interest (the “**Invested Entity**”). As at the Latest Practicable Date, there is no “Invested Entity” other than members of our Group, and our Group has not identified any potential “Invested Entity” for investment.

(b) Who may join

Our Directors shall, in accordance with the provisions of the Share Option Scheme and the Listing Rules, be entitled but shall not be bound at any time within a period of 10 years commencing from the date of the adoption of the Share Option Scheme to make an offer to any of the following classes:

- (i) any employee (whether full time or part time, including our Directors (including any non-executive Director and independent non-executive Director)) of our Company, any of its subsidiaries (within the meaning of the Companies Ordinance) or any Invested Entity (an “**eligible employee**”);
- (ii) any supplier of goods or services to any member of our Group or any Invested Entity;
- (iii) any customer of any member of our Group or any Invested Entity;
- (iv) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;

- (v) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;
- (vi) any adviser (professional or otherwise), consultant, individual or entity who in the opinion of our Directors has contributed or will contribute to the growth and development of our Group; and
- (vii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of our Group.

and, for the purpose of the Share Option Scheme, the offer for the grant of an option may be made to any company wholly owned by one or more eligible participants.

For the avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of our Group to any person who falls within any of the above classes of eligible participants shall not, by itself, unless our Directors otherwise determine, be construed as a grant of option under the Share Option Scheme. The eligibility of any of the eligible participants to an offer shall be determined by our Directors from time to time on the basis of our Directors' opinion as to such eligible participant's contribution to the development and growth of our Group.

(c) *Maximum number of Shares*

- (i) The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Group shall not exceed 30% of the share capital of our Company in issue from time to time.
- (ii) The total number of Shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of our Group) to be granted under the Share Option Scheme and any other share option schemes of our Group shall not in aggregate exceed 10% of the total number of Shares (assuming the Over-allotment Option and the Share Option Scheme are not exercised) in issue at the time dealings in our Shares first commence on the Stock Exchange, being 40,000,000 Shares ("**General Scheme Limit**").
- (iii) Subject to (i) above and without prejudice to (iv) below, our Company may seek approval of our Shareholders in a general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of our Group shall not exceed 10% of our Shares in issue (assuming the Over-allotment Option and the Share Option Scheme are not exercised) as at the date of the approval of the limit and for the purpose of calculating the limit, options (including options outstanding, cancelled, lapsed or

exercised in accordance with the Share Option Scheme and any other share option scheme of our Group) previously granted under the Share Option Scheme and any other share option scheme of our Group will not be counted.

- (iv) Subject to (i) above and without prejudice to (iii) above, our Company may seek separate Shareholders' approval in a general meeting to grant options under the Share Option Scheme beyond the General Scheme Limit, or if applicable, the extended limit referred to in (iii) above to eligible participants identified by our Company before such approval is sought.

(d) Maximum entitlement of each eligible participant

Subject to (e) below, the total number of Shares issued and which may fall to be issued upon exercise of the options under the Share Option Scheme and the options granted under any other share option scheme of our Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being. Where any further grant of options under the Share Option Scheme to a grantee under the Share Option Scheme would result in our Shares issued and to be issued upon exercise of all options granted and proposed to be granted to such person (including exercised, cancelled and outstanding options) under the Share Option Scheme and any other share option schemes of our Group 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 must be separately approved by our Shareholders in a general meeting with such grantee and their close associates (or his associates if the participant is a connected person) abstaining from voting.

(e) Grant of options to core connected persons

- (i) Without prejudice to (ii) below, the making of an offer under the Share Option Scheme to any Director, chief executive or Substantial Shareholder of our Company or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of an option under the Share Option Scheme).
- (ii) Without prejudice to (i) above, where any grant of options under the Share Option Scheme to a Substantial Shareholder or an independent non-executive Director or any of their respective associates, would result in our Shares issued and to be issued upon exercise of all options under the Share Option Scheme 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:
 - (1) representing in aggregate over 0.1% of our Shares in issue; and
 - (2) having an aggregate value, based on the closing price of our Shares on the offer date of each grant, in excess of HK\$5 million;

such further grant of options must be approved by our Shareholders in a general meeting. The grantee, his associates and all core connected persons of our Company must abstain from voting in favour at such general meeting.

For the purpose of seeking the approval of our Shareholders under paragraphs (c), (d) and (e) above, our Company must send a circular to our Shareholders containing the information required under the Listing Rules and where the Listing Rules shall so require, the vote at the Shareholders' meeting convened to obtain the requisite approval shall be taken on a poll with those persons required under the Listing Rules abstaining from voting.

(f) Time of acceptance and exercise of an option

An offer under the Share Option Scheme may remain open for acceptance by the eligible participants concerned (and by no other person) for a period of up to 21 days from the date, which must be a Business Day, on which the offer is made.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to the grantee thereof, and in the absence of such determination, from the date of acceptance of the offer of such option to the earlier of (i) the date on which such option lapses under the relevant provisions of the Share Option Scheme; and (ii) the date falling 10 years from the offer date of that option.

An offer shall have been accepted by an eligible participant in respect of all Shares which are offered to such eligible participant when the duplicate letter comprising acceptance of the offer duly signed by the eligible participant together with a remittance in favour of our Company of HK\$1.00 by way of consideration for the grant thereof is received by our Company within such time as may be specified in the offer (which shall not be later than 21 days from the offer date). Such remittance shall in no circumstances be refundable.

Any offer may be accepted by an eligible participant in respect of less than the number of Shares which are offered provided that it is accepted in respect of a board lot for dealings in our Shares on the Main Board or an integral multiple thereof and such number is clearly stated in the duplicate letter comprising acceptance of the offer duly signed by such eligible participant and received by our Company together with a remittance in favour of our Company of HK\$1.00 by way of consideration for the grant thereof within such time as may be specified in the offer (which shall not be later than 21 days from the offer date). Such remittance shall in no circumstances be refundable.

(g) Performance targets

Unless otherwise determined by our Directors and stated in the offer to a grantee, a grantee is not required to hold an option for any minimum period nor achieve any performance targets before the exercise of an option granted to him.

(h) Subscription price for Shares

The subscription price in respect of any option shall, subject to any adjustments made pursuant to paragraph(s) below, be at the discretion of our Directors, provided that it shall not be less than the highest of:

- (i) the closing price of our Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of our Shares on the offer date;
- (ii) the average closing price of our Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the offer date; and
- (iii) the nominal value of a Share.

(i) Ranking of Shares

Shares to be allotted and issued upon the exercise of an option will be subject to all the provisions of the Articles of Association of our Company for the time being in force and will rank equally in all respects with the then existing fully paid Shares in issue on the date on which the option is duly exercised 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 (the "**Exercise Date**") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee has been duly entered on the register of members of our Company as the holder thereof.

(j) Restrictions on the time of grant of options

For so long as our Shares are listed on the Stock Exchange, an offer may not be made after inside information has come to our Company's knowledge until it has announced the information. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's result for any year, half-year, quarter-year or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for our Company to publish announcements of its results for any year, half-year, quarter-year period or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, no offer for the grant of an option may be made.

Our Directors may not make any offer to an eligible participant who is a Director during the periods or times in which our Directors are prohibited from dealing in Shares under such circumstances as prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

(k) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

(l) Rights of ceasing employment

If the grantee is an eligible employee and in the event of his ceasing to be an eligible employee for any reason other than his death, ill-health or retirement in accordance with his contract of employment or the termination of his employment on one or more of the grounds specified in (n) below before exercising the option in full, the option (to the extent not already exercised) shall lapse on the date of cessation or termination and not be exercisable unless our Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as our Directors may determine following the date of such cessation or termination. The date of cessation or termination as aforesaid shall be the last day on which the grantee was actually at work with our Company or the relevant subsidiary or the Invested Entity whether salary is paid in lieu of notice or not.

(m) Rights on death, ill-health or retirement

If the grantee is an eligible employee and in the event of his ceasing to be an eligible employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s) or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation of employment which date shall be the last day on which the grantee was at work with our Company or the relevant subsidiary or the Invested Entity whether salary is paid in lieu of notice or not.

(n) Rights on dismissal

In respect of a grantee who is an eligible employee, the date on which the grantee ceases to be an eligible employee by reason of termination of his employment on the grounds that he has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the grantee or our Group into disrepute), such option (to the extent not already exercised) shall lapse automatically and shall not in any event be exercisable on or after the date of cessation to be an eligible employee.

(o) Rights on breach of contracts

In respect of a grantee other than an eligible employee, the date on which our Directors shall at their absolute discretion determine that (i)(1) such grantee has committed any breach of any contract entered into between such grantee on the one part and our Group or any Invested Entity on the other part; or (2) such grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) such grantee

could no longer make any contribution to the growth and development of our Group by reason of the cessation of its relations with our Group or by any other reason whatsoever; and (ii) the option shall lapse as a result of any event specified in sub-paragraph (i)(1) to (3).

(p) Rights on a general offer, a compromise or an arrangement

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of our Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, our Shareholders. If such offer becomes or is declared unconditional or such scheme of arrangement is formally proposed to our Shareholders, the grantee shall, notwithstanding any other terms on which his/her option was granted, be entitled to exercise the option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in exercise of his option at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under scheme of arrangement, as the case may be. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date on which such offer (or, as the case may be, revised offer) closes.

(q) Rights on winding-up

In the event of a resolution being proposed for the voluntary winding-up of our Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two Business Days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and our Company shall allot and issue to the grantee our Shares in respect of which such grantee has exercised his option not less than one Business Day before the date on which such resolution is to be considered and/or passed whereupon he shall accordingly be entitled, in respect of our Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation equally with the holders of our Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of our Company.

(r) Grantee being a company wholly owned by eligible participants

If the grantee is a company wholly owned by one or more eligible participants:

- (i) the provisions of paragraphs (m), (l), (n) and (o) above shall apply to the grantee and to the option granted to such grantee, mutatis mutandis, as if such option had been granted to the relevant eligible participant, and such option shall accordingly lapse or fail to be exercisable after the event(s) referred to in paragraphs (m), (l), (n) and (o) above shall occur with respect to the relevant eligible participant; and

- (ii) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant eligible participant provided that our Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

(s) Adjustment of the subscription price

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable or the Share Option Scheme remains in effect, and such event arises from a capitalisation issue, rights issue, consolidation or sub-division of our Shares, or reduction of the share capital of our Company, then, in any such case our Company shall instruct the auditors or an independent financial adviser to certify in writing the adjustment, if any, that ought in their opinion fairly and reasonably to be made either generally or as regards any particular grantee, to:

- (i) the number or nominal amount of Shares to which the Share Option Scheme or any option(s) relate(s) (insofar as it is/they are unexercised); and/or
- (ii) the subscription price of any option; and/or
- (iii) (unless the relevant grantee elects to waive such adjustment) the number of Shares comprised in an option or which remain comprised in an option,

and an adjustment as so certified by the auditors or such independent financial adviser shall be made, provided that:

- (i) any such adjustment shall give the grantee the same proportion of the issued share capital of our Company (as interpreted in accordance with the supplemental guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes) for which such grantee would have been entitled to subscribe had he exercised all the options held by him immediately prior to such adjustment;
- (ii) no such adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value;
- (iii) the issue of Shares or other securities of our Group as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustment; and
- (iv) any such adjustment shall be made in compliance with the Listing Rules and such rules, codes and guidance notes of the Stock Exchange from time to time.

In respect of any adjustment referred to above, other than any adjustment made on a capitalisation issue, the auditors or such independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the relevant provisions of the Listing Rules and the supplemental guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes.

(t) Cancellation of options

Subject to the provisions in the Share Option Scheme and the Listing Rules, any option granted but not exercised may not be cancelled except with the prior written consent of the relevant grantee and the approval of our Directors.

Where our Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding, for this purpose, the options so cancelled) within the General Scheme Limit or the limits approved by our Shareholders pursuant to paragraph (c)(ii) or (c)(iv) above.

(u) Termination of the Share Option Scheme

Our Company by an ordinary resolution in a general meeting may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but in all other respects the provision of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme and options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(v) Rights are personal to grantee

An option shall be personal to the grantee and shall not be transferable or assignable, and no grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest whatsoever in favour of any third party over or in relation to any option or enter into any agreement so do so. Any breach of the foregoing by a grantee shall entitle our Company to cancel any option granted to such grantee to the extent not already exercised.

(w) Lapse of option

An option shall lapse automatically (to the extent not already exercised) on the earliest of (i) the expiry of the option period in respect of such option; (ii) the expiry of the periods or dates referred to in paragraphs (l), (m), (n), (o), (p), (q) and (r) above; or (iii) the date on which our Directors exercise our Company's right to cancel the option by reason of paragraph (v) above.

(x) *Others*

- (i) The Share Option Scheme is conditional upon:
 - (1) the Stock Exchange granting the listing of and permission to deal in such number of Shares representing the General Scheme Limit to be allotted and issued by our Company pursuant to the exercise of options in accordance with the terms and conditions of the Share Option Scheme; and
 - (2) the passing of the necessary resolution to approve and adopt the Share Option Scheme in a general meeting or by way of written resolution of our Shareholders of our Company.
- (ii) The provisions of the Share Option Scheme relating to the matters governed by Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees or prospective grantees except with the prior sanction of a resolution of our Company in a general meeting, provided that no such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the grantees as would be required of the holders of our Shares under the Articles of Association for the time being of our Company for a variation of the rights attached to our Shares.
- (iii) any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted shall be approved by our Shareholders except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (iv) The terms of the Share Option Scheme and/or any options amended must comply with the applicable requirements of the Listing Rules.
- (v) Any change to the authority of our Directors or the administrators of the Share Option Scheme in relation to any alteration to the terms of the Share Option Scheme must be approved by our Shareholders in a general meeting.

2. Present status of the Share Option Scheme

Application has been made to the Stock Exchange for the listing of and permission to deal in our Shares to be within the General Scheme Limit pursuant to the exercise of options which may be granted under the Share Option Scheme.

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

E OTHER INFORMATION**1. Tax and other indemnities**

Our Controlling Shareholders (collectively, the “**Indemnifiers**”) have, under a Deed of Indemnity as referred to in paragraph (c) of the paragraph headed “B. Further information about the business of our Group — 1. Summary of material contracts” in this appendix, given joint and several indemnities to our Company (for ourselves and as trustee for and on behalf of our subsidiaries) in connection with, among other things:

- (a) any taxation (including estate duty) falling on any member of our Group:
 - (i) in respect of or by reference to any income, profits or gains earned, accrued or received or deemed or alleged to have been earned, accrued or received on or before the date on which the Share Offer becomes unconditional; or
 - (ii) in respect of or by reference to any transaction, act, omission or event entered into or occurring or deemed to enter into or occur on or before the date on which the Share Offer becomes unconditional;
- (b) all claims, proceedings, judgments, losses, liabilities, fines, payments, damages and any associated costs suffered by or incurred by any member of our Group as a result of:
 - (i) any litigation, arbitrations, claims (including counter-claims) and/or legal proceedings instituted by or against any member of our Group which was arising from any act, non-performance, omission or otherwise of any member of our Group on or before the date on which the Share Offer becomes unconditional;
 - (ii) any relocation due to any irregularities in relation to any of the tenancy agreements or licence agreements of any member of our Group entered into on or before the date on which the Share Offer becomes unconditional, including but not limited to all relocation costs, loss of profit and business, penalties and fines and all losses and damages which may be suffered by any member of our Group as a result thereof;
 - (iii) any business disruptions, claims, legal proceedings arising from any infringement of intellectual property of others caused by any non-registration or non-filing on or before the date on which the Share Offer becomes unconditional of any of the trademarks or intellectual property rights owned or used by any member of our Group;
 - (iv) any non-compliance with the applicable laws, rules or regulations, including but not limited to the Predecessor Companies Ordinance and the Companies Ordinance, by any member of our Group on or before the date on which the Share Offer becomes unconditional;
 - (v) any irregularities in relation to any corporate documents of any member of our Group;
 - (vi) the Reorganisation for any losses or liabilities payable by our Company; and

- (vii) any unlawful use of real properties leased by any member of our Group of any relevant land, construction or user regulations applicable to the properties leased by the relevant member of our Group prior to the date on which the Share Offer becomes unconditional.

The Indemnifiers will, however, not be liable under the Deed of Indemnity to the extent that, among others:

- in relation to items (a) and (b) above, specific provision, reserve or allowance has been made for such liability in the audited combined accounts of our Company or any member of our Group for the Track Record Period;
- in relation to item (a) above, the taxation liability arises or is incurred as a result of a retrospective change in law or a retrospective increase in tax rates coming into force after the date on which the Share Offer becomes unconditional; or
- in relation to item (a) above, the taxation liability arises in the ordinary course of business of any member of our Group after the date on which the Share Offer becomes unconditional.

Our Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands and BVI is likely to fall on our Group, and the estate duty under the laws of Hong Kong has been abolished.

2. Legal proceedings/Litigation

To the best knowledge of our Directors, save as disclosed in this prospectus, as at the Latest Practicable Date, neither our Company nor any of our Company's subsidiaries was engaged in any litigation, arbitration or claims of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company or any member of our Group, that would have a material adverse effect on the results of operations or financial condition.

3. Application for listing of Shares

Our Company have applied to the Listing Committee for the listing of, and the permission to deal in, our Shares in issue and to be issued pursuant to the Capitalisation Issue and the Share Offer as mentioned herein (including the additional Shares which may be issued upon full exercise of the Over-allotment Option) and our Shares to be issued upon exercise of any options which may be granted under the Share Option Scheme). All necessary arrangements have been made to enable the securities to be admitted into CCASS.

4. Compliance adviser

In accordance with the requirements of the Listing Rules, our Company has appointed Alliance Capital Partners Limited as the compliance adviser to provide advisory services to our Company to ensure compliance with the Listing Rules for a period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of the financial results for the first full financial year commencing after the Listing Date.

5. Preliminary expenses

The estimated preliminary expenses are approximately HK\$40,800 and have been paid by our Company.

6. Promoter

- (a) Our Company do not have any promoter.
- (b) Within the two years immediately preceding the date of this prospectus, no amount or benefit has been paid or given to any promoter of our Company in connection with the Share Offer or the related transactions described in this prospectus.

7. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus, and have given and have not withdrawn their written consent to the issue of this prospectus with the inclusion of their letter, report, and/or valuation certificate opinion and/or references to their names (as the case may be), all of which are dated the date of this prospectus, in the form and context in which they respectively appear in this prospectus:

Name	Qualifications
Alliance Capital Partners Limited	A licenced corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
Ernst & Young	Certified Public Accountants
Frost & Sullivan Limited	Industry consultant
Beijing Dentons Law Offices, LLP (Shenzhen)	Legal advisers to our Company as to the PRC law
Appleby	Legal advisers to our Company as to Cayman Islands law
Hogan Lovells	Legal advisers to our Company as to EU laws and regulations and International Sanctions law

8. Consents of experts

Each of the abovementioned experts has given and has not withdrawn their respective consent to the issue of this prospectus with the inclusion of its report and/or letter and/or legal opinion (as the case may be) and reference to its name included in the form and context in which it respectively appears.

9. Fees of the Sponsor

The Sponsor will receive a sponsorship, financial advisory and documentation fee of a total amount of HK\$4,600,000 in relation to the Listing and will be reimbursed for their expenses.

10. Independence of the Sponsor

Neither the Sponsor nor any of its close associates has accrued any material benefit as a result of the successful outcome of the Share Offer, other than the following:

- (a) by way of sponsorship, financial advisory and documentation fee to be paid to the Sponsor for acting as the sponsor of the Listing;
- (b) by way of the compliance advisory fee to be paid to the Sponsor as our Company's compliance adviser pursuant to the requirements under Rule 3A.19 of the Listing Rules; and
- (c) by way of underwriting commission and/or other underwriting fees as stipulated in the Underwriting Agreements to be paid to Alliance Capital Partners Limited for acting as one of the Underwriters

No director or employee of the Sponsor who is involved in providing advice to our Company has or may have, as a result of the Listing, any interest in any class of securities of our Company or any of our Company's subsidiaries. None of the directors and employees of the Sponsor has any directorship in our Company or any member of our Group. The Sponsor is independent from our Group under Rule 3A.07 of the Listing Rules.

11. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

12. Miscellaneous

Save as disclosed herein:

- (a) within the two years immediately preceding the date of this prospectus:
 - (i) no share or loan capital of our Company or any of its subsidiaries has been allotted and issued, agree to be allotted and issued or is proposed to be allotted and issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no commission, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our Company's subsidiaries and no commission (excluding sub-underwriters' commission) has been paid or payable for subscribing or agreeing to subscribe or procuring or agreeing to procure subscription for any Share or any of our Company's subsidiaries;
- (b) no founder, management or deferred shares of our Company have been allotted and issued or agreed to be allotted and issued;
- (c) no share, warrant or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (d) our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2018, being the date on which the latest audited financial information of our Group was reported in the Accountants' Report set out in Appendix I to this prospectus; and
- (e) our Directors confirm that there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this prospectus.

13. Bilingual Prospectus

Pursuant to section 4 of our Company (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), the English language and Chinese language versions of this prospectus are being published separately but are available to the public at the same time at each place where this prospectus is distributed by or on behalf of our Company.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

1. copies of the **WHITE** and **YELLOW** Application Forms;
2. copies of the material contracts as referred to in the paragraph headed “B. Further information about the business of our Group — 1. Summary of material contracts” in Appendix IV to this prospectus; and
3. the written consents as referred to in the paragraph headed “E. Other information — 8. Consents of experts” in Appendix IV to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of ONC Lawyers at 19th Floor, Three Exchange Square, 8 Connaught Place, Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

1. the Memorandum and the Articles of Association;
2. the Accountants’ Report from Ernst & Young, the text of which is set out in Appendix I to this prospectus;
3. the audited financial statements of our Group during the Track Record Period;
4. the report from Ernst & Young on the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this prospectus;
5. the letter of advice prepared by Appleby summarising certain aspects of Cayman Islands company law as referred to in Appendix III to this prospectus;
6. the legal memorandum issued by Hogan Lovells in respect of certain aspects of EU laws and regulations;
7. the legal memorandum issued by Hogan Lovells in respect of relevant International Sanctions applicable to our Group;
8. the legal opinions issued by the PRC Legal Advisers;
9. the industry report prepared by Frost & Sullivan;
10. the Companies Law;
11. the rules of the Share Option Scheme;

12. the material contracts as referred to in the paragraph headed “B. Further information about the business of our Group — 1. Summary of material contracts” in Appendix IV to this prospectus;
13. the service agreements and letters of appointment as referred to in the paragraph headed “C. Further information about our Directors and Substantial Shareholders — 2. Particulars of Directors’ service agreements and appointment letters” in Appendix IV to this prospectus; and
14. the written consents as referred to in the paragraph headed “E. Other information — 8. Consents of experts” in Appendix IV to this prospectus.



登輝控股有限公司
Town Ray Holdings Limited