

KWUNG'S HOLDINGS LIMITED

曠世控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 1925

GLOBAL OFFERING

Sole Sponsor, Sole Global Coordinator



Joint Bookrunners



Joint Lead Managers



IMPORTANT

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

KWUNG'S HOLDINGS LIMITED

曠世控股有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Total number of Offer Shares : 100,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Public Offer Shares : 10,000,000 Shares (subject to reallocation)
Number of International Placing Shares : 90,000,000 Shares (subject to reallocation and the Over-allotment Option)
Offer Price : Not more than HK\$1.60 per Offer Share and not less than HK\$1.28 per Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value : HK\$0.001 per Share
Stock code : 1925

Sole Sponsor and Sole Global Coordinator



Joint Bookrunners



Joint Lead Managers



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

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

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date. The Price Determination Date is expected to be on or around Thursday, 9 January 2020 or such later time as may be agreed by our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) and, in any event, not later than Tuesday, 14 January 2020. The Offer Price will be not more than HK\$1.60 and is currently expected to be not less than HK\$1.28 unless otherwise announced. Investors applying for Offer Shares must pay, on application, the maximum indicative Offer Price of HK\$1.60 for each Offer Share together with brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is lower than HK\$1.60 per Offer Share.

The Sole Global Coordinator (for itself and on behalf of the Underwriters), may, with the consent of our Company, reduce the indicative Offer Price range and/or the number of Offer Shares below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In such a case, announcement of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be made on our Company's website at www.kwungs.com and the website of the Stock Exchange at www.hkexnews.hk not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offer.

If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before 5:00 p.m. on Tuesday, 14 January 2020, the Global Offering will not proceed and will lapse.

Pursuant to the Hong Kong Public Offer Underwriting Agreement, the Sole Global Coordinator (for itself and on behalf of the Underwriters) has the right, in certain circumstances, subject to their sole and absolute opinion, to terminate their obligations under the Hong Kong Public Offer Underwriting Agreement at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. See "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offer – Grounds for termination" in this prospectus.

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

EXPECTED TIMETABLE

If there is any change in the following expected timetable, our Company will issue an announcement on the respective websites of our Company at **www.kwungs.com** and the Stock Exchange at **www.hkexnews.hk**.

Date ⁽¹⁾
2020

Latest time to complete electronic applications under
White Form eIPO service through the designated website
www.eipo.com.hk ⁽²⁾ 11:30 a.m. on
Monday, 6 January

Application lists of the Hong Kong Public Offer open ⁽³⁾ 11:45 a.m. on
Monday, 6 January

Latest time for lodging **WHITE** and **YELLOW Application Forms**
and giving **electronic application instructions** to HKSCC ⁽⁴⁾ 12:00 noon on
Monday, 6 January

Latest time to complete payment of **White Form eIPO** applications
by effecting Internet banking transfer(s) or PPS payment
transfer(s) 12:00 noon on
Monday, 6 January

Application lists of the Hong Kong Public Offer close ⁽³⁾ 12:00 noon on
Monday, 6 January

Expected Price Determination Date ⁽⁵⁾ on or around
Thursday, 9 January

Announcement of the final Offer Price, the levels of indication of
interest in the International Placing, the level of applications of
the Hong Kong Public Offer and the basis of allocation of the
Hong Kong Public Offer Shares to be published on our
Company's website at **www.kwungs.com** and the website of the
Stock Exchange at **www.hkexnews.hk** on or before Wednesday, 15 January

Results of allocations in the Hong Kong Public Offer (with
successful applicants' identification document numbers, where
applicable) will be available through a variety of channels in the
section headed "How to apply for Hong Kong Public Offer Shares
– 11. Publication of results" in this prospectus) on Wednesday, 15 January

Results of allocations in the Hong Kong Public Offer will be
available at **www.iporesults.com.hk**
(alternatively: English **https://www.eipo.com.hk/en/Allotment**;
Chinese **https://www.eipo.com.hk/zh-hk/Allotment**) with a
"search by ID Number/Business Registration Number" function
from Wednesday, 15 January

EXPECTED TIMETABLE

Date ⁽¹⁾
2020

Despatch/Collection of share certificates or deposit
of the share certificates into CCASS in respect
of wholly or partially successful applications pursuant
to the Hong Kong Public Offer ⁽⁷⁾ on or before
Wednesday, 15 January

Despatch/collection of refund cheques or e-Refund payment
instructions in respect of wholly or partially successful
applications (if applicable) and wholly or partially unsuccessful
applications pursuant to the Hong Kong Public Offer ^(6 and 7) on or before
Wednesday, 15 January

Dealings in Shares on the Stock Exchange expected
to commence at 9:00 a.m. on
Thursday, 16 January

Notes:

1. All times and dates refer to Hong Kong local time and dates unless otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.
2. You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
3. If there is a “black” rainstorm warning, a tropical cyclone warning signal number 8 or above and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 6 January 2020, the application lists will not open and close on that day. Further information is set out in the section headed “How to Apply for Hong Kong Public Offer Shares – 10. Effect of bad weather on the opening of the application lists” in this prospectus.
4. Applicants who apply by giving **electronic application instructions** to HKSCC should refer to the section headed “How to apply for Hong Kong Public Offer Shares – 6. Applying by giving electronic application instructions to HKSCC via CCASS” in this prospectus.
5. Please note that the Price Determination Date, being the date on which the final Offer Price is to be determined, is expected to be on or around Thursday, 9 January 2020 or such later time as may be agreed by our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), and, in any event, no later than Tuesday, 14 January 2020. If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before 5:00 p.m. on Tuesday, 14 January 2020, the Global Offering will not proceed and will lapse. Notwithstanding that the Offer Price may be fixed at below the maximum indicative Offer Price of HK\$1.60 per Offer Share, applicants who apply for the Offer Shares must pay on application the maximum indicative Offer Price of HK\$1.60 per Offer Share plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% but will be refunded the surplus application monies as provided in the section headed “How to apply for Hong Kong Public Offer Shares – 13. Refund of application monies” in this prospectus.
6. Refund cheques or e-Refund payment instructions will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the Offer Price as finally determined is less than the price payable on application. If you apply through the **White Form eIPO** service by paying the application monies through a single bank account, you may have e-Refund payment instructions (if any) despatched to your application payment bank account. If you apply through the **White Form eIPO** service by paying the application monies through multiple bank accounts, you may have refund cheque(s) sent to the address specified in your application instructions to the designated

EXPECTED TIMETABLE

website (www.eipo.com.hk) by ordinary post and at your own risk. Refund by cheque(s) will be made out to you, or if you are joint applicants, to the first-named applicant on your Application Form. 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 may also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong Identity Card.

7. Applicants who apply on **WHITE Application Forms** or through the **White Form eIPO** service for 1,000,000 Hong Kong Public Offer Shares or more under the Hong Kong Public Offer and have provided all information required by their Application Forms, they may collect their refund cheques and (where applicable) share certificates in person from the Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, 15 January 2020. Applicants being individuals who are eligible for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who are eligible for personal collection must attend by their authorised representatives bearing a letter of authorisation from their corporation stamped with the corporation's chop. Both individuals and authorised representatives of corporations must produce, at the time of collection, identification and (where applicable) authorisation documents acceptable to the Hong Kong Branch Share Registrar.

Applicants who apply on **YELLOW Application Forms** for 1,000,000 Hong Kong Public Offer Shares or more under the Hong Kong Public Offer and have provided all information required by Application Forms, they may collect their refund cheques (if any) but may not elect to collect their share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedure for collection of refund cheques for applicants who apply on **YELLOW Application Forms** is the same as that for **WHITE Application Form applicants**.

Uncollected share certificates (if applicable) and refund cheques (if applicable) will be despatched by ordinary post (at the applicants' own risk) to the addresses specified in the relevant Application Forms shortly after the expiry of the time for collection at the date of despatch of refund cheque as described in the section headed "How to apply for Hong Kong Public Offer Shares – 14. Despatch/collection of share certificates and refund monies" in this prospectus.

Share certificates for the Offer Shares will only become valid certificates of title to which they relate at 8:00 a.m. (Hong Kong time) on the Listing Date provided that (i) the Global Offering has become unconditional in all respects; and (ii) the right of termination as described in the section headed "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offer – Grounds for termination" in this prospectus has not been exercised and has lapsed. Investors who trade our 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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IMPORTANT NOTICE TO INVESTORS

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

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. Our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, Joint Lead Managers and the Underwriters have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, Joint Lead Managers and the Underwriters, any of their respective directors, employees, agents or professional advisers or any other person or party involved in the Global Offering.

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SUMMARY

This summary aims at giving you an overview of the information contained in this prospectus and should be read in conjunction with the full text of this prospectus. As the following is only a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares. Various expressions used in this summary are defined in the sections headed “Definitions” and “Glossary of technical terms” in this prospectus.

OVERVIEW

Founded in 1999, we are a prominent original design manufacturer and supplier of Home Decoration Products, comprising candles, home fragrance and home accessories. Candles and home fragrance are our principal products, which in aggregate accounted for 83.9%, 83.5%, 84.6% and 81.1%, respectively, of our total revenue for FY2016, FY2017, FY2018 and 6M2019. Our products are sold to customers situated in more than 20 countries and regions, including France, United Kingdom, the Netherlands, Germany, Canada and Australia where candles and home fragrance are widely used in ordinary people’s daily life. According to the F&S Report, in 2018, in terms of revenue from the manufacturing and sales of candles, we ranked second in the PRC, and in terms of revenue from the manufacturing and sales of home fragrance, we ranked fourth in the PRC.

We are an export-oriented business and target mainly overseas markets. For FY2016, FY2017, FY2018 and 6M2019, customers situated overseas contributed 98.8%, 99.0%, 98.8% and 98.3%, respectively, of our total revenue for the same periods. Europe is our largest geographical market, accounting for 72.5%, 74.1%, 76.3% and 77.0%, respectively, of our total revenue for FY2016, FY2017, FY2018 and 6M2019. Terms of sales are mainly in FOB.

Our business is primarily conducted on ODM basis. For FY2016, FY2017, FY2018 and 6M2019, revenue derived from our ODM sale accounted for 96.6%, 97.0%, 96.7% and 97.1%, respectively, of our total revenue. For our ODM business, we are responsible for providing product designs, procuring raw materials, manufacturing products, and identifying and supervising contract manufacturers (where required). After obtaining approval from our customers on the designs and specifications, we will issue sales confirmation to record product details and terms of our sales. We will then proceed to mass production either through our own production facilities or through external contract manufacturers. Products are packed and labeled according to our customer’s instruction.

After a long history of manufacturing and selling Home Decoration Products, to stand out among our competitors through cultivating brand loyalty and increasing brand awareness, and to diversify the source of our revenue, since 2016, we have been selling selected lines of self-branded products such as “Fumare” and “Aromart” branded candles and home fragrance in the PRC and Australia. Products sold under “Fumare” brand target mid- to high-end consumer markets. Products sold under “Aromart” brand target mid-end and mass markets. We sell self-branded products mainly through e-commerce platforms, distributors and our self-operated stores in the PRC. For FY2016, FY2017, FY2018 and 6M2019, revenue derived from our branded sales accounted for 3.4%, 3.0%, 3.3% and 2.9%, respectively, of our total revenue.

We place strong emphasis on product innovation and development. We have an engineering and technical centre at our headquarter in Ningbo, which was accredited as a Ningbo Enterprise Engineering Technical Centre (寧波市企業工程技術中心) in 2011. Our engineering and technical centre houses a team of professional designers who works on the artistic and outlook designs of products based on fashion trend and consumers’ preference, and a team of technical researchers who works on the innovation of ingredients of candles and home fragrance. As a result of our relentless effort in product innovation and development, during the Track Record Period, we offered more than 1,000 types of Home Decoration Products of varying designs, sizes, aromatic scents and ingredients. We have obtained the status of “High and New Technology Enterprise” and the “National Cultural Export Key Enterprise” (國家文化出口重點企業), a recognition of our research and development strengths and the quality and cultural element of our products.

We have integrated production facilities situated in Ningbo and Shaoxing, both in Zhejiang Province of the PRC, with a total gross floor area of 24,635.5 sq.m. (which includes properties for production purpose only). We undertake the production of a majority of our candles with our in-house production facilities. We allocate production orders between Ningbo Plant and Shaoxing Plant

SUMMARY

according to the orders on hand, delivery schedule, technical complexity and the level of automation required for the relevant batch of the production. For FY2016, FY2017, FY2018 and 6M2019, the average utilisation rate of our production facilities was 81.2%, 98.4%, 95.1% and 77.6%, respectively. During the Track Record Period, under certain circumstances, we outsourced the production orders to third party contract manufacturers in the PRC. For details, see “Our Major Suppliers” in this section and “Business – Subcontracting Arrangement” in this prospectus.

OUR MAJOR CUSTOMERS

Our major customers comprise retailers of home decoration products as well as wholesalers who import and sell our products to the overseas markets through their own distribution networks. A majority of our major customers are renowned home decor retailers or wholesalers in Europe, such as J.J.A. from France (our largest customer for FY2016, FY2018 and 6M2019) and Koopman from the Netherlands (our second largest customer for FY2018). Sales to our five largest customers during the Track Record Period, in aggregate, accounted for 48.1%, 49.7%, 54.3% and 59.0%, respectively, of our total revenue for FY2016, FY2017, FY2018 and 6M2019. Sales to our largest customer during the Track Record Period accounted for 15.3%, 16.2%, 17.4% and 20.2%, respectively, of our total revenue for FY2016, FY2017, FY2018 and 6M2019. Our relationship with our five largest customers during the Track Record Period ranged from five years to around 19 years. All of our five largest customers during the Track Record Period are Independent Third Parties.

In addition to retailers and wholesalers, to capture market share and reach a wide customer group, during the Track Record Period, a small proportion of our products (mainly self-branded products) were sold to distributors and consumers through our diversified sales channels, which in aggregate, accounted for 1.4%, 3.0%, 3.3% and 2.9%, respectively, of our total revenue for FY2016, FY2017, FY2018 and 6M2019.

OUR MAJOR SUPPLIERS

Our suppliers comprise suppliers of raw material and consumables and contract manufacturers. For FY2016, FY2017, FY2018 and 6M2019, we made procurement from over 400, 440, 500 and 300 suppliers respectively.

For FY2016, FY2017, FY2018 and 6M2019, our total purchase amounted to RMB289.1 million, RMB334.6 million, RMB338.9 million and RMB187.6 million, respectively. Our major suppliers of raw material consumables are corporate entities who are principally engaged in the production and/or sale of wax, containers, accessories and aroma essence in the PRC. For FY2016, FY2017, FY2018 and 6M2019, cost of raw materials and consumables used accounted for 47.5%, 44.4%, 44.8% and 34.9%, respectively, of our total purchase.

To optimise our cost of production and increase our overall production efficiency especially during peak seasons, to the extent commercially desirable and cost-efficient to do so, we outsource the production of certain batches of candles and the production of home fragrance and home accessories to external contract manufacturers. We had developed with our five largest contract manufacturers one year to ten years of business relationship as at 30 June 2019. Subcontracting cost for FY2016, FY2017, FY2018 and 6M2019 accounted for 46.7%, 47.9%, 46.1% and 51.3%, respectively, of our cost of sales.

Our relationship with our five largest suppliers during the Track Record Period ranged from two years to 11 years. For FY2016, FY2017, FY2018 and 6M2019, our purchase attributable to our five largest supplier accounted for 22.0%, 23.3%, 21.6% and 25.3%, respectively, of our total purchase for the same periods. For FY2016, FY2017, FY2018 and 6M2019, our purchase attributable to our largest supplier accounted for 5.8%, 6.8%, 8.1% and 10.1%, respectively, of our cost of purchase for the same periods. All of our five largest suppliers during the Track Record Period are Independent Third Parties.

COMPETITIVE STRENGTHS

We take pride in the following competitive strengths which have contributed to our success and differentiated us from our competitors: (i) we place strong emphasis on product innovation to meet the rapidly changing needs of our customers and consumers; (ii) we pride ourselves in the quality and performance of our products, which are suitable for use in different cultural settings; (iii) we have a worldwide customer base with diversified sales channels; (iv) we have a stable, experienced and dedicated management team with extensive industry experience; and (v) we have integrated production facilities which allow us to achieve economies of scale.

SUMMARY

OUR BUSINESS STRATEGIES

With a view to fuel our business growth, proactively capture market opportunities, expand the sales of our products and increase our market shares, our Directors intend to implement the following measures: (i) establish physical presence overseas to increase market penetration of our products, better serve our major customers and enlarge our customer base in our major market; (ii) expand and upgrade our production facilities to strengthen our in-house production capabilities to achieve economies of scale; (iii) strengthen our research and development capabilities to enrich our product offering and increase our overall competitiveness; (iv) upgrade our information system and logistics capacities to increase our operational efficiency; and (v) enhance our sales and marketing efforts to enlarge market share, cultivate brand loyalty and capture potential business opportunities in markets outside Europe.

SUMMARY OF HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

The table below sets forth our summary of consolidated income statement, breakdown of gross profit margin for product segments and net profit margin for the periods indicated. This financial information was extracted from, and should be read in conjunction with the financial information of our Group set forth in the Accountant's Report in Appendix I to this prospectus.

	FY2016 <i>RMB'000</i>	FY2017 <i>RMB'000</i>	FY2018 <i>RMB'000</i>	6M2019 <i>RMB'000</i>
Revenue	399,473	445,860	444,704	216,256
Candles	290,827	326,117	311,038	139,888
Home fragrance	44,311	46,245	64,964	35,528
Home accessories	64,335	73,498	68,702	40,840
Gross Profit	85,195	96,521	107,029	53,589
Candles	67,000	76,900	74,581	35,525
Home fragrance	7,649	7,932	18,439	9,398
Home accessories	10,546	11,689	14,009	8,666
Net profit	45,532	37,646	77,051	7,606
Gross Profit Margin	21.3%	21.6%	24.1%	24.8%
Candles	23.0%	23.6%	24.0%	25.4%
Home fragrance	17.3%	17.2%	28.4%	26.5%
Home accessories	16.4%	15.9%	20.4%	21.2%
Net profit margin	11.4%	8.4%	17.3%	3.5%
Non-HKFRS measures				
Adjusted net profit	N/A ⁽¹⁾	N/A ⁽¹⁾	45,335	14,014
Adjusted net profit margin	N/A ⁽¹⁾	N/A ⁽¹⁾	10.2%	6.5%

Note:

⁽¹⁾ Adjusted net profit and adjusted net profit margin were not applicable for FY2016 and FY2017 because the non-recurring items did not affect our Group's financial results for FY2016 and FY2017.

Non-HKFRS measures

We recognised non-recurring items in FY2018 and 6M2019. To supplement our consolidated financial statements which are presented in accordance with HKFRS, we also presented the adjusted net profit before tax, adjusted net profit for the year and adjusted net profit margin as non-HKFRS measures.

We present these additional financial measures as these were used by our management to evaluate our financial performance by eliminating the impact of non-recurring items including Listing expenses and net gain on the disposal of our subsidiary, which are considered not indicative for evaluation of the actual performance of our business. The adjusted profit before tax, adjusted net profit and adjusted net profit margin are not measures of performance under HKFRS. We believe these non-HKFRS measures are more accurate indication of our profitability and operating performance for FY2018 and 6M2019. However, these non-HKFRS measures should not be considered in isolation or construed as an alternative to net income or operating income, or as an indicator of our operating performance or other consolidated operations or cash flow data prepared in accordance with HKFRS. The use of non-HKFRS measures has material limitations as an analytical tool, as it does not include all items that impact our profit for the relevant year. Potential investors should be aware that these non-HKFRS measures presented in this prospectus may not be comparable

SUMMARY

to similarly titled measures reported by other companies due to differences in the components of the calculation.

The table below sets forth the adjusted profit before tax, adjusted net profit and adjusted net profit margin for FY2018 and 6M2019:

	FY2018 <i>RMB'000</i>	6M2019 <i>RMB'000</i>
Adjusted profit before tax		
Profit before income tax	88,808	9,454
Adjusted for:		
(i) Listing expenses	5,178	7,539
(ii) net gain on disposal of a subsidiary	(42,491)	–
	<u>51,495</u>	<u>16,993</u>
Adjusted net profit		
Profit for the year	77,051	7,606
Adjusted for:		
(i) Listing expenses	5,178	7,539
(ii) net gain on disposal of a subsidiary	(42,491)	–
(iii) corresponding tax impact ⁽¹⁾	5,597	(1,131)
	<u>45,335</u>	<u>14,014</u>
Adjusted net profit margin⁽²⁾	10.2%	6.5%

Notes:

- (1) The corresponding tax impact is calculated by deducting Listing expenses and net gain on disposal of a subsidiary and applying the tax rate of 15%.
- (2) Adjusted net profit margin is derived from dividing adjusted net profit by revenue for FY2018 and 6M2019.

During the Track Record Period, our revenue amounted to RMB399.5 million, RMB445.9 million, RMB444.7 million and RMB216.3 million, respectively, for FY2016, FY2017, FY2018 and 6M2019. Candles remained as our major products sold to our customers which accounted for 72.8%, 73.1%, 70.0% and 64.7%, respectively, of our total revenue, while revenue from home fragrance accounted for 11.1%, 10.4%, 14.6% and 16.4%, respectively, of our total revenue. For FY2018, our revenue decreased slightly by RMB1.2 million, or 0.3%, to RMB444.7 million from RMB445.9 million for FY2017 due to (i) a decrease in revenue from candles of RMB15.1 million, or 4.6%, since our largest customer in FY2017 reduced its orders with us mainly as a result of the poor market sentiment caused by Brexit, and (ii) the decrease in revenue from home accessories of RMB4.8 million, or 6.5%. Home accessories sold under this segment consisted of a great variety of products which are consumer goods with relatively short life cycle as the demand for and customer's preference over such products are susceptible to continuous changes, and we recorded slightly lower revenue from this segment because of the decrease in our sales of non-glassware products for FY2018 even though we were able to achieve a higher profit margin from non-glassware products due to the upgrade of the specifications. Such decrease in revenue was partially offset by an increase in revenue from home fragrance of RMB18.7 million, or 40.5%, primarily attributable to the increase in sales of RMB14.5 million contributed by four of our five largest customers for FY2018. For FY2017, our revenue increased by RMB46.4 million, or 11.6%, contributed by (i) the increase in demand of our products by our largest customer for FY2017, and (ii) the increase of 49 customers which contributed over RMB10 million of our revenue.

In terms of profit, for FY2018, our gross profit margin increase to 24.1% primarily due to the increase in gross profit margin of home fragrance from 17.2% for FY2017 to 28.4% for FY2018, which was attributed to (i) the overall increase in the average selling price of home fragrance by around 20.7% under this segment mainly because (a) the orders for home fragrance in liquid form of bigger size took up a larger proportion of our overall sales under this segment in FY2018; and (b) we sold home fragrance with improved outlook design and packing which had higher selling prices generally because of their higher production requirements and higher retail prices that could be set by our customers or downstream retailers; (ii) the overall increase in our sales of home fragrance to our major customers; and (iii) our management's effort in maintaining the purchase price of home

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fragrance such as negotiating with the relevant contract manufacturer to obtain lower prices of repeated orders to obtain a volume rebate (in the form of discount to the initial purchase price) as the amount of our purchase from the relevant contract manufacturer increased, partially offset by a mild increase in the purchase price of home fragrance for the same period. For FY2016 and FY2017, our gross profit margin remained stable at 21.3% and 21.6% respectively.

Our net profit margin increased to 17.3% for FY2018 from 8.4% for FY2017 primarily due to the net gain on disposal of our then subsidiary pursuant to the Reorganisation. Our net profit margin decreased to 8.4% for FY2017 from 11.4% for FY2016 primarily due to the net foreign exchange differences changed from a gain of RMB6.7 million for FY2016 to a loss of RMB7.7 million for FY2017 as a result of the depreciation of RMB against USD in FY2017. For 6M2019, we maintained a relatively stable gross profit margin compared to FY2018. Our net profit margin decreased to 3.5% primarily due to (i) Listing expenses of RMB7.5 million and (ii) net fair value losses on foreign currency forward contracts of RMB17.0 million.

The following table sets forth the breakdown of our revenue and gross profit margin by business models for the periods indicated:

Business model	FY2016			FY2017			FY2018			6M2019		
	Revenue		Gross profit margin %	Revenue		Gross profit margin %	Revenue		Gross profit margin %	Revenue		Gross profit margin %
	RMB'000	%		RMB'000	%		RMB'000	%		RMB'000	%	
ODM sale	385,952	96.6	20.8	432,525	97.0	21.1	430,141	96.7	23.6	209,981	97.1	24.5
Branded sale	13,521	3.4	37.0	13,335	3.0	38.8	14,563	3.3	36.5	6,275	2.9	35.3
Total	399,473	100.0	21.3	445,860	100.0	21.6	444,704	100.0	24.1	216,256	100.0	24.8

The following table sets forth the breakdown of our revenue and gross profit margin by production model for the periods indicated:

Product by production model	FY2016			FY2017			FY2018			6M2019		
	Revenue RMB'000	Gross profit RMB'000	Gross profit margin %	Revenue RMB'000	Gross profit RMB'000	Gross profit margin %	Revenue RMB'000	Gross profit RMB'000	Gross profit margin %	Revenue RMB'000	Gross profit RMB'000	Gross profit margin %
Self-manufactured												
Candles	194,935	47,925	24.6	202,676	54,415	26.8	203,943	58,266	28.6	88,130	26,970	30.6
Outsourced												
Candles	95,892	19,074	19.9	123,441	22,485	18.2	107,095	16,315	15.2	51,758	8,555	16.5
Home fragrance	44,311	7,649	17.3	46,245	7,932	17.2	64,964	18,439	28.4	35,528	9,398	26.5
Home accessories	64,335	10,547	16.4	73,498	11,689	15.9	68,702	14,009	20.4	40,840	8,666	21.2
Sub-total	204,538	37,270	18.2	243,184	42,106	17.3	240,761	48,763	20.3	128,126	26,619	20.8
Total	399,473	85,195	21.3	445,860	96,521	21.6	444,704	107,029	24.1	216,256	53,589	24.8

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The following table sets forth the breakdown of our revenue by geographical regions based on customers' locations during the Track Record Period:

Geographical market	FY2016 Revenue		FY2017 Revenue		FY2018 Revenue		6M2019 Revenue	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Overseas								
France	85,610	21.4	92,479	20.7	107,203	24.1	52,112	24.1
United Kingdom	75,323	18.9	109,144	24.5	86,618	19.5	33,605	15.5
Netherlands	40,566	10.2	48,564	10.9	62,557	14.1	33,934	15.7
Germany	73,184	18.3	59,058	13.2	51,091	11.5	28,199	13.0
Taiwan	32,172	8.1	39,061	8.8	40,209	9.0	18,140	8.4
Canada	15,836	4.0	20,133	4.5	22,520	5.1	9,034	4.2
Hong Kong	39,705	9.9	32,351	7.3	18,629	4.2	10,435	4.8
Others (Note)	32,097	8.0	40,660	9.1	50,635	11.3	27,206	12.6
Sub-total	394,493	98.8	441,451	99.0	439,462	98.8	212,665	98.3
PRC	4,980	1.2	4,409	1.0	5,242	1.2	3,591	1.7
Total	399,473	100.0	445,860	100.0	444,704	100.0	216,256	100.0

Note: "Others" comprise Australia, Norway, Portugal, Spain, New Zealand and 18 other countries, and sales to each of such 18 countries accounted for less than 1% of our total revenue for the relevant year.

During the Track Record Period, our revenue from France, the Netherlands, Taiwan and Canada were generally in line with our overall growth in revenue. Our revenue from the United Kingdom decreased in FY2018 compared to FY2017 mainly because Customer A (which is located in the United Kingdom), in anticipation of the poor market sentiment caused by Brexit according to our understanding, reduced its order from us to relieve pressure on its inventory level resulting from its procurement during FY2017. Our revenue from Germany decreased throughout the Track Record Period mainly because of the decrease in orders by Customer B and two other customers in Germany as a result of the change of product mix they sold to their customers which negatively impacted their procurement decision on us. For 6M2019, the percentage of our revenue contributed from the United Kingdom decreased mainly because of the decrease in the number of customers from the United Kingdom.

The following table sets forth our summary of consolidated statements of financial position as of the dates indicated:

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Non-current assets	75,834	78,418	48,240	52,836
Current assets	140,437	168,423	362,478	202,941
Current liabilities	40,584	48,052	236,271	72,099
Net current assets	99,853	120,371	126,207	130,842
Total equity	175,687	198,789	170,901	178,506

Our Group's net current assets increased from RMB99.9 million as at 31 December 2016 to RMB120.4 million as at 31 December 2017. The increase in our net current assets was mainly due to an increase in cash and cash equivalents of RMB42.9 million, partially offset by a decrease in trade receivables of RMB14.7 million. Our net current assets increased to RMB126.2 million as at 31 December 2018. The increase in our net current assets was mainly due to (i) an increase in prepayment, deposits and other receivables of RMB156.3 million, (ii) an increase in cash and cash equivalents of RMB18.2 million, (iii) an increase in trade receivables of RMB15.2 million, and partially offset by an increase in trade and other payables of RMB176.2 million. The increase in other receivables and trade and other payables as at 31 December 2018 were due to the disposal of our then subsidiary, Shaoxing Jingming, pursuant to the Reorganisation. As at 30 June 2019, such amounts of other receivables and trade and other payables arising from the Reorganisation were settled. Our net asset decreased to RMB170.9 million as at 31 December 2018 primarily due to dividends distribution during the year. For details, see "History, Development and Reorganisation – Step 5" and note 12 of the Accountant's Report in Appendix I to this prospectus.

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

	FY2016 <i>RMB'000</i>	FY2017 <i>RMB'000</i>	FY2018 <i>RMB'000</i>	6M2019 <i>RMB'000</i>
Operating cash flows before changes in working capital	50,539	56,643	63,684	28,777
Net cash generated from/(used in) operating activities	20,123	65,531	21,125	(11,532)
Net cash generated from/(used in) investing activities	1,943	(4,614)	51,793	(138,382)
Net cash generated from/(used in) financing activities	(13,381)	(16,061)	(57,899)	119,479
Cash and cash equivalents at end of year	31,532	74,400	92,611	62,333

During the Track Record Period, our cash inflow from operating activities was principally from cash inflow from our operation. Our cash outflow used in operating activities was principally for purchase of raw materials, subcontracting fee, employee benefit expenses and other operating expenses. Our cash outflow used in investing activities was principally for purchases of property, plant and equipment. Our cash outflow used in financing activities was principally dividend paid by our Group.

Our cash and cash equivalents increased from RMB31.5 million as at 31 December 2016 to RMB74.4 million as at 31 December 2017 primarily due to the net cash generated from operating activities. Our cash and cash equivalents further increased to RMB92.6 million as at 31 December 2018 primarily due to (i) net cash generated from investing activities of RMB51.8 million mainly attributable to proceeds from the disposal of our then subsidiary, Shaoxing Jingming, pursuant to the Reorganisation; and (ii) net cash generated from operating activities of RMB21.1 million, partially offset by net cash used in financing activities of RMB57.9 million mainly attributable to payment of dividends. Our cash and cash equivalents decreased to RMB62.3 million as at 30 June 2019 primarily due to (i) net cash used in investing activities resulting from deemed distribution of RMB163.7 million pursuant to the Reorganisation; and (ii) net cash used in operating activities of RMB11.5 million attributable to the income tax paid of RMB8.5 million and cash flow used in operations of RMB3.1 million; partially offset by net cash generated from financing activities resulting from capital contribution from the owners of our Company of RMB114.6 million pursuant to the Reorganisation. The fluctuations in net cash outflow from operating activities for 6M2019 are merely interim fluctuations due to different periods for payables and receivables. Our Directors expect a positive net cash inflow from operations for FY2019 because the third quarter is our peak season and we faced no difficulties in achieving net cash generated from operating activities for FY2016, FY2017 and FY2018. We have adopted a cash flow management policy, pursuant to which (i) our finance department shall prepare annual cash flow forecast and its explanatory notes and the forecast will be approved by our Board, (ii) our finance department shall prepare monthly cash flow forecast to monitor our cash positions of our operations and our finance department shall formulate financing plans should there be any expected cash deficiency; and (iii) our finance department shall carry out monthly analysis on the cash position of our Group when formulating monthly cash flow forecast to better monitor our cash position and deal with the cash flow management issues. For details of the cashflow effect on the Reorganisation, see note 30(b) to the Accountant's Report in Appendix I to this prospectus.

Below sets out our key financial ratios for the periods indicated:

	FY2016	FY2017	FY2018	6M2019
Gross Profit Margin (%)	21.3	21.6	24.1	24.8
Return on equity (%)	25.9	18.9	45.1	N/A ⁽²⁾
Return on total assets (%)	21.1	15.3	18.8	N/A ⁽²⁾
	As at 31 December 2016	As at 31 December 2017	2018	As at 30 June 2019
Current ratio (times)	3.5	3.5	1.5	2.8
Quick ratio (times)	2.8	2.7	1.4	2.2
Gearing ratio (%)	0.0	0.0	0.0	0.0
Net debt to equity ratio ⁽¹⁾	N/A	N/A	N/A	N/A

SUMMARY

Notes:

- (1) Net debt to equity ratio was not applicable to our Group as at 31 December 2016, 2017, 2018 and 30 June 2019 as our Group recorded net cash as at the end of the respective years/period.
- (2) The ratio for 6M2019 is not applicable as it is not comparable to the ratio of a full financial year.

For the definitions of the other major financial ratios, see “Financial Information – Key Financial Ratios” in this prospectus.

SHAREHOLDER INFORMATION

Controlling Shareholders

Immediately following the completion of the Capitalisation and the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of options that may be granted under the Share Option Scheme and the Over-allotment Option), Mr. Jin, through King Harmony, will hold 54.14% interest in the enlarged issued share capital of our Company and hence will be our controlling shareholders upon Listing. For details, see “Relationship with Our Controlling Shareholders” in this prospectus.

Pre-IPO investment

On 10 December 2018, Bode Investment, one of the shareholders of Ningbo Kwung’s, transferred 2% equity interest in Ningbo Kwung’s to Eversun Capital, an investment holding company wholly-owned by Mr. Cheung, our pre-IPO investor, at a consideration of RMB3.27 million. Mr. Cheung, through his wholly-owned investing holding company Well Happiness, will be interested in 1.5% of the issued share capital of our Company immediately after the completion of the Capitalisation Issue and the Global Offering (assuming that the Over-allotment Option is not exercised and without taking into account any Shares to be issued pursuant to the Share Option Scheme).

DIVIDENDS

We may distribute dividends by way of cash or by other means as our Board considers appropriate. A decision to pay any dividends would require the approval of our Board and will be at its discretion. Dividends paid by our Group were RMB7.0 million, RMB15.1 million, RMB105.0 million and nil for FY2016, FY2017 and FY2018 and 6M2019, respectively.

Our Board has not adopted any dividend policy for the time being and does not have any pre-determined dividend ratio. Our Board will consider the relevant factors when determining the dividends to be declared, if any. See “Financial information – Dividends” of this prospectus for details. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Board in the future. In addition, any final dividends for a financial year will be subject to the Shareholders’ approval.

OFFER STATISTICS

We have prepared the following offer statistics on the basis of hypothetical Offer Prices without taking into account the 1% brokerage fee, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee. We have also assumed no exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme.

	Based on Offer Price per Share of HK\$1.28	Based on Offer Price per Share of HK\$1.60
Market capitalisation of our Shares (<i>Note 1</i>)	HK\$512 million	HK\$640 million
Unaudited pro forma net tangible asset value per Share (<i>Note 1 and Note 2</i>)	HK\$0.75	HK\$0.83

Notes:

- (1) Based on 400,000,000 Shares expected to be in issue immediately following the completion of the Global Offering.
- (2) After adjustment referred to in the section headed “Unaudited Pro Forma Financial Information” in Appendix II to this prospectus.

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FUTURE PLANS AND USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of HK\$106.8 million (assuming an Offer Price of HK\$1.44 per Share, being the mid-point of the indicative Offer Price range), after deducting the underwriting fees and expenses payable by us in the Global Offering and assuming no exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme. We currently intend to apply these net proceeds in the following manner:

- 47.5%, or HK\$50.8 million (equivalent to RMB45.6 million), will be used to increase our production lines for candles and expand our production capability in home fragrance;
- 22.4%, or HK\$23.9 million (equivalent to RMB21.6 million), will be used for establishing two regional sales offices in Europe;
- 12.3%, or HK\$13.1 million (equivalent to RMB11.8 million), will be used to strengthen our research and development capabilities;
- 8.4%, or HK\$9.0 million (equivalent to RMB8.1 million), will be used to upgrade our information system and logistics capacities; and
- 9.4%, or HK\$10.0 million (equivalent to RMB9.0 million), will be used for general working capital purpose.

For details, see “Business – Our Business Strategies” and “Future Plans and Use of Proceeds” in this prospectus.

RECENT DEVELOPMENTS

Subsequent to the Track Record Period and up to the Latest Practicable Date, our business remained stable and there was no material change in our business model. Based on the unaudited financial information of our Group, we recorded a moderate growth in revenue for the ten months ended 31 October 2019 compared to the corresponding period in 2018.

As at 31 October 2019, we recorded an amount of RMB7.0 million due to related parties, which mainly related to the payment of the fees on behalf of our Group to professional parties outside the PRC, and such amount will be settled upon Listing.

Our Directors expect that our net profit for FY2019 will be lower than the net profit of RMB77.1 million for FY2018 due to (i) the one-off gain on disposal of our then subsidiary recognised in FY2018; (ii) the larger amount of Listing expenses incurred for FY2019; and (iii) nil rental income recorded after the one-off disposal of our then subsidiary.

To the best knowledge, information and belief of our Directors, up to the Latest Practicable Date, there is no material change to the market condition which would materially affect the operation or performance of our principal business.

Our Directors have confirmed that, up to the date of this prospectus, there had been no material adverse change in our financial or trading position or prospects since 30 June 2019, being the date to which our latest audited financial statements were prepared, and save as disclosed in this subsection, there was no event since 30 June 2019 which would materially affect the information shown in our consolidated financial statements included in the Accountant’s Report set forth in Appendix I to this prospectus.

LISTING EXPENSES

Listing expenses mainly comprise professional fees, underwriting commission (excluding incentive fee) and fees incurred in connection with the Listing and the Global Offering. During the Track Record Period, we incurred Listing expenses of RMB16.4 million, of which RMB12.7 million was charged to our consolidated statements of comprehensive income during the Track Record Period and RMB3.7 million was included in prepayments and will be subsequently charged to equity upon completion of the Listing. We expect to incur underwriting commissions and other additional listing expenses of RMB17.1 million after 30 June 2019 (assuming an Offer Price of HK\$1.44 per Share), of which RMB8.5 million will be charged to the consolidated statements of comprehensive income after 30 June 2019, and RMB8.6 million will be charged to equity upon completion of the Listing.

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Our Directors would like to emphasise that the Listing expenses stated above are the current estimation for reference purpose and the actual amount to be recognised is subject to adjustments based on audit and the then changes in variables and assumptions. Prospective investors should note that the financial performance of our Group for the year ending 31 December 2019 would be materially and adversely affected by the listing expenses mentioned above.

LEGAL COMPLIANCE

During the Track Record Period, four of our subsidiaries in the PRC made social insurance contributions for employees not in accordance with the contribution base as required under the Social Insurance Law of the PRC 《中華人民共和國社會保險法》, resulting in the potential contravention of the relevant laws and regulations. See “Business – Compliance and Litigation” in this prospectus for further information.

HIGHLIGHTS OF RISK FACTORS

There are a number of risks involved in our operations and in connection with the Global Offering, many of which are beyond our control. These risks can be categorised into (i) risks relating to our business, (ii) risks relating to our industry; (iii) risks relating to conducting business in the PRC; and (iv) risks relating to the Global Offering and our Shares. We believe that the following are some of the major risks that may have a material adverse effect on us:

- Our revenue is relying on the business and financial performance of our customers
- Our revenue is mainly derived from sales which are non-recurring in nature. Therefore, we cannot assure you that our customers will continue to make the same or higher level of purchase with us, or at all
- Our business, to a large extent, depends on the performance of our export sales. Therefore, our sales are highly susceptible to any adverse economic, social or political conditions in the overseas markets
- We derive a significant portion of our revenue from sale of candles, which are subject to rapid market and technological changes. If we fail to effectively respond or adapt to market changes for our products, our business, financial position and prospects could be materially and adversely affected
- Product liability claims may be brought against us and may materially and adversely harm our business, financial position and reputation
- Potential tariffs proposed by the countries where our customers are located against Chinese consumer products will materially and adversely affect our business and prospects

DEFINITIONS

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

“6M2018	six months ended 30 June 2018
“6M2019”	six months ended 30 June 2019
“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s) or, where the context so requires, any of them
“Articles of Association” or “Articles”	the articles of association of our Company approved and adopted on 16 December 2019 with effect from the Listing Date, as amended, supplemented or otherwise modified from time to time, a summary of which is set out in Appendix III to this prospectus
“associate(s)” or “close associates”	has the same meanings ascribed thereto under the Listing Rules
“AUD”	Australian dollars, the lawful currency of Australia
“Australia”	Commonwealth of Australia
“Beijing Aromage Homeware”	Beijing Aromage Homeware Co., Ltd. (北京香氛時代家居用品有限公司), a company established in the PRC with limited liability on 6 November 2019, and a wholly-owned subsidiary of Ningbo Aromage Homeware
“Board of Directors” or “Board”	the board of Directors
“Bode Investment”	Ningbo Haishu Bode Investment Advisory Co., Ltd. (寧波市海曙區博德投資諮詢有限公司), a company established in the PRC with limited liability on 27 August 2007 which is owned as to 99.55% by Mr. Ru and 0.45% by Mr. Tian, and was a shareholder of Ningbo Kwung’s prior to the Reorganisation
“Business Day”	a day (excluding Saturday, Sunday or public or statutory holiday in Hong Kong and any day on which a tropical cyclone warning No. 8 or above, a “black” rainstorm warning signal and/or Extreme Conditions in Hong Kong in force between 9:00 a.m. and 12:00 noon) on which licenced banks in Hong Kong are generally open for business in Hong Kong throughout their normal business hours
“BVI”	the British Virgin Islands

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“Capitalisation Issue”	the issue of 299,930,000 Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company as referred to in the paragraph headed “Statutory and General Information – A. Further Information about Our Company and Our Subsidiaries – 3. Written resolutions of our Shareholders passed on 16 December 2019” in Appendix IV to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant(s)”	person(s) admitted to participate in CCASS as a direct clearing participant(s) or general clearing participant(s)
“CCASS Custodian Participant(s)”	person(s) admitted to participate in CCASS as a custodian participant(s)
“CCASS Investor Participant(s)”	person(s) admitted to participate in CCASS as an investor participant(s) who may be an individual(s) or joint individual(s) or a corporation(s)
“CCASS Operational Procedures”	the operational procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to the operations and functions of CCASS, as from time to time in force
“CCASS Participant(s)”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China”, “PRC” or “Mainland”	the People’s Republic of China and, for the purpose of this prospectus only, excludes Hong Kong, Taiwan and Macau Special Administrative Region
“China Industrial Securities” or “Sole Sponsor”	China Industrial Securities International Capital Limited, the sole sponsor of our Company in the Listing, a corporation licenced by the SFC to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“Circular No. 13”	Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving Policies for Foreign Exchange Administration 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 by the SAFE on 13 February 2015 and effective from 1 June 2015

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“Circular No. 37”	Circular of the State Administration of Foreign Exchange on Issues Related to Foreign Exchange Administration in Terms of Overseas Investments and Financing via Special Purpose Companies and Return Investment by Domestic Residents (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) promulgated by the SAFE on 4 July 2014 and effective from the same day
“Companies Law” or “Cayman Islands Companies Law”	the Companies Law Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented and 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 (WUMP) 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”	Kwung’s Holdings Limited (曠世控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 13 November 2018 and registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 28 March 2019
“connected person(s)” or “core connected person(s)”	has the same meaning ascribed thereto under the Listing Rules
“connected transaction(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules. As at the date of this prospectus, our Controlling Shareholders are Mr. Jin and King Harmony
“Corporate Governance Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Customer A”	Customer A, a company based in the United Kingdom and established in 1978, which was one of our five largest customers in FY2016, FY2017, FY2018 and 6M2019
“Customer B”	Customer B, a company based in Germany and established in 1977, which was one of our five largest customers in FY2016

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“Customer C”	Customer C, a company based in the Netherlands and established in 1988, which was one of our five largest customers in FY2017
“Customer D”	Customer D, a company based in the United Kingdom and established in 1980, which was one of our five largest customers in FY2018 and 6M2019
“Deed of Indemnity”	the deed of indemnity dated 16 December 2019 executed by our Controlling Shareholders (as indemnifiers) in favour of our Company (for itself and as trustee for each of our present subsidiaries), particulars of which are set out in the paragraph headed “Statutory and General Information – F. Other Information – 1. Tax and other indemnities” in Appendix IV to this prospectus
“Director(s)”	the director(s) of our Company
“DMA”	DMA Limited (德瑪有限公司), a company incorporated in the BVI with limited liability on 2 November 2018, which is owned as to 80.70% by Mr. Ru, 8.21% by Mr. Tian, 3.96% by Ms. Jin Lijuan, 3.96% by Ms. Jin Ying, 2.38% by Ms. Feng and 0.79% by Mr. Jiang
“EIT”	enterprise income tax
“EIT Law”	the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法)
“electronic application instruction(s)”	instruction(s) given by a CCASS Participant electronically via CCASS to HKSCC, being one of the methods to apply for the Hong Kong Public Offer Shares
“EU”	the European Union
“Euro”	the lawful currency of the member states of EU
“Eversun Capital”	Eversun Capital Limited (晨恆資本有限公司), a company incorporated in Hong Kong with limited liability on 30 April 2018 and is wholly owned by Mr. Cheung, our pre-IPO investor
“Extreme Conditions”	extreme conditions caused by a super typhoon as announced by the Government of Hong Kong
“F&S Report”	an independent industry report commissioned by us and prepared by Frost & Sullivan

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“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an Independent Third Party and an Independent market research expert
“FY2016”	financial year of our Company ended 31 December 2016
“FY2017”	financial year of our Company ended 31 December 2017
“FY2018”	financial year of our Company ended 31 December 2018
“FY2019”	financial year of our Company ending 31 December 2019
“Global Offering”	together, the Hong Kong Public Offer and the International Placing
“ GREEN Application Form(s)”	the application form(s) to be completed by White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group”, “our Group”, “we”, “our” or “us”	our Company and our subsidiaries or, where the context otherwise requires, in respect of the period before our Company becoming the holding company of our present subsidiaries, such subsidiaries as if they were the Company’s subsidiaries at that time
“Hangzhou Aromage Homeware”	Hangzhou Aromage Homeware Co., Ltd. (杭州香薰時代家居用品有限公司), a company established in the PRC with limited liability on 21 May 2019, and a wholly-owned subsidiary of Ningbo Aromage Homeware
“Henan Kwung’s”	Henan Kwung’s Wisdom Art & Design Co., Ltd. (河南曠世智源工藝設計有限公司), a company established in the PRC with limited liability on 20 November 2017 and deregistered on 22 August 2018 pursuant to the Reorganisation
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards which include standards and interpretations promulgated by the HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“HNTE”	High and New Technology Enterprise (高新技術企業)

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“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Public Offer”	the issue and offer by our Company of the Hong Kong Public Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price (subject to the terms and conditions described in this prospectus and the Application Forms)
“Hong Kong Public Offer Shares”	the 10,000,000 Shares (subject to reallocation) initially being offered by our Company for subscription at the Offer Price under the Hong Kong Public Offer, as described in the section headed “Structure of the Global Offering” in this prospectus
“Hong Kong Public Offer Underwriter(s)”	the underwriter(s) of the Hong Kong Public Offer named in the paragraph headed “Underwriting – Hong Kong Public Offer Underwriters”
“Hong Kong Public Offer Underwriting Agreement”	the conditional underwriting agreement dated on or about 27 December 2019 relating to the Hong Kong Public Offer entered into, amongst others, by our Company, our Controlling Shareholders, our executive Directors and the Hong Kong Public Offer Underwriter(s), as further described under the section headed “Underwriting” in this prospectus
“Independent Third Party(ies)”	individual(s) or company(ies) which is/are independent of and not connected with any of the Directors, chief executive, the Controlling Shareholders or the substantial shareholders of our Company or our subsidiaries or any of their respective associates within the meaning of the Listing Rules
“International Placing”	the conditional placing of the International Placing Shares at the Offer Price by the International Placing Underwriters for and on behalf of our Company, subject to reallocation, together where relevant, with any additional shares that may be issued pursuant to any exercise of the Over-allotment Option, as further described under the section headed “Structure of the Global Offering” in this prospectus
“International Placing Shares”	90,000,000 Shares initially offered by our Company for subscription at the Offer Price under the International Placing, where relevant, with any additional Shares that may be issued pursuant to any exercise of the Over-allotment Option, subject to reallocation, as described under the section headed “Structure of the Global Offering” in this prospectus

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“International Placing Underwriter(s)”	the underwriter(s) of the International Placing named in the paragraph headed “Underwriting – International Placing Underwriters” in this prospectus
“International Placing Underwriting Agreement”	the conditional underwriting agreement relating to the International Placing expected to be entered into on or about the Price Determination Date, amongst others, our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the International Placing Underwriter(s), particulars of which are summarised in the section headed “Underwriting” in this prospectus
“Issue Mandate”	the general unconditional mandate given to our Board by the Shareholders relating to allot, issue and deal with new Shares, a summary of which is contained in the paragraph headed “Statutory and General Information – A. Further Information about Our Company and Our Subsidiaries – 3. Written resolutions of our Shareholders passed on 16 December 2019” in Appendix IV to this prospectus
“Joint Bookrunners”	China Industrial Securities and BOCOM International Securities Limited
“Joint Lead Managers”	China Industrial Securities, BOCOM International Securities Limited, Blackwell Global Securities Limited, Yicko Securities Limited, Lee Go Securities Limited and Sinomax Securities Limited
“King Harmony”	King Harmony Limited (環和有限公司), a company incorporated in the BVI with limited liability on 21 August 2018, which is wholly-owned by Mr. Jin, a Controlling Shareholder
“Kwung’s HK”	Kwung’s Wisdom (Hong Kong) Co., Limited (曠世智源(香港)有限公司), a company incorporated in Hong Kong with limited liability on 27 November 2018 and an indirect wholly-owned subsidiary of our Company immediately after completion of the Reorganisation
“Kwung’s Investments”	Kwung’s Investments Limited (曠世投資有限公司), a company incorporated in the BVI with limited liability on 15 November 2018 and a direct wholly-owned subsidiary of our Company immediately after completion of the Reorganisation
“Latest Practicable Date”	21 December 2019, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“Listing”	the listing of our Shares on the Main Board

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“Listing Committee”	the listing committee of the board of directors of the Stock Exchange
“Listing Date”	the date, expected to be on or about 16 January 2020, on which our Shares are listed on the Stock Exchange and from which dealings in the Shares are permitted to commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“LPR”	Loan Prime Rate
“Main Board”	the main board of the Stock Exchange
“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of our Company conditionally adopted on 16 December 2019 and which will become effective upon Listing, as supplemented, amended or otherwise modified from time to time, a summary of which is contained in Appendix III to this prospectus
“Mr. Cheung”	Mr. Cheung Yue Kwong (張裕光先生), the sole shareholder of Eversun Capital and Well Happiness, a pre-IPO investor and an Independent Third Party
“Mr. Hu”	Mr. Hu Wenlong (胡文龍先生), an employee of our Group, a shareholder of Unione and the cousin of Mr. Jin
“Mr. Jin”	Mr. Jin Jianxin (金建新先生), our founder, an executive Director, chairman of the Board, the sole shareholder of King Harmony, a Controlling Shareholder, the uncle of Mr. Tian and the brother-in-law of Mr. Ru
“Mr. Jiang”	Mr. Jiang Jilin (蔣紀林先生), a shareholder of DMA and the uncle of Mr. Jin
“Mr. Lai”	Mr. Lai Chun Yu (黎振宇先生), an independent non-executive Director
“Mr. Lau”	Mr. Lau Chung Wai (劉仲緯先生), a member of our senior management team and our company secretary
“Mr. Ru”	Mr. Ru Liming (茹黎明先生), an executive Director, a shareholder of DMA and the brother-in-law of Mr. Jin
“Mr. Shao”	Mr. Shao Patrick (邵平先生), a non-executive Director and the spouse of Ms. Zhou

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“Mr. Tian”	Mr. Tian Dong (田東先生), an executive Director, a shareholder of DMA and the nephew of Mr. Jin
“Mr. Yang”	Mr. Yang Herong (楊和榮先生), an independent non-executive Director
“Mr. Zhou”	Mr. Zhou Kai (周凱先生), an independent non-executive Director
“Ms. Feng”	Ms. Feng Feng (馮鳳女士), a shareholder of DMA and the niece of Mr. Jin
“Ms. Jin Lijuan”	Ms. Jin Lijuan (金麗娟女士), a shareholder of DMA and the sister of Mr. Jin
“Ms. Jin Ying”	Ms. Jin Ying (金英女士), a shareholder of DMA and the sister of Mr. Jin
“Ms. Zhou”	Ms. Zhou Siyue (周司玥女士), a shareholder of Unione and the spouse of Mr. Shao
“Nantong Guangda”	Nantong Guangda Wax Art Co., Ltd. (南通光大蠟藝有限公司), a company established in the PRC with limited liability on 26 December 2016 and deregistered on 29 December 2017
“NEEQ”	the National Equities Exchange and Quotations Co., Ltd. (全國中小企業股份轉讓系統有限責任公司)
“Neobee”	Neobee Australia Pty Limited, an Australian proprietary company limited by shares incorporated in New South Wales, Australia on 29 June 2016 and a non-wholly owned subsidiary of Ningbo Kwung’s which is owned as to 80% by Ningbo Kwung’s and as to 20% by a director of Neobee
“Ningbo Aromage Homeware”	Ningbo Aromage Homeware Co., Ltd. (寧波香薰時代家居用品有限公司), a company established in the PRC with limited liability on 11 August 2014, and a wholly-owned subsidiary of Ningbo Kwung’s
“Ningbo Fenyuan”	Ningbo Fenyuan Aromatherapy Products Co. Ltd. (寧波芬緣香薰製品有限公司), a company established in the PRC with limited liability on 7 January 2019, and a wholly-owned subsidiary of Kwung’s HK
“Ningbo Investment”	Ningbo Kwung’s Investment Holdings Co., Ltd. (寧波曠世投資控股有限公司) (formerly known as Ningbo Kwung’s Arts and Crafts Co., Ltd. (寧波曠世工藝品有限公司) and Ningbo Kwung’s Wax and Gift Factory (寧波曠世蠟業禮品廠)), a company established in the PRC with limited liability on 24 June 1996 and is wholly-owned by Mr. Jin

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“Ningbo Koman”	Ningbo Koman Import and Export Co., Ltd. (寧波苛曼進出口有限公司) (formerly known as Ningbo Kwung’s Import and Export Co., Ltd (寧波曠世進出口有限公司)), a company established in the PRC with limited liability on 16 August 2012, and a wholly-owned subsidiary of Ningbo Kwung’s
“Ningbo Kwung’s”	Ningbo Kwung’s Wisdom Art & Design Co., Ltd. (寧波曠世智源工藝設計有限公司) (formerly known as Ningbo Kwung’s Far East Candles & Giftware Co., Ltd. (寧波曠世遠東蠟業禮品有限公司) and Ningbo Kwung’s Wisdom Art & Design Shareholding Ltd. (寧波曠世智源工藝設計股份有限公司)), a company established in the PRC with limited liability on 4 January 1999, and a wholly-owned subsidiary of Kwung’s HK
“Ningbo Kwung’s Huibang”	Ningbo Kwung’s Huibang Home Furniture Industrial Development Co., Ltd. (寧波曠世匯邦家居實業發展有限公司), an investment holding company established in the PRC with limited liability on 19 June 2015 and is wholly-owned by Ningbo Investment
“Ningbo Plant”	our industrial plant situated in Xuejia Village, Gulin Town, Haishu District, Ningbo City, the PRC (中國寧波市海曙區古林鎮薛家村)
“Ningbo Roadon”	Ningbo Roadon Leisure Products Co., Ltd. (寧波路登休閒用品有限公司), a company established in the PRC with limited liability on 19 August 2016 and is owned as to 51% and 49% by Ningbo Kwung’s Huibang and two Independent Third Parties, respectively
“Ningbo Sotex”	Ningbo Sotex Art & Design Co., Ltd. (寧波宋坊工藝設計有限公司), a company established in the PRC with limited liability on 2 June 2016 and is wholly-owned by Ningbo Kwung’s Huibang
“Ningbo Wuliang”	Ningbo Wuliang Yuansu Cultural Development Co., Ltd. (寧波無量元素文化發展有限公司), a company established in the PRC with limited liability on 18 November 2016 and deregistered on 29 August 2018 pursuant to the Reorganisation

DEFINITIONS

“Offer Price”	the final price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1.0%, 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 and issued, pursuant to the Global Offering, which will not be more than HK\$1.60 and is currently expected to be not less than HK\$1.28, to be agreed upon by our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before the Price Determination Date
“Offer Shares”	together, the Hong Kong Public Offer Shares and the International Placing Shares, together with, where relevant, any additional Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option to be granted by our Company to the International Placing Underwriters exercisable by the Sole Global Coordinator (for itself and on behalf of the International Placing Underwriters), at its sole and absolute discretion, to require our Company to allot and issue up to an aggregate of 15,000,000 additional new Shares, representing 15.0% of the Offer Shares initially available under the Global Offering, at the Offer Price, to cover over-allocations in the International Placing and/or to satisfy the obligation of the Stabilising Manager to return securities borrowed under the Stock Borrowing Agreement, subject to the terms of the International Placing Underwriting Agreement
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PRC Government” or “State”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof, or where the context requires, any of them
“PRC Legal Advisers”	DeHeng Law Offices, a qualified PRC law firm and the PRC legal advisers to our Company for the application for Listing
“Price Determination Agreement”	the agreement expected to be entered into by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on or before the Price Determination Date to record and fix the final Offer Price
“Price Determination Date”	the date, expected to be on or around Thursday, 9 January 2020 but, in any event, no later than Tuesday, 14 January 2020, on which the final Offer Price will be determined for the purpose of the Global Offering

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“Principal Share Registrar”	Ogier Global (Cayman) Limited, the Cayman Islands share registrar of our Company
“Reorganisation”	the restructuring of our Group in preparation for the Listing, details of which are set out in the paragraph headed “History, Development and Reorganisation – Reorganisation” in this prospectus
“Repurchase Mandate”	the general unconditional mandate given to our Board by our Shareholder relating to the repurchase of Shares, a summary of which is contained in the paragraph headed “Statutory and General Information – A. Further Information about Our Company and Our Subsidiaries – 3. Written resolutions of our Shareholders passed on 16 December 2019” in Appendix IV to this prospectus
“RMB”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國外匯管理局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Shaoxing Jingming”	Shaoxing Shi Jingming Cultural Development Co., Ltd. (紹興市景明文化發展有限公司) (formerly known as Shaoxing Koman Home Interior Co., Ltd. (紹興市苛曼居家飾品有限公司)), a company established in the PRC with limited liability on 17 April 2004 and a wholly-owned subsidiary of Ningbo Kwung’s immediately prior to the Reorganisation
“Shaoxing Keyuan”	Shaoxing Shi Keyuan Arts and Crafts Co., Ltd. (紹興市苛源工藝品有限公司), a company established in the PRC with limited liability on 17 September 2018, and a wholly-owned subsidiary of Ningbo Kwung’s
“Shaoxing Plant”	situated in Renmin East Road No. 1437, Eco-industrial Park, Shaoxing City, PRC (中國紹興市生態產業園人民東路1437號)
“Share(s)”	ordinary shares of HK\$0.001 each in the share capital of our Company

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“Share Option Scheme”	the share option scheme conditionally adopted by our Company pursuant to a resolution passed by our Shareholders on 16 December 2019, the principal terms of which are summarised in the paragraph headed “Statutory and General Information – E. Share Option Scheme” in Appendix IV to this prospectus
“Shareholder(s)”	holder(s) of the Share(s)
“Sole Global Coordinator”	China Industrial Securities
“sq.m.”	square metre
“Stabilising Manager”	China Industrial Securities
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into on or about the Price Determination Date between the Stabilising Manager and our Controlling Shareholders
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Taizhou Aromage Homeware”	Taizhou Aromage Homeware Co., Ltd. (台洲香薰時代家居用品有限公司), a company established in the PRC with limited liability on 16 December 2019, and a wholly-owned subsidiary of Ningbo Aromage Homeware
“Takeovers Code”	the Code on Takeovers and Mergers and Share Buy-backs issued by the SFC as amended, supplemented or otherwise modified from time to time
“Track Record Period”	FY2016, FY2017, FY2018 and 6M2019
“Trading Day”	a day on which trading of the Shares takes place on the Stock Exchange
“UK” or “United Kingdom”	The United Kingdom of Great Britain and Northern Ireland
“Underwriters”	together, the Hong Kong Public Offer Underwriter(s) and the International Placing Underwriter(s)
“Underwriting Agreements”	together, the Hong Kong Public Offer Underwriting Agreement and the International Placing Underwriting Agreement

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“Unione”	Unione Limited (天人合一有限公司), a company incorporated in the BVI with limited liability on 1 November 2018, which is owned as to 9.17% by Ms. Zhou, 3.67% by Mr. Hu, 64.40% by 20 employees of our Group, 13.76% by two Independent Third Parties and 9.00% by four former employees of our Group
“United States” or “U.S.”	the United States of America
“US\$” or “US dollar”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“Well Happiness”	Well Happiness Limited (湧興有限公司), a company incorporated in the BVI with limited liability on 5 December 2018 and is wholly-owned by Mr. Cheung, our pre-IPO investor
“WFOE”	wholly foreign owned enterprises within the meaning prescribed under PRC laws and regulations
“ WHITE Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Public Offer Shares to be issued in the applicant’s or applicants’ own name(s)
“ White Form eIPO ”	the application for Hong Kong Public Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO at www.eipo.com.hk
“ White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Wuxi Aromage Homeware”	Wuxi Aromage Homeware Co., Ltd. (無錫香薰時代家居用品有限公司), a company established in the PRC with limited liability on 22 November 2019, and a wholly-owned subsidiary of Ningbo Aromage Homeware
“ YELLOW Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Public Offer Shares to be deposited directly into CCASS
“%”	per cent

Unless otherwise stated, the conversion of RMB into HK\$ in this prospectus is based on the approximate exchange rate of RMB1.00 to HK\$1.1111, the conversion of RMB into US dollars in this prospectus is based on the approximate exchange rate of RMB1.00 to US\$0.1418.

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Such conversions shall not be construed as representations that amounts in HK\$ will be or may have been converted into RMB at such rates or any other exchange rates, or vice versa.

Any discrepancies in any table between the total shown and the sum of the amount (including the percentage) listed are due to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

If there is any inconsistency between the English names and their Chinese translations, the English names should prevail.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanation of certain terms used in this prospectus in connection with us and our business. These terms and their given meanings may not correspond to those standard meanings and usage adopted in the industry.

“B2B”	business-to-business
“B2C”	business-to-customer
“bp”	basis point
“CAGR”	compound annual growth rate
“candle(s)”	an ignitable wick embedded in wax or another flammable solid substance such as tallow or gel which is lit to produce light, and in some cases a fragrance or decorative effect, as it burns
“cost, insurance and freight” or “CIF”	a contractual term that requires the seller to pay for the transportation of the goods, custom clearance, international sea and air freight charges, and insurance fees
“ERP”	Enterprise resource planning
“free on board” or “FOB”	a contractual term that requires the seller to pay for the transportation of the goods to the port of shipment, with the customer being responsible for international shipment and its related expenses
“Home Decoration Products”	the main products sold by our Group comprising candles, home fragrance and home accessories
“ISO”	International Organisation for Standardisation
“ISO 14001”	environmental management systems models published by ISO
“ISO 9001”	quality management systems models published by ISO
“LED”	an acronym for light-emitting diodes
“ODM”	original design manufacturing, under which the manufacturer owns the design of the products and the products are marketed and sold under the customer’s own brand name
“OEM”	original equipment manufacturing, under which products are manufactured in whole or in part in accordance with the customer’s specifications and are marketed and sold under the customer’s own brand name

GLOSSARY OF TECHNICAL TERMS

“paraffin”	a flammable, waxy solid of a mixture of saturated hydrocarbons, obtained by distillation from petroleum, coal or shale
“R&D”	an acronym for research and development
“wax”	the major raw material for the production of candles including animal wax, plant wax and paraffin

FORWARD-LOOKING STATEMENTS

FORWARD-LOOKING STATEMENTS CONTAINED IN THIS PROSPECTUS MAY NOT MATERIALISE

We have included in this prospectus forward-looking statements that are not historical facts, but relate to our intentions, beliefs, expectations or predictions for future event. These forward-looking statements are contained principally in the sections headed “Summary”, “Risk Factors”, “Industry Overview”, “Business”, “Financial Information” and “Future Plans and Use of Proceeds”, which are, by their nature, subject to risks and uncertainties. These forward-looking statements include, without limitation, statements relating to our business objectives, strategies and plan of operation, our capital expenditure plans, financial sources, the amount and nature of, and potential for, future development of our business, our operations and business prospects, our dividend payment, the regulatory environment of our industry in general, future development in our industry, and general economic and political trends in the PRC and the countries in which we carry on our business.

In some cases, we use the words “aim”, “anticipate”, “believe”, “can”, “consider”, “continue”, “could”, “estimate”, “expect”, “intend”, “may”, “might”, “ought”, “plan”, “potential”, “predict”, “project”, “propose”, “seek”, “should”, “will”, “would” or similar expressions or the negative of these words or other similar expressions or statements to identify forward-looking statements, are forward-looking statements.

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

These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual performance or achievements to differ materially from those in the forward-looking statements include, without limitation, the followings:

- our business prospects, business strategies and plan of operation;
- our dividend policy;
- our capital expenditure plans;
- the amount and nature of, potential for and future development of our business;
- our operations and business prospects, including our ability to retain senior management team members and recruit qualified and experience employees;
- our overall financial condition and performance;
- our planned projects;
- the regulatory environment of our industry in general and restrictions that may affect the industry in which we operate;
- the general industry outlook, competition for our business activities and future development in our industry;

FORWARD-LOOKING STATEMENTS

- macroeconomic measures taken by the PRC government to manage economic growth and general economic trends in the PRC;
- general political and economic conditions in the PRC, Hong Kong and overseas;
- other statements in this prospectus that are not historical facts;
- realisation of the benefits or our future plans and strategies; and
- other factors beyond our Group's control.

We believe that the sources of information and assumptions contained in such forward-looking statements are appropriate sources for such statements and we have taken reasonable care in extracting and reproducing such information and assumptions. We have no reason to believe that information and assumptions contained in such forward-looking statements are fake or misleading or that any fact has been omitted that would render such forward-looking statements fake or misleading in any material respect. These forward-looking statements are subject to risks, uncertainties and assumptions, some of which are beyond our control. In addition, these forward-looking statements reflect the current views of our Company with respect to future events and are not a guarantee of future performance.

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

These forward-looking statements are based on current plans and estimates, and apply only as of the date they are made. Our Company undertakes no obligations to update or revise any forward-looking statements in light of new information, future events or otherwise. Forward-looking statements involve inherent risks and uncertainties and are subject to assumptions, some of which are beyond our control. Our Company cautions you that a number of important factors could cause actual outcomes to differ, or to differ materially, from those expressed in any forward-looking statements.

Due to these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to these cautionary statements.

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

RISK FACTORS

An investment in our Shares involves significant risks. You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our Shares. The following is a description of what we consider to be our material risks. Any of the following risks could have a material adverse effect on our business, financial condition and results of operations. In any such case, the market price of our Shares could decline, and you may lose all or part of your investment.

These factors are contingencies that may or may not occur, and we are not in a position to express a view on the likelihood of any such contingency occurring. The information given is as of the Latest Practicable Date unless otherwise stated, will not be updated after the date hereof, and is subject to the cautionary statements in the section headed “Forward-Looking Statements” in this prospectus.

RISKS RELATING TO OUR BUSINESS

Our revenue is relying on the business and financial performance of our customers

During the Track Record Period, we manufactured and sold products mainly on ODM basis and our products may carry the brand names or logos of our customers. Customers and their downstream customers under this business model sell the products to the market through their own distribution networks or channels. For FY2016, FY2017, FY2018 and 6M2019, our ODM sale accounted for 96.6%, 97.0%, 96.7% and 97.1%, respectively, of our total revenue. Therefore, our business is, to a large extent, dependent on the brand acceptance and awareness, distribution network and marketing strategies of our customers or their downstream customers. In particular, revenue derived from our five largest customers during the Track Record Period, in aggregate, accounted for 48.1%, 49.7%, 54.3% and 59.0%, respectively. Any negative publicity about our customers or their brands could adversely affect the level of acceptance of their products among the consumers. Our customers may not be able to market and sell their products successfully or maintain their competitiveness. Under those circumstances, they may not order new products or decrease the quantity or purchase price of their orders from us, which could materially and adversely affect our business.

In addition, the level of orders for our products placed by our customers could vary according to their respective financial or business performance and the location in which they carry on their business. Factors which may impact their financial or business performance or the industry in which they carry on the business include the financial conditions of our customers, market demand for their products or services, market supply of similar products, technological advancement which may lead to the introduction of new product generation, level of competition in their target markets, industry development, foreign exchange fluctuation or restriction, government policy and overall economic climate, which are beyond our control. On the other hand, customers may place urgent orders of a large quantity, which can strain our resources. We may not be able to increase our manufacturing capacity or outsource the production at any given time to cope with our customers' demands as a result of which, we may lost business opportunity or even a customer.

Our revenue is mainly derived from sales which are non-recurring in nature

During the Track Record Period, we manufactured and sold products to customers mainly as per order basis, under which our contractual relationships with customers are governed by the purchase orders placed by them and the sales confirmation issued by us. It was not our practice to enter into long-term or framework agreement with them to lock-in any minimum volume or value of purchase.

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Therefore, we cannot assure you that our customers will continue to make the same or higher level of purchase with us, or at all.

Our business, to a large extent, depends on the performance of our export sales. Therefore, our sales are highly susceptible to any adverse economic, social or political conditions in the overseas markets

During the Track Record Period, we derived 98.8%, 99.0%, 98.8% and 98.3% of our total revenue from our sale to customers situated in overseas countries such as France, United Kingdom, Netherlands, Germany, Canada and Australia. Our Directors expect to continue to derive a majority of our revenue from those overseas markets.

Our future prospects and success will depend on the continued economic and social prosperity and political stability of these countries. In particular, any material adverse change in the economic, social or political conditions of our major overseas markets, such as (i) a downturn in the local economy; (ii) changes in government policies that are applicable to us or our products, sanctions, laws, rules or regulations; (iii) the emergence of new entrants with stronger industry recognition, financial resources and government's support; (iv) the outbreak of natural disasters, epidemics or other acts of god which will disrupt local economy and infrastructure; and (v) the occurrence of terrorist attacks, political or social unrests, strike, riot, civil disturbance or disobedience in these overseas countries, could materially and adversely affect the demand for our products.

As our products are mainly exported from the PRC to overseas countries, our business and profitability are highly sensitive to any adverse change in foreign import restrictions or tariff policies which are applicable to products imported from the PRC. We cannot assure you that we will not be subject to the imposition of any tariff or other import restrictions applicable to our products in the future.

Potential tariffs proposed by the countries where our customers are located against Chinese consumer products will materially and adversely affect our business and prospects

Until 2015, the European Commission, by Regulation (EC) No. 393/2009 of 11 May 2009, had imposed a provisional anti-dumping duty on imports of certain candles and tapers originating from the PRC. The aforesaid duty was lifted in 2015. However, we cannot accurately predict in the future whether any new anti-dumping duties, tariffs or quota fees or other import restrictions will be imposed on our products in the overseas countries where our customers are located or to which our products are sold. Any such trade restrictions could significantly increase our customers' purchase costs of our products, and our business, financial position and prospects could be materially and adversely affected.

We derive a significant portion of our revenue from sale of candles which are subject to rapid market and technological changes. If we fail to effectively respond or adapt to market changes for our products, our business, financial position and prospects could be materially and adversely affected

During the Track Record Period, we derived a significant proportion of our total revenue from our sale of candles. Our candles are widely applied by the end-users or consumers for illumination and decoration in commercial or residential properties. Our sale of candles accounted for 72.8%, 73.1%, 70.0% and 64.7% of our total revenue for FY2016, FY2017, FY2018 and 6M2019 respectively. We cannot assure that our future sales of candles will generate revenue and profit at a

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level comparable to that of our historical sales. If the market demand for candles decreases in the future, or if we fail to develop new candle products which appeal to our customers and their downstream customers, our business and financial position could be adversely affected.

To evolve our products, we endeavoured to diversify our product portfolio by offering home fragrance and home accessories. For FY2016, FY2017, FY2018 and 6M2019, revenue from sale of home fragrance accounted for 11.1%, 10.4%, 14.6% and 16.4%, respectively, and revenue from sale of home accessories accounted for 16.1%, 16.5%, 15.4% and 18.9%, respectively, of our total revenue for the same periods. Our principal products are consumer goods and are therefore subject to rapid market and technological changes which may cause existing product obsolescence. We may need to incur additional cost on product development and our competitors may also continuously develop new products and new models with heightened performance and functionality in order to stay competitive. Market changes driven by change in our customers' and their downstream customers' preference on product designs, quality standards, otherwise may lead to the emergence of new or similar products in substitution for or replacing our products. Technological changes will lead to the introduction of new products with different designs. We cannot assure you that our products will remain competitive and that there will not be any market changes which are adverse to our products, and our failure to anticipate such changes and successfully respond and adapt to such changes in a timely manner could materially and adversely affect our business, financial position and prospects.

Our customers may have stringent requirements on supplier selection, technical competence, product quality and timing of delivery. We cannot assure you that we will be successful in continuing to meet their selection criteria, fulfil the required technical standards, maintain our product quality to their satisfaction or deliver our products to them in accordance with the agreed delivery schedule. If any of these factors materialises, we may lose our customers and business opportunities, and our business, financial position and prospects could be materially and adversely affected.

Product liability claims may be brought against us and may materially and adversely harm our business, financial position and reputation

We are exposed to risks associated with product liability claims if our products are defective or the use of them results in personal damage or injury. For further information on the relevant regulatory requirements, see "Regulatory Overview" in this prospectus. Any future changes of the rules and regulations in the jurisdictions to which our products are sold may impose costly compliance requirements on us or otherwise subject us to future liabilities. We cannot assure that product liability claims against us will not arise in the future, whether due to product quality, defects or other causes. Any such claim, regardless of whether they are ultimately successful or have merit, could cause us to incur legal costs, divert significant management attention and other resources away from our business operations to address them and harm our reputation. Negative perception towards us and the quality of our products may result in a loss of customer or consumer's confidence in our products and thereby a decrease in our sales. If any such claim were ultimately successful, we could be required to pay substantial damages, which could materially and adversely affect our financial position. Further, if a product liability claim or series of claims is/are brought against us for uninsured liabilities or in excess of our insurance coverage and we are ultimately held liable for such claim or series of claims, our financial position will be further adversely affected.

Fluctuations in exchange rates could result in foreign currency exchange losses

The value of RMB against US dollars and other currencies depends to a large extent on domestic and international economic and political developments as well as supply and demand in the

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local market. With an increased floating range of RMB value against foreign currencies, RMB may further appreciate or depreciate significantly in value against the US dollars or other foreign currencies in the long term. Our purchases and our assets are mainly denominated in RMB. However, we predominately derived our revenue from our sale to the overseas markets, which in aggregate accounted for 98.8%, 99.0%, 98.8% and 98.3% of our total revenue during the Track Record Period, and most of our sales are settled by our customers in US dollars. As a result, any fluctuation of RMB against US dollars or any other major foreign currencies may materially affect our profit margin, thereby materially and adversely affecting our financial position. For FY2016, FY2017, FY2018 and 6M2019, we recorded a net exchange gains/(losses) of RMB6.7 million, RMB(7.7) million, RMB4.8 million and RMB1.6 million, respectively. For the sensitivity analysis of exchange rate risk, see “Financial Information – Quantitative and Qualitative Disclosures about Market Risks – Foreign exchange risk” in this prospectus.

Our business is subject to seasonality, and comparison of our operating results between interim and yearly results may not be meaningful

Our business is subject to seasonality. Bases on our sales trends during the Track Record Period, we generally experienced higher sales in the second half of the year, mainly due to our customers placing more orders from us ahead of the festive seasons such as Christmas or Halloween in which the demand for our products in overseas markets is usually higher.

As a result of these fluctuations, comparisons of our sales and results of operations between different periods within a single financial year, or between corresponding periods in different financial years, are not accurately reflective and cannot be relied on as indicators of our performance. Any seasonal fluctuations reported in the future may not match the expectations of investors. This could cause fluctuation in the trading price of our Shares.

Fluctuations in prices of raw materials or unstable supply of raw materials could negatively impact our business and profitability

Our major raw materials comprise wax, containers and aroma essence. For FY2016, FY2017, FY2018 and 6M2019, cost of raw materials and consumables used accounted for 47.5%, 44.4%, 44.8% and 34.9% respectively, of our total purchase. Like other manufacturers, we are exposed to the risk of price fluctuation in raw materials. If we are unable to effectively manage the price fluctuations in our major raw materials or transfer the increased costs to our customers or adjust our procurement strategy, any significant increase in their prices would materially and adversely impact our profit margin.

Supplies of raw materials are subject to a variety of factors that are beyond our control. Such factors include demand and supply dynamics, suppliers’ business performance, government control, weather conditions and overall economic conditions, all of which may have an impact on the availability of the raw materials and their respective market prices. Further, as more particularly disclosed in “Business – Raw Materials and Suppliers” in this prospectus, we do not enter into long-term supply contracts with our suppliers, and therefore, we cannot assure you that our suppliers will not significantly increase the prices of raw materials in the future.

In addition, although we have maintained a stable business relationship with multiple suppliers for the supply of our raw materials, we cannot assure you that that they will continue their business relationship with us and deliver to us in a timely manner a sufficient quantity of raw materials on commercially acceptable terms, or at all. For FY2016, FY2017, FY2018 and 6M2019, purchases from

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our five largest suppliers in aggregate accounted for 22.0%, 23.3%, 21.6% and 25.3%, respectively, of our cost of purchases for the same periods. In the event that we are unable to maintain business relationship with our major suppliers or to obtain a sufficient quantity of raw materials at a reasonable price or in a timely manner from them, or at all, or if our written agreements with these suppliers are terminated, interrupted, or adversely modified, we cannot assure you that we are or will be able to secure alternative sources of raw materials with comparable prices or amounts on terms favourable to us. Any raw materials shortage or loss of our major suppliers could result in delay of our production and/or increase in our cost of sales, thereby materially and adversely affecting our business and financial position.

Our business and financial performance is subject to our ability to effectively manage the inventories

We generally procure raw materials according to our production plans and volume of orders. For commonly used raw materials, we make procurement in advance and keep safe inventory. Our business and financial performance therefore is subject to our ability to maintain a reasonable level of inventory of the raw materials we required such as wax, containers and aroma essence. As at 31 December 2016, 2017 and 2018 and 30 June 2019, our total amount of inventories were RMB27.9 million, RMB36.5 million, RMB39.3 million and RMB47.7 million, respectively, and our average inventory turnover days were 31 days, 34 days, 41 days and 48 days, respectively, for the same periods. Provision for inventories as at 31 December 2016, 2017 and 2018 and 30 June 2019 was nil, RMB0.2 million, RMB0.2 million and RMB0.3 million, respectively. If inventories are overstocked, we may be required to increase our working capital to support our purchases which may have a negative impact on our liquidity. If inventories are understocked, we may not be able to satisfy our production requirement and hence the demand of our customers in a timely manner, which may cause us to forgo revenue and adversely affect our business and reputation.

We are subject to risks associated with the transportation of our products to our customers

During the Track Record Period, we exported substantially all our products to customers situated overseas. We may engage third party freight forwarding companies and logistics services providers to deliver the products to the shipment ports for shipping to our customers overseas. We cannot assure you that the freight forwarding companies and logistics services providers will always deliver the products safely to the designated shipment ports in accordance with our requested timetable. Unforeseen events that are beyond our control, such as labour strikes, poor weather conditions, natural disasters, and poor handling and damage to our products, may arise. This may significantly delay or interrupt the delivery of our products or otherwise cause us to sustain cost of replacement of damaged products. In addition, we may have to pay increased freight forwarding or transportation charges which we may not be able to pass on to our customers, thereby adversely affecting our profitability.

We are subject to the credit risk of our customers and delay in settlement of payments by our customers may negatively affect our cash and financial position

As at 31 December 2016, 2017 and 2018 and 30 June 2019, our total trade receivables amounted to RMB63.8 million, RMB49.1 million, RMB64.3 million and RMB60.2 million, respectively and allowance for impairment of trade receivables amounted to RMB0.9 million, RMB0.2 million, RMB0.5 million and RMB1.1 million, respectively.

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We generally offered our major customers a credit period up to around 60 days during the Track Record Period and our average trade receivables turnover days were 48 days, 46 days, 46 days and 52 days, respectively, for FY2016, FY2017, FY2018 and 6M2019. We cannot assure that we will be able to collect all receivables from our customers. Any default or delay in payment by our customers or our failure to collect trade receivables from them may cause provisions for trade receivables to be made in the future, and may adversely affect our cash flow position.

Our future success, to a certain extent, is attributable to the efforts of our key management personnel and our ability to retain them

Our future success is highly dependent on the ongoing efforts of our management and key personnel, in particular Mr. Jin and Mr. Ru, who are our executive Directors. We rely on our management and key personnel for their extensive knowledge of and experience in manufacturing, selling and marketing of Home Decoration Products. We may not be able to retain the services of our management or key personnel, or attract new 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 the implementation of our future plans and prospects. In the 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, research and development capability, customers, business partners and other key staff members.

We cannot guarantee that there will not be material changes in the export tax rebate policy of the PRC

During the Track Record Period, our exported products were subject to export tax rebate with different rates, for example, our candles (under export product code 3406000090) currently enjoys a tax rebate rate of 13%. For details, see “Regulatory Overview – PRC Laws and Regulations – 3. Laws and regulations relating to taxation” in this prospectus. Therefore, if there are material changes in the export tax rebate rate or policy in the PRC, our product pricing ability will be adversely affected and this may affect our profit margins to a certain extent.

Although currently we are not aware of any proposal by the PRC government to change or abolish its export tax rebate policy, the PRC government has an absolute discretion to adjust, modify or even abolish it according to the state’s trade situation and budget. If the PRC government reduces or abolishes the export tax rebate of our main export products, our financial position may be adversely affected.

We may not be successful in implementing our expansion plan

Our ability to sustain our growth in the future depends on a variety of factors, including our ability to successfully implement our expansion plans and business strategies, our ability to timely and effectively respond to market demand and any market change, our ability to efficiently utilise our management and financial resources and our ability to recruit and retain suitable skilled personnel. Failure to do so could materially and adversely affect our profitability and prospects.

Our business plan as set forth in “Business – Our Business Strategies” and “Future Plans and Use of Proceeds” in this prospectus are based on assumptions of future events which may entail certain risks and are inherently subject to uncertainties. Such assumptions can turn out to be incorrect. Therefore, we cannot assure you that we will be successful in implementing our business

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strategies or future plans or such strategies or plans will result in increase in revenue or profits as expected. In addition, our expansion plans may place substantial demands on our management and our operational, technological, financial and other resources. We cannot assure you that we will be able to manage any future growth effectively and efficiently, and our ability to capitalise on new business opportunities may be adversely affected if we fail to do so, which would in turn adversely affect our business, financial position and prospects.

Any failure to maintain an effective quality control system could have a material and adverse effect on our business, financial position and reputation

The quality of our products is dependent on the effectiveness of our quality control system, which in turn depends on a number of factors, including the design of the system 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 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 position and reputation.

Failure to manage our distributors may adversely affect our business and growth prospects

To develop our PRC market, since 2016, we have been selling selected lines of our self-branded products in the PRC through distributors engaged by us. For FY2016, FY2017, FY2018 and 6M2019, our sales to distributors were RMB92,002, RMB641,186, RMB59,824 and RMB138,790, respectively. As at 31 December 2016, 2017 and 2018 and 30 June 2019, we had a total of one, two, 10 and 13 distributors in the PRC, respectively.

We have entered into framework agreements with our distributors for the sale of our self-branded products in the PRC. Nevertheless, we cannot assure you that we will be able to renew our agreements with our distributors, or that our distributors will not substantially terminate the agreements with us or reduce the size and number of their orders from us. We may not be able to secure new distributors, or to enter into business with them on comparable terms. If such situations arise, our business in the PRC may be adversely affected.

Any unexpected disruption at our production facilities could have a material and adverse effect on our business and financial position

During the Track Record Period and up to the Latest Practicable Date, we carried out our production activities in our two production bases, namely, our Ningbo Plant and Shaoxing Plant, occupying a total gross floor area of 24,635.5 sq.m. (which includes properties for production purpose only). For details, see “Business – Production – Our production facilities” in this prospectus.

Any damage or disruption to the operations of any of our production bases or their production facilities could materially and adversely affect our business and production activities. Damage or disruption to the operations of our production bases may result from a number of factors which may be beyond our control. Such factors include severe weather conditions, utility supply disturbances, terrorism, strikes or other force majeure events, as well as forced closing or suspension of our production bases, other limitations to production/processing capacity due to regulatory requirements, changes in the types of equipment produced or physical limitations that could impact continuous supply. We may also be subject to business interruptions caused by equipment shutdowns for government investigations or implementation of production safety measures. Any enhanced safety

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measures imposed by the PRC government authorities from time to time in the future could have a material adverse effect on the manner in which we conduct our operations, thereby adversely impacting our business and increasing our cost of compliance.

Any significant increase in our labour costs or other factors disrupting labour supply could adversely affect our financial position, and labour shortage could disrupt our production

For each of FY2016, FY2017, FY2018 and 6M2019, our employee benefit expenses in relation to our cost of sales amounted to RMB20.3 million, RMB20.2 million, RMB19.8 million and RMB8.2 million, respectively. Labour costs in the PRC have increased in recent years and have affected our cost structure.

Labour costs are basically affected by the demand for and supply of labour and economic factors including the inflation rate and standard of living. Labour costs may further increase in the future due to a shortage of skilled labour and growing industry demands for skilled workers. If we fail to retain our existing skilled labour or maintain sufficient labour, we may not be able to accommodate sudden increases in demand for our products or our expansion plans.

We cannot assure you that we will be successful in retaining and recruiting suitable and qualified workers in sufficient numbers and in time for our existing and future manufacturing operations at reasonable costs or at all, and any prolonged shortage of labour could materially and adversely affect our operations and financial position. In the event that such labour costs significantly increase and we are unable to identify and adopt appropriate means to reduce costs or pass on such increase in costs to our customers, our margins and profitability could be materially and adversely affected.

If we fail to properly protect the product designs and intellectual property rights of our customers, our reputation and financial position may be adversely affected

Our products may carry the names or logos of our customers who have granted us a licence to use exclusively for their interests only.

We cannot assure you that our internal control procedures on the use of intellectual properties of our customers or any third parties are adequate or effective. If we fail to properly protect the intellectual properties of our customers or any third parties, we may be exposed to the risk of any improper or unauthorised use of their intellectual properties such as brand name, logo or trademarks by us, our employees or our distributors. As such, we cannot assure you that we will not be the subject of claims of infringement of the intellectual property rights and we may become a party to such dispute. The validity, enforceability and scope of protection of intellectual property rights may be uncertain. Intellectual property disputes may require substantial costs, loss of time and diversion of resources and management attention. If the outcome of such a legal dispute is adverse to us, we could be ordered to pay substantial license fees, royalties and/or damages. Any infringement of third party's intellectual property rights or any lawsuits relating thereto could have an adverse effect on our business, financial position and reputation.

Infringement of our intellectual property rights and brand may affect our reputation

As at the Latest Practicable Date, we had various intellectual property rights which were considered material to our business, including 43 registered trademarks in the PRC, Hong Kong, the US, EU and Australia, six registered patents in the PRC and one domain name. We also had 20

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pending trademark applications in the PRC and 7 pending patent applications in the PRC. For details, see “Statutory and General Information – B. Further Information about the Business of our Group – 2. Intellectual property rights” in Appendix IV to this prospectus. During the Track Record Period, we authorised certain distributors to use our trademarks and logos in their sale and marketing activities of the products procured from us.

We may be unable to ensure the protection and enforcement of our intellectual property rights. It is possible that any intellectual property rights held by us may be invalidated, circumvented or challenged. It is often difficult to protect and enforce intellectual property rights in the PRC. Policing any unauthorised use of our intellectual property is difficult and costly and the steps we have taken may be inadequate to prevent the misappropriation of our intellectual properties.

We engaged contract manufacturers to undertake the production of some of our products. Any delay or defect in their works may adversely affect our business and results of operations

During the Track Record Period, we engaged contract manufacturers to undertake part of the production of our Home Decoration Products. For details, see “Business – Subcontracting Arrangement” in this prospectus. Subcontracting cost accounted for 46.7%, 47.9%, 46.1% and 51.3%, respectively, of our cost of sales for FY2016, FY2017, FY2018 and 6M2019. As we engage contract manufacturers on a project-by-project basis and do not enter into long-term contracts with them, we cannot assure you that we will always be able to obtain services from them at prices acceptable to us or that we can maintain our relationships with them in future. If there is any significant disruption to the operations of our contract manufacturers or damage to their facilities due to natural or other causes such as technical and mechanical failures, their operations could be adversely impacted, which could cause knock-on delays in our delivery schedules and impair our ability to fulfil our customers’ orders. If any contract manufacturer is unable to provide the services required by us, and we are unable to identify replacement contract manufacturer(s) in a timely manner and on similar or more favourable terms to us, our business operation may be adversely affected. In addition, we cannot assure you that we are able to monitor or manage the performance of these contract manufacturers as directly and effectively as our staff members and that the services rendered by them will be completed in a timely manner or be of satisfactory and consistent quality. Any material breach of the terms of services by our contract manufacturers or loss of major contract manufacturers could have an adverse effect on our business.

We may face increasing stringent environmental protection requirements

Our business operations are subject to various PRC laws and regulations on environmental protection, such as the Environmental Protection Law of the People’s Republic of China (中華人民共和國環境保護法), Law of the People’s Republic of China on Prevention and Control of Water Pollution (中華人民共和國水污染防治法), Law of the People’s Republic of China on the Prevention and Control of Atmospheric Pollution ((中華人民共和國大氣污染防治法) and Law of the People’s Republic of China on Prevention and Control of Environmental Noise Pollution (中華人民共和國環境噪聲污染防治法).) Failure to comply with these laws and regulations may result in significant consequences to us, including administrative, civil and criminal penalties, liability for damages and negative publicity. If the breach is serious, the PRC government may suspend or close down any operation or facilities which had failed to comply with such laws or regulations. For details, see “Regulatory Overview” and “Business – Environmental Compliance” in this prospectus.

To comply with environmental protection laws and regulations, we have incurred and will continue to incur costs to comply with environmental protection laws and regulations. In addition,

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new environmental issues could arise and lead to unanticipated investigations, assessments and associated costs. We cannot assure you that the PRC government will not amend existing environmental laws or regulations or impose additional or more stringent environmental laws or regulations, the compliance with which may require us to incur significant costs and capital expenditures and as a result materially and adversely affect our financial position.

We have certain non-compliance issues with social insurance during the Track Record Period

During the Track Record Period, we have certain incidents of non-compliance relating to the failures of our subsidiaries to make social insurance contributions in full for employees, in contravention of the Social Insurance Law of the PRC (《中華人民共和國社會保險法》). See “Business – Compliance and Litigation” in this prospectus for further details. If any of the competent authorities in the PRC takes enforcement action against us for these incidents, we may be ordered to pay fines and/or other penalties, incur legal costs arising from any legal action against us, and may be exposed to negative media coverage, which could adversely affect our financial position and reputation.

We may be unable to detect, deter and prevent all instances of fraud or other misconduct committed by our employees or other third parties

We rely on our employees in handling daily operations and transactions with our suppliers and customers. We were not aware of any instances of fraud, theft and other misconduct involving employees, customers and other third parties that had a material adverse impact on our business and financial position during the Track Record Period and up to the Latest Practicable Date. However, we cannot assure you that there will not be any such instances in the future. We may not be able to prevent, detect or deter all instances of misconduct. Any misconduct committed against our interests, which may include past acts that have gone undetected or future acts, could subject us to financial losses, harm to our reputation and may have a material and adverse effect on our business, financial position and prospects.

Our historical financial and operating results may not be indicative of future performance, and we may not be able to achieve and sustain the historical level of revenue and profitability

Our revenue amounted to RMB399.5 million, RMB445.9 million, RMB444.7 million and RMB216.3 million, respectively, for FY2016, FY2017, FY2018 and 6M2019. For the same periods, our gross profit amounted to RMB85.2 million, RMB96.5 million, RMB107.0 million and RMB53.6 million, respectively.

We cannot assure you that we will achieve similar growth rate, or that we will be successful in mitigating any negative growth rate, in future. Our historical results, including the historical performance of each business segment, may not be indicative of our future performance. Our financial and operating results may not meet the expectations of public market analysts or investors, which could cause the future price of our Shares to decline. Our revenues, expenses and operating results may vary from period to period in response to a variety of factors beyond our control, including general economic conditions, laws and regulations in the jurisdictions to which our products are sold, the PRC and Hong Kong and our ability to control costs. You should not rely on our historical results to predict the future performance of our Shares.

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Our insurance coverage may be inadequate to cover the risks related to our business and operations

As at the Latest Practicable Date, we maintain property insurance policies for our buildings, fixed assets and finished goods. We also maintain social security insurance for our employees and the Compulsory Traffic Accident Liability Insurance For Motor Vehicles under the legal framework of the PRC laws and regulations. However, we do not have any business liability disruption or litigation insurance coverage for our business operations in the PRC, which we believe is generally not required in the industry practice in the PRC. There may also be types of losses which we may incur but cannot be insured against or that we believe are not commercially reasonable to insure. We cannot assure you that we will be able to maintain sufficient insurance coverage to cover our potential liabilities in full, and that premiums will not increase substantially in the future. If we are held liable for uninsured losses, or for amounts exceeding the limits of our insurance coverage, our business, financial position and prospects may be adversely affected.

We experienced net operating cash outflow for 6M2018 and 6M2019, which could materially and adversely affect our ability to make necessary capital expenditure and to fulfill our payment obligations

For 6M2019, we had net cash used in operating activities of RMB11.5 million, which was attributable to the income tax paid of RMB8.5 million and cash flow used in operations of RMB3.1 million. For 6M2018, we had net cash used in operating activities of RMB15.7 million, which was attributable to the income tax paid of RMB1.1 million and cash flow used in operations of RMB14.6 million. See “Financial Information – Liquidity and Capital Resources – Operating activities” and Accountant’s Report in Appendix I to this prospectus for further details.

We cannot assure you that we will not experience net operating cash outflow in the future. Our liquidity and financial position may be materially and adversely affected should our future operating cash flow remain negative. If we resort to other financing activities to generate additional cash, we will incur additional financing costs and we cannot guarantee that we will be able to obtain financing on terms acceptable to us, or at all. Our ability to make necessary capital expenditures and to fulfill our payment obligations may be constrained, and our business and financial position could be materially and adversely affected.

Our derivative financial instruments may materially and adversely affect our financial position

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Changes in the fair value of any derivative financial instruments are recognised immediately in the profit or loss, except where the derivative financial instrument are qualified for hedge accounting. We entered into foreign currency forwards in relation to product sales that do not qualify as “highly probable” forecast transactions and hence do not satisfy the requirements for hedge accounting (economic hedges). Therefore, our foreign currency forwards are accounted for as derivative financial instruments with gain/(losses) of RMB1.3 million, nil, RMB(17.2) million and RMB(17.0) million, respectively for FY2016, FY2017, FY2018 and 6M2019. See “Financial Information – Quantitative and Qualitative Disclosure About Market Risks – Foreign exchange risk” in this prospectus for further details.

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Such treatment of profit or loss may therefore cause volatility in our period-to-period earnings, and may have a material adverse impact on our business, financial position and prospects. Furthermore, our financial performance may be affected by the fair value of financial assets/(liabilities) at fair value through profit or loss as well as valuation uncertainty due to the use of unobservable inputs.

We recorded a gain on disposal of a subsidiary of RMB42.5 million for FY2018 and such gain on disposal of a subsidiary was non-recurring in nature

For FY2018, we recorded a gain on disposal of our subsidiary, Shaoxing Jingming, of RMB42.5 million pursuant to the Reorganisation, which represented one-off gain on disposal of a subsidiary. For details, see Note 12 to the Accountant's Report contained in Appendix I to this prospectus. As a result, our other gains or losses increased from a net loss of RMB7.8 million for FY2017 to a net gain of RMB30.9 million for FY2018.

Such gain on disposal of a subsidiary was non-recurring in nature and hence, we cannot assure you that we can generate the same or higher level of our other income, other gains or losses in the future. Such historical financial information should not have any positive implication to our future financial performance.

RISKS RELATING TO OUR INDUSTRY

We may incur increased costs should our exporting countries impose any new or stricter standard or requirement applicable to our products

We have to fulfill various domestic and international quality control standards in our production process. For details, see "Business – Quality Control" in this prospectus. As these standards and requirements could change from time to time and those changes are out of our control, we cannot assure you that our products will successfully satisfy these standards and requirements in the future. If the governments of the countries where our overseas customers are located impose any new standard or requirement on our products which impose higher and more stringent technical requirements beyond our existing technical capacity, additional costs and investments in upgrading our product design and development capabilities, enhancing our production facilities and recruiting more experienced technical expertise may be required in order to comply with the new standards. Our production cost may also increase in order to meet such new standards or requirements. Our failure to upgrade our production capacity and technical level to accommodate new or stricter standards or requirements applicable to our products may adversely affect our business and prospects.

Brexit may have adverse consequences for our business, financial position and prospects

On 23 June 2016, the United Kingdom held a referendum pursuant to which the United Kingdom electorate voted in favour of its withdrawal from the EU ("**Brexit**"). We face potential risks associated with Brexit as the United Kingdom is one of our major countries to which our products were sold during the Track Record Period. There was a political deadlock in the parliament of the United Kingdom on the Brexit plan. A prolonged period of economic uncertainty regarding Brexit is expected, and this may damage customers' and/or investors' confidence and/or reduce consumer spending in the United Kingdom. Any material change or continuous political deadlock on in the Brexit plan is likely to fuel uncertainty and adversely affect our sales to the customers in the United Kingdom.

RISK FACTORS

We operate in a highly competitive environment and we may not be able to sustain our current market position

The market for our products is highly competitive. According to Frost & Sullivan, we compete with other players in the candle products and home fragrance markets in terms of factors such as product design and research capability, production capability, distribution network/sales channel, and economy of scale. Our competitiveness can be affected by our ability to anticipate market trends, adopt new or innovate technologies, effectiveness of our cost control, consistency in product quality, timely delivery of products to meet customers' schedules, customer services and technical expertise, and factors that are outside of our control, such as industry and general economic conditions. We cannot assure you that we will remain competitive or that our strategies will continue to be successful in the future. Intensified competition may erode our market share, which may have a material adverse effect on our business, financial position and prospects.

In addition to facing competition from existing and new players in the domestic market, we also face competition from international manufacturers. If our key overseas customers start to rely or increase their reliance on overseas manufacturers to meet their requirements, we may not be able to maintain or increase our current market share or find a market for our products, and our business, financial position and prospects may be adversely affected.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Uncertainties with respect to the PRC legal system could adversely affect us

Our business and operations are conducted in the PRC and are governed by the PRC laws, regulations and rules. The PRC legal system is based on written statutes and legal interpretation by the Standing Committee of National People's Congress. Prior court decisions could be cited for reference but have limited precedential value. Since 1979, the PRC government has been developing a comprehensive system of commercial laws and considerable progress had been made in introducing the laws and regulations when dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade. As these laws, regulations and legal requirements are not fully developed and are subject to change, making interpretation and enforcement of such laws and regulations uncertain. These uncertainties could limit the reliability of legal protections available to us and could negatively affect our business and financial position. In addition, any litigation in the PRC could be protracted and result in substantial costs and diversion of resources and management attention.

The economic and political policies of the PRC government could adversely affect the overall economic growth of China

All of our revenue is generated from products manufactured in the PRC and our Company expects this situation to continue in the near future. As a result, our Company's business, financial condition, results of operations and future prospects are and will continue to be subject to the economic and political policies of the PRC to a significant degree. Although the PRC economy has been transforming from a planned economy to a more market-oriented economy, the PRC government can still exercise significant control over China's economic growth through allocation of resources, controlling of foreign exchange, setting monetary policy and providing preferential treatments to particular industries or companies. In recent years, the PRC government has implemented various measures to encourage economic development and the PRC economy has experienced significant growth. We cannot assure you that future actions and policies of the PRC government will continue

RISK FACTORS

to boost economic growth. If PRC economy encounters serious downturns, our business and financial position could be adversely affected.

We cannot guarantee that there will be no material changes in tax incentives

Our operations have been entitled to certain tax incentives from the PRC government. As renewed in November 2017, Ningbo Kwung's obtained the status of "High and New Technology Enterprise". As such, during the period up to November 2020, Ningbo Kwung's has been enjoying a reduced preferential EIT rate of 15%. Furthermore, during the Track Record Period, our Group's entities enjoyed tax deductions pursuant to relevant laws and regulations of the State Tax Bureau of the PRC allowing enterprises engaged in research and development activities to claim 150% of their research and development expenses for FY2016 and FY2017, and 175% of their research and development expenses for FY2018 and 6M2019 incurred as tax deductible expenses when determining their assessable profits for that year.

It is in the sole discretion of the PRC government to decide when, under what conditions, or whether such tax incentives should continue to be granted to us at all. We cannot assure you that we will continue to be entitled to any tax incentives from the PRC government, or that the PRC government will not impose new conditions for qualification for such incentives in the future. Should we be unable to obtain or maintain our current tax incentives in the future, our business, financial position and prospects may be adversely affected.

It may be difficult to effect service of process or to enforce foreign judgments in the PRC

Substantially all our assets are located in the PRC. In addition, most of our executive Directors and senior management team reside in the PRC. As a result, investors could encounter difficulties in effecting service of process from outside the PRC upon us or most of our Directors and officers. Moreover, it is understood that the enforcement of foreign judgements in the PRC is subject to uncertainties. A judgement of a court from a foreign jurisdiction could be reciprocally recognised or enforced if the jurisdiction has a treaty with the PRC or if judgements of the PRC courts have been recognised before in that jurisdiction, subject to the satisfaction of other requisite requirements. China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the Cayman Islands and many other countries and regions. Therefore, recognition and enforcement in the PRC of judgements of a court in any of this non-PRC jurisdictions in relation to any matter not subject to a binding arbitration provision could be difficult or impossible.

We are subject to PRC government control in currency conversion

RMB is not a freely convertible currency. The conversion of RMB into other currencies is subject to a number of foreign exchange control rules, regulations and notices issued by the PRC government. In general, foreign investment enterprises are permitted to convert RMB to foreign currencies for current account transactions (including, for example, distribution of profits and payments of dividends to foreign investors) through designated foreign exchange banks following prescribed procedural requirements. Control over conversion of RMB to foreign currencies for capital account transactions (including, for example, direct investment, loan and investment in securities) is more stringent and such conversion is subject to a number of limitations. The requirement for us to pay dividends in a currency other than RMB to our Shareholders may expose us to foreign currency risk. Under the current foreign exchange control system. We cannot assure you that we will be able to obtain sufficient foreign currency to pay dividends or satisfy other foreign exchange requirements in the future.

RISK FACTORS

RISKS RELATING TO THE GLOBAL OFFERING AND OUR SHARES

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

Prior to the Global Offering, there has not been a public market for our Shares. The Offer Price for our Shares was the result of the negotiations between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company, and the Offer Price can differ significantly from the market price for our Shares following the Global Offering. In addition, we cannot assure you that there will be an active trading market for our Shares following the Global Offering or in the future.

The market price of our Shares when trading begins could be lower than the Offer Price as a result of, among other things, adverse market conditions or other adverse developments that could occur between the time of sale and the time when trading begins

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

The financial market in Hong Kong and other countries have in the past experienced significant price and volume fluctuations. Volatility in the price and trading volume of our Shares may be caused by factors outside our control and may be unrelated or disproportionate to our operating results. Accordingly, we cannot assure you that the market price and liquidity of our Shares will not fluctuate.

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

The market price of our Shares could decline as a result of future sales or issuances of a substantial number of our Shares or other securities in the public market, or the perception that such sales or issuances may occur. Moreover, such future sales or issuances or perceived sales or issuances may also adversely affect the prevailing market price of our Shares and our ability to raise capital in the future at a favorable time and price.

The Shares beneficially owned by our Controlling Shareholders are subject to certain lock-up undertakings. Sale of substantial amounts of our Shares by our Controlling Shareholders in the public market, or the perception that such sale may occur, could adversely affect the prevailing market price of our Shares. Any major disposal of our Shares by any of our Controlling Shareholders upon or after expiry of the relevant lock-up periods (or the perception that such disposals may occur) may cause the prevailing market price of our Shares to fall, which could negatively impact our ability to raise equity capital in the future.

RISK FACTORS

Mr. Jin and King Harmony, our Controlling Shareholders, may exert substantial influence over our operation and may not act in the best interests of our public Shareholders

Upon completion of the Global Offering and the Capitalisation Issue, our Controlling Shareholders will directly or indirectly hold 54.14% in aggregate of our Shares in issue, without taking into account of the Shares which may be issued upon the exercise of the Over-allotment Option. Given the size of their shareholding in our Company, they will be able to exercise significant influence over all matters requiring Shareholders' approval, including the election of directors and the approval of significant corporate transactions. They will also have veto power with respect to any shareholder action or approval requiring a majority vote except where they are required by the relevant rules or provisions of Articles to abstain from voting. Such concentration of ownership also may have the effect of delaying, preventing or deterring a change in control of our Group that would otherwise benefit our Shareholders. The interests of our Controlling Shareholders may not always align with our Company or your best interests. If the interests of our Controlling Shareholders conflict with the interests of our Company or our other Shareholders, or if our Controlling Shareholders choose to cause our business to pursue strategic objectives that conflict with the interests of our Company or other Shareholders, our Company or those other Shareholders, including you, may be disadvantaged as a result.

We cannot assure you that if and when we will pay dividends in the future

Distribution of dividends shall be formulated by our Board and will be subject to Shareholders' approval. A decision to declare or to pay any dividends and the amount of any dividends will depend on various factors, including but not limited to any other factors determined by our Board from time to time to be relevant to the declaration or suspension of dividend payments. As a result, we cannot assure you that whether, when and in what form we will pay dividends in the future or that we will pay dividends in accordance with our dividend policy, if any. See "Financial Information – Dividends" in this prospectus for further details.

We may require additional funding for future growth

We may be presented with opportunities to expand our business through acquisitions in the future. Under such circumstances, secondary issue(s) of securities after the Listing may be necessary to raise the required capital to capture these growth opportunities. If additional funds are raised by means of issuing new equity securities in the future to new and/or existing Shareholders after the Listing, such new Shares may be priced at a discount to the then prevailing market price. Inevitably, existing Shareholders if not being offered with an opportunity to participate, their shareholding interest in our Company will be diluted. Also, if we fail to utilise the additional funds to generate the expected earnings, this could adversely affect our financial results and in turn exerts pressure to the market price of our Shares. Even if additional funds are raised by means of debt financing, any additional debt financing may, apart from increasing interest expense and gearing, contain restrictive covenants with respect to dividends, future fund raising exercises and other financial and operational matters.

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

There has been, prior to the publication of this prospectus, and there may be, subsequent to the date of this prospectus but prior to the completion of the Global Offering, press, media, and/or

RISK FACTORS

research analyst coverage regarding us, our business, our industry and the Global Offering. You should rely solely upon the information contained in this prospectus in making your investment decisions regarding our Shares and we do not accept any responsibility for the accuracy or completeness of the information contained in such press articles, other media and/or research analyst reports nor the fairness or the appropriateness of any forecasts, views or opinions expressed by the press, other media and/or research analyst regarding the Shares, the Global Offering, our business, our industry or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information, forecasts, views or opinions expressed or any such publications. To the extent that such statements, forecasts, views or opinions are inconsistent or conflict with the information contained in this prospectus, we disclaim them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of information contained in this prospectus only and should not rely on any other information.

We cannot assure you the accuracy of certain facts and statistics contained in this prospectus

Certain facts and statistics in this prospectus have been derived from various official government and other publications generally believed to be reliable. We believe that the sources of such 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 in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. Such information has not been independently verified by us or any of the Sole Sponsor, Sole Global Coordinator, Joint Bookrunners, Joint Lead Managers, the Underwriters or any of our or their respective directors, officers or representatives or any other person involved in the Global Offering and no representation is given as to its accuracy. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, the facts and statistics in this prospectus may be inaccurate or may not be comparable to facts and statistics produced with respect to other economies. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy (as the case may be) in other jurisdictions. As a result, you should not unduly rely upon such facts and statistics contained in this prospectus.

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

This prospectus contains certain statements which are “forward-looking” and use forward looking terminology such as “anticipate”, “estimate”, “believe”, “expect”, “may”, “plan”, “consider”, “ought to”, “should”, “would”, and “will”. These statements include the discussion of our growth strategy and the expectations of our future operation, liquidity and capital resources. Purchasers of our Offer Shares are cautioned that reliance on any forward-looking statement 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 be incorrect. The uncertainties in this regard include those identified in the risk factors discussed above.

In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. We do not intend to update these forward-looking statements in addition to our on-going disclosure obligations pursuant to the Listing Rules or other requirements of the Stock Exchange. Investors should not place undue reliance on such forward-looking information.

WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Global Offering, our Company has sought the following waiver from strict compliance with the relevant provisions of the Listing Rules:

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Our headquarters and substantially all of our business operations are principally located, managed and conducted in the PRC. All of our executive Directors are located in the PRC and they manage our business and operations principally from there. As a result, our Company does not, and will not in the foreseeable future, have a sufficient management presence in Hong Kong as required under Rule 8.12 of the Listing Rules. Further, it would be impractical and commercially unnecessary for us to appoint an additional executive Director who is ordinarily resident in Hong Kong or to relocate its existing PRC-based executive Directors to Hong Kong.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules, subject to the condition that the following measures and arrangements are made for maintaining regular and effective communication with the Stock Exchange:

- (i) we have appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange. Our two authorised representatives are Mr. Tian, an executive Director of our Company, and Mr. Lau, our company secretary. Mr. Lau is ordinary resident in Hong Kong;
- (ii) any meeting between the Stock Exchange and our Directors will be arranged through our authorised representatives or our compliance adviser or directly with our Directors within a reasonable time frame. We will inform the Stock Exchange promptly in respect of any changes in our authorised representatives and our compliance adviser;
- (iii) each of our authorised representatives will be available to meet with the Stock Exchange within a reasonable period of time upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and/or email. Each of our authorised representatives is authorised to communicate on behalf of us with the Stock Exchange;
- (iv) each of our authorised representatives has means to contact all members of our Board (including our independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact our Directors for any matters. To enhance the communication between the Stock Exchange, our authorised representatives and the Directors, each Director has provided his respective office phone number, mobile phone number, facsimile number and email address to our authorised representatives; and each Director and authorised representative has provided his respective office phone number, mobile phone number, facsimile number and email address to the Stock Exchange. In the event that a Director expects to travel or is out of office, he will provide the phone number of the place of his accommodation or offer means of communication to our authorised representatives;

WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (v) our Directors, who are not ordinary resident in Hong Kong, have confirmed that they possess or can apply for valid travel documents to visit Hong Kong and are able to come to Hong Kong and, when required, meet with the Stock Exchange upon reasonable notice; and
- (vi) we have, in compliance with Rule 3A.19 of the Listing Rules, appointed China Industrial Securities as our compliance adviser who will, among other things, in addition to our two authorised representatives, act as our additional channel of communication with the Stock Exchange 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 its financial results for the first full financial year commencing after the Listing Date. Our compliance adviser will have full access at all times to the authorised representatives of the Company and our Directors.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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 (WUMP) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief that 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 herein or this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and the representations made in this prospectus and the Application Forms and on the terms and conditions set out herein and therein. No person has been authorised to give any information or make any representations other than those contained in this prospectus and the Application Forms and, if given or made, such information or representations must not be relied on as having been authorised by us, the Sole Sponsor, the Underwriter(s), any of their respective directors, officers, agents, employees or advisers or any other party involved in the Global Offering. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with our Shares shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information in this prospectus is correct as of any subsequent time.

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

FULLY UNDERWRITTEN

The Global Offering comprises the International Placing and the Hong Kong Public Offer. The Global Offering is an offer of 10,000,000 new Shares under the Hong Kong Public Offer (subject to reallocation) and 90,000,000 new Shares under the International Placing (subject to reallocation and the Over-allotment Option), in each case at the Offer Price. Details of the structure of the Global Offering are set out in the section headed “Structure of the Global Offering” in this prospectus. This prospectus is published solely in connection with the Global Offering. For applicants under the Hong Kong Public Offer, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offer.

The Listing is sponsored by China Industrial Securities. The Global Offering is fully underwritten by the Underwriter(s) under the terms of the Underwriting Agreements, on a conditional basis. The International Placing Underwriting Agreement relating to the International Placing is expected to be entered into on or around the Price Determination Date, subject to agreement on pricing of the Offer Shares between the Sole Global Coordinator (for itself and on behalf of the Underwriter(s), and our Company. The Global Offering is managed by the Sole Global Coordinator.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriter(s)) on or before the Price Determination Date, the Global Offering will not proceed and will lapse. See section headed “Underwriting” for further details on the Underwriter(s) and the Underwriting Agreement(s).

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which will be determined by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on or before Thursday, 9 January 2020 or such later date as may be agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company, but in any event no later than 5:00 p.m. on Tuesday, 14 January 2020. The Offer Price will be not more than HK\$1.60 per Offer Share and is currently expected to be not less than HK\$1.28 per Offer Share, unless otherwise announced. Investors applying for the Hong Kong Public Offer Shares must pay, on application, the maximum Offer Price of HK\$1.60 per Offer Share, together with brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is lower than HK\$1.60 per Offer Share.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, with the consent of our Company, reduce the number of the Offer Shares 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 Hong Kong Public Offer. In such case, a notice of reduction of the number of the Offer Shares and/or the indicative Offer Price range will be published on our Company’s website at www.kwungs.com and the website of the Stock Exchange at www.hkexnews.hk, not later than the morning of the last day for lodging applications under the Hong Kong Public Offer. If applications for Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offer, then even if the Offer Price is so reduced, such applications cannot subsequently be withdrawn.

If, for any reason, the Offer Price is not agreed among our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) at or before 5:00 p.m. on Tuesday, 14 January 2020, the Global Offering will not proceed and will lapse.

RESTRICTIONS ON OFFER AND SALES OF THE OFFER SHARES

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

No action has been taken to permit a public offering of the Offer Shares or the general distribution of this prospectus and/or the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus and the related Application Forms may not be used for the purpose of, and do not constitute, an offer or invitation, nor are they calculated to invite or solicit offers in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the Application Forms, and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the securities laws of such jurisdiction pursuant to registration with or an authorisation by the relevant

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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 U.S., except in compliance with the relevant laws and regulations of each of such jurisdiction.

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

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

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option and any Shares which may be issued upon the exercise of options which may be granted under the Share Option Scheme).

No part of our Shares or loan capital of our Company is listed or dealt in on any other stock exchange and, at present, no such listing or permission to deal is being or is proposed to be sought on any other stock exchange in the near future.

Pursuant to Rule 8.08(1)(a) of the Listing Rules, at least 25% of the total issued share capital of our Company must at all times be held by the public. Accordingly, a total of 100,000,000 Offer Shares, which represent 25% of the enlarged issued share capital of our Company immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme) will be made available under the Global Offering.

Under section 44B(1) of the Companies (WUMP) Ordinance, any allotment made in respect of any application will be invalid if the 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.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on the Stock Exchange and 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

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

from the Listing Date or any other date determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for our Shares to be admitted into CCASS. Investors should seek the advice of their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

PROFESSIONAL TAX ADVICE RECOMMENDED

Applicants for the Offer Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing, purchasing, holding, disposing or dealing in the Shares. It is emphasised that none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents or advisers or any other party involved in the Global Offering accepts responsibility for any tax effects on or liabilities of any person resulting from the subscription, purchase, holding, disposal or dealing of Shares, or the exercise of any rights in relation to the Shares.

HONG KONG REGISTER OF MEMBERS AND STAMP DUTY

All the Offer Shares will be registered on our Company's branch share register to be maintained in Hong Kong by the Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited. Our principal register of members will be maintained in the Cayman Islands by our principal share registrar, Ogier Global (Cayman) Limited in the Cayman Islands. Only securities registered on the branch register of members of our Company kept in Hong Kong may be traded on the Stock Exchange unless the Stock Exchange otherwise agree. Dealings in our Shares registered at our branch register of members in Hong Kong will be subject to Hong Kong stamp duty. See section headed "Appendix IV – Statutory and General Information – F. Other Information – 2. Registrars of members and taxation concerning the Shareholder" for further details about Hong Kong stamp duty.

Unless our Company determines otherwise, dividends payable in HK\$ in respect of our Shares will be paid by cheque sent at the Shareholder's risk to the registered address of each Shareholder or, in the case of joint holders, the first-named holder.

PROCEDURES FOR APPLICATION FOR THE HONG KONG PUBLIC OFFER SHARES

The procedures for applying for the Hong Kong Public Offer Shares are set out under the section headed "How to Apply for Hong Kong Public Offer Shares" in this prospectus and on the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out under the section headed "Structure of the Global Offering" in this prospectus.

OVER-ALLOTMENT OPTION AND STABILISATION

Details of the arrangements relating to the Over-allotment Option and the related stabilisation exercise are set out in the section headed "Structure of the Global Offering" of this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

STOCK BORROWING ARRANGEMENT

Details of the stock borrowing arrangement are set out in the section headed “Structure of the Global Offering” of this prospectus.

COMMENCEMENT OF DEALINGS IN THE SHARES

Assuming that the Hong Kong Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, 16 January 2020, it is expected that the dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on Thursday, 16 January 2020. Our Shares will be traded in board lots of 2,000 Shares each. The stock code of the Shares will be 1925.

ROUNDING

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

LANGUAGE

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

TRANSLATIONS

Unless otherwise specified, amounts denominated in RMB have been translated, for the purpose of illustration only, into HK\$ or US\$ (or *vice versa*) in this prospectus at the following exchange rates:

RMB1.00 : HK\$1.1111

RMB1.00 : US\$0.1418

No representation is made that any RMB amounts were or could have been or could be converted into HK\$ or US\$, at such rate or any other rate on any date.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Residential address	Nationality
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Executive Directors

Mr. Jin Jianxin (金建新先生)	No. 31, Block 13 Bojing Community Fuming Street, Yinzhou District Ningbo City, Zhejiang Province PRC	Chinese
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Mr. Ru Liming (茹黎明先生)	Room 201, Block 15 Shihe Xincun Yuecheng District Shaoxing City, Zhejiang Province PRC	Chinese
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Mr. Tian Dong (田東先生)	Room 302, Lane 68 No. 1 Taiyu Road, Zhonghe Street Yinzhou District Ningbo City, Zhejiang Province PRC	Chinese
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Non-executive Director

Mr. Shao Patrick (邵平先生)	401, 2/F, Block 2 Star Court, Star River Bay Dashi Street, Panyu District Guangzhou PRC	Canadian
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Independent non-executive Directors

Mr. Zhou Kai (周凱先生)	Room 102 No. 37 Fengge Chengshi, Zhonghe Street Yinzhou District Ningbo City, Zhejiang Province PRC	Chinese
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Mr. Yang Herong (楊和榮先生)	Room 901, Lane 195 No. 38 Baiyang Street Haishu District Ningbo City, Zhejiang Province PRC	Chinese
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DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Residential address	Nationality
Mr. Lai Chun Yu (黎振宇先生)	G/F, 12 Hoi Pa Village North-East Terrace Tsuen Wan New Territories Hong Kong	Chinese

For details of our Directors and senior management, see “Directors, Senior Management and Staff” in this prospectus.

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor and Sole Global Coordinator

China Industrial Securities International Capital Limited

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

7/F, Three Exchange Square
8 Connaught Place, Central
Hong Kong

Joint Bookrunners

China Industrial Securities International Capital Limited

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

7/F, Three Exchange Square
8 Connaught Place, Central
Hong Kong

BOCOM International Securities Limited

a corporation licensed by the SFC to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contract), Type 4 (advising on securities) and Type 5 (advising on futures contract) regulated activities under the SFO

9th Floor, Man Yee Building
68 Des Voeux Road, Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Lead Managers

China Industrial Securities International Capital Limited

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

7/F, Three Exchange Square
8 Connaught Place, Central
Hong Kong

BOCOM International Securities Limited

a corporation licensed by the SFC to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contract), Type 4 (advising on securities) and Type 5 (advising on futures contract) regulated activity under the SFO

9th Floor, Man Yee Building
68 Des Voeux Road, Central
Hong Kong

Blackwell Global Securities Limited

a corporation licensed by the SFC to carry on Type 1 (dealing in securities) regulated activity under the SFO

26/F, Overseas Trust Bank Building
160 Gloucester Road, Wanchai
Hong Kong

Yicko Securities Limited

a corporation licensed by the SFC to carry on Type 1 (dealing in securities), Type 4 (advising in securities) and Type 9 (Asset Management) regulated activity under the SFO

19/F, Tung Ning Building
125–127 Connaught Road Central
Hong Kong

Lee Go Securities Limited

a corporation licensed by the SFC to carry on Type 1 (dealing in securities) regulated activity under the SFO

Suite 1202, 12/F, West Exchange Tower
322 Des Voeux Road Central
Hong Kong

Sinomax Securities Limited

a corporation licensed by the SFC to carry on Type 1 (dealing in securities), Type 4 (advising in securities) and Type 9 (Asset Management) regulated activity under the SFO

Room 2705–6, 27/F, Tower One
Lippo Centre, 89 Queensway
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal Advisers to Our Company

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

As to PRC law
DeHeng Law Offices
PRC lawyers
12th Floor, Tower B
Focus Place No. 19 Finance Street
Beijing, PRC

As to Cayman Islands and BVI law
Ogier
11th Floor Central Tower
28 Queen's Road Central
Central
Hong Kong

As to Australian law
Ironcore Legal Pty Ltd
Wattle House, 12 Carlisle Street
Bowral NSW 2576
Australia

*As to French law, German Law, Dutch law
and UK Law*
Dentons Europe LLP
Thurn-und-Taxis-Platz 6
60313 Frankfurt am Main
Germany

Legal Advisers to the Sole Sponsor, the Sole Global Coordinator and the Underwriters

As to Hong Kong law
Kwok Yih & Chan
Solicitors, Hong Kong
Suites 2103-05, 21st Floor
9 Queen's Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

As to PRC laws

Zhong Lun Law Firm

PRC lawyers

8–10/F, Tower A, Rongchao Tower
6003 Yitian Road, Futian District
Shenzhen

Auditor and Reporting Accountant

PricewaterhouseCoopers

22/F, Prince's Building
Central
Hong Kong

Internal Control Adviser

Centurion ZD CPA Limited

Unit 1304, 13/F
Two Harbourfront, 22 Tak Fung Street
Hung Hom
Hong Kong

Industry Consultant

**Frost & Sullivan (Beijing) Inc.,
Shanghai Branch Co.**

1018, Tower B,
500 Yunjin Road
Shanghai, 200232
PRC

Compliance Adviser

**China Industrial Securities International Capital
Limited**

7/F, Three Exchange Square
8 Connaught Place, Central
Hong Kong

Receiving Bank

Bank of China (Hong Kong) Limited

1 Garden Road
Hong Kong

CORPORATE INFORMATION

Registered Office	89 Nexus Way Camana Bay Grand Cayman KY1-9009 Cayman Islands
Principal place of business in Hong Kong registered under Part 16 of the Companies Ordinance	Unit 629A, 6/F, Star House No. 3 Salisbury Road Tsim Sha Tsui Kowloon Hong Kong
Headquarters and Principal Place of Business in the PRC	827 Qixiang Road Ningbo City, Zhejiang Province PRC
Company's Website Address	www.kwungs.com <i>(the contents of the website do not form part of this prospectus)</i>
Company Secretary	Mr. Lau Chung Wai (劉仲緯先生) (HKICPA) Unit 629A, 6/F, Star House No. 3 Salisbury Road Tsim Sha Tsui Kowloon Hong Kong
Authorised Representatives	Mr. Lau Chung Wai (劉仲緯先生) (HKICPA) Unit 629A, 6/F, Star House No. 3 Salisbury Road Tsim Sha Tsui Kowloon Hong Kong Mr. Tian Dong (田東先生) Room 302, Lane 68 No. 1 Taiyu Road, Zhonghe Street Yinzhou District Ningbo, Zhejiang PRC
Audit Committee	Mr. Lai Chun Yu (黎振宇先生) (Chairman) Mr. Shao Patrick (邵平先生) Mr. Zhou Kai (周凱先生)
Remuneration Committee	Mr. Zhou Kai (周凱先生) (Chairman) Mr. Jin Jianxin (金建新先生) Mr. Lai Chun Yu (黎振宇先生)

CORPORATE INFORMATION

Nomination Committee

Mr. Yang Herong (楊和榮先生) (*Chairman*)
Mr. Jin Jianxin (金建新先生)
Mr. Lai Chun Yu (黎振宇先生)

Principal Share Registrar and Transfer Office

Ogier Global (Cayman) Limited
89 Nexus Way
Camana Bay
Grand Cayman
KY1-9009
Cayman Islands

Hong Kong Branch Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

Bank of China Limited
Ningbo Haishu Sub-Branch
Henglong Centre
No.11 Jie Fang Bei Road
Ningbo, Zhejiang
PRC

Agricultural Bank of China Limited
Ningbo Lijiaqiao Sub-Branch
Chunhe Building, Lijiaqiao Village
Gulin Town, Haishu District
Ningbo, Zhejiang
PRC

INDUSTRY OVERVIEW

The information and statistics set forth in this section and elsewhere in this prospectus have been derived from an industry report, commissioned by us and independently prepared by Frost & Sullivan, in connection with the Global Offering. In addition, certain information is based on, or derived or extracted from, among other sources, publications of government authorities and internal organizations, market data providers, communications with various government agencies or other independent third-party sources unless otherwise indicated. We believe that the sources of such information and statistics are appropriate and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information and statistics are false or misleading in any material respect or that any fact has been omitted that would render such information and statistics false or misleading. None of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any other party involved in the Global Offering (excluding Frost & Sullivan in respect of the F&S Report and the information stated therein) or their respective directors, advisers and affiliates has independently verified such information and statistics and no representation has been given as to their accuracy. Accordingly, such information should not be unduly relied upon in making, or refraining from making, any investment decisions.

SOURCE OF INFORMATION

Frost & Sullivan has been commissioned to analyze and report on the current status of, and forecasts for, the selected industries in which we carry on our business. We have agreed to pay a fee of RMB500,000 for the preparation of the F&S Report. Our Directors are of the view that the payment of the fee does not affect the fairness of conclusions drawn in the F&S Report.

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

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

INDUSTRY OVERVIEW

ANALYSIS OF CANDLE MARKET OF EU

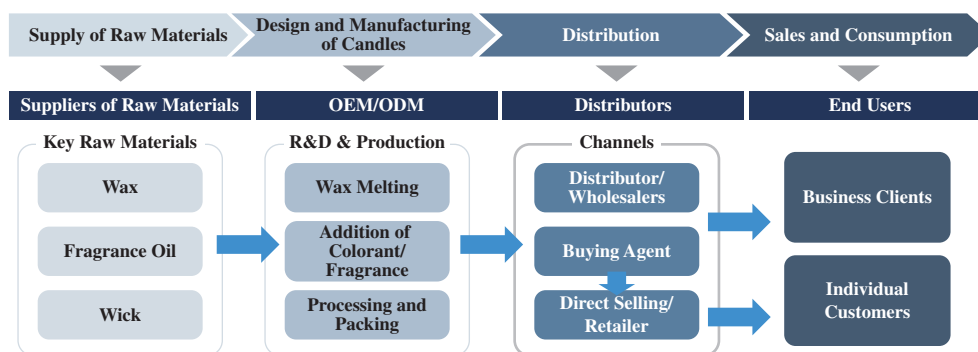
Definition and Classification of Candle Market of EU

Based on their functions, candles can be divided into two major categories, namely artisan candle and basic candle. Basic candle is mainly retained the original application for illumination, with mono-color, simple geometric shape such as pillars, cubes and pyramids, with minimal treatments on the surfaces which are either plain or with screw thread pattern. Artisan candle is candle with artistic and innovative exterior surface, container, shape and design such as animals and plants, which can provide extra functions other than illumination, like air freshening, decoration and aromatherapy, with essential oil, charming shapes, artistic containers or color.

Industry Value Chain of Candle Industry

The candle industry consists of four main segments including the supply of raw materials, manufacturing, distribution and sales. Depending on the business models, candle manufacturers could sell their products to retailers such as department stores, home accessories stores and/or their appointed buying agents which source the candle products for retailers. Manufacturers also export their candle products via distributors/wholesalers to the foreign retailers, while some market players may have their own retail sales network such as physical and online stores.

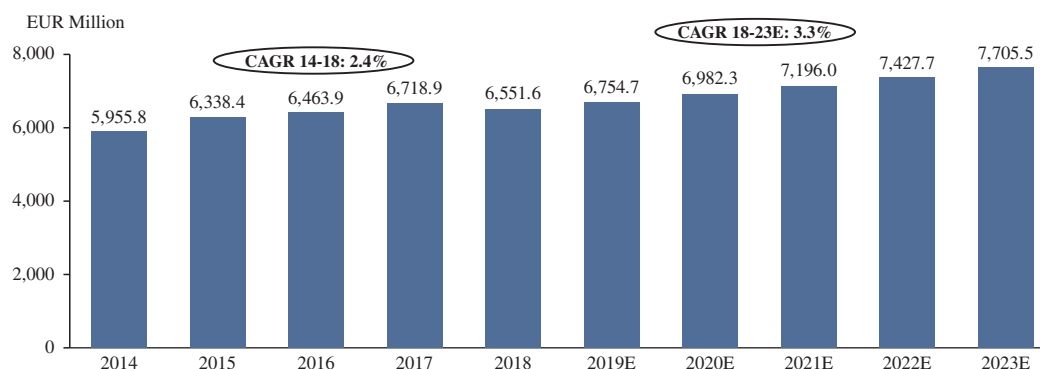
Value Chain of Candle Industry



Source: Frost & Sullivan

Market Size of Candle of EU

Market Size of Candles (by Retail Sales Value), EU, 2014–2023E



Source: Frost & Sullivan

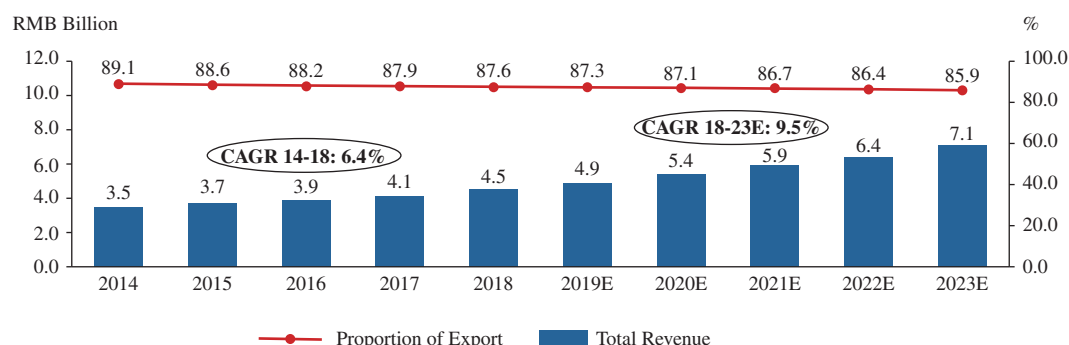
INDUSTRY OVERVIEW

EU is a developed market for the consumption of candle products and one of the largest consumption markets of candles in the world. In 2018, consumption of candles in EU amounted to EUR6,551.6 million comparing with EUR 5,955.8 million in 2014, indicating a CAGR of 2.4% from 2014 to 2018. Consumption of candles in EU accounted for 43.4% of total consumption of candles in the world, which was EUR15.1 billion in 2018, making EU a major market. In accordance with European Candle Association's industry report in Autumn/Winter 2018, the slight decrease in consumption value of candles in EU in 2018 was mainly caused by the long hot summer that kept people from getting into the proper mood for burning candles for a long time. Although sales had picked up immediately since autumn arrived in most parts of Europe in November, it was not enough to make up for the relatively weak sales in the early months of autumn. Contributed by the market drivers as set out below and the optimistic expectation of economies and changes in consumers' behaviors, the consumption of candles in EU is expected to keep growing in the future and reach EUR7,705.5 million in 2023 with a CAGR of 3.3% during the period from 2018 to 2023.

China is the largest candle manufacturing market in the world and the products are mainly exported to overseas markets. Driven by the growth of both global and domestic consumption of candle market, the candle market can maintain a decent growth in the coming years.

The total manufacturing revenue of candle manufacturing market in China increased from RMB3.5 billion in 2014 to RMB4.5 billion in 2018 with a CAGR of 6.4% and is expected to reach RMB7.1 billion in 2023, indicating a CAGR of 9.5% during the period from 2018 to 2023. The export accounted for 87.6% of total revenue in 2018, and the proportion of export to the total revenue experienced a decline from 89.1% in 2014 due to the higher growth of domestic consumption market.

Market Size of Candle Manufacturing*
(by Revenue based on Ex-factory Prices), China, 2014–2023E



* Include OEM and ODM production but excluding self-branded production.

Source: Frost & Sullivan

Market Drivers of Candle Market of EU

Increasing Economic Condition. The economy of EU has been recovering steadily in recent years. The income and consumption level of residents in EU keep growing, laying a solid foundation for the growth of demand for candles. Furthermore, as the leading European countries are witnessing decent economic growth, such as Germany, the UK and France, who are also the major consumption markets for candles in EU, their economic growth would lead to positive increase of demand for candles in EU market.

INDUSTRY OVERVIEW

Improving Trade Environment for Imports. Since the anti-dumping duties against the imports from the low-cost countries including PRC were lifted in 2015, the trade environment for imported candle products is improving. This has led to the increasing supply of candles of good quality with relatively competitive price in EU market, which has in turn stimulated the growth of consumption. In 2018, China is the largest exporter of candles to EU accounting for 65.4% of EU's total import value of candles, which was approximately EUR361.7 million. The positive impact brought by the improvement of the trade environment will continue promoting the healthy competition, which would be a solid driver for candle consumption in EU.

Continuous Improvement of Product Quality and Design. In order to meet consumers' increasing requirements and constantly changing preference for the quality and design of candles, both domestic and foreign retailers and manufacturers of candles are increasing investments on quality improvement and design innovation in candles. Such development would in turn stimulate the consumption of candles in terms of either volume or spending per unit, which will lead to increase of the candle market in EU.

Market Trends of Candle Market of EU

Increasing in Import. The production cost of domestic candle manufactures have significantly increased in EU, due to the growing costs of labor, raw materials and other operating costs. It is expected that the trend will continue for the next few years as the economy of EU is growing. By contrast, as the anti-dumping duties were lifted years ago, candles from foreign countries are able to enter into EU market with lower prices. It is estimated that the import of candles in EU market would continue to increase.

Higher Legal Requirements. To enhance the quality of candle products and healthy development of the industry, increasing strict legal requirements on candle products have implemented in EU for both domestic and foreign manufacturers. In addition, there are differences in legal requirements among member countries of EU, and domestic manufacturers are attempting to develop harmonized and standardized manufacturing regulations, which helps themselves to further expand their businesses in EU market.

Diversifying Preference. The consumers' preference to candles keep changing in terms of scent, color, design, etc., of candle products. For example, scented candles have continued to grow in popularity in EU market recently. Furthermore, as EU is a region of diversified cultures, the consumers' preferences of candle products vary. It is estimated that the trend of diversifying preference will continue in the EU market.

Market Entry Barriers of Candle Manufacturing Market

Economies of Scale Barrier. For manufacturers, it is difficult and costly to establish product differentiation. The profit margin of candle is low and the price competition is fierce. Therefore, it is crucial for candle manufacturers to expand their business size in order to realize economies of scale. For new players in the market, it is difficult to establish distribution network and increase their sales within a short period of time. Given the scale of the new entrant which is often not comparable to existing players, the average cost of production is generally higher than that of existing manufacturers, which significantly reduce their competitiveness.

INDUSTRY OVERVIEW

R&D Capability Barrier. Candles are consumer goods and manufacturers in candle industry mainly target overseas consumer groups, explore overseas consumer preferences and continually innovate product features and design. Meanwhile, the ability to accurately grasp fashion trend and deep understanding of foreign religious cultures could aid manufacturers to keep up with the market in terms of updating product design.

Sales Channel Barrier. Most of Chinese manufacturers export candles to Europe and the US. Thus, a mature and stable sales network or OEM/ODM capability effectively ensure a stable customer base relationship and facilitate the manufacturers to develop brand influence. Market new entrants are required to overcome the barriers of building and maintaining stable sales and distribution channels and international brand recognition.

ANALYSIS OF GLOBAL AND CHINA'S HOME FRAGRANCE MARKET

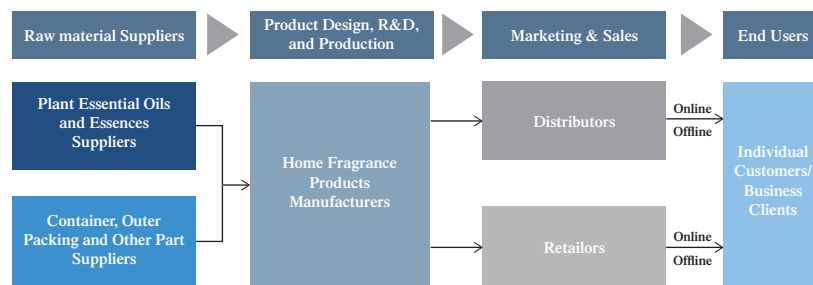
Definition and Classification of Global and China's Home Fragrance Market

Fragrance products are categorized as home fragrance products and perfume, and home fragrance products can be further divided into solid and liquid home fragrance products. For solid home fragrance products, there are two types of products, namely combustible and non-combustible solid home fragrance products. For liquid home fragrance products, there are three main types of products, including electric air fresheners, reed diffuser and volatile liquid home fragrance products.

Industry Value Chain of Home Fragrance Products Market

The up-stream of home fragrance products market includes raw materials suppliers, such as plant essential oils and essences suppliers, container, etc. The mid-stream of home fragrance products market includes product manufacturers, and their products are sold to end customers through retailers directly or via distributors then retailers.

Value Chain of Home Fragrance Products Market

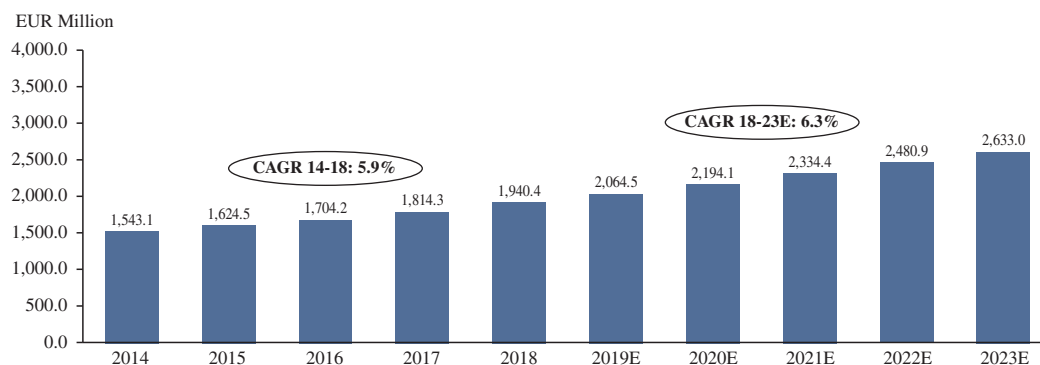


Source: Frost & Sullivan

INDUSTRY OVERVIEW

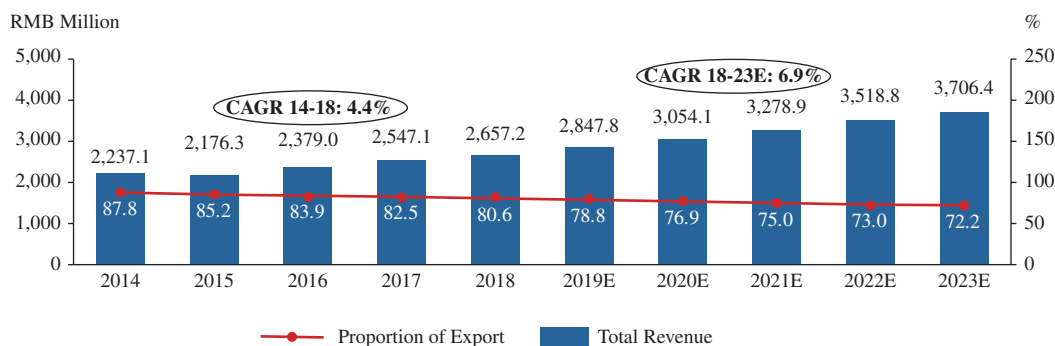
Market Size of Home Fragrance Products of EU

Market Size of Home Fragrance Products Consumption (by Sales Value), EU, 2014–2023E



For many EU consumers, a nice scent is part of a clean and comfortable home, and consumers value quick and easy solutions to eradicate the unpleasant smells and create a livable space. As a result, demand for home fragrance products continued to enjoy a stable growth from 2014 to 2018 in EU. Home fragrance products market in EU is well developed and mature. The market size experienced a stable growth from EUR1,543.1 million in 2014 to EUR1,940.4 million in 2018, representing a CAGR of 5.9% during the period, making EU as one of the major home fragrance markets in the world in 2018. The consumption of home fragrance products in EU accounted for 29.7% of total consumption of home fragrance products in the world, which was EUR6.5 billion in 2018. At the same time, China is one of the largest exporters of home fragrance products to EU, accounting for close to 40% of EU's total import value of home fragrance products in 2018, which was approximately EUR398.0 million. Home fragrance products consumption market in EU is expected to maintain a stable growth and reach EUR2,633.0 million in 2023 with a CAGR of 6.3% from 2018 to 2023.

Market Size of Home Fragrance Products Manufacturing (by Revenue based on Ex-factory Price)*, China, 2014–2023E



* Include OEM and ODM production but excluding self-owned brands production.

INDUSTRY OVERVIEW

The home fragrance products manufacturing market in the PRC experienced a stable growth from RMB2,237.1 million in 2014 to RMB2,657.2 million in 2018 with a CAGR of 4.4%. The export accounted for 80.6% of total revenue in 2018, and the proportion of export to the total revenue experienced a decline from 87.8% in 2014 to 80.6% in 2018 due to the increasing domestic production cost and growing domestic consumption market. The home fragrance products manufacturing market is expected to continue growing and reach RMB3,706.4 million in 2023, representing a CAGR of 6.9% from 2018 to 2023. In the past few years, the average purchase prices of home fragrance and home accessories, which the Chinese manufacturers obtained from their outsourced manufacturers, increased moderately.

Market Drivers of Home Fragrance Products Market of EU

Increase of Premium Home Fragrance Products. The acceptance and penetration rate of traditional home fragrance products such as volatile liquid home fragrance products and solid home fragrance products are relatively high in EU market, however, there is large growth potential for the premium home fragrance products. As the disposable income per capital level increases in EU and consumers are pursuing for higher-quality lifestyles, premium home fragrance products such as electricity air fresheners and reed diffusers are expected to become more popular, which will drive the growth of EU market with higher retail prices.

Diversified Home Fragrance Product Types. Many home fragrance products manufacturers are developing a variety of new scents and products for various scenario. The diversity of home fragrance products provides more options for customers with products of different types, which satisfies different needs of customers in specific scenario and therefore will boost the development of EU market.

Increasing Penetration Rate of Home Fragrance Products in Eastern Europe. Compared with the mature Western Europe, the Eastern Europe market's penetration rate of home fragrance products is relatively lower. However, as the western lifestyle continuously influences Eastern European customers and the level of disposable income per capital is increasing in these countries, Eastern Europe consumers' willingness and capability of paying for home fragrance products are expected to grow, which will contribute to the growth and development of the home fragrance products market in EU.

Development Trends of Home Fragrance Products Market of EU

Increasing Use of Healthy and Environment-friendly Raw Materials. Consumers are paying increasing attention to the healthy and environmental influence of products and prefer green products. Unlike artificial compound essential oils, essential oils based on extraction from natural plants is healthier and bring better user experience to customers. It is expected that home fragrance products with essential oil based on natural extraction instead of artificial components will become more popular in the future.

New Entrants from Other Industries. Due to the rising demand for variety and premium products, designers and manufacturers from other industries are entering into the home fragrance product market, such as cosmetic manufacturer Rituals. An increasing number of manufacturers with various industry background will provide customers with more diversified home fragrance products options, which will contribute to the growth of the market in EU.

INDUSTRY OVERVIEW

Innovation of Scent Types. Home fragrance with innovative scent types has grown in popularity in EU market. Consumers prefer the brands with a broad selection of scent types, and therefore home fragrance products manufacturers and brands are expected to invest increasingly in the R&D of diverse scent types to satisfy market demand.

Market Entry Barriers of Home Fragrance Products Market

Client Relationship and Distribution Network Barrier. Well-established relationship with foreign buyers and the distribution network across key regional home fragrance products markets are essential for manufacturers of home fragrance products. Establishment of relationship with foreign buyers and global distribution networks could be time-consuming as multiple commercial negotiation and terms should be agreed before cooperation. It would be difficult for new entrants to establish such client relationship and distribution networks in a short time.

Capital Barrier. The manufacturing of home fragrance products requires well-established production lines in order to achieve economies of scale, which could lower production costs and increase profit margin. In addition, large-scale production line can improve the production efficiency and further improve the company profitability. Capital investment is essential in setting up production lines, and it would be very difficult for new entrants without sufficient funding to establish large-scale production line and therefore not able to compete in the market.

Product Design Barrier. Being a fast moving consumer good, the product life cycle of home fragrance is relatively low. Also, the market demand and consumer preference are dynamic. Therefore, the home fragrance products manufacturers need to possess strong product design and innovation capability including the scent, appearance, package, etc. to meet clients' product development requirements. It would be difficult for new entrants without strong product design capability to enter into the market.

COMPETITIVE LANDSCAPE OF CHINA'S HOME FRAGRANCE AND CANDLE MANUFACTURING MARKET

China's home fragrance and candle manufacturing markets are relatively concentrated, and the top three players, namely Company A, Company B, and the Group have larger scale compared with other scattered small manufacturers. The Group ranked third in China in 2018 in terms of revenue from the manufacturing and sales of home fragrance products and candles, which amounted to RMB376.0 million in aggregate.

INDUSTRY OVERVIEW

The Group ranked the second in China in 2018 in terms of revenue from the manufacturing and sales of candles, which amounted to RMB311.0 million. In addition, the Group ranked the fourth in China in 2018 in terms of revenue from the manufacturing and sales of home fragrance products, which amounted to RMB65.0 million.

Top 5 Home Fragrance and Candle Manufacturers (by Revenue from Manufacturing and Sales), China, 2018			Top 5 Candle Manufacturers (by Revenue from Manufacturing and Sales), China, 2018			Top 5 Home Fragrance Manufacturers (by Revenue from Manufacturing and Sales), China, 2018		
Rank	Company	Revenue (RMB million)	Rank	Company	Revenue (RMB million)	Rank	Company	Revenue (RMB million)
1	Company A	602.9	1	Company A	502.9	1	Company B	140.0
2	Company B	390.0	2	The Group	311.0	2	Company A	100.0
3	The Group	376.0	3	Company B	250.0	3	Company C	75.0
4	Company C	150.0	4	Company D	100.0	4	The Group	65.0
5	Company D	100.0	5	Company E	80.0	5	Company F	25.0

Source: Frost & Sullivan

Notes:

1. Company A is a company based in the PRC and listed on the Shenzhen Stock Exchange. It principally engages in the manufacturing and sale of candles, home fragrance products, cosmetics and shale oil.
2. Company B is a company based in the PRC and principally engages in the manufacturing and sale of artisan candles. It operates two overseas production bases.
3. Company C is a company based in the PRC and principally engages in the research, manufacturing and sale of candles, plant essential oils, cosmetics and other non-hazardous chemical products.
4. Company D is a company based in the PRC and principally engages in the research, development, design, production and sale of home fragrance products to customers in the U.S. and Europe.
5. Company E is a company based in the PRC and principally engages in the manufacturing, export and sales of candles and related accessories to customers in the U.S., Europe and Canada.
6. Company F is a company based in the PRC and principally engages in the provision of candles, cosmetics and related accessories.

The market size of home accessories products retail market in EU is expected to increase at a moderate growth rate and attain EUR 58.6 billion in 2023, with a CAGR of 3.8% from 2018 to 2023 along with the economic recovery and increase in per capita household expenditure.

INDUSTRY OVERVIEW

ANALYSIS OF HOME ACCESSORIES MARKET

Market Drivers of Home Accessories Manufacturing Market of EU

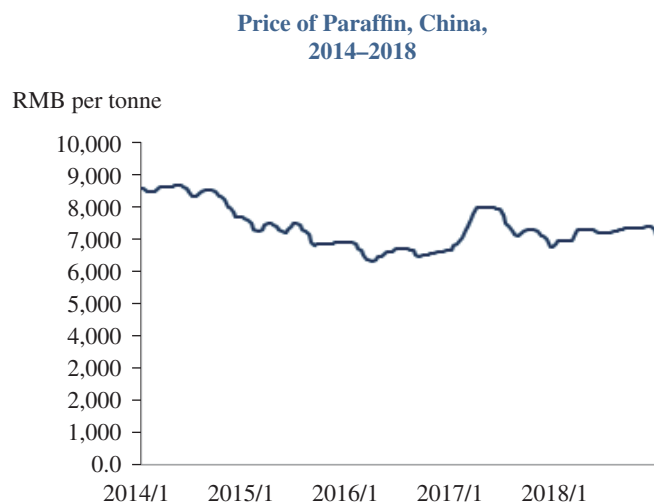
Increasing Demand for Home Accessories Products. Due to the continuously increasing consumption power in EU, the home accessories industry is experiencing a stable growth. With the further economy development in less developed EU countries, the consumption of home accessories products is expected to increase. The swelling middle class with up-scale lifestyle has created a huge demand for home accessories products.

Continuous Improvement and Update of Products. In order to thrive in the increasingly fierce market, home accessories providers are making efforts to improve product quality, combine functionality and aesthetic design together, which attract consumers to spend more on home accessories products. In addition, constant launch of new home accessories products encourages customers to purchase and update their home accessories more frequently.

Highly Efficient Online Sales and Distribution Channel. Online sales channels have the advantages of comprehensive home accessories product categories and better user-interaction experience, which makes it easier for consumers to find the suitable home accessories products. Through online sales channel, home accessories providers can reach both targeted individual customers as well as business clients conveniently.

PRICE ANALYSIS OF CANDLE PRODUCTS

As the major raw material for the production of candles, waxes of various types, including animal wax, plant wax and paraffin, are applied in the production of candles. Currently, the paraffin is the most widely used wax in the production of candles. The market price of paraffin is relatively less volatile, and China is a major paraffin production country. In 2018, the price of paraffin was around RMB7,000 per tonne.



Source: Frost & Sullivan

REGULATORY OVERVIEW

PRC LAWS AND REGULATIONS

Our business activities are principally based in the PRC. We are therefore required to comply with a number of PRC laws and regulations to carry out our operating activities. The relevant PRC laws and regulations applicable to the business and operation of our Group are set out below.

1. Laws and regulations relating to foreign investment

The establishment and registration of corporate entities in the PRC are governed by the Company Law of the PRC (《中華人民共和國公司法》) (the “**PRC Company Law**”), which was promulgated by the Standing Committee of the National People’s Congress of the PRC (the “**SCNPC**”) on 29 December 1993 and came into effect on 1 January 1994 and subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005, 28 December 2013 and 26 October 2018. Pursuant to the PRC Company Law, companies are classified into categories, namely limited liability companies and limited companies by shares. The PRC Company Law shall also apply to foreign-invested limited liability companies and companies limited by shares. According to the PRC Company Law, the provisions otherwise prescribed by the laws on foreign investment shall prevail.

Pursuant to the Provisional Administrative Measures on Establishment and Modifications (Filing) for Foreign Investment Enterprises (《外商投資企業設立及變更備案管理暫行辦法》) (the “**Provisional Measures**”) promulgated by the Ministry of Commerce PRC (the “**MOFCOM**”) on 8 October 2016, and amended on 30 July 2017 and 29 June 2018. The establishment and modifications of foreign investment enterprises, including wholly foreign-owned enterprises, not subject to the approval under the special entry management measures shall be filed with the delegated commercial authorities. Within the record filing scope stipulated in Provisional Measures, the foreign investment enterprises shall fill in online and submit an application for record-filing of the change of the foreign investment enterprises and the relevant documents, and handle the record-filing procedures.

The establishment, alternation and approval procedures, registered capital requirements, foreign exchange, accounting practices, taxation and labor matters of a wholly foreign-owned enterprise are regulated by the Wholly Foreign-owned Enterprise Law of the PRC (《中華人民共和國外資企業法》) (the “**Wholly Foreign-owned Enterprise Law**”), which was promulgated and came into effect on 12 April 1986 and amended on 31 October 2000 and 3 September 2016, the Implementation Rules for 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 was promulgated and came into effect on 12 December 1990 and amended on 12 April 2001 and 19 February 2014.

Any investment in the PRC by foreign investors and foreign-invested enterprises (the “**Foreign Party**”) is governed by the Catalogue of Industries for Encouraged Foreign Investment (2019 Edition) (《鼓勵外商投資產業目錄(2019年版)》) (the “**Catalogue**”) and the Special Administrative Measures for Access of Foreign Investments (Negative List for Access of Foreign Investments) (2019 Version) (《外商投資准入特別管理措施(負面清單)(2019年版)》) (the “**Negative List**”), which were both promulgated by the MOFCOM and the National Development and Reform Commission (the “**NDRC**”) on 30 June 2019 and became effective on 30 July 2019. The Catalogue divides foreign investment industries into three categories: the encouraged industries, the restricted industries, and the prohibited industries. According to the Catalogue and Negative List, industries listed in the encouraged category are opened to the Foreign Party who usually can further enjoy supportive policies of local government. Investment in the restricted industries can only be conducted by the Foreign Party within the scope of the relevant regulatory authority’s approval or in the form of Sino-foreign equity or contractual joint ventures (usually with Chinese investors as the majority

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shareholders). Prohibited industries are not opened to foreign investment. Industries which are not listed in the Catalogue are generally classified as the permitted category. We do not engage in any restricted or prohibited industries for foreign investment.

On 15 March 2019, the National People's Congress of the PRC (中華人民共和國全國人民代表大會) (the “NPC”) adopted the PRC Foreign Investment Law (中華人民共和國外商投資法) (the “**Foreign Investment Law**”) at the closing meeting of the second session of the 13th NPC. Upon taking effect on 1 January 2020, the Foreign Investment Law will replace the Law on Sino-foreign Equity Joint Ventures (中外合資經營企業法), the Law on Sino-Foreign Cooperative Joint Ventures (中外合作經營企業法) and the Wholly Foreign-owned Enterprises Law to become the legal foundation for foreign investment in the PRC.

2. Laws and regulations relating to importation and exportation of goods

Pursuant to the Foreign Trade Law of the PRC (〈中華人民共和國對外貿易法〉), which was promulgated on 12 May 1994 and came into effect on 1 July 1994, amended on 6 April 2004 and 7 November 2016, and the Measures for the Record-keeping and Registration by Foreign Trade Dealers (〈對外貿易經營者備案登記辦法〉) (the “**Record-keeping and Registration Measures**”), which was promulgated on 25 June 2004 and came into effect on 1 July 2004 and subsequently revised on 18 August 2016, foreign trade dealers who are engaged in the import or export of goods or technologies abroad shall register with the MOFCOM or its authorized bodies unless such registration is not required under the laws and administrative regulations and/or by the MOFCOM.

According to the Circular of the MOFCOM on Relevant Issues Concerning the Record Keeping and Registration of the Foreign Trade Right by Foreign-funded 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 and came into effect on 17 August 2004, when foreign-funded enterprises established before 1 July 2004 apply for addition of any import/export business to its approved scope of business, they must, in accordance with the Record-keeping and Registration Measures, complete the formalities of business addition to the enterprises' business licenses and shall, in accordance with the relevant procedures, complete the formalities of record-keeping and registration on the change of the approval certificate for its establishment, business license with the business addition made, and any other document as required under the Record-keeping and Registration Measures.

Pursuant to the Customs Law of the PRC (〈中華人民共和國海關法〉) promulgated by the SCNPC on 22 January 1987 which came into effect on 1 July 1987, and subsequently amended on 8 July 2000, 29 June 2013, 28 December 2013, 7 November 2016 and 4 November 2017, and related regulations, the declaration of import and export goods may be made by consignees and consignors themselves, and such formalities may also be completed by their entrusted PRC Customs brokers that have registered with the PRC Customs. The consignees and consignors for import or export goods and the customs declaration enterprise shall register with the PRC Customs themselves for declaration activities at customs, and anyone who is not registered at the customs shall not conduct declaration activities.

Pursuant to the Administrative Provisions for the Registration of Customs Declaration Agents by the PRC Customs Authorities (〈中華人民共和國海關報關單位註冊登記管理規定〉), which was promulgated and came into effect on 13 March 2014 and subsequently revised on 20 December 2017 and 29 May 2018, “consignor or consignee of export or import goods” means any legal person, other organization or individual that directly imports or exports goods within the territory of the PRC. Consignors or consignees of import or export goods shall go through registration formalities with

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their local Customs authorities in accordance with the applicable provisions. After completing the registration formalities with their local Customs authorities, consignors or consignees of import or export goods may handle their own declarations at any customs port or any locality where customs supervisory affairs are concentrated within the customs territory of the PRC. A PRC Customs Declaration Registration Certificate for Consignor or Consignee of Import or Export Goods shall be valid for a period of two years.

Principal regulations on the inspection of import and export commodities are set out in the Law of the PRC on Import and Export Commodity Inspection (〈中華人民共和國進出口商品檢驗法〉), which was promulgated by the SCNPC on 21 February 1989, amended on 28 April 2002, 29 June 2013, 27 April 2018 and 29 December 2018, and its implementation rules. According to the aforesaid law and its implementation rules, the State Administration for Commodity Inspection established by the State Council shall be in charge of the inspection of import and export commodities throughout the country. The local inspection and quarantine authorities set up by the State Administration for Commodity Inspection shall be responsible for the inspection of import and export commodities within areas under their jurisdictions. The import and export commodities which are subject to compulsory inspection are listed in the catalogue compiled and readjusted by the State Administration for Commodity Inspection. The inspection of the import and export commodities which are listed in such catalogue shall be conducted in accordance with the compulsory requirements of the technical regulations of the State by the commodity inspection authorities.

3. Laws and regulations relating to taxation

Enterprise Income Tax

Pursuant to the Enterprise Income Tax Law of the PRC (〈中華人民共和國企業所得稅法〉) (the “EIT Law”), which became effective on 1 January 2008 and amended on 24 February 2017 and 29 December 2018, and its implementation rule – the Regulation on Implementation of the EIT Law of the PRC (〈中華人民共和國企業所得稅法實施條例〉) which was promulgated on 6 December 2007 effective on 1 January 2008, and amended on 23 April 2019, tax payers are divided into resident enterprises and non-resident enterprises. A resident enterprise refers to an enterprise that is established inside the PRC, or which is established under the law of a foreign country (region) but whose actual institution of management is inside the PRC. A resident enterprise shall pay the enterprise income tax on its incomes derived from both inside and outside the PRC at the rate of 25%. A non-resident enterprise refers to an enterprise established under the law of a foreign country (region), whose actual institution of management is not inside the PRC but has offices or establishments inside the PRC; or which does not have any offices or establishments inside the PRC but has income originating from the PRC. A non-resident enterprise having offices or establishments inside the PRC shall pay enterprise income tax on its incomes derived from the PRC as well as on incomes derived from outside the PRC but which has real connection with the said offices or establishments at the rate of 25%. A non-resident enterprise having no office or establishment inside the PRC, or whose incomes have no actual connection to its institution or establishment inside the PRC shall pay enterprise income tax on the incomes derived from the PRC at the rate of 10%.

Pursuant to the newly revised Measures for the Administration of the Certification of High and New Technology (〈高新技術企業認定管理辦法〉) which was promulgated on 29 January 2016 and came into effect on 1 January 2016 and the High and New Technology Guidelines for the Management of Technical Enterprise Certification (〈高新技術企業認定管理工作指引〉) which was promulgated on 22 June 2016 and became into effect on 1 January 2016, High and

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New Technology Enterprise, which are recognised in accordance therewith, may apply for the tax preferential policy in accordance with the EIT Law and its implementation rules and the Law of PRC Concerning the Administration of Tax Collection (〈中華人民共和國稅收徵收管理法〉), which was promulgated on 4 September 1992 and came into effect on 1 January 1993 and last amended on 24 April 2015, and Implementing Rules of the Law of the PRC Concerning the Administration of Tax Collection (〈中華人民共和國稅收徵收管理法實施細則〉), which was promulgated on 7 September 2002 and came into effect on 15 October 2002 and last amended on 6 February 2016. The qualified High and New Technology Enterprises would be taxed at a rate of 15% on enterprise income tax. The validity period of the qualification of accredited High and New Technology Enterprise shall be three years from the date of issuance of the relevant certificate.

Value-added Tax

Pursuant to the Provisional Regulations on Value-added Tax of the PRC (〈中華人民共和國增值稅暫行條例〉), which was promulgated by the State Council on 13 December 1993 and came into effect on 1 January 1994 and last amended on 19 November 2017 and effective on the same day, and its implementation rule-the Interim Regulations of the PRC on Value-added Tax (〈中華人民共和國增值稅暫行條例實施細則〉), which was promulgated by the Ministry of Finance (the “MOF”) and the State Administration of Taxation (the “SAT”) on 15 December 2008 and came into effect on 1 January 2009, last amended on 28 October 2011 and effective on 1 November 2011, all entities or individuals in the PRC engaging in the sale of goods, providing labor services of processing, repairs or maintenance, or selling services, intangible assets or real property in PRC or importing goods to PRC are required to pay value-added tax (the “VAT”).

SAT published a Circular on Adjusting Value-added Tax Rates (〈財政部、稅務總局關於調整增值稅稅率的通知〉) on 4 April 2018 to announce that where a taxpayer engages in a taxable sales activity for the VAT purpose or imports goods, the previous applicable tax rates of 17% and 11% will be adjusted to 16% and 10% respectively. This Circular has come into force since 1 May 2018.

Pursuant to the Announcement on Relevant Policies for Deepening Value-added Tax Reform (《關於深化增值稅改革有關政策的公告》, [2019]No.39) issued jointly by the MOF, the SAT and the General Administration of Customs on 1 April 2019 and came into effect on the same date, the previous applicable tax rates of 16% and 10% will be further adjusted to 13% and 9% respectively.

Income Tax on Indirect Property Transfer by Non-resident Enterprise

Pursuant to the Announcement of the State Administration of Taxation on Several Issues Concerning the Enterprise Income Tax on Indirect Property Transfer by Non-Resident Enterprises (〈國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告〉) (the “Announcement No. 7”) promulgated and came into effect on 3 February 2015, where a non-resident enterprise indirectly transfers properties such as equity in the PRC resident enterprises without any reasonable commercial purposes with the aim of avoiding to pay enterprise income tax, such indirect transfer shall be reclassified as a direct transfer of equity in the PRC resident enterprise in accordance with Article 47 of the EIT Law. Section Two, Article 8 of the Announcement No.7 was later abolished by the Announcement of the State Administration of Taxation on Matters Concerning Withholding of Income Tax of Non-resident

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Enterprises at Source (〈國家稅務總局關於非居民企業所得稅源泉扣繳有關問題的公告〉) (the “**Announcement No. 37**”), which was promulgated on 17 October 2017, became effective on 1 December 2017 and last amended on 15 June 2018. Article 13 of the Announcement No.7 was also abolished by the State Administration of Taxation on 29 December 2017.

Withholding Tax on Dividends

According to the Arrangements between the Mainland of the PRC and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion With Respect to Taxes On Income (〈內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排〉) which was promulgated by SAT on 21 August 2006 and came into effect on 8 December 2006, profit derived by a foreign investor residing in Hong Kong from PRC enterprise in which such foreign investor owns directly at least 25% equity interest is subject to the tax rate of 5% after obtaining the approval from the relevant tax bureau.

Pursuant to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Treaties (〈國家稅務總局關於執行稅收協定股息條款有關問題的通知〉), which was promulgated by the SAT and became effective on 20 February 2009, all of the following requirements shall be satisfied for a party to a tax agreement to be entitled to the tax rate specified in the tax agreement for dividends paid to it by a PRC resident company: (i) such a fiscal resident who obtains dividends should be a company as provided in the tax agreement; (ii) owner’s equity interests and voting shares of the PRC resident company directly owned by such a fiscal resident reaches a specified percentage; and (iii) the equity interests of the PRC domestic company directly owned by such a fiscal resident, at any time during the twelve months prior to the obtainment of the dividends, shall reach the percentage specified in the tax agreement.

According to the Administrative Measures for Non-resident Taxpayers to Enjoy Treatments under Tax Treaties (〈非居民納稅人享受稅收協定待遇管理辦法〉) (the “**Administrative Measures**”), which was promulgated on 27 August 2015, came into force on 1 November 2015 and subsequently amended on 15 June 2018, if the non-resident taxpayers are qualified for enjoying the favorable tax benefits under the tax arrangements, they could enjoy such benefits of themselves from the tax authority when they or their withholding agents make declarations to the relevant tax authority. Under the Administrative Measures, when the non-resident taxpayers or their withholding agents make declarations to the relevant tax authority, they should deliver the relevant reports and materials to the tax authority and such non-resident taxpayers and withholding agents will be subject to the follow-up management of the tax authority.

Export Tax Rebate

Pursuant to the Measure for the Administration of Tax Refund (Exemption) of Exported Goods (For Trial Implementation) (〈出口貨物退(免)稅管理辦法(試行)〉) (Guo Shui Fa [2005] No. 51), as promulgated by SAT on 16 March 2005, became effective on 1 May 2005 and amended on 15 June 2018, unless otherwise provided by law, for the goods as exported either directly by an exporter or via an export agency, the exporter may, after the export declaration and the conclusion of financial settlement of sales, file a report to the tax authorities for the approval of refund or exemption of VAT.

According to the Provisional Regulations on VAT and the Notice of the MOF and the SAT on the Policies of Value-added Tax and Consumption Tax Applicable to Exported Goods and

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Services (〈財務部、國家稅務總局關於出口貨物勞務增值稅和消費稅政策的通知〉) which partially came into effect since 1 January 2011 and partially came into effect since 1 July 2012, goods and services exported by export-oriented enterprises shall be eligible for VAT exemption and rebate policies. In accordance with the Regulations on the export tax rebate rate, export commodities have different tax rebate rates of, depending on the types of the commodities, 5%, 6%, 9%, 11%, 13%, 15% and 17%, respectively.

Pursuant to the Circular on Adjusting Value-added Tax Rates, the previous export tax rebate rates of 17% and 11% have been adjusted to 16% and 10%, respectively. And according to the Announcement on Relevant Policies for Deepening Value-added Tax Reform which came into effect on 1 April 2019, the aforementioned export tax rebate rates of 16% and 10% have been further adjusted to 13% and 9%, respectively.

Transfer Pricing

Pursuant to the Announcement of the State Administration of Taxation on Relevant Matters relating to Improvement of the Filing of Related-Party Transactions and the Management of Contemporaneous Documentation (〈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〉) which was promulgated by the SAT and became effective on 29 June 2016, any resident enterprise subject to audit collection and any non-resident enterprise which has establishments or offices in China and honestly reports and pays enterprise income tax shall, in filing a tax return for the annual enterprise income tax with a tax authority, make related filings with regard to its business transactions with any related party and attach thereto the Annual Report on the Related-party Transactions of Enterprises of the People's Republic of China (2016 version). Enterprises shall prepare contemporaneous documentation based on a tax year, and submit contemporaneous documentation for the related-party transactions according to the requirements of tax authorities.

The SAT have published an announcement on issuing 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序管理辦法〉) (the “**STA Measures**”) which was promulgated on 17 March 2017 and came into effect from 1 May 2017 and amended on 15 June 2018. According to the STA Measures, the tax authorities exercise special tax adjustment monitoring and management of enterprises via review of the reporting of connected transactions, management of contemporaneous documentation, profit level monitoring and other means. When any enterprises are found to have special tax adjustment risks, they will send a Notice of Tax Matters to the enterprise, suggesting the existence of a tax risk. An enterprise may adjust and pay taxes at its own discretion when it receives a special tax adjustment risk warning or identifies its own special tax adjustment risks. The tax authorities may also carry out special tax investigation and adjustment in accordance with the relevant provisions in regard to enterprises that adjust and pay taxes at their own discretion.

4. Laws and regulations relating to foreign exchange

Foreign Currency Exchange

The principal regulation governing foreign currency exchange in the PRC is the Foreign Exchange Administration Rules of the PRC (〈中華人民共和國外匯管理條例〉) (the “**Foreign Exchange Administration Rules**”), which was promulgated on 29 January 1996 and came into effect on 1 April 1996 and subsequently amended on 14 January 1997 and 1 August 2008.

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Under Foreign Exchange Administration Rules, the Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as capital transfers, direct investment, investment in securities, derivative products or loans, unless prior approval of the State Administration of Foreign Exchange (the “SAFE”) or of its branches was obtained.

The Circular of the Peoples Bank of China on Issuing the Provisions on the Settlement and Sale of and Payment in Foreign Exchange (〈結匯、售匯及付匯管理規定〉) was promulgated on 20 June 1996 by the People’s Bank of China and came into effect on 1 July 1996. Under this regulation, the Renminbi is freely convertible for payment of current account items (such as trade and service-related foreign exchange transactions and dividend payments) but not freely convertible for capital account items (such as direct investment, loans or investment in securities outside China) unless the prior approval of SAFE or its local counterparts is obtained. A foreign investment enterprise in the PRC may purchase foreign exchange without the approval of SAFE for paying dividends by providing certain supporting documents (such as board resolutions), or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain their recurrent exchange earnings according to their operational needs and the sums retained may be deposited into foreign exchange bank accounts maintained with the designated banks in the PRC.

On 30 March 2015, SAFE promulgated 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本金結匯管理方式的通知〉) to reform the management approach regarding the settlement of the foreign exchange capital of foreign-invested enterprises. The notice implemented a discretionary foreign exchange settlement where the foreign exchange capital in the capital account of foreign-invested enterprises for which the confirmation of rights and interests of monetary contribution by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) has been handled can be settled at the banks based on the actual operation needs of the enterprises.

On 9 June 2016, the SAFE further promulgated the Circular on Relevant Issues Concerning the Reform and Regulation of the Administrative Policies of the Conversion under Capital Items (〈國家外匯管理局關於改革和規範資本項目結匯管理政策的通知〉) (the “Circular No. 16”). The Circular No. 16 allows all enterprises including foreign invested enterprises, but excluding financial institutions, to convert 100 percent (subject to future adjustment at discretion of SAFE) of the foreign currency capital in their capital accounts into RMB at their own discretion without providing various supporting documents. However, to use the converted RMB, an enterprise still needs to provide supporting documents and goes through the review process with the banks for each withdrawal. A negative list with respect to the usage of the capital and the RMB proceeds through the aforementioned settlement procedure is set forth under the Circular No. 16.

Overseas Investment by Domestic Residents

Notice of the State Administration of Foreign Exchange on the Administration of Foreign Exchange Involved in Overseas Investment and Financing and Return on Investment Conducted by PRC Residents via Special-Purpose Companies (〈國家外匯管理局關於境內居民通過特殊目

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的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “**SAFE Circular No. 37**”), which was promulgated and effective on 4 July 2014. According to SAFE Circular No. 37, prior to making contribution to a Special Purpose Company (the “**SPC**”) with legitimate holdings of domestic or overseas assets or interests, a Mainland resident shall apply to the relevant Foreign Exchange Bureau for foreign exchange registration of overseas investment. After a SPC has completed overseas financing, if the funds raised are repatriated to the Mainland for use, relevant Chinese provisions on foreign investment and external debt management shall be complied with.

Under the relevant rules, failure to comply with the registration procedures set forth in SAFE Circular No. 37 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the increase of its registered capital, the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity, and may also incur penalties under PRC foreign exchange administration regulations to relevant domestic resident.

On 13 February 2015, SAFE promulgated the Circular on Further Simplifying and Improving Direct Investment-related Foreign Exchange Administration Policies (〈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〉) (Huifa [2015] No. 13, the “**Circular No. 13**”), which went into effect on 1 June 2015. Circular No. 13 simplifies the foreign exchange registration procedures for foreign direct investment and overseas direct investment, enables enterprises to handle it in a designated foreign exchange bank, and abolishes the capital contribution confirmation registration procedures. The foreign exchange registration procedure for direct investment is delegated to local banks which, after reviewing the documents a foreign-invested enterprise submits, will complete the registration through the online Capital Account Information System managed by SAFE.

5. Laws and regulations relating to product quality

Product quality supervision in the PRC is generally governed by the Product Quality Law of the PRC (〈中華人民共和國產品質量法〉) (the “**Product Quality Law**”), which was promulgated on 22 February 1993 and subsequently amended on 8 July 2000, 27 August 2009 and 29 December 2018. Producers and sellers shall be liable for product quality in accordance with the Product Quality Law.

Under the Product Quality Law, consumers or other victims who suffer personal injury or property damage due to product defects may claim compensation from the producer as well as the seller. The producer and the seller shall be jointly liable for the compensation. In case of violations of the Product Quality Law, the responsible authorities have the right to impose fines on the violators, order them to suspend operation, and revoke their business licenses. In serious cases, even criminal liability may be incurred.

6. Laws and regulations relating to environmental protection

According to the Environmental Protection Law of the PRC (〈中華人民共和國環境保護法〉) promulgated on 26 December 1989 and subsequently amended on 24 April 2014 and became effective on 1 January 2015, the Regulations on the Administration of Construction Project Environmental Protection (〈建設項目環境保護管理條例〉) promulgated and became effective on 29 November 1998, and subsequently amended on 27 February 2003 and 16 July 2017, and the Environmental Impact Assessment Law of the PRC (〈中華人民共和國環境影響評價法〉) promulgated on 29 October 2002 and amended on 2 July 2016 and on 29 December 2018, an enterprise, which causes environmental

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pollution and discharges other materials that endanger the public, shall implement environmental protection methods and procedures into its business operations. The enterprise will receive a warning or be penalized if it fails to report and/or register the environmental pollution caused by it and will have its production and operation ceased or be penalized if it fails to restore the environment or remedy the effects of the pollution within the prescribed time limit. Additionally, the enterprise shall bear the responsibility for remedying the danger and effects of the pollution and compensate for any losses or damages suffered because of such environmental pollution if it has polluted and endangered the environment.

Pursuant to the Administrative Measures for Pollutant Discharge Licensing (for Trial Implementation) (〈排污許可管理辦法(試行)〉) which was promulgated and came into effect on 10 January 2018, the pollutant discharging entities shall legally hold a pollutant discharge license, and discharge pollutants in accordance with the regulations of the license. For the pollutant discharging units which obtained approval opinions on environmental impact assessment of construction projects on 1 January 2015 and thereafter, the main part related to pollutants discharge in the environmental impact assessments and approval opinions shall be included in the pollutant discharge licenses. For the pollutant discharge units which have been established and actually discharged pollutants before the time limit as provided in the Catalog of Classified Management of Pollutant Discharge Permits for Stationary Pollution Sources (〈固定污染源排污許可分類管理名錄(2017年版)〉), relevant pollutant discharge licenses shall be applied for and obtained within the time limit. The pollutant discharge units established after the time limit shall apply for and obtain the pollutant discharge licenses before starting production facilities or actual pollutants discharge.

In addition, during the production and operation process, our Group shall also comply with the environmental protection laws and regulations in specific areas. These laws include the Law on the Prevention and Control of Water Pollution of the PRC (〈中華人民共和國水污染防治法〉), the Law on the Prevention and Control of Air Pollution of the PRC (〈中華人民共和國大氣污染防治法〉), the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution Caused by Solid Wastes (Revised in 2016) (〈中華人民共和國固體廢物污染環境防治法(2016修正)〉), the Law on the Environmental Noise Pollution Prevention and Control Law of the PRC (〈中華人民共和國環境噪聲污染防治法〉) and Environmental Protection Tax Law of the People's Republic of China (Amended in 2018) (中華人民共和國環境保護稅法(2018修正)).

7. Laws and regulations relating to fire safety and production safety

Fire Safety

According to the Fire Control Law of the PRC (〈中華人民共和國消防法〉), which was promulgated on 29 April 1998, came into effect on 1 September 1998 and amended on 28 October 2008 and 23 April 2019, respectively, the fire safety facility design and construction of a construction project shall conform to the state technical standards on fire control. The construction, design, contractor and the supervision units shall be legally liable for the quality of the fire safety design and construction of the project. Upon the completion of a construction project containing a fire control design conducted in accordance with requirements of the State Technical Standards on Fire Control for Engineering Construction, the project must go through acceptance check or filing on fire control in accordance with the relevant provisions.

Production Safety

According to the Production Safety Law of the PRC (〈中華人民共和國安全生產法〉), which was promulgated on 29 June 2002 and amended on 27 August 2009 and 31 August 2014, production units shall comply with this law and other laws and regulations relevant to production safety, strengthen production safety management, establish and optimize the production safety responsibility system, improve the production safety conditions and ensure the safety of production. The major Persons in charge of the production unit shall be fully responsible for the production safety of the unit. Employees in the production unit are entitled to be secured of production safety and shall carry out its own obligations with respect to the production safety. For those do not comply with the laws, the regulatory authorities have the right to impose fines, order them to suspend operations and revoke their business licenses. Criminal liability may be incurred in severe cases.

8. Laws and regulations relating to labor and social insurance

Labor and Employment

According to the Labor Law of the PRC (〈中華人民共和國勞動法〉), which was promulgated on 5 July 1994, came into effect on 1 January 1995 and amended on 27 August 2009 and 29 December 2018, the PRC Labor Contracts Law (〈中華人民共和國勞動合同法〉), which was promulgated on 29 June 2007, came into effect on 1 January 2018 and amended on 28 December 2012, to establish a labor relationship, a written labor contract should be concluded. The wages paid by the employer to the employee shall not be less than the minimum wage rate in the place where the employer is located. In certain circumstances, financial compensation shall be paid to the employee if the employer terminates its employment relationship with the employee. The employer shall provide relevant education and training to the employee. Employers are also required to provide healthy and safe working conditions in conformity with the relevant national rules and standards and provide regular healthy checks for the employees who are engaged in hazardous work.

Social Insurance

As required under the Regulations of Insurance for Labor Injury (〈工傷保險條例〉), which was implemented on 1 January 2004, amended on 20 December 2010 and came into effect on 1 January 2011, the Provisional Measures for Maternity Insurance of Employees of Corporations (〈企業職工生育保險試行辦法〉), which was implemented on 1 January 1995, the Decisions on the Establishment of a Unified Program for Old-Aged Pension Insurance of the State Council (〈國務院關於建立統一的企業職工基本養老保險制度的決定〉), which was issued on 16 July 1997, the Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council (〈國務院關於建立城鎮職工基本醫療保險制度的決定〉), which was promulgated on 14 December 1998, the Unemployment Insurance Measures (〈失業保險條例〉), which was promulgated on 22 January 1999, and the Social Insurance Law of the PRC (〈中華人民共和國社會保險法〉), which was implemented on 1 July 2011 and amended on 29 December 2018, the Interim Regulation on the Collection and Payment of Social Insurance Premiums (〈社會保險費徵繳暫行條例〉), which was issued and came into effect on 22 January 1999 and amended on 24 March 2019, enterprises are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labor injury insurance and medical insurance. Enterprises must apply for social insurance registration with local social insurance agencies and pay premiums for their employees. If an

enterprise fails to pay the required premiums on time or in full, the authorities in charge will demand the enterprise to settle the overdue amount within a stipulated time period and impose a 0.05% overdue fine. If the overdue amount is still not settled within the stipulated time period, an additional fine in an amount of three to five times of the overdue amount will be imposed.

Housing Provident Fund

According to the Regulations concerning the Administration of Housing Provident Fund (〈住房公積金管理條例〉), which was promulgated by the State Council on 3 April 1999, became effective on the same day and was amended on 24 March 2002 and 24 March 2019, respectively, enterprises must register with the competent managing centre for housing funds and, upon the examination by such managing centre of housing fund, complete procedures for opening an account at the relevant bank for the deposit of employees' housing funds. Employers are required to contribute, on behalf of their employees, to housing funds. The payment is required to be made to local administrative authorities. Any employer who fails to contribute may be fined and ordered to make good the deficit within a stipulated time limit.

Prevention and Control of Occupational Diseases

The Prevention and Control of Occupational Diseases Law of the PRC (〈中華人民共和國職業病防治法〉), which was promulgated on 31 December 2011 and amended on 2 July 2016, 4 November 2017 and 29 December 2018, respectively, sets out that employers shall create the working environment and conditions that conform to the national standards and requirements for occupational health and take measures to ensure that the workers receive occupational health protection. Moreover, employers shall assign persons to be specifically in charge of the day-to-day monitoring of the factors of occupational disease hazards and make sure that the monitoring system is kept in normal working conditions. Following the regulations of the health administrative authorities under the State Council, employers shall also have their workplace tested or assessed regularly for factors of occupational disease hazards and log the test or assessment results into the unit's occupational health files, which they shall also regularly report to the local health administrative authority and announce to the workers.

9. Laws and regulations relating to intellectual property

Trademark

Both Trademark Law of the PRC (〈中華人民共和國商標法〉) promulgated by the SCNPC in 1982 which came into effect on 1 March 1983 and amended respectively on 22 February 1993, 27 October 2011, 30 August 2013 and 23 April 2019, and with effective on 1 November 2019 and the Regulation on Implementation of Trademark Law of the PRC (〈中華人民共和國商標法實施條例〉) promulgated by the State Council on 3 August 2002 which came into effect on 15 September 2002, amended on 29 April 2014 and with effective on 1 May 2014 provide protection to holders of registered trademarks. In the PRC, registered trademarks include commodity trademarks, service trademarks and certificate marks. A registered trademark is valid for ten years and is renewable every ten-years where a registered trademark needs to be used after the expiration of its validity term. A registration renewal application shall be filed within twelve months prior to the expiration of the validity term.

REGULATORY OVERVIEW

Patents

The PRC began reviewing patent applications and granting patents under the PRC Patent Law (《中華人民共和國專利法》) which was promulgated on 12 March 1984 and amended in 4 September 1992, 25 August 2000 and 27 December 2008, respectively. Under the PRC Patent Law, invention patents are valid for twenty years and external design patents and utility model patents are valid for ten years, in each case commencing on their respective application dates. Persons or entities who use patents without the consent of the patent owners, make counterfeits of patented products, or engage in activities that infringe upon patent rights are held liable to the patent owner for compensation and may be subject to fines and even criminal punishment.

Domain Name

Internet domain name registration and related matters are primarily regulated by the Administrative Measures for the Internet Domain Names of China (《中國互聯網域名管理辦法》) issued by the Ministry of Information Industry (中華人民共和國信息產業部) on 24 August 2017 and became effective on 1 November 2017, the Implementing Rules of Domain Name Registration (《域名註冊實施細則》) issued by China Internet Network Information Center (中國互聯網絡信息中心) (the “CINIC”) on 25 September 2002 which came into effect on 1 December 2002 and last amended on 28 May 2012 which became effective on 29 May 2012, and the Measures on Domain Name Disputes Resolution (中國互聯網絡信息中心域名爭議解決辦法) issued by CINIC on 25 September 2002 which came into effect on 30 September 2002 and last amended and became effective on 1 September 2014. Domain name registrations are handled through domain name service agencies established under the relevant regulations, and the applicants become domain name holders upon successful registration. Domain name disputes shall be submitted to institutions authorized by the CINIC for resolution.

10. Laws and regulations relating to M&A rules and overseas listings

Regulations on Merger and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “M&A Rules”), issued by six PRC governmental and regulatory agencies, including the MOFCOM and the State Assets Supervision and Administration Commission, the SAT, the State Administration for Industry and Commerce, China Securities Regulatory Commission and the SAFE on 8 August 2006, effective from 8 September 2006 and amended on 22 June 2009, provide that a foreign investor is required to obtain necessary approvals when it (i) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (ii) subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (iii) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or (iv) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise. The M&A Rules, among other things, further purport to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the China Securities Regulatory Commission prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange, especially in the event that the special purpose vehicle acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies.

REGULATORY OVERVIEW

AUSTRALIAN LAWS AND REGULATIONS

1. Australian Consumer Law (product safety regulation)

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

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

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

Under the ACL, only the Australian Commonwealth Minister has the power to make or declare a mandatory safety or information standard for a good or product related service. We are not aware of any national mandatory industry standards for candles in Australia.

In accordance with the Australian Government National Industrial Chemicals Notification and Assessment Scheme (“**NICNAS**”), paraffin, soy bean oil and beeswax can be manufactured or imported into Australia for commercial purposes without notifying the NICNAS, provided that the importer/manufacturer is currently registered with NICNAS. Neobee is currently registered with NICNAS.

Under the ACL, only the Australian Commonwealth Minister has the power to declare a permanent ban on a good or product related service. Commonwealth bans apply nationally.

The following candle products are currently permanently banned in Australia:

- candle holders and decorations that ignite from the heat of the candle. The permanent ban applies to objects that are designed to hold or decorate a candle, which when subjected to flame or heat emanating from a candle, ignite and continue to flame for a period of five seconds or more after ignition. Consumer Protection Notice No. 12 of 2011 sets out the requirements of this ban; and
- candles with wicks that contain more than 0.06 per cent of lead and candle wicks that contain more than 0.06% of lead are prohibited from supply in Australia. Consumer Protection Notice No. 7 of 2002 sets out the requirements of this ban.

REGULATORY OVERVIEW

The Group does not import any of these permanently banned products into Australia.

Enforcement of Product Safety Laws

A supplier may be found guilty of a criminal offence if they fail to comply with bans, mandatory safety or information standards, or product recalls. For a body corporate, the maximum fine is the greater of AUD\$10 million, 10% of annual turnover or three times the gain from the contravention. If a supplier fails to comply with mandatory reporting requirements, they must notify the Australian Commonwealth Minister within 2 days of becoming aware that a person suffered serious injury, illness or death associated with a consumer good or product-related service they have supplied in Australia, or overseas. A supplier who fails to notify the Australian Commonwealth Minister within 2 days of becoming aware of the incident may be found guilty of a criminal offence. The maximum fine is AUD16,650 for a body corporate.

2. Anti-dumping regulations

The Anti-Dumping Commission administers Australia's anti-dumping and countervailing system under the (i) *Customs Act 1901* (Cth); (ii) *Customs Tariff (Anti-Dumping) Act 1975* (Cth); (iii) *Customs Administration Act 1985* (Cth); (iv) *Customs Regulations 2015* (Cth); and (v) *Customs Tariff (Anti-Dumping) Regulation 2013* (Cth), *Customs Administration Act 1985* (Cth) and *Customs Regulation (International Obligations) 2015* that applies nationwide in Australia. The Anti-Dumping Commission investigates dumping and subsidy claims. Following an investigation, the Minister can impose import duties on the dumped or subsidised goods to remedy the injury caused. The Australian Border Force enforces and collects duties. Anti-dumping or countervailing measures can only be imposed where the Minister is satisfied that goods exported to Australia have been dumped or subsidised, and that dumping or subsidisation has caused, or is threatening, material injury to an Australian industry producing like goods.

3. Law and regulations relating to quarantine, licences and permits

The *Biosecurity Act 2015* (Cth) applies to the importation of goods, with the aim of protecting Australia's animal, plant and human health status. A breach of this legislation could result in a range of civil and criminal offences including (but not limited to) infringement notices, civil penalties, enforceable undertakings, injunctions, criminal sanctions, and monitoring and investigation powers. Additionally, there are two regulations made under this Act as follows: the *Biosecurity Regulations 2016* (administered by the Department of Agriculture and Water Resources) and the *Biosecurity (Human Health) Regulations 2016* (administered by the Australian Department of Health).

Importation of products into Australia that contain prohibited or restricted substances may require a permit. Restricted substances include beeswax (which may need to be declared to the Australian Border Force), certain plastics, lead, or materials containing 'controlled substances' as determined by the Australian Government Department of Health's Office of Drug Control from time to time. The importation of otherwise prohibited substances is regulated by the *Customs (Prohibited Imports) Regulations 1956*.

4. Law and regulations relating to intellectual property rights

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

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

Penalties for a breach of the TM Act includes up to 5 years imprisonment and fines of up to AUD99,000. A breach of the Copyright Act attracts penalties including fine of up to AUD117,000 for individuals and up to AUD585,000 for corporations and/or possible term of imprisonment of up to 5 years.

5. Other applicable Australian laws

Other applicable Australian laws include:

- The *Corporations Act 2001* (Cth), which relates to the operation of companies, director’s duties, takeovers, fundraising and regulation of financial products.
- *Competition and Consumer Act 2010* (Cth), which applies to dealings with suppliers, wholesalers and customers and ensures fair trading by regulating market practices, industrial codes of practice, product safety, product labelling, price monitoring and the regulation of certain industries in Australia;
- *Fair Work Act 2009* (Cth) which governs employment arrangements and the rights and responsibilities of employees, employers and organisations in relation to that employment. The Fair Work Ombudsman oversees compliance with the *Fair Work Act 2009* (Cth);
- *Superannuation Guarantee (Administration) Act 1992* (Cth) which governs compulsory contribution by the employers for their employees to provide for their retirement. This contribution is payable when an employee earns AUD450 or more before tax in a calendar month. The current minimum super guarantee contribution rate is 9.5% of an employee’s ordinary time earnings which is to be paid at least four times a year, by the quarterly due dates;
- *A New Tax System (Goods and Services Tax) Act 1999* (Cth), which governs the charge and payment of a 10% Goods and Services Tax in Australia; and
- *Commerce (Trade Descriptions) Act 1905* (Cth) which sets out that candles, fragrance items and other homeware items must be correctly labelled with a trade description before importation into Australia. In circumstances where the products are not labelled correctly, those products may be seized by the Australian customs officers.

GERMAN LAWS AND REGULATIONS

1. Laws relating to product liability

Regardless of the importer and/or a retailer also being responsible to fulfil the requirements under the German Product Liability Act (*Produkthaftungsgesetz*), the Manufacturer's products sold and distributed into Germany must be free from defects that could kill a person, injure the body or health of a person or damage an object. Otherwise, the manufacturer of the product is obliged to compensate the injured party for the resulting damage.

2. Laws relating to product labelling and packaging

Regardless of the importer and/or a retailer also being responsible to fulfil the requirements under the German Packaging Act (*Verpackungsgesetz*), the manufacturer's packaging must, *inter alia*, be manufactured and distributed in such a way that:

- (a) the volume and mass of packaging shall be limited to the minimum necessary to ensure the necessary safety and hygiene of the goods to be packaged and their acceptance by the consumer;
- (b) their re-use or recovery is possible and the environmental impact of re-use, preparation for re-use, recycling, other recovery or disposal of packaging waste is minimised;
- (c) harmful and hazardous substances and materials in emissions, ash or leachate arising from the disposal of packaging or packaging components are kept to a minimum; and
- (d) the reusability of packaging and the proportion of secondary raw materials in the packaging mass is increased to as high a level as possible which is technically possible and economically reasonable, taking into account the guarantee of the necessary safety and hygiene of the goods to be packaged and taking into account acceptance by the consumer.

3. Laws relating to anti-dumping

The EU uses trade defence instruments, including anti-dumping, anti-subsidy and safeguards measures, when the relevant EU industry either materially injured by dumped or subsidized imports or experiences serious injury from sharply increased of imports and falling prices. The above trade defence rules are directly applicable in all EU Member States, including Germany, France, the Netherlands and UK.

Since 6 August 2015, pursuant to the Commission Implementing Regulation (EU) 2015/1361, the EU have not applied any anti-dumping measures on Chinese candles, tapers and similar goods originating in the PRC.

REGULATORY OVERVIEW

FRENCH LAWS AND REGULATIONS

1. Laws relating to product liability

Article 1245 of The French Civil Code imposes liability upon manufacturers for defective goods sold in France. The manufacturer is liable for damage caused by a defect in its products put into circulation (i.e. when the manufacturer has voluntarily released the products), regardless whether or not there was a contract between the manufacturer and the victim.

A product is considered defective if it does not provide the safety that one is entitled to expect. To determine the safety that one is entitled to expect, one must take into consideration all the circumstances and in particular the presentation of the product, the use that one can reasonably expect to make of it, and the time when the product was put into circulation. In case of damages, the plaintiff must prove the damage, the defect, and the causal link between the defect and the damage. The plaintiff does not have to prove the fault of the manufacturer.

2. Laws relating to product labelling and packaging

According to the Council Directive 85/374/EEC of 25 July 1985 and Article 1245 of the French Civil Code regarding product liability, the manufacturer must comply with a safety obligation that the victim is entitled to expect from the products.

To determine such safety, the assessment must take into consideration all the circumstances and in particular the presentation of the product, the use that one can reasonably expect to make of it, and the time when the product was put into circulation.

DUTCH LAWS AND REGULATIONS

1. Laws relating to product liability

Regardless of the importer and/or a retailer also being responsible to fulfil their respective requirements under the relevant provisions of the Dutch Civil Code (*Burgerlijk Wetboek*), the manufacturer's products sold and distributed into the Netherlands must be free from defects that could kill a person, injure the body or health of a person, or damage an object. If a product is not free from such defects, the manufacturer of the product is obliged to compensate the injured party for the resulting damage. The injured party must prove the existence of the damages, the defect and the causal connection between the defect and the damage.

2. Laws relating to product labelling and packaging

Regardless of the importer and/or a retailer also being responsible to fulfil their respective requirements under the Dutch Packaging Decree (*Besluit beheer verpakkingen*), the manufacturer's packaging must, *inter alia*, be manufactured and distributed in such a way that:

- (a) facilitates recycling;
- (b) if suitable to the type of product, ensures that re-use of the packaging is possible;
- (c) extends the shelf life of the product as much as possible;

REGULATORY OVERVIEW

- (d) minimises the weight of the package/packaging;
- (e) uses the minimal amount of packaging possible;
- (f) uses as much recycled material as possible; and
- (g) reduces the amount of litter as much as possible.

UK LAWS AND REGULATIONS

1. Laws relating to product liability

Under the provisions of the Consumer Protection Act 1987 (“CPA”), the manufacturer’s products sold and distributed into England and Wales must be free from defects that may result in the death of a person, cause injury to a person or cause property damage. Breach of the obligations provided under the CPA is a strict liability offence and would result in the payment of damages to the injured party by the manufacturer and / or the importer into the EU.

Damages are compensatory in nature therefore damages are awarded on the principle that the injured party should be put back in the position they would have been in had the product not been defective. The court cannot award punitive damages.

2. Laws relating to product labelling and packaging

Under the Producer Responsibility Obligations (Packaging Waste) Regulations 2007, packaging waste producers, such as manufacturers, distributors and importers, have significant compliance obligations to recycle and recover packaging. They also have to meet minimum packaging standards.

HISTORY, DEVELOPMENT AND REORGANISATION

OVERVIEW

We are a prominent original design manufacturer and supplier of Home Decoration Products targeting overseas markets. Our history can be traced back to 1999, when our major operating subsidiary Ningbo Kwung's Far East Candles & Giftware Co., Ltd. (寧波曠世遠東蠟業禮品有限公司) (presently known as Ningbo Kwung's) was established in the PRC by: (i) Ningbo Investment through the personal financial resources of Mr. Jin, the sole shareholder of Ningbo Investment at the relevant time; and (ii) an Independent Third Party. At the time of its establishment, Ningbo Kwung's Far East Candles & Giftware Co., Ltd. was owned as to 60% by Ningbo Investment and 40% by the Independent Third Party, respectively. The Independent Third Party is one of our overseas sales agents during the Track Record Period. It is a company incorporated in the United Kingdom by a UK citizen and his wife, who are both Independent Third Parties. Before establishing Ningbo Kwung's Far East Candles & Giftware Co., Ltd., Mr. Jin engaged in import and export trade businesses and became acquainted with the UK citizen, who was one of his trading partners at that time. In 2007, the Independent Third Party sold all its equity interest in Ningbo Kwung's and ceased to be a shareholder of Ningbo Kwung's thereafter. Before the selling of equity interest by the Independent Third Party, Ningbo Kwung's was owned as to 51% by Ningbo Investment and 49% by the Independent Third Party, respectively.

Mr. Jin has been the director of Ningbo Kwung's since its establishment and is responsible for executing board resolutions, formulating the business development plans and strategies and overseeing the daily business operation of our Group. Since June 2015, Mr. Shao and Mr. Ru have become the directors of Ningbo Kwung's and have begun to involve in the operation of our Group. For biographies of Mr. Jin, Mr. Shao and Mr. Ru, see "Directors, Senior Management and Staff – Directors" in this prospectus.

We commenced our sale of Home Decoration Products in Europe in 2004. Over the years, we have built up and expanded our client base in Europe and different parts of the world. During the Track Record Period, we sold our products to customers situated in over 20 countries and regions, including France, United Kingdom, Netherlands, Germany, Canada and Australia. In 2016, we began to sell selected lines of candles and home fragrance under our self-brands "Fumare" and "Aromart" to distributors who sell to consumers in major cities in the PRC, such as Beijing, Shanghai and Guangzhou.

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 13 November 2018. Upon completion of the Reorganisation, our Company became the holding company of our Group with its business conducted through the operating subsidiaries set out as follows:

No.	Name of company	Place of establishment/ incorporation	Date of establishment/ incorporation and date of business commencement	Our equity interest in our Company	Principal business
1	Ningbo Kwung's	PRC	4 January 1999	100%	Designing, manufacturing, selling and trading of Home Decoration Products

HISTORY, DEVELOPMENT AND REORGANISATION

No.	Name of company	Place of establishment/ incorporation	Date of establishment/ incorporation and date of business commencement	Our equity interest in our Company	Principal business
2	Shaoxing Keyuan	PRC	17 September 2018	100%	Manufacturing of Home Decoration Products in the PRC
3	Ningbo Aromage Homeware	PRC	11 August 2014	100%	Selling and trading of Home Decoration Products in the PRC
4	Ningbo Koman	PRC	16 August 2012	100%	Selling and trading of Home Decoration Products
5	Neobee	Australia	29 June 2016	80%	Selling and trading of Home Decoration Products in Australia
6	Ningbo Fenyan	PRC	7 January 2019	100%	Manufacturing of candles and home fragrance products

For further information in relation to the (i) changes in the registered or paid-up share capital; (ii) material shareholding changes; and (iii) the underlying background or basis of such changes of each of our subsidiaries, see “History, Development and Reorganisation – Our Major Subsidiaries” and “History, Development and Reorganisation – Reorganisation” in this section below.

BUSINESS MILESTONES

The following table sets out our business development milestones:

Year	Milestones
1999	– Ningbo Kwung’s Far East Candles & Giftware Co., Ltd. (寧波曠世遠東蠟業禮品有限公司) (presently known as Ningbo Kwung’s), our key operating subsidiary, was established in the PRC
2005	– We were appointed as the vice president unit of National Association for Candle Industry – An Affiliate of China Daily-use Chemical Industry Association (中國日用化工協會蠟燭分會副理事長單位)
2008	– We were recognised as a High and New Enterprise (高新技術企業) by Ningbo Science and Technology Bureau (寧波市科學技術局)
2011	– We were recognised as a National Cultural Export Key Enterprises (國家文化出口重點企業) by Ministry of Finance, Ministry of Culture, Ministry of Commerce, Ministry of Radio, Film and Television, and the Publicity Department of the Communist Party of China

HISTORY, DEVELOPMENT AND REORGANISATION

Year	Milestones
2015	– Ningbo Kwung’s was listed on the NEEQ on 17 December 2015
2016	– We began selling selected lines of candles and home fragrance under our self-brands “Fumare” and “Aromart”
	– We received Zhejiang Name Brand Products Award (浙江名牌產品) from Zhejiang Bureau of Quality and Technical Supervision (浙江省質量技術監督局) (now known as Zhejiang Provincial Market Supervision Administration Bureau (浙江省市場監督管理局))
2017	– We acquired 80% of the entire issued share capital in Neobee
2018	– We received Zhejiang Cultural Model Enterprise Award (浙江省文化產業示範基地) from Zhejiang Provincial Department of Culture (浙江省文化廳) (now known as Zhejiang Provincial Department of Culture and Tourism (浙江省文化和旅遊廳))
2019	– We received Zhejiang Cultural Export Key Enterprises (浙江省文化出口重點企業) by Department of Commerce of Zhejiang Province, the Publicity Department of Zhejiang Province of the Communist Party of China, Zhejiang Provincial Department of Culture and Tourism and Zhejiang Province Radio and Television Bureau

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Our major subsidiaries

Below sets out the material changes in shareholdings of our major subsidiaries since their establishment/incorporation:

1. *Ningbo Kwung’s*

Ningbo Kwung’s is the key operating subsidiary of our Group. Ningbo Kwung’s principally engages in designing, manufacturing, selling and trading of Home Decoration Products. Ningbo Kwung’s was established in the PRC as a limited liability company on 4 January 1999 with a registered capital of US\$145,000 under the name of Ningbo Kwung’s Far East Candles & Giftware Co., Ltd. (寧波曠世遠東蠟業禮品有限公司).

After various rounds of capital increments since its establishment, the registered capital of Ningbo Kwung’s was increased to US\$8,718,000 as at 15 November 2005, and was owned as to 51% by Ningbo Investment and 49% by an Independent Third Party, being one of our overseas sales agents during the Track Record Period, respectively. On 21 September 2007, Ningbo Kwung’s changed its name to Ningbo Kwung’s Wisdom Art & Design Shareholding Ltd. (寧波曠世智源工藝設計股份有限公司), and was owned as to 61% by Ningbo Investment, 1.95% by Bode Investment, and 37.05% by Independent Third Parties (21.50% by a person not connected or related to our Group or our business, 12.05% by the employees of Ningbo Kwung’s through Ningbo Fengfei Investment Shareholding Ltd. (寧波葑菲投資股份有限公司) (“**Ningbo Fengfei**”), an investment holding company

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established in the PRC and was deregistered on 16 July 2009, and 3.50% by a customer of Ningbo Kwung's). As at 23 October 2007, Ningbo Kwung's was owned as to 61% by Ningbo Investment, 1.95% by Bode Investment and 37.05% by Independent Third Parties (21.50% by two persons not connected or related to our Group or our business, 12.05% by Ningbo Fengfei and 3.50% by a customer of Ningbo Kwung's). Ningbo Kwung's was converted into a joint stock limited company on 14 January 2008 with a registered capital of RMB70 million divided into 70,000,000 shares with a par value of RMB1.00 each. The ownership of Ningbo Kwung's remained unchanged for the period between 23 October 2007 and 7 August 2009. Set forth below is a summary of the change in ownership of Ningbo Kwung's from 21 September 2007 to 16 December 2015 (the time immediately before the trading of shares of Ningbo Kwung's on the NEEQ).

% of shareholding of Ningbo Kwung's as at:

	21 September 2007	23 October 2007	7 August 2009	8 December 2009	30 September 2011	31 March 2012	16 June 2014	19 June 2015	16 December 2015 (Immediately before the trading of shares of Ningbo Kwung's on the NEEQ)
Ningbo Investment	61%	61%	70.83%	72.18%	72.18%	72.18%	72.18%	72.18%	72.18%
Bode Investment	1.95%	1.95%	4.17%	2.82%	2.82%	2.82%	27.82%	13.39%	13.39%
Ningbo Kreativ Gift Co., Ltd. (Note 1)	N/A	N/A	25%	25%	N/A	N/A	N/A	N/A	N/A
Mr. Ru	N/A	N/A	N/A	N/A	0.71%	0.71%	N/A	2.86%	2.86%
Mr. Tian	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.43%	1.43%
Ms. Zhou	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.71%	0.71%
Mr. Jiang	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.14%	0.14%
Mr. Hu	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.29%	0.29%
Ms. Feng	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.43%	0.43%
Ms. Jin Ying	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.71%	0.71%
Ms. Jin Lijuan	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.71%	0.71%
Independent Third Parties	37.05% (Note 2)	37.05% (Note 3)	N/A	N/A	24.29% (Note 4)	24.29% (Note 5)	N/A	7.15% (Note 6)	7.15% (Note 6)
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

Notes:

1. Ningbo Kreativ Gift Co., Ltd. was an investment holding company incorporated in the BVI. It was wholly-owned by Mr. Tian and was struck off on 1 May 2013. For further details, please refer to "Directors, Senior Management and Staff – Directors – Executive Directors" in this prospectus.
2. The 37.05% equity interest of Ningbo Kwung's were held as to: (i) 21.50% by a person not connected or related to our Group or our business; (ii) 12.05% by the employees of Ningbo Kwung's through Ningbo Fengfei; and (iii) 3.50% by a customer of Ningbo Kwung's.

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3. The 37.05% equity interest of Ningbo Kwung's were held as to: (i) 21.50% by two persons not connected or related to our Group or our business; (ii) 12.05% by the employees of Ningbo Kwung's through Ningbo Fengfei; and (iii) 3.50% by a customer of Ningbo Kwung's.
4. The 24.29% equity interest of Ningbo Kwung's were held as to: (i) 18.63% by the employees of Ningbo Kwung's through Ningbo Boyuan Investment Consulting Co., Ltd (寧波博源投資諮詢有限公司) ("**Ningbo Boyuan**"; (ii) 3.14% by a person not connected or related to our Group or our business; (iii) 1.60% by the employees of Ningbo Kwung's through Ningbo Boshi Investment Consulting Co., Ltd. (寧波博識投資諮詢有限公司) ("**Ningbo Boshi**"; and (iv) 0.92% by four employees of Ningbo Kwung's. Both Ningbo Boyuan and Ningbo Boshi were investment holding companies established in the PRC and were deregistered on 13 October 2014. For further details of Ningbo Boyuan, please refer to "Directors, Senior Management and Staff – Directors – Executive Directors" in this prospectus.
5. The 24.29% equity interest of Ningbo Kwung's were held as to: (i) 18.63% by Ningbo Boyuan; (ii) 3.14% by a person not connected or related to our Group or our business; (iii) 1.60% by Ningbo Boshi; (iv) 0.79% by three employees of Ningbo Kwung's; (v) 0.10% by the son of an employee of Ningbo Kwung's; and (vi) 0.03% by the wife of an employee of Ningbo Kwung's.
6. The 7.15% equity interest of Ningbo Kwung's were held as to: (i) 6.08% by 24 then employees of Ningbo Kwung's; and (ii) 1.07% by two persons not connected or related to our Group or our business.

On 17 December 2015, the shares of Ningbo Kwung's began to trade on the NEEQ with the stock code of 834964. As the NEEQ is a market in the PRC open to qualified investors only and it has a relatively low trading volume and low liquidity level, the trading volume of shares of Ningbo Kwung's on the NEEQ was low and it inhibited our ability to publicly raise funds to continuously support our business growth. Therefore, Ningbo Kwung's decided to explore listing options elsewhere. In August 2017, Ningbo Kwung's initiated the early phase of preparation of an A-share listing by lodging a registration with the Ningbo Administration of the CSRC (中國證監會寧波監管局) in the PRC for the commencement of the tutoring period of Ningbo Kwung's (the "**Tutoring**") as required by the applicable PRC laws and regulations. The Tutoring is a prerequisite for submission of A-share listing applications to any stock exchange in the PRC, during which a tutoring agent will be appointed to assist and provide trainings to the applicant, among other things, to improve the applicant's organisational structure, internal management and corporate conduct and prepare application documents for its A-share listing application.

In anticipation of the A-share listing, Ningbo Kwung's applied for its delisting from the NEEQ and the shares of Ningbo Kwung's ceased to trade on the NEEQ on 14 December 2017. During the period of quoting on the NEEQ, none of Ningbo Kwung's or its directors had been subject to any investigations or disciplinary actions by any regulatory authority nor had any material breach or suspected breach of the relevant rules governing the NEEQ. Our Directors confirm, and the Sole Sponsor concurs, there is no matter that might materially and adversely affect the Listing and no matter that need to be brought to the attention of the regulators and investors in relation to Ningbo Kwung's previous quotation on the NEEQ as mentioned above.

Having considered the uncertainty in the time required for completing the A-share listing and for the reasons listed in "History and Development – Our major subsidiaries – 1. Ningbo Kwung's – Reasons for delisting from the NEEQ and the Listing" in this section below, Ningbo Kwung's considered the Stock Exchange as a more attractive listing forum and decided to pursue the Listing and ceased the Tutoring and the engagement of the relevant professional parties in August 2018. As at the Latest Practicable Date, as confirmed by our Company and our PRC Legal Advisers, Ningbo Kwung's had not submitted any listing application in connection with its proposed A-share listing. Our Company also confirms that currently we have no intention to resume the A-share listing plan of Ningbo Kwung's.

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Our Directors confirm, and the Sole Sponsor concurs, that (i) the CSRC and other authorities in the PRC had not raised any issue in relation to the Tutoring; and (ii) there is no matter that might materially and adversely affect the Listing and no matter in relation to the Tutoring that need to be brought to the attention of the regulators and investors.

Reasons for delisting from the NEEQ and the Listing

Our Directors consider that the delisting from the NEEQ and the Listing will be in the interests of our Group's business development strategies, and would be beneficial to us and our Shareholders as a whole for the following reasons:

- (i) the NEEQ currently has a relatively low trading volume and low liquidity level, making it difficult for us to publicly raise funds, in equity or debt, to continuously support our business growth, and execute substantial on-market disposals of shareholders to realise value;
- (ii) in contrast, the Stock Exchange, as one of the leading players of the international financial markets, could offer us a direct access to the international capital markets, enhance our fund-raising capabilities and channels and broaden our Shareholders base and accelerate our fund-raising exercise to support our business expansion;
- (iii) Hong Kong, being an international financial centre and a gateway between the PRC and the international market, would give us a greater access to international and institutional investors and global markets;
- (iv) our Company is able to better re-allocate and focus the use of our limited financial and administrative resources on the Listing rather being concurrently listed on both the Stock Exchange and the NEEQ;
- (v) a listing status on the Stock Exchange will further enhance our business profile and international reputation, which is important to the implementation of our plan to increase our market presence in Europe as set out in "Business – Our Business Strategies – Establish physical presence overseas to increase market penetration of our products, better serve our major customers and enlarge our customer base in our major markets" in this prospectus;
- (vi) a listing status on the Stock Exchange will further enhance our ability to attract new customers, business partners and strategic investors and attain a greater access to international investors, as well as to recruit, motivate and retain key management personnel for our Group's business; and
- (vii) the Listing will also enable our Company to devise more appealing share incentive plan, which correlates directly to the performance of our Group's business, which in turn will help us to attract and motivate the talents needed to support our rapid growth and enhance our operating efficiency on an ongoing basis.

Ningbo Kwung's was subsequently converted from a joint stock limited company to a limited liability company with a registered capital of RMB70.0 million on 25 October 2018. Ningbo Kwung's also changed its name to its current name on the same day.

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2. *Shaoxing Keyuan*

Shaoxing Keyuan principally engages in manufacturing of Home Decoration Products in the PRC. It was established in the PRC with limited liability on 17 September 2018 with a registered capital of RMB20 million, and has been a wholly-owned subsidiary of Ningbo Kwung's since its establishment.

3. *Ningbo Aromage Homeware*

Ningbo Aromage Homeware principally engages in selling and trading of Home Decoration Products in the PRC. It was established in the PRC with limited liability on 11 August 2014 with a registered capital of RMB1 million, which was owned as to 70% by Ningbo Kwung's and as to 30% by three Independent Third Parties, respectively.

On 7 March 2016, Ningbo Kwung's acquired 30% equity interest in Ningbo Aromage Homeware from the three Independent Third Parties at a total consideration of RMB300,000, of which RMB100,000 was used to settle the amount of unpaid subscribed share capital held by one of the Independent Third Parties in the amount RMB100,000. The consideration was determined with reference to the then registered capital of Ningbo Aromage Homeware. The acquisitions were completed and settled on 24 March 2016. Upon completion of such acquisition, Ningbo Aromage Homeware became a wholly-owned subsidiary of Ningbo Kwung's.

4. *Ningbo Koman*

Ningbo Koman principally engages in selling and trading of Home Decoration Products. It was established in the PRC with limited liability on 16 August 2012 with a registered capital of RMB1.5 million, and has been a wholly-owned subsidiary of Ningbo Kwung's since its establishment.

5. *Neobee*

Neobee principally engages in selling and trading of Home Decoration Products in Australia. It was incorporated in Australia with limited liability on 29 June 2016 with an issued share capital of AUD300 divided into 300 shares, which were wholly-owned by MXMC PTY. LTD. (a company wholly-owned by a director of Neobee).

On 1 January 2017, MXMC PTY. LTD. transferred 210 shares in Neobee, representing 70% of the entire issued share capital of Neobee, to Ningbo Kwung's at a consideration of AUD210,000. The consideration was determined with reference to the issued share capital of Neobee and the corresponding shareholder's loans.

On 18 May 2017, MXMC PTY. LTD. transferred 30 shares in Neobee, representing 10% of the entire issued share capital of Neobee, to Ningbo Kwung's at a consideration of AUD30,000. The consideration was determined with reference to the issued share capital of Neobee and the corresponding shareholder's loans. Upon completion of the said share transfers, Neobee is owned as to 80% by Ningbo Kwung's and 20% by MXMC PTY. LTD. The shareholders' loans of Ningbo Kwung's and MXMC PTY. LTD. had both been fully settled in 2017.

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6. *Ningbo Fenyuan*

Ningbo Fenyuan principally engages in manufacturing of candles and home fragrance products. It was established in the PRC with limited liability on 7 January 2019 with a registered capital of RMB1 million, and has been a wholly-owned subsidiary of Kwung's HK since its establishment.

7. *Hangzhou Aromage Homeware*

Hangzhou Aromage Homeware principally engages in the selling and trading of Home Decoration Products in the PRC. It was established in the PRC with limited liability on 21 May 2019 with a registered capital of RMB500,000, and has been a wholly-owned subsidiary of Ningbo Aromage Homeware since its establishment.

8. *Beijing Aromage Homeware*

Beijing Aromage Homeware principally engages in the selling of Home Decoration Products in the PRC. It was established in the PRC with limited liability on 6 November 2019 with a registered capital of RMB500,000, and has been a wholly-owned subsidiary of Ningbo Aromage Homeware since its establishment.

9. *Wuxi Aromage Homeware*

Wuxi Aromage Homeware principally engages in the selling and trading of Home Decoration Products in the PRC. It was established in the PRC with limited liability on 22 November 2019 with a registered capital of RMB500,000, and has been a wholly-owned subsidiary of Ningbo Aromage Homeware since its establishment.

10. *Taizhou Aromage Homeware*

Taizhou Aromage Homeware principally engages in the selling and trading of Home Decoration Products in the PRC. It was established in the PRC with limited liability on 16 December 2019 with a registered capital of RMB500,000, and has been a wholly-owned subsidiary of Ningbo Aromage Homeware since its establishment.

Former subsidiaries

1. *Shaoxing Jingming*

Shaoxing Jingming was established in the PRC with limited liability on 17 April 2004 with a registered capital of RMB1,080,000 which was owned as to 80% by Mr. Jin and 20% by the father of Mr. Jin, respectively. On 11 July 2005, Mr. Jin acquired 10% equity interest in Shaoxing Jingming from his father at a consideration of RMB108,000. The consideration was determined with reference to the then registered capital of Shaoxing Jingming. Upon completion of the acquisition, Shaoxing Jingming was owned as to 90% by Mr. Jin and 10% by his father, respectively. On 1 August 2007, Ningbo Kwung's acquired the entire equity interest in Shaoxing Jingming from Mr. Jin and his father at a consideration of RMB972,000 and RMB108,000, respectively. The considerations were determined with reference to the then registered capital of Shaoxing Jingming. Upon completion of the acquisitions, Shaoxing Jingming became a wholly-owned subsidiary of Ningbo Kwung's.

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After two rounds of capital increments since its establishment, the registered capital of Shaoxing Jingming's increased to RMB66,080,000, which was fully paid up as at 23 October 2013.

Shaoxing Jingming principally engaged in the business of property leasing and manufacturing and selling of candles. For FY2016, FY2017 and the nine months ended 30 September 2018 (being the month before the transfer of the candle manufacturing and selling business from Shaoxing Jingming to Shaoxing Keyuan), the revenue derived from the manufacturing and selling of candles amounted to RMB35.6 million, RMB37.5 million and RMB28.0 million, representing approximately 95.1%, 92.1% and 89.3% of the total revenue of Shaoxing Jingming in the respective period. On the other hand, the revenue derived from the property leasing business amounted to RMB1.8 million, RMB3.2 million and RMB3.4 million, representing approximately 4.9%, 7.9% and 10.7% of the total revenue of Shaoxing Jingming for FY2016, FY2017 and the nine months ended 30 September 2018, respectively. In view of the small amount of revenue generated from the property leasing business of Shaoxing Jingming, we decided to consolidate the candles manufacturing and selling business of Shaoxing Jingming into our Group and exclude Shaoxing Jingming and its property leasing business from our Group.

On 12 October 2018, Shaoxing Jingming as vendor and Shaoxing Keyuan as purchaser entered into a business and assets transfer agreement, pursuant to which Shaoxing Jingming transferred its candle manufacturing and selling business, assets (save and except its land and building interests), liabilities, contractual rights and obligation relating to our Group's operation to Shaoxing Keyuan. On 19 October 2018, Ningbo Kwung's entered into two equity transfer agreements to transfer 98% and 2% of its equity interest in Shaoxing Jingming to Ningbo Investment and Mr. Jin, respectively. Upon completion of the said equity transfers, Shaoxing Jingming ceased to be a subsidiary of Ningbo Kwung's, and no longer carries on the business of manufacturing and selling of candles.

During the Track Record Period and up to the Latest Practicable Date, Shaoxing Jingming owned the following investment properties for leasing purpose:

Address	Building use	Approximate gross floor area of the building <i>sq.m.</i>	Number of floors	Leasing status as at the Latest Practicable Date
No. 1437 Renming East Road, Shaoxing Eco-Industrial Park (Factory building no. 1) (人民東路1437號(1號廠房)) ("Factory building no. 1")	Industrial/ Factory building	6,600.46	3	– Pending for leasing
No. 1437 Renming East Road, Shaoxing Eco-Industrial Park (Factory building no. 2) (人民東路1437號(2號廠房)) ("Factory building no. 2")	Industrial/ Factory building	7,288.44	3	– The entire building was leased to Shaoxing Keyuan

HISTORY, DEVELOPMENT AND REORGANISATION

Address	Building use	Approximate gross floor area of the building <i>sq.m.</i>	Number of floors	Leasing status as at the Latest Practicable Date
No. 1437 Renming East Road, Shaoxing Eco-Industrial Park (Factory building no. 4) (人民東路1437號(4號廠房)) ("Factory building no. 4")	Industrial/ Factory building	7,105.56	2	<ul style="list-style-type: none"> – First floor was leased to an Independent Third Party – Second floor was leased to Shaoxing Keyuan
No. 1437 Renming East Road, Shaoxing Eco-Industrial Park (Factory building no. 5) (人民東路1437號(5號廠房)) ("Factory building no. 5")	Industrial/ Factory building	5,870.77	3	<ul style="list-style-type: none"> – First and second floors were leased to an Independent Third Party – Third floor was pending for leasing
No. 1437 Renming East Road, Shaoxing Eco-Industrial Park (Factory building no. 13) (人民東路1437號(13號廠房)) ("Factory building no. 13")	Industrial/ Factory building	2,572.30	5	<ul style="list-style-type: none"> – First, third and fifth floors were leased to two Independent Third Parties – Second floor was pending for leasing – Fourth floor was leased to Shaoxing Keyuan
No. 1437 Renming East Road, Shaoxing Eco-Industrial Park (Workshop building no. 3) (人民東路1437號(3號車間)) ("Workshop building no. 3")	Industrial/ Workshop building	3,637.78	5	<ul style="list-style-type: none"> – The entire building was leased to an Independent Third Party
No. 1437 Renming East Road, Shaoxing Eco-Industrial Park (Workshop building no. 7, etc.) (人民東路1437號(7號車間)等) ("Workshop building no. 7")	Industrial/ Workshop building	11,764.69	5	<ul style="list-style-type: none"> – The entire building was leased to an Independent Third Party

HISTORY, DEVELOPMENT AND REORGANISATION

Address	Building use	Approximate gross floor area of the building <i>sq.m.</i>	Number of floors	Leasing status as at the Latest Practicable Date
No. 1437 Renming East Road, Shaoxing Eco-Industrial Park (Workshop building no. 8, etc.) (人民東路1437號(8號車間)等) ("Workshop building no. 8")	Industrial/ Factory building	9,174.57	4	– First floor was leased to an Independent Third Party – Second to fourth floors were leased to Independent Third Parties, which were the employees of Shaoxing Keyuan
No. 1437 Renming East Road, Shaoxing Eco-Industrial Park (Workshop building no. 12) (人民東路1437號(12號車間)) ("Workshop building no. 12")	Industrial/ Workshop building	6,455.92	3	– First to third floors were leased to three Independent Third Parties

Mr. Jin, the current ultimate beneficial owner of Shaoxing Jingming, confirms that Shaoxing Jingming manufactured its candles at Factory building no. 1 and Factory building no. 2 before the transfer of the candle manufacturing and selling business to Shaoxing Keyuan. After the transfer of equity interest in Shaoxing Jingming, Shaoxing Jingming leased Shaoxing Plant, which consisted of Factory building no. 2, one floor of Factory building no. 4 and one floor of Factory building no. 13, to Shaoxing Keyuan for our Group to carry out our production activities. For further details of the leasing arrangement between Shaoxing Jingming and Shaoxing Keyuan, see the section headed "Continuing Connected Transactions" in this prospectus. Mr. Jin further confirms that except the equipment inside the Shaoxing Plant, which had been transferred to Shaoxing Keyuan pursuant to the business and asset transfer agreement, and the Shaoxing Plant, Shaoxing Jingming did not own any candles manufacturing facilities during the Track Record Period and up to the Latest Practicable Date.

At the time of the transfer of equity interest in Shaoxing Jingming from Ningbo Kwung's to Ningbo Investment and Mr. Jin, approximately RMB3.2 million of liabilities of Shaoxing Jingming were retained by Shaoxing Jingming and had not been taken up by our Group. Out of such amount, approximately RMB1.1 million were value-added tax and approximately RMB2.1 million were trade payables related to the candle manufacturing and selling business of Shaoxing Jingming. Save as disclosed in this paragraph, our Directors confirm that there was no liability (including contingent liability) retained by Shaoxing Jingming after the transfer of equity interest in Shaoxing Jingming for which our Group should be liable.

For further details, see "History, Development and Reorganisation – Reorganisation – Onshore Reorganisation (Steps 5–8) – Step 5: Establishment of Shaoxing Keyuan, transfer of business of Shaoxing Jingming to Shaoxing Keyuan and transfer of equity interest of Shaoxing Jingming to Ningbo Investment and Mr. Jin" below in this section.

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2. *Henan Kwung's*

Henan Kwung's was established in the PRC with limited liability on 20 November 2017 with a registered capital of RMB10 million. It had been a wholly-owned subsidiary of Ningbo Kwung's since its establishment. Henan Kwung's was deregistered on 22 August 2018 as it had never carried on any business since its establishment. As opined by our PRC Legal Advisers, the deregistration of Henan Kwung's was completed in accordance with the applicable PRC laws.

3. *Ningbo Wuliang*

Ningbo Wuliang was established in the PRC with limited liability on 18 November 2016 with a registered capital of RMB1.5 million. It had been a wholly-owned subsidiary of Ningbo Kwung's since its establishment. Ningbo Wuliang principally engaged in the selling of religious candles for Buddhists. Ningbo Wuliang was deregistered on 29 August 2018 as it had become dormant since 2017. As opined by our PRC Legal Advisers, the deregistration of Ningbo Wuliang was completed in accordance with the applicable PRC laws.

4. *Nantong Guangda*

Nantong Guangda was established in the PRC with limited liability on 26 December 2016 with a registered capital of RMB1.5 million. It had been owned as to 51% by Ningbo Kwung's and 49% by an Independent Third Party since its establishment. It was deregistered on 29 December 2017 as it had never carried on any business since June 2017. As opined by our PRC Legal Advisers, the deregistration of Nantong Guangda was completed in accordance with the applicable PRC laws.

5. *Ningbo Roadon*

Ningbo Roadon was established in the PRC with limited liability on 19 August 2016 with a registered capital of RMB1.5 million which was owned as to 51% by Ningbo Kwung's and 49% by two Independent Third Parties, respectively. Ningbo Roadon principally engaged in the designing, manufacturing and selling of home furniture. As the principal business of Ningbo Roadon did not relate to that of our Group, we decided to exclude Ningbo Roadon from our Group. On 5 January 2017, Ningbo Kwung's entered into an equity transfer agreement to transfer its 51% equity interest in Ningbo Roadon to Ningbo Kwung's Huibang at a consideration of RMB765,000. The consideration was determined with reference to the then registered capital of Ningbo Roadon. As confirmed by our PRC Legal Advisers, all relevant approvals and permits in relation to the above equity transfer has been obtained from the relevant authorities in accordance with the applicable PRC laws. Upon completion of the transfer, Ningbo Roadon ceased to be a subsidiary of Ningbo Kwung's.

6. *Ningbo Sotex*

Ningbo Sotex was established in the PRC with limited liability on 2 June 2016 with a registered capital of RMB1.5 million which was wholly-owned by Ningbo Kwung's. Ningbo Sotex principally engaged in the designing, manufacturing, selling, importing and exporting of home textile products. As the principal business of Ningbo Sotex did not relate to that of our Group, we decided to exclude Ningbo Sotex from our Group. On 5 January 2017, Ningbo Kwung's entered into an equity transfer agreement to transfer its entire equity interest in Ningbo Sotex to Ningbo Kwung's Huibang at a consideration of RMB1.5 million. The consideration was determined with reference to the then registered capital of Ningbo Sotex. As confirmed by our PRC Legal Advisers, all relevant approvals and permits in relation to the above equity transfer has been obtained from the relevant authorities in

HISTORY, DEVELOPMENT AND REORGANISATION

accordance with the applicable PRC laws. Upon completion of the transfer, Ningbo Sotex ceased to be a subsidiary of Ningbo Kwung's.

According to the business licence of Ningbo Sotex, the permitted operation scope of Ningbo Sotex includes: (i) designing, manufacturing and processing of home textile products; and (ii) importing and exporting of self-produced and licensed goods and technologies, other than those restricted or prohibited by the government. Taking into consideration that:

- (i) Ningbo Kwung's and Ningbo Kwung's Huibang confirm that Ningbo Sotex principally engaged in the designing, manufacturing, selling, importing and exporting of home textile products since its establishment and had not engaged in any business that may compete with our Group;
- (ii) our Group does not engage in the designing, manufacturing, selling, importing and exporting of home textile products; and
- (iii) Ningbo Kwung's Huibang confirms that Ningbo Sotex had ceased operation since November 2018,

our PRC Legal Advisers and our Directors are of the view that Ningbo Sotex does not compete and is not likely to compete with the business of our Group.

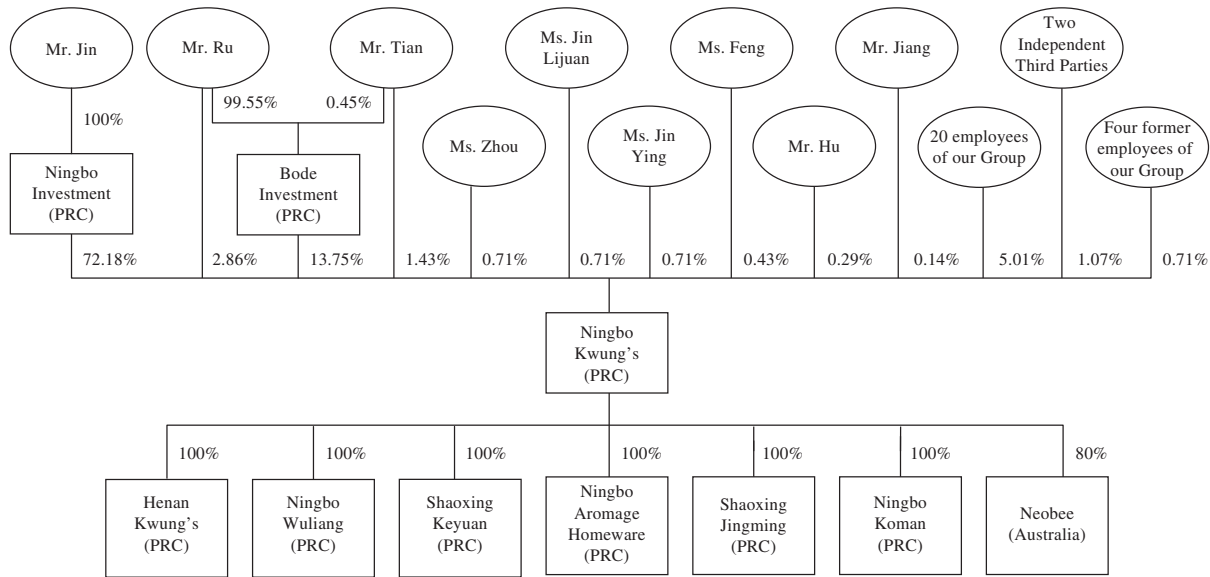
7. *Kwung's Wisdom Co., Limited*

Kwung's Wisdom Co., Limited was incorporated in Hong Kong with limited liability on 6 April 2017 with a share capital of US\$10,000 divided into 10,000 shares. It had been a wholly-owned subsidiary of Ningbo Kwung's since its incorporation. Kwung's Wisdom Co., Limited had never carried on any business and was deregistered on 12 January 2018. As confirmed by our Directors, Kwung's Wisdom Co., Limited was solvent immediately before its deregistration.

HISTORY, DEVELOPMENT AND REORGANISATION

REORGANISATION

The corporate structure of our Group immediately prior to the Reorganisation was as follows:



Note: By the time when we commenced the Reorganisation on 22 August 2018, Nantong Guangda, Kwung's Wisdom Co., Limited had been deregistered, and Ningbo Roadon and Ningbo Sotex had been transferred out of our Group and ceased to be subsidiaries of our Group.

In preparation for the Listing, our Group underwent the Reorganisation, pursuant to which our Company became the holding company of our Group. The main steps of the Reorganisation are set out below:

Offshore Reorganisation (Steps 1–4)

Step 1: Incorporation of King Harmony, DMA, Unione and Well Happiness

The shareholders of Ningbo Kwung's incorporated, collectively or individually, the following BVI holding companies to hold their respective shareholding interests in our Company. The following table sets forth the shareholding structure of the BVI holding companies:

No.	Name of the BVI holding company	Shareholder(s) of the BVI holding company
1	King Harmony	Mr. Jin (100%)
2	DMA	Mr. Ru (80.70%), Mr. Tian (8.21%), Ms. Jin Lijuan (3.96%), Ms. Jin Ying (3.96%), Ms. Feng (2.38%) and Mr. Jiang (0.79%).

HISTORY, DEVELOPMENT AND REORGANISATION

Name of the BVI holding No. company	Shareholder(s) of the BVI holding company
3 Unione	Ms. Zhou (9.17%), Mr. Hu (3.67%), 20 employees of our Group (64.40%), two Independent Third Parties (13.76%) and four former employees of our Group (9.00%)
4 Well Happiness	Mr. Cheung (100%)

Step 2: Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 13 November 2018. On the same date, one nil-paid Share was allotted and issued to the initial subscriber, an Independent Third Party, which was then transferred to King Harmony at a consideration of HK\$0.001 on 20 November 2018.

On 19 December 2018, King Harmony, DMA, Unione and Well Happiness subscribed for, and our Company allotted and issued to them, a total of 69,999 nil-paid Shares.

Upon completion of the allotment of Shares, the shareholding structure of our Company was as follows:

Name of shareholder	Number of Shares	Percentage of shareholding (%)
1. King Harmony	50,526	72.18
2. DMA	12,624	18.03
3. Unione	5,450	7.79
4. Well Happiness	1,400	2.00
Total	<u>70,000</u>	<u>100.00</u>

The shareholding structure of our Company immediately after the allotment of Shares closely resembled the then respective percentage of equity interest held by or attributable to each of the shareholders of Ningbo Kwung's immediately after Step 7 of the Reorganisation. For further details, see "History, Development and Reorganisation – Reorganisation – Step 7: Conversion of Ningbo Kwung's into a sino-foreign joint venture" in this section below.

Step 3: Incorporation of Kwung's Investments

Kwung's Investments was incorporated in the BVI with limited liability on 15 November 2018 with Mr. Jin as the sole shareholder.

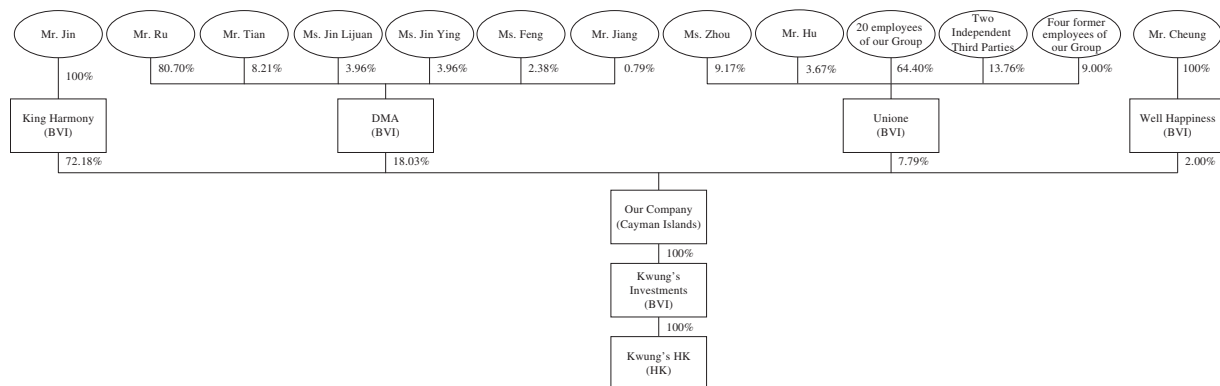
HISTORY, DEVELOPMENT AND REORGANISATION

On 29 November 2018, Mr. Jin transferred the entire share capital of Kwung's Investments to our Company at a consideration of US\$1.00 and after the transfer, Kwung's Investments became a direct wholly-owned subsidiary of our Company.

Step 4: Incorporation of Kwung's HK

Kwung's HK was incorporated in Hong Kong with limited liability on 27 November 2018 with Kwung's Investments as the sole shareholder. As a result of the transfer of the entire share capital of Kwung's Investments from Mr. Jin to our Company on 29 November 2018, Kwung's HK became an indirect wholly-owned subsidiary of our Company.

The offshore corporate structure of our Group upon the completion of Steps 1–4 was as follows:



Onshore Reorganisation (Steps 5–9)

Step 5: Establishment of Shaoxing Keyuan, transfer of business of Shaoxing Jingming to Shaoxing Keyuan and transfer of equity interest of Shaoxing Jingming to Ningbo Investment and Mr. Jin

Shaoxing Keyuan was established in the PRC with limited liability on 17 September 2018. Shaoxing Jingming principally engaged in the business of property leasing and manufacturing and selling of candles. For further details of the corporate development of Shaoxing Jingming and the reason for excluding Shaoxing Jingming from our Group, see “History, Development and Reorganisation – History and Development – Former subsidiaries – 1. Shaoxing Jingming” in this section above.

On 12 October 2018, Shaoxing Jingming as vendor and Shaoxing Keyuan as purchaser entered into a business and assets transfer agreement, pursuant to which Shaoxing Jingming transferred to Shaoxing Keyuan (i) its business; (ii) its assets (save and except its land and building interests) and liabilities; (iii) its contractual rights and obligations; and (iv) employees relating to our Group's business, at a cash consideration of RMB14,645,844.85. Such consideration was determined by reference to an independent valuation report on Shaoxing Jingming as at 31 August 2018. As confirmed by our PRC legal advisers, the business and assets transfer agreement has been properly and legally executed and completed.

On 19 October 2018, Ningbo Kwung's entered into two equity transfer agreements with Ningbo Investment and Mr. Jin, respectively. Pursuant to the equity transfer agreements, Ningbo Kwung's transferred 98% of its equity interest in Shaoxing Jingming to Ningbo Investment and 2% of its equity interest in Shaoxing Jingming to Mr. Jin at a consideration of RMB103 million and RMB2 million, respectively. The considerations were determined by reference to an independent valuation

HISTORY, DEVELOPMENT AND REORGANISATION

report on Shaoxing Jingming as at 30 September 2018. As confirmed by our PRC Legal Advisers, the equity transfers were completed on 19 October 2018. Upon completion of the said equity transfers, Shaoxing Jingming ceased to be a member of our Group.

Step 6: Deregistration of Henan Kwung's and Ningbo Wuliang

Henan Kwung's and Ningbo Wuliang were wholly-owned subsidiaries of Ningbo Kwung's since their establishments. As Henan Kwung's has never carried on any business since its establishment and Ningbo Wuliang has become dormant since 2017, we deregistered Henan Kwung's and Ningbo Wuliang on 22 and 29 August 2018, respectively.

Step 7: Conversion of Ningbo Kwung's into a sino-foreign joint venture

On 10 December 2018, Bode Investment, one of the shareholders of Ningbo Kwung's, transferred 2% equity interest in Ningbo Kwung's to Eversun Capital, our pre-IPO investor, at a consideration of RMB3.27 million or approximately RMB2.34 per RMB1.00 of equity interest. The consideration was determined by reference to an independent valuation report on Ningbo Kwung's as at 30 November 2018, of which Ningbo Kwung's was valued at RMB164 million using asset-based approach. For further details of the pre-IPO investor and the above transfer of equity interest, see "History, Development and Reorganisation – Disclosure pursuant to Guidance Letters HKEx-GL 29-12, HKEx-GL43-12 and HKEx-GL44-12 – Pre-IPO Investment" in this section below. Our PRC Legal Advisers confirm that all relevant approvals and permits in relation to the above equity transfer have been obtained from the relevant authorities in accordance with the applicable PRC laws on 12 December 2018.

HISTORY, DEVELOPMENT AND REORGANISATION

Immediately after the completion of the transfer of 2% of equity interest of Ningbo Kwung's to Eversun Capital, Ningbo Kwung's became a sino-foreign joint venture and its respective percentage of equity interest attributable to each of its shareholders closely resembled the shareholding structure of our Company after completion of Step 2 of the Reorganisation. Set forth below is a comparison of the respective shareholding structures of our Company after completion of Step 2 of the Reorganisation and that of Ningbo Kwung's after completion of Step 7 of the Reorganisation:

Shareholding structure of our Company immediately after completion of Step 2 of the Reorganisation			Shareholding structure of Ningbo Kwung's immediately after completion of Step 7 of the Reorganisation		
Name of the ultimate beneficial owner	Name of the BVI holding company (Note 1)	Number of Shares attributed to be owned by the ultimate beneficial owner	Percentage of shareholding attributed to be owned by the ultimate beneficial owner (%)	Amount of	Percentage of
				equity interest attributed to be owned by the ultimate beneficial owner (RMB)	equity interest attributed to be owned by the ultimate beneficiate owner (%)
1. Mr. Jin	King Harmony	50,526	72.18	50,526,000	72.18
2. Mr. Ru	DMA	10,187	14.56	10,187,312	14.56
				(Note 2)	
3. Mr. Tian	DMA	1,037	1.48	1,036,688	1.48
				(Note 3)	
4. Ms. Jin Lijuan	DMA	500	0.71	500,000	0.71
5. Ms. Jin Ying	DMA	500	0.71	500,000	0.71
6. Ms. Feng	DMA	300	0.43	300,000	0.43
7. Mr. Jiang	DMA	100	0.14	100,000	0.14
8. 20 employees of our Group	Unione	3,510	5.01	3,510,000	5.01
9. Two Independent Third Parties	Unione	750	1.07	750,000	1.07
10. Ms. Zhou	Unione	500	0.71	500,000	0.71
11. Four former employees of our Group	Unione	490	0.71	490,000	0.71
12. Mr. Hu	Unione	200	0.29	200,000	0.29
13. Mr. Cheung (Note 4)	Well Happiness	1,400	2.00	1,400,000	2.00
Total		<u>70,000</u>	<u>100.00</u>	<u>70,000,000</u>	<u>100.00</u>

Notes:

- For the shareholding structure of the BVI holding companies, see "History, Development and Reorganisation – Reorganisation – Step 1: Incorporation of King Harmony, DMA, Unione and Well Happiness" in this section above.
- After completion of Step 7 of the Reorganisation, Mr. Ru directly owned approximately 2.86% of equity interest in Ningbo Kwung's and indirectly owned approximately 11.70% of equity interest in Ningbo Kwung's through his approximately 99.55% interest in Bode Investment, a shareholder of Ningbo Kwung's.

HISTORY, DEVELOPMENT AND REORGANISATION

3. After completion of Step 7 of the Reorganisation, Mr. Tian directly owned 1.43% of equity interest in Ningbo Kwung's and indirectly owned approximately 0.05% of equity interest in Ningbo Kwung's through his approximately 0.45% interest in Bode Investment, a shareholder of Ningbo Kwung's.
4. After completion of Step 7 of the Reorganisation, Mr. Cheung indirectly owned approximately 2.00% of equity interest in Ningbo Kwung's through Eversun Capital. After Step 8 of the Reorganisation, Mr. Cheung used Well Happiness as his investment holding vehicle to hold his 2% interests in our Company. Eversun Capital and Well Happiness are both investment holding companies wholly-owned by Mr. Cheung.

Step 8: Acquisition of Ningbo Kwung's by Kwung's HK

In order to facilitate the completion of the Reorganisation, the onshore shareholders of Ningbo Kwung's, being domestic residents of the PRC as defined under Circular No. 37 and Circular No. 13, completed the offshore investment foreign exchange registration in accordance with applicable PRC laws, and in particular, Circular No. 37, on 14 December 2018.

On 18 December 2018, Kwung's HK acquired the entire equity interest in Ningbo Kwung's from each of its shareholders at a total consideration of RMB164 million, which was determined by reference to an independent valuation report on Ningbo Kwung's as at 30 November 2018, of which Ningbo Kwung's was valued at RMB164 million using asset-based approach. Our PRC Legal Advisers confirm that all relevant approvals and permits in relation to the above equity transfers have been obtained from the relevant authorities in accordance with the applicable PRC laws on 18 December 2018. Immediately after the completion of the said acquisitions, Ningbo Kwung's became a wholly foreign-owned enterprise wholly-owned by our Company.

On 19 December 2018, our Company allotted a total of 69,999 nil-paid Shares to King Harmony, DMA, Unione and Well Happiness. For further details, see "History, Development and Reorganisation – Reorganisation – Offshore Reorganisation (Steps 1–4) – Step 2: Incorporation of our Company" above in this section.

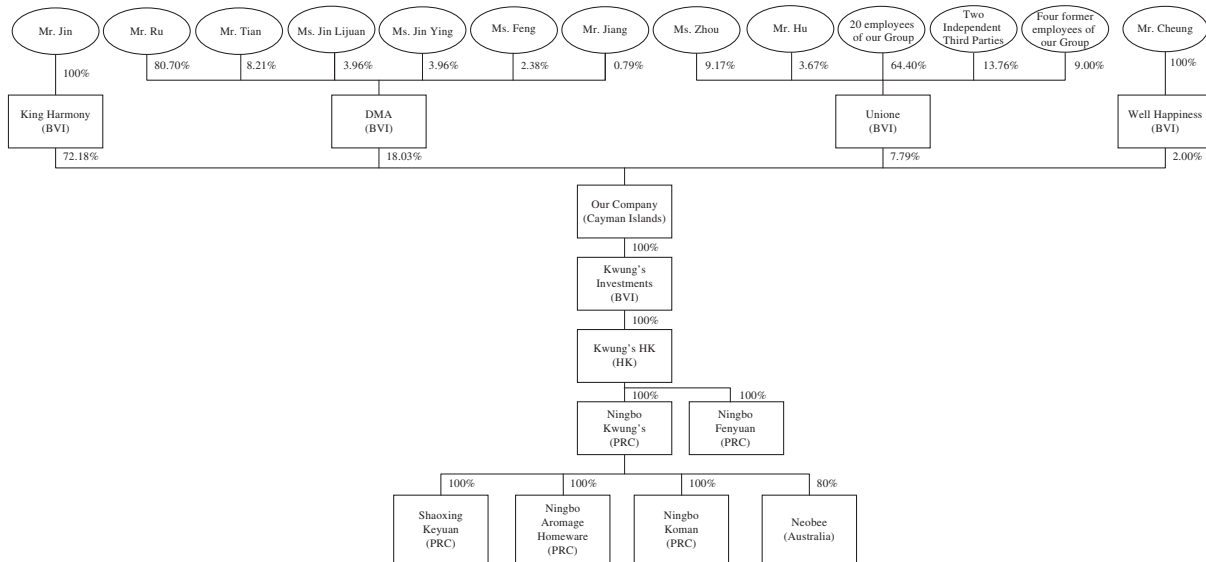
The shares subscriptions were completed on 6 May 2019 and 70,000 nil-paid Shares held by Harmony, DMA, Unione and Well Happiness were credited as fully paid on the same date.

Step 9: Establishment of Ningbo Fenyuan

For the purpose of implementing our expansion plan with respect to production of our home fragrance products, Ningbo Fenyuan was established in the PRC with limited liability on 7 January 2019 with a registered capital of RMB1 million and is wholly-owned by Kwung's HK. For further details of our future plans and use of the net proceeds, see "Future Plans and Use of Proceeds" in this prospectus.

HISTORY, DEVELOPMENT AND REORGANISATION

The corporate structure of our Group upon the completion of Steps 5–9 is set out as follows:



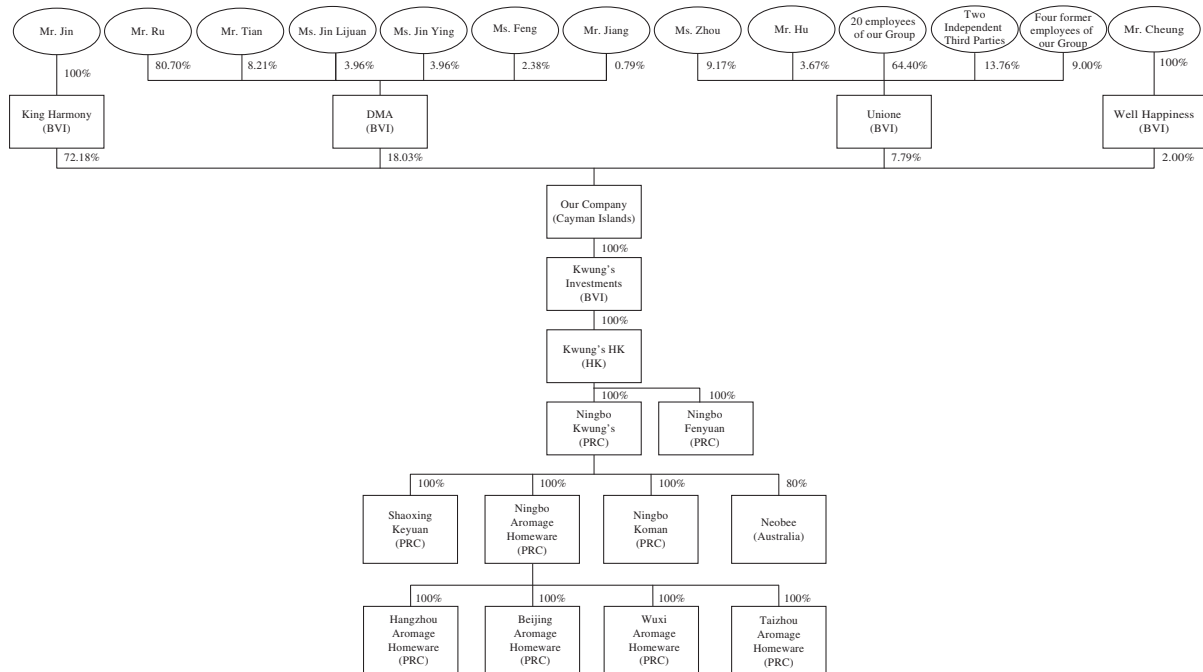
As at the Latest Practicable Date, the above steps of the Reorganisation had been properly and legally completed, and all relevant regulatory approvals had been obtained.

Establishment of Hangzhou Aromage Homeware, Beijing Aromage Homeware, Wuxi Aromage Homeware and Taizhou Aromage Homeware after completion of the Reorganisation

For the purpose of expanding our sale of Home Decoration Products to Hangzhou, Beijing, Wuxi and Taizhou, we established: (i) Hangzhou Aromage Homeware on 21 May 2019; (ii) Beijing Aromage Homeware on 6 November 2019; (iii) Wuxi Aromage Homeware on 22 November 2019; and (iv) Taizhou Aromage Homeware on 16 December 2019, respectively. Each of Hangzhou Aromage Homeware, Beijing Aromage Homeware, Wuxi Aromage Homeware and Taizhou Aromage Homeware was established in the PRC with limited liability with a registered capital of RMB500,000, and has been wholly-owned by Ningbo Aromage Homeware since its establishment.

HISTORY, DEVELOPMENT AND REORGANISATION

Set forth below is the corporate structure of our Group after the establishment of Hangzhou Aromage Homeware, Beijing Aromage Homeware, Wuxi Aromage Homeware and Taizhou Aromage Homeware:



Disclosure pursuant to Guidance Letters HKEx-GL29-12, HKEx-GL43-12 and HKEx-GL44-12

Pre-IPO Investment

On 10 December 2018, Bode Investment entered into an agreement for the transfer of its equity interest in Ningbo Kwung's with Eversun Capital. Pursuant to the agreement, Bode Investment transferred 2% equity interest in Ningbo Kwung's to Eversun Capital. Set forth below are the details of the said transfer of equity interest in Ningbo Kwung's:

Amount of equity interest in Ningbo Kwung's acquired by Eversun Capital:	2% of equity interest Ningbo Kwung's (without taking into account the dilution effect as a result of the Global Offering)
Total consideration:	RMB3,273,610
Payment date:	20 December 2018
Number of Shares owned by the beneficial owner of Eversun Capital immediately upon the Listing <i>(Note)</i>	6,000,000 Shares

HISTORY, DEVELOPMENT AND REORGANISATION

Percentage of shareholding of the beneficial owner of Eversun Capital upon the Listing (<i>Note</i>)	1.5% of all the issued Shares immediately after the completion of the Capitalisation Issue and the Global Offering (without taking into account of any Shares which may be allotted and issued upon exercise of the Over-allotment Option and the option which may be granted under the Share Option Scheme)
Average consideration per Share:	RMB0.55 (equivalent to HK\$0.61)
Discount to the mid-point Offer Price:	57.6% (based on the mid-point of the indicative Offer Price range stated in this prospectus)
Use of Proceeds:	Not applicable as the consideration will be paid to Bode Investment and our Group will not receive any of the proceeds from Eversun Capital

Note: Eversun Capital and Well Happiness are both investment holding companies wholly-owned by Mr. Cheung. After Step 8 of the Reorganisation, Mr. Cheung used Well Happiness as his investment holding vehicle to hold his 2% interests in our Company.

The aforesaid consideration was determined as a result of arm's length negotiation between the parties by reference to an independent valuation report on Ningbo Kwung's as at 30 November 2018, of which Ningbo Kwung's was valued at RMB164 million using asset-based approach.

Pursuant to Step 8 of the Reorganisation, Kwung's HK acquired 2% equity interest in Ningbo Kwung's from Eversun Capital at a consideration of RMB3,273.610, which was determined with reference to the valuation report as mentioned in the above paragraph. After completion of the said equity transfer, Mr. Cheung holds 1,400 (or 2%) Shares through Well Happiness.

Background of Mr. Cheung, Eversun Capital and Well Happiness

Mr. Cheung is an investor residing in Hong Kong. He has experience in pre-IPO investment of Future Bright Mining Holdings Limited, which is subsequently listed on the Main Board (stock code: 2212). Mr. Cheung became acquainted with Mr. Tian, our executive Director, in or around August 2018 through the introduction of a friend of Mr. Cheung. Mr. Cheung expressed his interest in investing in the candle industry in light of the potential growth of our Group in the PRC. Therefore, he decided to acquire the equity interest of Ningbo Kwung's from Bode Investment.

Eversun Capital is a company incorporated in Hong Kong with limited liability on 30 April 2018 and is wholly-owned by Mr. Cheung. Well Happiness is a company incorporated in Hong Kong with limited liability on 5 December 2018 and is wholly-owned by Mr. Cheung. Up to the Latest Practicable Date, Eversun Capital and Well Happiness are investment holding companies.

To the best of our Directors' knowledge, information and belief having made all reasonable enquiries, Mr. Cheung, Eversun Capital and Well Happiness are Independent Third Parties. Mr. Cheung, Eversun Capital and Well Happiness confirm that they subscribed for the Shares through their own sources of fund and not directly or indirectly funded by any connected person of our Group.

HISTORY, DEVELOPMENT AND REORGANISATION

Our Directors are of the view that the pre-IPO investment will broaden our shareholder base and our Group could benefit from Mr. Cheung's respective knowledge and experience in the listing process in Hong Kong.

Save for the pre-IPO investment by Eversun Capital and the subscription of 1,400 Shares pursuant to Step 2 of the Reorganisation by Well Happiness, to the best of our Directors' knowledge, information and belief having made all reasonable enquiries, Mr. Cheung, Eversun Capital and Well Happiness did not have any past or present relationships, including without limitation family, trust, business or employment relationship, or any agreement, arrangement or understanding with our Company, subsidiaries, Shareholders, Directors or members of senior management and any of their respective associates.

There was no special right attached nor was there any contractual lock-up requirement granted or imposed on Mr. Cheung or Well Happiness. The Shares held by Well Happiness are considered to be part of the public float for the purpose of Rule 8.08 of the Listing Rules.

The Sole Sponsor is of the view that the pre-IPO investment as disclosed in this subsection is in compliance with the applicable requirements under Guidance Letters HKEx-GL29-12, HKEx-GL43-12 and HKEx-GL44-12 issued by the Stock Exchange.

M&A RULES

Pursuant to the Provisional Measures on Administration of Filing for Establishment and Change of Foreign Investment Enterprises (《外商投資企業設立及變更備案管理暫行辦法》) (the "**Measures**"), where a non-foreign investment enterprise is converted to a foreign investment enterprise as a result of any merger, acquisition, absorption, etc., it shall be filed with competent PRC governmental authorities in accordance with the Measures.

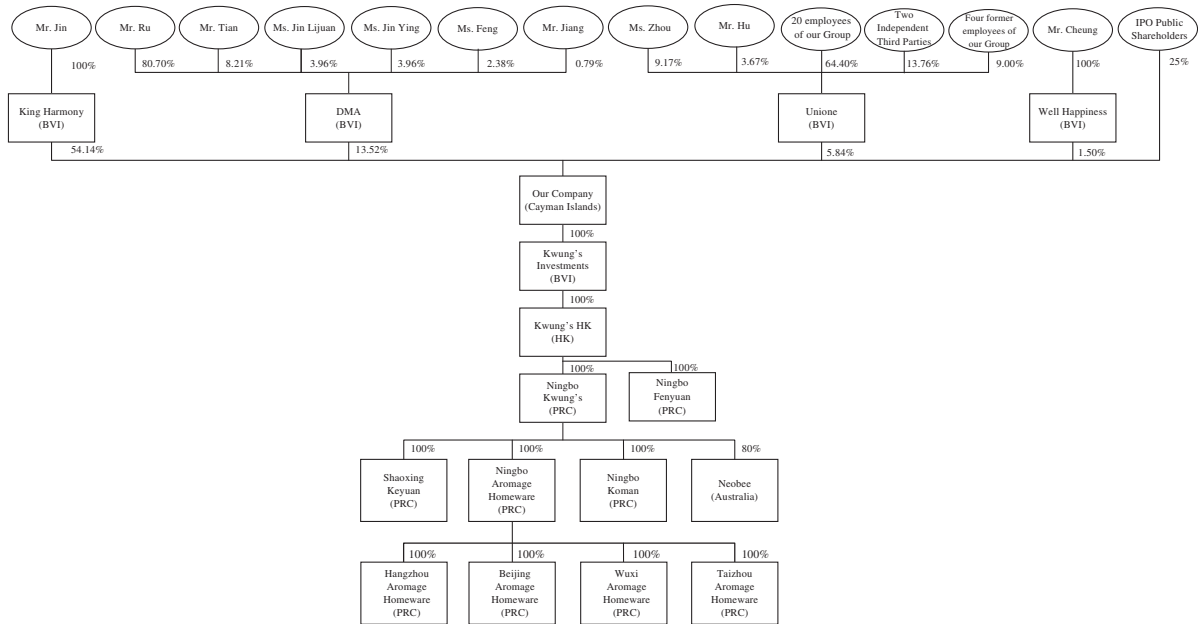
Pursuant to the Provisions on Merger and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the "**M&A Rules**"), merger and acquisition of domestic enterprises by foreign investors shall mean acquisition of equity held by shareholders of non-foreign invested enterprises within China ("**Domestic Companies**") or subscription to additional capital of Domestic Companies by foreign investors, which, as a result, convert such Domestic Companies into foreign invested enterprises.

As advised by our PRC Legal Advisers, (i) the 2% equity interests transfer in Ningbo Kwung's from Bode Investment to Eversun Capital constitutes an equity merger under the M&A Rules and has completed filing and registration with the competent PRC governmental authorities in accordance with the M&A Rules; and (ii) the 98% equity interests transfers in Ningbo Kwung's from the onshore shareholders of Ningbo Kwung's do not constitute an equity or asset merger under the M&A Rules since Ningbo Kwung's had become a sino-foreign joint venture instead of a domestic enterprise when the transfers of the equity interests took place. Therefore, such equity interest transfers are not subject to governmental approvals under the M&A Rules. Nevertheless, the equity interest transfers are registered with competent PRC governmental authorities in accordance with the applicable PRC laws, including the Measures.

HISTORY, DEVELOPMENT AND REORGANISATION

CORPORATE STRUCTURE OF OUR GROUP

Set out below is the corporate structure of our Group immediately after the completion of the Capitalisation Issue and the Global Offering (assuming that the Over-allotment Option is not exercised and without taking into account any Shares to be issued pursuant to the Share Option Scheme):



OVERVIEW

Founded in 1999, we are a prominent original design manufacturer and supplier of Home Decoration Products targeting overseas markets. Our Home Decoration Products, comprising candles, home fragrance and home accessories, are widely used by consumers for improvements of indoor environment and atmosphere. Candles and home fragrance, being our principal products, are popular consumer products in ordinary people's daily life. There has been long history about their uses in different cultures. Throughout our history of around 20 years, we endeavoured to incorporate our creativity and ideas into our products, and take pride in the worldwide distribution of our products across overseas markets. According to the F&S Report, in 2018, in terms of revenue from the manufacturing and sales of candles, we ranked second in the PRC, and in terms of revenue from the manufacturing and sales of home fragrance, we ranked fourth in the PRC.

Candles and home fragrance are our principal products, which in aggregate accounted for 83.9%, 83.5%, 84.6% and 81.1%, respectively, of our total revenue for FY2016, FY2017, FY2018 and 6M2019. We, through our own production facilities and subcontracting arrangement, manufacture and sell candles and home fragrance in accordance with customers' orders. We also offer and sell home accessories produced by contract manufacturers to enrich our product portfolio. Home accessories accounted for 16.1%, 16.5%, 15.4% and 18.9%, respectively, of our total revenue for FY2016, FY2017, FY2018 and 6M2019. Leveraging on our efforts in identifying market trends, actively introducing and applying innovative ideas to the design of products and selling a wide range of products that suit our customers' varying needs, we have an edge over our competitors in terms of product offering. During the Track Record Period, we offered and sold over 1,000 types of Home Decoration Products of varying designs, sizes, aromatic scents and ingredients.

We primarily conduct our business on ODM basis. We market a selection of Home Decoration Products according to the fashion trends and consumers' preference. Samples of our products are showcased in trade fairs and our showroom. We also contact or visit our customers or potential customers from time to time to market our products and identify business opportunity. Our customers may provide us with ideas to adapt our initial designs to suit their specific requirements. Once they have agreed on the designs and the quantity to order, we will arrange for production. For FY2016, FY2017, FY2018 and 6M2019, revenue derived from ODM sale accounted for 96.6%, 97.0%, 96.7% and 97.1%, respectively, of our total revenue.

To cultivate brand loyalty, increase brand awareness and diversify the source of our revenue, we, mainly through e-commerce platforms, distributors and our self-operated stores in the PRC, sell selected lines of self-branded products such as "Fumare" and "Aromart" branded candles and home fragrance in the PRC and Australia. Products sold under "Fumare" brand target the mid- to high-end consumer markets and products sold under "Aromart" brand target mid-end and mass markets. For FY2016, FY2017, FY2018 and 6M2019, revenue from branded sale accounted for 3.4%, 3.0%, 3.3% and 2.9%, respectively, of our total revenue.

Our business is export-oriented. During the Track Record Period, our products were sold to customers situated in over 20 countries and regions, including France, United Kingdom, Netherlands, Germany, Canada and Australia. Europe, our largest geographical market, accounted for 72.5%, 74.1%, 76.3% and 77.0%, respectively, of our total revenue for FY2016, FY2017, FY2018 and 6M2019. During the Track Record Period, we derived a small proportion of our total revenue from our sales in the PRC, which accounted for 1.2%, 1.0%, 1.2% and 1.7%, respectively, of our total revenue for FY2016, FY2017, FY2018 and 6M2019.

BUSINESS

Our major customers comprise retailers such as supermarket chains, home decoration stores and gift shops, targeting general consumer markets as well as wholesalers who import and sell our products to the overseas markets through their own distribution networks.

As at the Latest Practicable Date, we carried out our production activities at two production bases situated at Ningbo and Shaoxing, both in Zhejiang Province of the PRC, with a total gross floor area of 24,635.5 sq.m. (which includes properties for production purpose only). We allocate production orders between Ningbo Plant and Shaoxing Plant according to the orders on hand, delivery schedule, technical complexity and the level of automation required for the relevant batch of the production. As at 30 June 2019, we employed 278 staff to operate our production facilities. During the Track Record Period, we outsourced production orders of certain products to independent third party contract manufacturers in the PRC. For FY2016, FY2017, FY2018 and 6M2019, subcontracting cost accounted for 46.7%, 47.9%, 46.1% and 51.3%, respectively, of our cost of sales. For details, see “Business – Subcontracting Arrangement” in this prospectus.

During the Track Record Period, our revenue amounted to RMB399.5 million, RMB445.9 million, RMB444.7 million and RMB216.3 million for FY2016, FY2017, FY2018 and 6M2019, respectively. Our gross profit increased from RMB85.2 million for FY2016 to RMB96.5 million for FY2017 and to RMB107.0 million for FY2018. Our gross profit amounted to RMB53.6 million for 6M2019. Our net profit decreased from RMB45.5 million for FY2016 to RMB37.6 million for FY2017 and increased to RMB77.1 million for FY2018. Our net profit amounted to RMB7.6 million for 6M2019, representing an increase of approximately 16.9% from RMB6.5 million for 6M2018. See “Financial Information – Description of Selected Items in Statements of Comprehensive Income” in this prospectus for detailed discussion and analysis of our financial performance during the Track Record Period.

COMPETITIVE STRENGTHS

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

We place strong emphasis on product innovation to meet the rapidly changing needs of our customers and consumers

Ever since our establishment, we embrace our core value: – “leading the market with branding and innovation” (“品牌、創意引領市場”). Thus, we place emphasis on market research and product planning. With our research and development focus on product design and performance, we aim at differentiating our products from those of our peers in terms of variety and quality. We have achieved this through the efforts and expertise of our design team which conceives and develops the designs of our products. As at 30 June 2019, we had eight designers, a majority of whom had obtained a degree or professional education qualification in design related disciplines and possessed extensive industry experience.

Apart from product design, as at 30 June 2019, we had a technical team of 52 members responsible for researching the ingredients for candles and home fragrance and improving the performance of our products. The team is based in our engineering and technical centre, which has been accredited as Ningbo Enterprise Engineering Technical Centre (寧波市企業工程技術中心) in 2011. During the Track Record Period, we had signed a cooperation agreement with Ningbo Institute of Technology, Zhejiang University (浙江大學寧波理工學院) under which the research institute agreed to provide us with research and technical supports in new product development and

commercialisation of research results. We also had an agreement with The Ningbo Institute of Materials Technology & Engineering of Chinese Academy of Sciences (中科院寧波材料所) under which a post-doctorate researcher provides research and technical supports to our Group in our research for new materials for candles products. Our cooperation with these institutes enhances our research capability and demonstrates our commitment to utilise the latest technology, thereby improving the performance of our products. For details, see “Research and Development” in this section. The status of our research capacity is recognised at the national level in the PRC. We have obtained the status of “High and New Technology Enterprise” since 2008. The current status was renewed in November 2017 and will expire in November 2020.

As at the Latest Practicable Date, our material intellectual property rights included (i) 43 trademarks in the PRC, Hong Kong, EU, the US and Australia; (ii) six patents in the PRC; and (iii) one domain name. Our research and development expenses (without taking into account the salaries of the research and development staff) during the Track Record Period amounted to RMB8.3 million, RMB8.1 million, RMB8.3 million and RMB5.0 million, respectively, for FY2016, FY2017, FY2018 and 6M2019. For details, see “Statutory and General Information – B. Further Information about the Business of our Group – 2. Intellectual property rights” in Appendix IV to this prospectus.

We pride ourselves in the quality and performance of our products, which are suitable for use in different cultural settings

We proactively seek, introduce and apply new ideas, designs, ingredients and materials to our products. Our marketing team, design team and technical team maintain a close dialogue so that the latest market trends, consumers’ preference, new designs and ideas can be integrated in our product development efforts. To respond promptly to changes in market demand, we study and improve the ingredients of our core products and optimise the formula for mixing ingredients and fragrances in our core products so that they appeal to different consumer groups. According to the F&S Report, our natural plant candles, for instance, have strong market potential as they are made from eco-friendly materials that align with the concept of healthy living and the growing level of environmental awareness among consumers.

We recognise the importance of safety and quality of our products. Our production system has been accredited with ISO 9001:2015 (quality management) and ISO 14001:2015 (environmental management). We carry out quality control with respect to the product performance (such as combustion, stability and safety) in accordance with the industrial standards such as QB/T 4359-2012 for tea-wax products and QB/T 2903/2007 for candles with containers. Our Group and Mr. Jin, our executive Director, are also two of the drafters of some of the industrial standards. As most of our products are exported overseas, we have adopted relevant international standards in respect of our products, such as BS EN 15493-2007: Candles – Specification for fire safety, BS EN 15426-2007: Candles – Specification for sooting behavior and REACH Regulation EC1907/2006: Registration, Evaluation, Authorisation and Restriction of Chemicals. As regards the raw materials, we only procure them from those suppliers who can fulfill our requirements in respect of quality, capability, production capacity, and delivery schedules. For details, see “Raw Materials and Suppliers” in this section. For details of our quality control measures, see “Quality Control” in this section.

According to the F&S Report, our Group is in the cultural and creative business, and candles and home fragrance, being our principal products, are popular consumer products of ordinary people’s daily life. Our products are suitable for use in different cultural settings as the uses of candles and home fragrance have a long history in different cultures. We offer products in different themes which aim to inspire and trigger different feelings of people by way of different scents and

aroma, thus enriching their lives and cultural experience. In recognition of our status as a cultural enterprise as well as the quality and cultural elements of our products, since 2011 and throughout the Track Record Period, we have been awarded the status of National Cultural Export Key Enterprise (國家文化出口重點企業) by the central authorities of the PRC government after rounds of evaluation by the government officials and experts. The status shall be renewed bi-annually and our current status was awarded in February 2018. According to the announcement of the Ministry of Commerce of the PRC in February 2018, only 298 enterprises in the PRC were awarded with this status in 2018. For details, see “Business – Awards and Recognitions” in this prospectus.

We have a worldwide customer base with diversified sales channels

During the Track Record Period, we sold our products to customers situated in more than 20 countries and regions, including France, United Kingdom, Netherlands, Germany, Canada and Australia. For FY2016, FY2017, FY2018 and 6M2019, customers situated overseas contributed 98.8%, 99.0%, 98.8% and 98.3%, respectively, of our total revenue for the same periods. Backed by our commitment to product innovation, stringent quality control and accumulated experience in overseas markets, we have developed mutual trust with, and gained confidence from, overseas customers who are renowned home decor retailers or wholesalers. For example, during the Track Record Period, we sold products to:

- J.J.A. SA. (“**J.J.A.**”), our largest customer in FY2016, FY2018 and 6M2019 and a well-known French brand which principally engages in the wholesale of household and home decoration products in France and has business relationship with us for around 13 years;
- Koopman International B.V. (“**Koopman**”), our second largest customer in FY2018 and a well-known Dutch Company which principally engages in the wholesale trade of home decoration products, food, toys etc. in the Netherlands and has business relationship with us for around 10 years; and
- Top Marketing Taiwan Corp. (“**Top Marketing**”), our third largest customer in FY2016 and FY2017 and a well-known Taiwan based procurement agent for department stores in Europe, and principally engages in export business of wood products, ceramics, household hardware etc. and has business relationship with us for around 19 years.

Our five largest customers during the Track Record Period had business relationship with us for five years to around 19 years and our sales to them accounted for 48.1%, 49.7%, 54.3% and 59.0%, in aggregate, respectively, of our total revenue for FY2016, FY2017, FY2018 and 6M2019.

Since 2016, we began to appoint distributors to sell selected lines of our self-branded candles and home fragrance to the customers or consumers mainly in the PRC. As at 31 December 2016, 2017 and 2018 and 30 June 2019, we had one, two, 10 and 13 distributors who had their own distribution networks in major cities in the PRC, such as Beijing, Shanghai, Hangzhou, Ningbo, Zhongshan and Zhengzhou. We also sell our self-owned brand products through e-commerce platforms and our self-operated stores in the PRC. In Australia, our self-branded products are sold to the market through our subsidiary in Australia and a retail customer which distributes our products through its own retail network. Our multiple sales channels allow us to expand the geographical coverage of our sales network, enlarge our customer base, diversify our revenue source and facilitate exchange of information on the latest market trends.

BUSINESS

We have a stable, experienced and dedicated management team with extensive industry experience

Our senior management team possesses solid and extensive experience in the industry in which we operate. Mr. Jin, our Controlling Shareholder, chairman and executive Director, founded Ningbo Kwung's, our main operating subsidiary in the PRC, with the then joint venture partner in 1999. Since 2016, he has been appointed as the vice chairman of China Daily-use Chemical Industry Association (Candle Division) (中國日用化工協會蠟燭分會), Mr. Jin possesses over 19 years of experience as of 30 June 2019 in the design, manufacturing and sale of candles and plays a leading role in formulating business strategies and driving our overall business growth. Under Mr. Jin's leadership, we expanded rapidly and sold our products to customers situated in more than 20 countries and regions.

We have a team of committed, experienced and capable directors and senior management team who has established proven track record in executing business strategies, identifying market opportunities and promoting the sale of our products. For example, Mr. Ru, our executive Director who joined our Group since 2002, also possesses over 17 years of industry experience as at 30 June 2019 and manages our day-to-day operations and business affairs. Mr. Tian, executive Directors, has more than 10 years in this sector and is responsible for corporate governance. For details of our Directors and senior management, see "Directors, Senior Management and Staff" in this prospectus.

We have integrated production facilities which allow us to achieve economies of scale

We have two production bases situated at Ningbo and Shaoxing, occupying a gross floor area of 24,635.5 sq.m. (which includes properties for production purpose only) in aggregate to carry out our production activities. Save for certain production orders for candles and production orders for home fragrance and home accessories which are outsourced to external contract manufacturers, we undertake the production of candles in our own production facilities. For FY2016, FY2017, FY2018 and 6M2019, the average utilisation rates of our production facilities were 81.2%, 98.4%, 95.1% and 77.6%, respectively. According to the F&S Report, in 2018, in terms of revenue of the manufacturing and sales of candles and home fragrance, we ranked second and fourth, respectively, in the PRC. We have modernised some of our production facilities in the Ningbo Plant, which is equipped with automated or semi-automated machineries to increase production efficiency and standardise our production process. Our production scale allows us to achieve economies of scale, thereby optimising our unit cost of production.

Our production bases are strategically located and are adjacent to major port facilities with well-established road infrastructure. We enjoy lower logistics and transportation costs, and are able to source raw materials and deliver our products to our customers domestically or overseas in a timely and cost-efficient manner. Ningbo and Shaoxing are also major coastal cities and are easily accessible, allowing us to attract design talents and skilled labour from the neighbouring provinces or regions.

OUR BUSINESS STRATEGIES

According to the F&S Report, the markets for our products – candles and home fragrance – are expected to have a moderate growth in our target markets. With a view to fuel our business growth, proactively capture market opportunities, expand the sales of our products and increase our market shares, our Directors believe that measures have to be taken through the implementation of expansion plans, details of which are set out as follows.

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We intend to apply net proceeds from the Global Offering to finance some of our expansion plans. For further details, see our disclosures in this subsection and “Future Plans and Use of Proceeds – Use of Proceeds” of this prospectus.

Establish physical presence overseas to increase market penetration of our products, better serve our major customers and enlarge our customer base in our major markets

Since our establishment in 1999, we have been selling Home Decoration Products mainly to overseas markets. Europe is the largest geographical market for our products, accounting for 72.5%, 74.1%, 76.3% and 77.0%, respectively, of our total revenue for FY2016, FY2017, FY2018 and 6M2019. Most of our major customers during the Track Record Period are situated in Europe, such as J.J.A. from France and Koopman from the Netherlands. Whilst we aim to reduce the degree of sales concentration in a single market by endeavouring to develop different geographical markets like the PRC and Australia in order to diversify the source of our revenue, in the foreseeable future, Europe remains to be the largest market for our products and our growth is largely driven by our sales performance in Europe.

On the other hand, we see growth opportunity from the European markets. According to Frost & Sullivan, EU is the major consumption market of candles and home fragrance in the world in 2018. Consumption of candles in EU accounted for 43.4% of total consumption of candles in the world, which was Euro 15.1 billion, in 2018. According to Frost & Sullivan, market size of candles in EU in terms of retail sales value increased from Euro 5,955.8 million in 2014 to Euro 6,551.6 million in 2018, representing a CAGR of 2.4% from 2014 to 2018. Market size of home fragrance in EU in terms of retail sales value increased from Euro 1,543.1 million in 2014 to Euro 1,940.4 million in 2018, representing a CAGR of 5.9%. It is projected by Frost & Sullivan that the retail sales value of candles and home fragrance in EU will increase by a CAGR of 3.3% and 6.3%, respectively, from 2018 to 2023. For details, see “Industry Overview” in this prospectus.

As more particularly disclosed in “Future Plans and Use of Proceeds – Reasons for Listing – Commercial rationale to set up regional sales offices in order to increase sales to existing customers and win orders from new customers” in this prospectus, to increase the level of engagement and consolidate business relationship with major customers in Europe by providing regional points of contact and supports, and carrying out our marketing plans and identifying sales opportunities in a more proactive and effective manners, as well as increasing our market penetration, and obtain first-hand market information for analysing market trend and product planning, we plan to establish physical presence in Europe.

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Set forth below are details of our implementation plan:

Descriptions	Estimate expenditure <i>RMB million</i>	Estimated completion time ^(Note 1)
1. Two-year rental for two regional sales offices in Europe and the expenses for refurbishing and fitting out of the leased properties ^(Note 2)	4.3	First-half of 2020
2. Two-year expenses for recruiting 13 sales personnel (comprising supervising manager, regional sales manager and sales executives and sales assistances) and paying their salaries ^(Note 3)	15.3	–
3. Expenses of preparing product samples and courier charges and other operating expenses	5.0	–
Total	24.6	

Notes:

1. Based on the assumption that Listing shall take place in January 2020.
2. With reference to the available market information, the expected monthly rental of a new regional sales office at the target location is in the range of RMB43,000 to RMB80,000, depending on the size and location of the premises. The expected amount of capital expenditure for the two regional sales offices to be established is RMB1.3 million.
3. We plan to employ 13 sales personnel to operate two regional sales offices and their corresponding monthly salary range (inclusive of base salary, commission and tax) will be EUR4,200 – EUR8,400.

We intend to allocate 22.4% of the net proceeds from the Global Offering to fund our expansion plan to establish two regional sales offices in Europe, which is expected to cover the relevant costs and expenses for a period of two years since the date of implementation. The shortfall of the estimated expenses will be financed by our internal resources as appropriate.

Subject to the then market condition, we plan to select major cities in Europe such as Paris, Amsterdam and London as the possible locations of our first two overseas sales offices. We expect the regional offices, when established, to be in the proximity to our major customers. Our Directors believe that setting up two sales offices at this stage is preferable as they can each be located in different parts of Europe where the market trends and consumers preference are not the same.

We intend to lease premises from Independent Third Party of no less than 400 sq.m. for each sales office and use part of the premises as showrooms and for samples and products storage purposes. In considering the location for our regional sales offices, our Directors will consider a number of factors, such as (i) the accessibility of the proposed location by our customers or potential customers; (ii) the number of major customers situated within the same country; (iii) condition of the local economy; and (iv) local labour cost, local rental level and other operating expenses.

Expand and upgrade our production facilities to strengthen our in-house production capabilities to achieve economies of scale

To align with our overseas expansion plan and capture business opportunities from the overseas markets of candles and home fragrance, we need to maintain sufficient spare production capacity and enhance our production capability. During the Track Record Period, the utilisation rates of our production facilities for candles maintained at a relatively high level. For FY2016, FY2017, FY2018 and 6M2019, the average utilisation rate of our production facilities was 81.2%, 98.4%, 95.1% and 77.6%, respectively.

For candles, where we have the required production capacity and it is commercially desirable or cost-efficient to do so, it is our practice to produce such products on our own as we are able to retain better control over the cost and quality of the production and better fulfill the requirements of our major customers. Having considered the high utilisation rate of our production facilities during the Track Record Period and the potential increase in purchase orders that would result from the full and successful implementation of our other business strategies as disclosed in this sub-section, we see the need to increase the production lines for candles, which will give us spare production capacity to take up new orders and expand our sales to existing customers.

For home fragrance, in light of (i) the historical and projected growth of market size of home fragrance in EU from 2014 to 2023 as evidenced by the F&S Report; (ii) the gradual growth of our revenue and gross profit from this product segment during the Track Record Period; (iii) the possibility of further improving our gross margin from this segment; (iv) our intention to reduce the degree of reliance on contract manufacturers as the size of this segment continues to grow and to better fulfill the requirements of our customers; and (v) our competence in handling the production of home fragrance, having considered the extensive experience and involvement of our senior management in the quality control and supply chain management of such products for many years, there is a driving force for us to expand our own production capability in home fragrance so that we are better placed to control the cost, production lead time and quality of the products, which are instrumental for us to maximise our profitability and increase market share of such products.

On the other hand, to support our expansion plan in respect of self-branded products as more particularly disclosed in this sub-section below, we are keen to increase our in-house production capacity for candles and further develop production capability for home fragrance which we require to maintain strict control over the production cost and product quality and hence, the profitability of this segment as its scale gradually expands.

For detailed explanation of our commercial rationale to expand our production capacity and capability, see “Future Plans and Use of Proceeds – Reasons for Listing – Commercial rationale to expand our production capacity and capability to cope with our future growth” in this prospectus.

In light of the above, we plan to (i) lease a new production base in the area of around 12,000 sq.m in Ningbo; (ii) expand our production capacity for candles; and (iii) equip ourselves with the capability of manufacturing home fragrance with our in-house production facilities. Upon full implementation of this plan, we will reduce the scale of our outsourcing arrangement of the relevant products to the extent that such products can be produced in our in-house production facilities efficiently.

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Set forth below summarises our planned expansion of our production facilities, and the estimated cost to be incurred for such purpose:

Descriptions	Expected lifespan <i>year</i>	Estimated expenditure <i>RMB million</i>
• Two-year rental for new production base and the expenses for refurbishing and fitting out <i>(Note 1)</i>	10	6.0
• Acquiring machines to increase six production lines for candles in two phases	10	11.7
• Acquiring machines to increase three production lines for home fragrance	10	3.0
• Ancillary processing system for containers	10	1.8
• Environmental protection equipment including emission system and sewage management system	10	4.7
• Two-year expenses for recruiting additional production staff and paying their salaries <i>(Note 2)</i>	–	10.3
• Purchase of raw materials to support the increase in production lines	–	14.7
	Total	52.2

Notes:

1. With reference to the available market information, the expected monthly rental for new production base is RMB144,000.
2. We plan to employ 81 personnel to operate the new production base and their corresponding monthly salary range at our target location will be RMB4,633 – RMB6,940.

We intend to allocate 47.5% of the net proceeds from the Global Offering to fund our plan to increase our product lines for candles and expand our production capability in home fragrance, which is expected to cover the relevant operating costs and expenses for a period of around two years since the date of completion of the relevant implementation phases. In particular, 29.4% of the net proceeds from the Global Offering is intended to be used in relation to the acquisition of six production lines for candles (including staff salary, purchase of raw materials, overheads and cost of refurbishment) and 18.1% of the net proceeds from the Global Offering is intended to be used in relation to the acquisition of three production lines for home fragrance (including staff salary, purchase of raw materials, overheads and cost of refurbishment). All the new production lines for candles and home fragrance will be installed in the new production base. The shortfall of the estimated expenses will be financed by our internal resources as appropriate.

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As at the Latest Practicable Date, we had identified five suitable factory premises in Yinzhou District of Ningbo, all of which were available for lease. We expect to lease one of the five identified suitable factory premises after the Listing and, subject to commercial negotiations, target to enter into the lease with the landlord for a term of 10 years and the rental fee between RMB7.0–RMB10.0 per sq.m.. Details of the lease, when entered into, will be disclosed in accordance with the Listing Rules.

Based on the assumptions below, the breakeven period and the investment payback period for our new production lines are expected to be approximately one year and five years, respectively, from the date the relevant production lines becomes operational. The breakeven period refers to the period of time required for the expanded production facilities to generate revenue equal to direct operating costs (including staff costs and selling and distribution expenses, but excluding taxes and depreciation) while the investment payback period refers to the period of time required for accumulated earnings before interest, tax, depreciation and amortisation of the new production line to recover our total cost of investment.

Our breakeven period and investment payback period are based on the assumptions below:

- the total costs of expansion of production lines are incurred according to our proposed implementation plan;
- it would require three months from the time the costs of investment are made to have the candles and home fragrance production lines operational. This is based on our estimation of the time required to have our machinery shipped, calibrated and tested before being put into operation; and
- the additional production staff which consist of supervisors and production staff for the new production line will be hired according to our proposed implementation plan, when the new production line is operational.

For illustrative purpose, the historical breakeven period and investment payback period of our production lines in Ningbo Plant were one year and three years, respectively, which was calculated by reference to the information derived from the upgrades of the production line in 2017 and 2018.

We outline our proposed implementation plan with respect to our production as follows:

Implementation plan	Estimated completion time ^(Note)
1. Negotiate and finalise the terms of the planned acquisition of the production facilities and the lease of production premises	First-half of 2020
2. Delivery, installation, calibration and testing of the equipment and machinery for three production lines for candles and three production lines for home fragrance (“ Phase One Expansion ”)	First-half of 2020
3. Recruitment of additional production staff for Phase One Expansion	First-half of 2020

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Implementation plan	Estimated completion time ^(Note)
4. Delivery, installation, calibration and testing of the equipment and machinery for another three production lines for candles (“ Phase Two Expansion ”)	Second-half of 2020
5. Recruitment of additional production staff for Phase Two Expansion	Second-half of 2020

Note: Based on the assumption that the Listing shall take place in January 2020.

The expanded production lines are expected to achieve a net increase in our production capacity of candles of around 82% on an annualised basis after the completion of Phase One Expansion and Phase Two Expansion, comparing to our production capacity in FY2018. With regard to home fragrance, based on our Directors’ estimation, when the planned production lines are fully operational, around 70% of their production capacity will be utilised by reference to our cost of sales attributable to home fragrance in FY2018.

In formulating our expansion plan in respect of production, we have considered the following:

- Our Group has discussed with a multinational consumer goods company headquartered in the UK (“**Customer X**”), for a potential business opportunity. Customer X is listed on the London Stock Exchange and is a constituent of the FTSE 100 Index. As at the Latest Practicable Date, we and Customer X had already had several rounds of discussions including document exchanges of product specification and technical requirements. Given the size and global footprint of Customer X, our Directors believe there will be abundant future sales opportunities with Customer X should we be able to become its supplier. Given the scale of Customer X and its stringent requirements on products quality, we are also able to elevate our corporate profile and quality management through ongoing collaboration with them. Pursuant to our latest discussion, Customer X expressed concern over our ability in ensuring a stable supply of products based on our current production capacities. As at the Latest Practicable Date, we were yet to receive secured order from Customer X.
- Our Group has discussed with a distributor of housewares of decorative items headquartered in the Netherlands (“**Customer Y**”), for a potential business opportunity. Customer Y has its own brands of trendy homewares targeting the European market. We have already signed a memorandum of understanding with Customer Y and the cooperation will involve the creation of joint brands of candles and home fragrance with distribution platforms in Europe. Given Customer Y’s established foothold in Europe, our Directors believe our cooperation with Customer Y will further enhance our reputation to the European and thus increasing our sales as a result. Pursuant to our latest discussion, Customer Y was interested in procuring from us candles and home fragrance. As at the Latest Practicable Date, we were yet to receive secured order from Customer Y.
- Our Group has been engaging two contract manufacturers to produce home fragrance products. There is a need to diversify the degree of supplier concentration as our sales of home fragrance is expected to grow. We have received some feedbacks from customers as regards the quality and time of delivery of our home fragrance products which have been outsourced to our contract manufacturers, reflecting that the contract manufacturers may

have reached the limits of their production capacities. Our Directors believe that, with a tighter and closer control of quality if we produce the home fragrance in our own production facilities, we will be able to produce home fragrance with a more stable quality and hence increasing customers' satisfactions and our sales opportunity.

- We have in the past received complaints from existing and potential customers due to our limited production capacity. Examples of such complaints include our Group not able to proceed with the delivery schedule of the customer order, resulting in the late delivery of products after further negotiation or no further follow-up order from potential customers. Based on our available records, during the Track Record Period, we had received the aforesaid complaints from ten customers (whose revenue contribution in aggregate accounted for 41.7%, 44.7%, 47.0% and 50.5%, respectively, of our total revenue for FY2016, FY2017, FY2018 and 6M2019) as we delayed the delivery of products ordered by them due to production capacity reason. We believe that our relatively high utilisation rate of our production facilities will reduce the willingness of our customers to increase the size of the orders placed with us, thereby limiting our growth opportunity.
- The markets for candles and home fragrance are expected to grow in the near future. According to the F&S Report, the retail sales value of candles and home fragrance in EU will increase by a CAGR of 3.3% and 6.3%, respectively, from 2018 to 2023.
- There has been organic growth in both our revenue and gross profit of home fragrance during the Track Record Period. Our revenue attributable to home fragrance increased from RMB44.3 million in 2016 to RMB46.2 million in 2017, and was further increased to RMB65.0 million in 2018 whereas the gross profits of home fragrance were RMB7.6 million, RMB7.9 million and RMB18.4 million respectively. For 6M2019, our revenue and gross profit of home fragrance were RMB35.5 million and RMB9.4 million, respectively. Our Directors believe such a momentum of growth will continue in light of the performance of the same product segments in the first half of 2019 of our Group.

As at the Latest Practicable Date, save as identifying suitable sites for our new production base and obtaining quotations from the vendors of the machineries and equipment, we had not yet implemented the above expansion plan and had not incurred expenditure in relation to such plan.

Strengthen our research and development capabilities to enrich our product offering and increase our overall competitiveness

Home Decoration Products are consumer goods, and one of their common applications is for the improvements of indoor environment and atmosphere. Thus, our efforts in product innovation and enhancing product performance are crucial to our long-term success and profitability, and will strengthen our position as a leading manufacturer and supplier of candles and home fragrance. To cope with the future technological advancement on manufacturing technique, rapidly changing consumers' preference, increasingly demanding standards on the compositions and functions of the products sold by us and to ensure that our products will stay competitive and appealing to consumers, we consider necessary to continue to strengthen our research and development capabilities by enriching our product offering and enhancing their features, responding to market change on a timely basis by studying closely the prevailing industry and market trends and incorporating such market information into our product planning process, in order to seize business opportunities.

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To this end, we plan to (i) upgrade our research and development infrastructure; (ii) recruit experienced research staff to carry out our product development plan; and (iii) undertake research initiatives with focuses on product ingredients, features and performance. Set forth below are the details of our implementation plan in relation to our research and development capabilities.

Upgrade our research and development infrastructure

As at the Latest Practicable Date, we carried out our research and development activities at the engineering and technical centre of our Ningbo headquarters. Our major research facilities include smoke tester and information system and some of the facilities have already reached the end of their expected life span. Thus, we need to replace and upgrade some of the equipment. The table below sets forth the number of each type of existing equipment required to be replaced and upgraded using the net proceeds of the Global Offering and their corresponding useful life:

Type of existing equipment	Number	Average years in operation <i>(Note 1)</i>	Estimated average useful life <i>(Note 2)</i> <i>(years)</i>	Estimated remaining useful life <i>(Note 2)</i> <i>(years)</i>
Information system and other digital equipment	21	11.1	5	–
Printers	6	6.6	5.8	–
Testers and related equipment	11	9.0	6.3	–
Candle filling machines	2	2.6	10	7.3

Notes:

- (1) The number of years the equipment has been used by us in operation.
- (2) Estimated useful life of the equipment adopted in our accounting policy of depreciation.

The expected total amount of capital expenditure in relation to the upgrade of research and development infrastructure is RMB3.8 million. The shortfall of the estimated expenses will be financed by our internal resources as appropriate.

In addition, to fulfill the increasingly stringent or demanding industry or market standards, we plan to acquire in-house testing and laboratory equipment for analysing, measuring and examining the compositions, smoke emission, colour and performance of the incoming raw materials as well as finished products, for ensuring the quality of our products. To enhance our product designs capabilities, we also plan to acquire equipment such as design software, 3D printers and industrial printers for designing and creating product prototype or design iterations. To house our new equipment, we need to reconfigure our engineering and technical centre, which will involve refurbishing and fitting out of the existing workshop and laboratory to spare additional space for housing equipment and research and development personnel.

Recruit experienced research staff to carry out our product development plan

The number and experience of the design talent and market research personnel are critical to the implementation and success of our implementation plan. With our increased investments in research and development, we plan to recruit experienced researchers and engage scientific and engineering

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experts for consultation, provide training and organise cooperation with research institutes, in order to increase our competence to manage and expand our research and product development capability.

Undertaking various research initiatives

Apart from continuing to expand our product range to complement our existing product mix, we plan to increase our product development focus on product's features such as using healthy and natural ingredients in our products, improving the range and longevity of the scent or perfume of our candles and home fragrance, and developing wax which can be used with 3D printing. Where necessary, we will cooperate with external institutions to provide consultation or jointly carry out research projects. Upon successful development of new products, where we perceive necessary to have a complete legal protection of the relevant intellectual property rights, we will seek patent registration of the relevant know-how.

Set forth below summarises the estimated cost to be incurred for such purpose and the estimated completion time:

Descriptions	Estimate expenditure <i>RMB million</i>	Estimated completion time ^(Note 1)
1. Upgrading our research and development infrastructure	4.4	First-half of 2020
2. Recruiting experienced research staff to carry out our product development plan ^(Note 2)	4.0	–
3. Undertaking various research projects	5.1	–
Total	13.5	

Notes:

1. Based on the assumption that the Listing will take place in January 2020.
2. We plan to employ 16 personnel to carry on our product development plan and their corresponding monthly salary will be in the range of RMB5,000 to RMB7,000.

We intend to apply 12.3% of the net proceeds from the Global Offering to strengthen our research and development capabilities. The shortfall of the estimated expenses will be financed by our internal resources as appropriate.

Upgrade our information system and logistics capacities to increase our operational efficiency

As our business will continue to grow, to cope with the increasing requirement on information management, improve operational efficiency and ensure effective coordination among various aspects of our business, we plan to install an integrated ERP system for our production facilities to achieve

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better control of sales and production information, and to manage our relationships with customers and suppliers in a real time basis.

We aim to purchase an ERP system to monitor our entire production process. This integrated online system enables us to track and monitor our production information, such as the number of our purchase orders, our daily production volume, raw material schedule and delivery schedules as well as allows our customers to track the production status of the products they order.

In addition, with the expected growth in production volume, more space is required for the storage of goods before delivery. There is a need for a new warehouse or extra storage space with the complementing equipment. We plan to lease a new warehouse with the gross floor area of around 3,500 sq.m. which will be situated next to our new production facilities to be established.

The following table sets forth the utilisation rate of our existing warehouses during the Track Record Period:

Warehouse	Total gross floor area ^(Note 1) Sq.m.	Utilisation rate ^(Note 2)			
		FY2016	FY2017	FY2018	6M2019
Ningbo	4,746.47	91.1	93.1	92.6	92.3
Shaoxing	5,514.56	60.5	62.5	75.9	67.0

Notes:

1. Based on the total gross floor area of the relevant warehouses as at 30 June 2019.
2. For illustrative purpose only, the storage utilisation rate for a particular year/period is the mean of the quarterly utilisation rates of the four quarters (and two quarters, in case of 6M2019) in that year/period. Quarterly utilisation rate is calculated by the estimated total occupied space of the raw materials and finished products stored in the warehouses on the last day of the quarter over designated storage capacity.

Set forth below are the estimated cost to be incurred for such purpose and the estimated completion time:

Descriptions		Expected lifespan year	Estimated expenditure RMB million	Estimated completion time ^(Note 1)
1.	Acquiring information management system	10	1.2	First-half of 2020
2.	Two-year rental for new warehouse and expenses for refurbishing and fitting out ^(Note 2)	–	3.4	First-half of 2020
3.	Warehouse equipment and system	10	3.4	First-half of 2020
4.	Two-year expenses for recruiting additional staff and paying their salaries ^(Note 3)	–	1.3	–
		Total	9.3	

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Notes:

1. Based on the assumption that the Listing will take place in January 2020.
2. With reference to the available market information, the expected monthly rental of the new warehouse is RMB42,000.
3. We plan to employ 11 personnel (comprising loaders, forklift operators and supporting staff) to operate the new warehouse, and their corresponding monthly salary will be in the range of RMB4,700 to RMB4,900.

We intend to apply 8.4% of the net proceeds from the Global Offering to upgrade our information system and logistics capabilities. The shortfall of the estimated expenses will be financed by our internal resources as appropriate.

In summary, the above expansion plans which are intended to be financed by the net proceeds from the Global Offering will incur estimated expenses of RMB99.6 million in aggregate (which is equivalent to HK\$110.7 million). Set forth below is a summary of the allocation of expenses which are intended to be financed by the net proceeds from the Global Offering:

	<i>RMB million</i>
• Establish physical presence overseas	24.6
• Expand and upgrade our production facilities	52.2
• Strengthen our research and development capabilities	13.5
• Upgrade our information system and logistics capacities	9.3
Total:	99.6

Note: The expense amounts are inclusive of operation expenses spreading throughout a period of two years.

Enhance our sales and marketing efforts to enlarge market share, cultivate brand loyalty and capture potential business opportunities in markets outside Europe

As disclosed above, we plan to establish physical presence overseas to develop our market in Europe, which is our largest geographical market. On the other hand, we will continue to pursue multiple marketing initiatives to support our planned expansion, maximise our visibility across different geographical market, expand our customer base, and further develop our self-brands in order to drive our overall growth, and these marketing initiatives and our plan to establish regional sales office are not mutually exclusive and can be implemented concurrently. To this end, we plan to continue to invest internal resources in developing our sales team in the PRC for domestic marketing activities and business planning, participation in trade fairs and exhibitions, and leveraging online and offline sales channels to market our self-branded products and increase brand awareness among target consumers.

Among these strategies, we plan to gradually expand our marketing efforts in our self-branded products. Since 2016, we began selling selected lines of candles and home fragrance under self-brands such as “Fumare” and “Aromart” in the PRC and Australia. Despite revenue contribution from this segment is small, accounting for 3.4%, 3.0%, 3.3% and 2.9%, respectively, of our total

BUSINESS

revenue for FY2016, FY2017, FY2018 and 6M2019, gross profit margin from this segment was 37.0%, 38.8%, 36.5% and 35.3%, respectively, for the same periods, which was higher than our ODM sales. In addition, our self-branded products are sold mainly to consumers in the PRC, the market of which is massive, thanks to the increasing disposable income and living standards of the consumers in the PRC.

To boost the sales of our self-branded products and increase their visibility, subject to market condition and the performance of this segment, we plan to progressively establish additional number of our self-operated stores selling self-branded products in the PRC and, if the market warrants us to do so, in Australia and other countries. As at the Latest Practicable Date, we had 10 self-operated stores in the PRC. These self-operated stores serve as offline sales window and retail showrooms for potential consumers, and they are well-decorated to project a consistent brand image about us and showcase our selected lines of candles and home fragrance. We plan to use internal resources to fund the required costs and expenses. Any increase in demand for our self-branded products that would result from the implementation of this strategy will be supported by our expanded production capacities as disclosed in this sub-section above.

BUSINESS MODEL

We derive our revenue principally from the sale of candles, home fragrance and home accessories on ODM basis. In recent years, we have started to design and sell candles and home fragrance under self-brands which, as our Directors believe, have the potential to drive our future growth.

ODM sale

Under this model, we are responsible for providing product designs, procuring raw materials, manufacturing products, and identifying and supervising contract manufacturers (where required). Our team of professional designers creates the artistic and outlook designs of products according to the anticipated fashion trends and consumers' preference. Our team of technical researchers works on the innovation of ingredients of candles and home fragrance with the backup of scientific research. Product samples are showcased in trade fairs and our showroom where domestic and overseas potential customers are invited to visit. Customers may either accept our product designs or provide us with ideas for our further customisation.

After obtaining approval from our customers on the designs and specifications, we will issue sales confirmation to record the product details and terms of our sales. We will then proceed to mass production either through our own production facilities or through external contract manufacturers. Under this business model, the finished products are packed and labelled according to our customers' instructions.

The following illustrates a simplified flow of our ODM business model:



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Branded sale

With thousands of suppliers in the industry, we aim to stand out among our competitors through building our own brands of high quality products. Since 2016, we have gradually been using our self-brands such as “Fumare” and “Aromart”, for selected lines of candles and home fragrance which target mainly consumer markets in the PRC and Australia. Products sold under “Fumare” brand are artisan candles and home fragrance which target young consumers and mid- to high-end markets. Products sold under “Aromart” brand are artisan candles and home fragrance products which target mid-end and mass markets. During the Track Record Period, we gradually extended the footprint of our self-branded products and sold a small quantity of artisan candles and home fragrance to consumers in Australia.

The development of self-brands enriches our product mix, enhances our brand recognition and cultivates customers’ loyalty towards our brands, which are valuable to the long-term development of our business. The products of our self-branded are mostly manufactured by our selected contract manufacturers in accordance with the design and specifications approved by us. For details, see “Subcontracting Arrangement” in this section. We market and sell self-branded products to consumers mainly through e-commerce platforms, distributors, and our self-operated stores.

The following table sets forth the breakdown of our revenue by different business models for the periods indicated:

Business model	FY2016 Revenue		FY2017 Revenue		FY2018 Revenue		6M2019 Revenue	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
ODM sale	385,952	96.6	432,525	97.0	430,141	96.7	209,981	97.1
Branded sale	13,521	3.4	13,335	3.0	14,563	3.3	6,275	2.9
Total	399,473	100.0	445,860	100.0	444,704	100.0	216,256	100.0

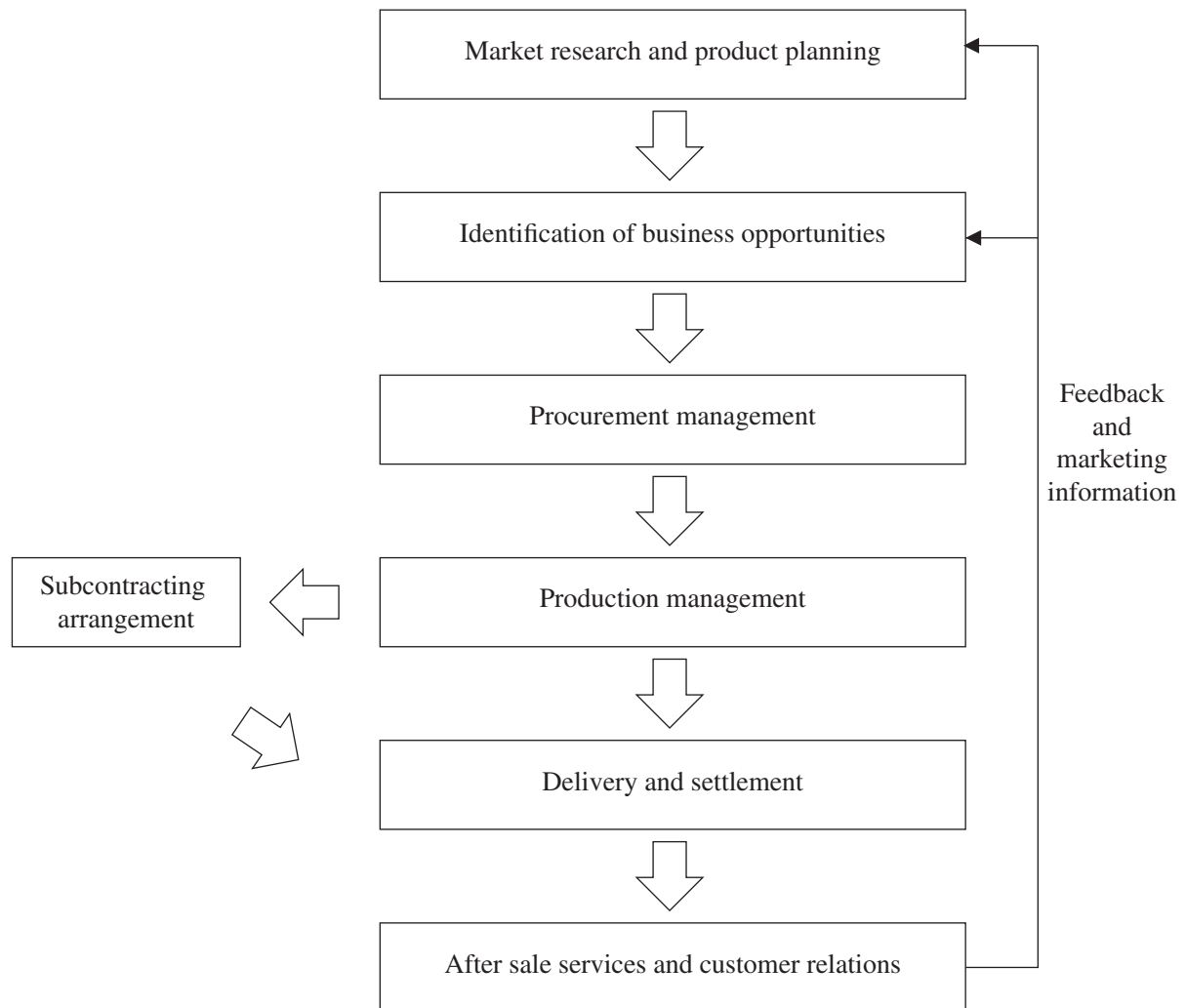
The following table sets forth the breakdown of our gross profit and gross profit margin by different business models for the periods indicated:

Business model	FY2016		FY2017		FY2018		6M2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
ODM sale	80,196	20.8	91,350	21.1	101,711	23.6	51,376	24.5
Branded sale	4,999	37.0	5,171	38.8	5,318	36.5	2,213	35.3
Total	85,195	21.3	96,521	21.6	107,029	24.1	53,589	24.8

BUSINESS

BUSINESS OPERATION

We set out below a simplified chart showing the key phases of our business operation:



1. Market research and product planning

The performance of our business, to a large extent, is subject to change in consumers' preference and market trends from time to time. In addition, being a supplier engaging in ODM business, we need to showcase our design and supply chain management capabilities to potential customers in order to win purchase orders. Therefore, we place emphasis on market research and product planning, which form an integral part of our daily operation. We gather market information through our sales team, marketing team and overseas trade agencies, evaluate industry trends and products of our competitors, understand our target customers' requirements and consumers' preference, formulate product development proposal and market our products to potential customers.

To support our product development and marketing needs at pre-sale stage, our design team works closely with our marketing team to improve the designs of our existing products and launch new products in accordance with the market information gathered or suggestions and feedbacks from our customers. New product designs created by our design team will be subject to assessment and approval by our sales and marketing team in terms of market acceptance.

2. Identification of business opportunities

When a new product design is approved, our sales and marketing team, which comprises 34 members, market the products through various marketing initiatives, such as participation in trade fairs, contacting and meeting with our existing and potential customers, and inviting them to visit our showroom. For details, see "Sales and Marketing" in this section.

Where a potential customer has expressed an interest in our product, our sales team will follow up with its representative for the detailed product standards and specifications. Depending on its specific needs, we put forward design suggestions or modifications to our potential customer for consideration. Customers may ask us to send them products samples to facilitate their decision making. After the customer has approved the designs and specifications, we will issue sales confirmation to our customers to record the type and quantity of products and the payment terms. At this stage, the customers may still request us to send them samples to confirm the modification made to the previous samples. After the customers have agreed on the final samples, we will proceed with procurement and production.

3. Procurement management

After the customers have approved the product samples, we generally procure raw materials according to our production plans and volume of orders. For commonly used raw materials, we will make procurement in advance and keep safe inventory. For special raw materials such as aroma essence, we (or our contract manufacturers) make procurement based on customer's purchase orders. For details, see "Inventory Management" in this section. We have a supplier assessment system to select new suppliers and assess the performance of our existing suppliers. For details, see "Raw Materials and Suppliers – Supplier assessment policy and evaluation process" in this section.

4. Production management

For the production of candles, we process a majority of the purchase orders at our two production bases, namely Ningbo Plant and Shaoxing Plant. Our production team formulates the production plans in accordance with the purchase orders, and allocate the production activities between these two production bases according to the orders on hand, delivery schedule, technical

complexity and the level of automation required for the relevant batch of production. The seamless coordination between these two production bases enables us to accept orders in different quantity and handle a large number of orders with customised designs and specifications. Working in parallel with our production team, our quality control and technical teams provide support in raw material inspection, product testing, labelling and packaging so as to ensure that our products are compliant with the relevant laws and international standards.

We place emphasis on product quality and are subject to various national and international standards. For details, see “Quality Control” in this section.

5. Subcontracting arrangement

We outsource the production of home fragrance and home accessories to contract manufacturers who produce according to our designs and/or specifications, and they will deliver the finished or semi-finished products to our designated port of shipment or designated warehouse. We also engage contract manufacturers as and when, for example, the purchase order for candles is relatively small in quantity or simple in specification or technical requirements, or during peak seasons so that we could focus our production resources on purchase orders for candles placed by key customers. We have in place a selection policy on our contract manufacturers and quality control measures to monitor their performance. For details, see “Subcontracting Arrangement” in this section.

6. Delivery and settlement

Upon completion of the production, we will arrange for product delivery. Depending on the technical complexity of the order, the order size and whether such order is to be directly manufactured by us, it generally takes up to 95 days from the date of issuing sales confirmation to delivery of the products. The actual time period varies according to the complexity of the specifications and includes the time for customers to approve our samples and further modification if requested by the customers.

For ODM sale, the term of delivery is principally free on board (FOB), under which we are responsible for handling export clearance and domestic transportation. We will arrange for the delivery of products to the port of shipment designated by our customers. The selling price of our products is inclusive of logistics expenses incurred in the PRC. Our customers will be responsible for the shipment cost and import duties of the importing country. In some exceptional cases, the term of delivery is “cost, insurance and freight” (CIF), under which we are generally responsible for the shipment and the associated logistics expenses and the cost of taking out insurance. For details, see “Logistics and Transportation” in this section.

For branded sale, we sell our products to consumers mainly via e-commerce platforms, distributors, or through our self-operated stores. For details relating to our distributors, see “Our Customers – Distributors” in this section.

We will issue invoice upon acceptance of our products by our customer. For details of the credit terms granted by us, see “Our Customers – Payment and credit terms” in this section.

BUSINESS

7. After sale services and customer relations

Upon receiving customer's complaint on product quality, our sales and marketing team will follow up and investigate into the complaint. Once our customer's complaint has been confirmed, we will arrange for refund or replacement.

To maintain customer's relationship, our sales and marketing team communicates with our customers through multiple channels to collect their feedbacks in order to have a better understanding of their business needs, to catch up on the latest market trends and to acquire first-hand market information. We also appoint overseas trade agencies to follow up on orders placed by our customers referred by them and obtain latest market information about our customers. The market information and customer feedbacks collected by us will be shared with our design team for new product planning and improvement.

MAJOR PRODUCTS

Our principal products sold during the Track Record Period could be broadly categorised as follows:

- candles;
- home fragrance; and
- home accessories.

The following table sets forth the breakdown of our revenue by product segments for the periods indicated:

Product	FY2016		FY2017		FY2018		6M2019	
	Revenue <i>RMB'000</i>	Percentage to total revenue	Revenue <i>RMB'000</i>	Percentage to total revenue	Revenue <i>RMB'000</i>	Percentage to total revenue	Revenue <i>RMB'000</i>	Percentage to total revenue
		%		%		%		%
Candles	290,827	72.8	326,117	73.1	311,038	70.0	139,888	64.7
Home fragrance	44,311	11.1	46,245	10.4	64,964	14.6	35,528	16.4
Home accessories	64,335	16.1	73,498	16.5	68,702	15.4	40,840	18.9
Total	399,473	100.0	445,860	100.0	444,704	100.0	216,256	100.0

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The following table sets forth the breakdown of our gross profit and gross profit margin by product segments for the periods indicated:

Product	FY2016		FY2017		FY2018		6M2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Candles	67,000	23.0	76,900	23.6	74,581	24.0	35,525	25.4
Home fragrance	7,649	17.3	7,932	17.2	18,439	28.4	9,398	26.5
Home accessories	10,546	16.4	11,689	15.9	14,009	20.4	8,666	21.2
Total	85,195	21.3	96,521	21.6	107,029	24.1	53,589	24.8

Candles

Candles are our principal products. Candles are manufactured by using wax as the major ingredient and are mainly used for illumination and decoration. With different designs and materials, our candles are also widely used in festivals, celebrations or religious ceremonies, as well as cultural, seclusive or relaxing occasions.

Our candles are principally divided into two major categories:

- Artisan candles: candles with artistic and innovative exterior surface, packaging, container, shape and design such as animals and plants. These candles may be sold in giftsets.
- Basic candles: candles with simple geometric shapes such as pillars, cubes and pyramids. There are minimal treatments on the surfaces of the basic candles which are either plain or with screw thread pattern. Examples of basic candles include pillar candles, taper candles, t-light candles, and votive candles.

The following table sets forth the breakdown of our revenue and gross profit margin of candles by categories:

Product	FY2016			FY2017			FY2018			6M2019		
	Revenue	Gross profit margin		Revenue	Gross profit margin		Revenue	Gross profit margin		Revenue	Gross profit margin	
	RMB'000	%	%	RMB'000	%	%	RMB'000	%	%	RMB'000	%	%
Basic candles	140,691	48.4	22.3	150,472	46.2	20.0	148,875	47.9	17.3	80,122	57.3	21.2
Artisan candles	150,136	51.6	25.4	175,645	53.8	28.4	162,163	52.1	30.1	59,766	42.7	31.0
Total	290,827	100.0	23.0	326,117	100.0	23.6	311,038	100.0	24.0	139,888	100.0	25.4

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During the Track Record Period, we sold our candles based on the price of similar products in the market and our production costs. We also consider other factors such as technical complexity and profit margin we expect to achieve. Therefore, our artisan candles achieve higher gross profit margin than basic candles generally due to customer demand and higher technical complexity of the product. Whether we can achieve a higher gross profit margin for both types of candles in a year/period generally depends on the market condition in that specific year/period. For details of pricing policy, see “Business – Our Customers – Pricing policy” in this section for details.

For 6M2019, we recorded growth in our basic candles which accounted for 57.3% of our total candle sales primarily due to the increase in the sales orders for basic candles from our five largest customers during the period as well as the deprecation of RMB against USD for 6M2019 which positively impacted the gross profit margin because we billed and settled with our customers in USD.

In terms of ingredients, our candles could be made with (i) paraffin, which is a traditional wax material, and they are featured by their easy moulding and stable and long-lasting performance; (ii) plant-based wax (such as palm oil), which is environmentally degradable; and (iii) composition of paraffin and plant-based wax. Our candles can be scented by adding aroma essence in the production process according to our prescribed formula.

We employ our patented technology to combine paraffin and plant-based wax to produce a composite wax base. Our technique creates a wax base which has a stable combustion and low soot index. The ingredients are renewable and degradable. It can contain a high proportion of fragrance and has a low melting point and low combustion residue.

We sell our candles are either individually or in a set. We pack candles mainly under the instructions of our customers (or their own customers in case our customer is a wholesaler) who engage us to produce and sell on an ODM basis.

During the Track Record Period, we undertook the manufacturing a majority of our candles with our production facilities whilst outsourcing the production orders of certain candles to contract manufacturers.

The following table sets forth the breakdown of revenue attributable to candles by production model for the periods indicated:

Production model	FY2016		FY2017		FY2018		6M2019	
	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage
		to revenue attributable		to revenue attributable		to revenue attributable		to revenue attributable
	RMB'000	to candles %	RMB'000	to candles %	RMB'000	to candles %	RMB'000	to candles %
Self-manufacture	194,935	67.0	202,676	62.1	203,943	65.6	88,130	63.0
Outsourcing	95,892	33.0	123,441	37.9	107,095	34.4	51,758	37.0
Total	290,827	100.0	326,117	100.0	311,038	100.0	139,888	100.0

BUSINESS

Home fragrance

Home fragrance sold by us consists of products made from aroma essence with natural plant materials, with added functional flavours to create aromatic effects. Our home fragrance series have a wide range of purposes, such as improving air quality and removing odour, repelling insects and suppressing smoke, promoting sleep and calming the nerves. Therefore, we believe our home fragrance can serve different needs of the users.

We generally divide our home fragrance products into liquid and solid forms. Home fragrance in liquid form mainly refers to reed diffusers, which consist of scented liquid, glass bottle and reed. Scented liquid is the combination of solution, water or alcohol, and fragrance oil. The reed can absorb scented liquid and emit fragrance into the air. Home fragrance in solid form mainly refers to pastes, which consist of gel and fragrance oil. These pastes are soft, easy to melt, and generate little smoke. Most of home fragrance in solid form emit fragrance after being unpacked and some of them need to be heated to emit the fragrance. Our home fragrance products may be sold in giftsets.

We design home fragrance products based on market trends and our customers' requirements. The selling price of our home fragrance products could vary according to the level of sophistication of its outlook design and decoration as sophisticated product outlooks would normally allow our retail customers or downstream retailers to command a higher retail prices. Upon receiving the approval of the customers on the designs and scent, we will, through our contract manufacturers, begin the production process. The finished products will be packed and delivered to our warehouse and we will inspect them before delivery to customers. We may also conduct the inspection in the production sites of these contract manufacturers. During the Track Record Period, apart from ODM sale, we also sold selected lines of self-branded home fragrance such as "Fumare" and "Aromart" in the PRC and Australia. The home fragrance sold under "Fumare" brand targets mid- to high-end consumer markets and the home fragrance sold under "Aromart" brand targets mid-end and mass markets.

The following table sets forth the breakdown of our revenue, gross profit and gross profit margin of home fragrance by type:

	FY2016				FY2017				FY2018				6M2019			
	Revenue		Gross profit margin		Revenue		Gross profit margin		Revenue		Gross profit margin		Revenue		Gross profit margin	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Home fragrance in liquid form																
50ml or below	14,370	32.4	1,748	12.2	12,540	27.1	1,545	12.3	16,462	25.3	4,321	26.2	7,447	21.0	1,671	22.4
Above 50ml to 100ml	10,985	24.8	2,344	21.3	13,926	30.2	2,833	20.3	26,906	41.4	9,283	34.5	15,668	44.1	4,135	26.4
Above 100ml	7,770	17.6	1,411	18.2	9,770	21.1	1,562	16.0	8,813	13.6	2,097	23.8	7,582	21.3	1,954	25.8
Sub-total	33,125	74.8	5,503	16.6	36,236	78.4	5,940	16.4	52,181	80.3	15,701	30.1	30,697	86.4	7,760	25.3
Home fragrance in solid forms																
Giftsets and others	5,156	11.6	1,212	23.5	7,208	15.6	1,116	15.5	6,622	10.2	1,602	24.2	3,691	10.4	1,047	28.3
Giftsets and others	6,030	13.6	934	15.5	2,801	6.0	876	31.3	6,161	9.5	1,136	18.4	1,140	3.2	591	51.9
Total	44,311	100.0	7,649	17.3	46,245	100.0	7,932	17.2	64,964	100.0	18,439	28.4	35,528	100.0	9,398	26.5

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The following table sets forth the breakdown of our revenue, gross profit and gross profit margin of home fragrance in liquid form by outlook design:

	FY2016				FY2017				FY2018				6M2019			
	Revenue		Gross profit		Revenue		Gross profit		Revenue		Gross profit		Revenue		Gross profit	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Glass containers																
with decoration	4,946	14.9	1,297	26.2	5,621	15.5	1,103	19.6	29,551	56.6	10,356	35.0	15,966	52.0	4,765	29.8
Transparent glass																
container																
without																
decoration	28,179	85.1	4,206	14.9	30,615	84.5	4,837	15.8	22,630	43.4	5,345	23.6	14,731	48.0	2,995	20.3
Total	33,125	100.0	5,503	16.6	36,236	100.0	5,940	16.4	52,181	100.0	15,701	30.1	30,697	100.0	7,760	25.3

For the commentary on our financial performance of this segment, see “Financial Information – Review of Historical Results of Operations” in this prospectus.

Home accessories

Home accessories sold by us consist of accessories that go along with candles and home fragrance, such as candle holders as well as other complementary or standalone ornaments such as LED candles, glass jars, kitchenware, photo frames and vases. Our portfolio of home accessories comprises a great variety of products, which can be broadly categorised into glassware, candles accessories and decorations, kitchenware, and furniture and others. They are diverse in types and are mainly used for indoor and outdoor decorations and to improve the household atmosphere. As we sell home accessories as ancillary products to enrich our product mix and they have relatively short product life cycle, we adjust the portfolio of home accessories from time to time in accordance with our customers' requirement and market trend, leading to a relatively large fluctuation in the performance of this segment.

The designs of home accessories are usually made by our design team and subject to the approval of our sales and marketing team. We may also consider the samples provided by contract manufacturers and provide artistic and other adjustments so that the products could be suitable in terms of marketing acceptance and technical feasibility. During the Track Record Period, we outsourced the production of home accessories to contract manufacturers.

BUSINESS

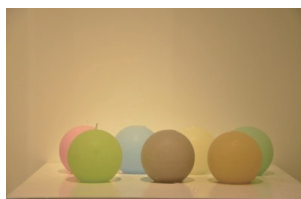
The following table sets forth the breakdown of our revenue, gross profit and gross profit margin of home accessories by type:

	FY2016				FY2017				FY2018				6M2019			
	Revenue		Gross profit		Revenue		Gross profit		Revenue		Gross profit		Revenue		Gross profit	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Glassware	25,777	40.1	4,235	16.4	30,637	41.7	5,272	17.2	33,478	48.7	6,932	20.7	15,974	39.1	3,588	22.5
Non-glassware																
- Candle accessories and decorations	28,379	44.1	4,865	17.1	32,726	44.5	4,848	14.8	28,472	41.4	5,604	19.7	20,825	51.0	4,217	20.3
- Kitchenware	9,797	15.2	1,437	14.7	6,738	9.2	1,004	14.9	4,487	6.5	960	21.4	2,077	5.1	448	21.6
- Furniture and others	382	0.6	10	2.8	3,397	4.6	565	16.6	2,265	3.4	513	22.7	1,964	4.8	413	21.0
Total	64,335	100.0	10,547	16.4	73,498	100.0	11,689	15.9	68,702	100.0	14,009	20.4	40,840	100.0	8,666	21.2

Set forth below are the pictures of some of the products sold by us during the Track Record Period:

Candles

Basic Candles

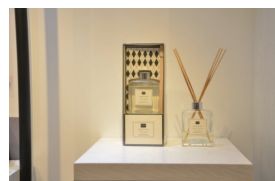


Artisan Candles



Home fragrance

Liquid form



Solid form



BUSINESS

Home accessories

Glassware



Candles accessories



Kitchenware



SALES AND MARKETING

Our sales and marketing team handles sales and marketing activities. As at 30 June 2019, we had a sales and marketing team of 45 personnel. They are part of our business development centre which is primarily responsible for handling external liaisons with customers, distributors and suppliers. Our business development centre internally coordinates with different departments such as design and technical teams to formulate and execute sales and product development strategies. Our sales and marketing team is also involved in the processing of all sales orders, overseeing our sales progress as well as visiting our customers and liaising with them by telephones and e-mails. It is also responsible for conducting market research, coordinating with design team for product planning and organising marketing activities. For FY2016, FY2017, FY2018 and 6M2019, our selling and marketing expenses incurred for marketing related activities amounted to RMB6.2 million, RMB8.4 million, RMB6.9 million and RMB3.0 million, respectively. Our main marketing strategies include the followings:

Emphasis on market research

We aim to introduce products with a strong fashion sense and trendy designs to meet the ever-changing needs of consumers. We believe that it is vital for our product designs to follow closely with market trends and to create fashionable elements in our products in order to maintain a strong consumer demand. To achieve this goal, our marketing team makes assessments from time to time on the historical purchase pattern of our customers to project product demand for the next season, and report to our management to formulate the corresponding production and marketing plans.

Participation in trade fairs and exhibitions

During the Track Record Period, we have participated in all sessions of the China Import and Export Fair (also known as the “**Canton Fair**”) which is held twice a year and is one of the largest trade exhibitions in the PRC, attracting overseas buyers across the world. The Canton Fair offers an important venue for our Group to showcase our latest product portfolios to global merchants and potential customers. When our customers are satisfied with the exhibited samples, they may place orders directly. They may also follow up with our sales and marketing team after the fair on their orders and as to whether any adjustment they would like to make on the product designs and packings.

Apart from the Canton Fair, we also participated in a trade fair held in the overseas. Our Directors believe that regular participation in these exhibitions not only keep our customers informed of our latest offerings and promote our products and services to our potential customers, but also allows us to collect feedback and market information to facilitate our analysis on latest market trends and customers' preference on product designs.

Business visits

To reinforce our other marketing initiatives, our senior management members attend business visits to major customers in Europe to know and meet their procurement teams, listen to their requirements, obtain latest market information and understand their recent business development, which are useful information for our product and business planning, and allow us to consolidate business relationship with major customers and identify sales or collaborations opportunities from them as earliest as possible.

Deployment of online and offline marketing and distributorship sale

We maintain an official website (<http://www.kwungs.com/>), which serves as a promotional platform and conveys latest information on our major products, enabling visitors and our potential customers to have a better understanding of our product profiles. We also sell self-branded products via certain e-commerce platforms in the PRC, including Tmall, WZJ.com and JD.com.

To increase the visibility of our self-branded products, we market them through distributors who operate retail outlets or sales counters in department stores. In addition, we also operate 10 self-operated stores in the PRC where we display and sell selected lines of self-branded products and our customers can make purchase on the spot for our products.

Engaging overseas trade agencies

In order to reach out to potential customers overseas, we engage overseas trade agencies to refer potential customers to us and keep us updated of the latest development about our customers or the overseas markets. We engaged two trade agencies which were Independent Third Parties during the Track Record Period, and had five to fifteen years of business relationship with them. We grant sales commission for the services provided by these trade agencies. The sales commission is calculated based on an agreed percentage of the sales value to the relevant customers introduced by them. The total sales commission recorded were RMB1.3 million, RMB2.0 million, RMB1.5 million and RMB0.6 million, respectively, for FY2016, FY2017, FY2018 and 6M2019.

Extensive geographical coverage

During the Track Record Period, our products were sold through our direct customers to the consumers who could find and purchase our products in chain supermarkets, gift shops and home decoration stores. We have also established a long and stable relationship with several well-known and large-scale wholesale or retail brands in Europe, including J.J.A. from France and Koopman from the Netherlands, who are our direct customers.

BUSINESS

In terms of revenue, we market and sell a substantial proportion of our products to customers situated in Europe. We target the markets of affluent countries in Europe such as France, United Kingdom, Netherlands and Germany where candles and home fragrance are widely accepted and affordable by consumers and the use of such products are part of their daily lifestyle and consumption habits. We have also gradually extended our footprint in Australia and Canada to capture sales opportunities. For FY2016, FY2017, FY2018 and 6M2019, our overseas sales accounted for 98.8%, 99.0%, 98.8% and 98.3% of our total revenue. The following table sets forth the breakdown of our revenue by geographical market based on customers' locations for the periods indicated:

Geographical market	FY2016		FY2017		FY2018		6M2019	
	Percentage to total		Percentage to total		Percentage to total		Percentage to total	
	Revenue RMB'000	revenue %	Revenue RMB'000	revenue %	Revenue RMB'000	revenue %	Revenue RMB'000	revenue %
Overseas								
France	85,610	21.4	92,479	20.7	107,203	24.1	52,112	24.1
United Kingdom	75,323	18.9	109,144	24.5	86,618	19.5	33,605	15.5
Netherlands	40,566	10.2	48,564	10.9	62,557	14.1	33,934	15.7
Germany	73,184	18.3	59,058	13.2	51,091	11.5	28,199	13.0
Taiwan	32,172	8.1	39,061	8.8	40,209	9.0	18,140	8.4
Canada	15,836	4.0	20,133	4.5	22,520	5.1	9,034	4.2
Hong Kong	39,705	9.9	32,351	7.3	18,629	4.2	10,435	4.8
Others <i>(Note)</i>	32,097	8.0	40,660	9.1	50,635	11.3	27,206	12.6
Sub-total	394,493	98.8	441,451	99.0	439,462	98.8	212,665	98.3
PRC	4,980	1.2	4,409	1.0	5,242	1.2	3,591	1.7
Total	<u>399,473</u>	<u>100.0</u>	<u>445,860</u>	<u>100.0</u>	<u>444,704</u>	<u>100.0</u>	<u>216,256</u>	<u>100.0</u>

Note: "Others" comprise Australia, Norway, Portugal, Spain, New Zealand and 18 other countries, and sales to each of such 18 countries accounted for less than 1% of our revenue for the relevant year.

For details on the material fluctuation of revenue by geographical market, see "Financial Information – Description of Selected Items in Statements of Comprehensive Income – By geographical regions" of this prospectus.

BUSINESS

OUR CUSTOMERS

Customers

We have a well-established sale network through which our products reach a wide customer group in the market. The following table sets forth the breakdown of our revenue by customer type for the periods indicated:

Customer type for each business model	FY2016		FY2017		FY2018		6M2018		6M2019	
	Percentage to total		Percentage to total		Percentage to total		Percentage to total		Percentage to total	
	Revenue RMB'000	revenue %	Revenue RMB'000	revenue %	Revenue RMB'000	revenue %	Revenue RMB'000	revenue %	Revenue RMB'000	revenue %
Retailers										
ODM sale	166,113	41.6	198,501	44.5	181,639	40.8	64,519	38.4	79,438	36.7
Branded sale	-	-	-	-	-	-	-	-	-	-
Wholesalers										
ODM sale	219,839	55.0	234,024	52.5	248,502	55.9	97,419	57.9	130,543	60.4
Branded sale	7,742	2.0	-	-	-	-	-	-	-	-
Distributors										
ODM sale	-	-	-	-	-	-	-	-	-	-
Branded sale	92	0.0	641	0.1	60	0.0	47	0.0	139	0.1
End customer										
ODM sale	-	-	-	-	-	-	-	-	-	-
Branded sale	5,687	1.4	12,694	2.9	14,503	3.3	6,231	3.7	6,136	2.8
Total	<u>399,473</u>	<u>100.0</u>	<u>445,860</u>	<u>100.0</u>	<u>444,704</u>	<u>100.0</u>	<u>168,216</u>	<u>100.0</u>	<u>216,256</u>	<u>100.0</u>

Retailers

We sell products on a B2B basis to retailers which comprise supermarkets, home decoration stores and gift shops. Some of our retail customers are reputable chain supermarkets such as Customer A and Customer D in the United Kingdom. These customers mainly sell our products to the consumers on a B2C basis.

Wholesalers

We sell products on a B2B basis to wholesalers who then on-sell our products to the market on a B2B basis through their own sales network such as supermarkets, chain stores, garden stores and home accessory stores. These wholesale customers comprise importers and traders of home decoration or household products situated overseas such as Netherlands and Taiwan. Upon request, we will arrange for the delivery of the products directly to the address of the customers of these importers or traders.

BUSINESS

Distributors

To tap into the PRC market which constitutes a vast market for consumer products, since 2016, we have been selling candles and home fragrance under our self-brands in the PRC through third-party distributors who are Independent Third Parties.

Our distributors include an independent operator of standalone franchise store under our brand name which have entered into framework agreement with us and other entities, which, pursuant to the framework agreement signed with us, sell our products through their local sale networks such as retail outlets or sale counters within department stores. We adopt the distributorship sale model given the geographical size of the PRC markets as we believe that it allows us to leverage on the distributors' knowledge and their established business networks of the local market, reach a larger customer base, expand our business efficiently and minimise our cost as we do not need to operate directly the sale network across the vast geographical market in the PRC. We also believe that the adoption of a distributorship sale model for self-branded products is in line with the common practice of the industry. As at 31 December 2016, 2017, 2018 and 30 June 2019, we had one, two, 10 and 13 distributors in the PRC, respectively. We signed a framework agreement with four additional distributors for FY2019 up to the Latest Practicable Date.

Our relationship with the distributors is essentially of seller-buyer. Our distributors purchase our products outright and without recourse, and resell them on their own account. We, through framework agreements signed with them, either restrict the sale channels through which our products are sold to the market or otherwise impose various marketing and brand building obligations on them. We require our distributors to make full payment to us before delivery. Revenue from our sale to distributors is recognised when goods are collected by them, that is when the risks and titles of the products are passed to these distributors. Our distributors are not entitled to return their unsold goods to us save for quality issues.

When selecting a new distributor, we generally consider: (i) presence in the local market with its own sales team; (ii) distribution capacities and marketing resources; (iii) commitment to comply with our marketing and pricing policies; (iv) financial strength and credit-worthiness.

We have entered into framework agreements with our distributors, the salient terms of which are summarised as below:

Term	:	One to two years subject to renewal.
Location	:	We designate our distributors to operate in a specified location or region. The distributors have to obtain our consent before they can operate outside of the specified location or region.
Product Exclusivity	:	Except for the franchise store, most of them are allowed to sell products of their brands at their retail outlets.
Pricing	:	We sell product to our distributors at a uniform price. Our distributors are expected to observe our suggested pricing policy when they resell our products.

BUSINESS

Payment terms and delivery	:	Upon receiving the payment, we will deliver the products within three days to the place designated by our distributors. Distributors settle the purchase payment by bank transfer.
Product return policy	:	Any defects of products shall be notified within three days of delivery, otherwise our distributors will be deemed to have accepted the products.
Marketing requirement	:	For the franchise store, we will provide the renovation plan and design all the required promotion materials.
Authorisation to use tradenames	:	The distributors may be allowed to use our trademarks or tradenames in their sales activities according to our instructions. When the distributor is permitted to use our trademarks or tradenames, it has a duty to protect our goodwill, image and intellectual property rights.
Termination	:	If the distributor uses our trademarks in unauthorised manner, does not execute our market management policy, or infringes our intellectual property rights, we can terminate the agreement. The distributor may terminate the agreement with 30 days (three months in the case of franchise store) notice.

During the Track Record Period, we were not aware of any material breach of the terms of our framework agreement entered into between us and our distributors nor had we terminated any framework agreement with our distributors prior to the respective expiry date.

During the Track Record Period, none of our Directors or their respective close associates or any of our Shareholders (whom to the best knowledge of our Directors owned more than 5% of our issued share capital as at the Latest Practicable Date) had any interest in any of our distributors.

Consumers

Apart from customers of conventional sales channels as illustrated above, we sell self-branded products to consumers directly. During the Track Record Period and as at the Latest Practicable Date, sales to consumers were mainly conducted through Tmall, WZJ.com and JD.com and our self-operated stores in the PRC. Payments from online e-commerce platforms were received through Alipay. Payments at our self-operated stores are made by cash or through various electronic payment gateways.

BUSINESS

Major customers

Our major customers during the Track Record Period comprise retailers of home decoration products targeting general consumer markets as well as wholesalers who import and sell our products to the overseas markets through their own distribution networks. Our major customers are situated mainly in Europe. Our relationship with our five largest customers during the Track Record Period ranged from five years to around 19 years. For FY2016, FY2017, FY2018 and 6M2019, revenue attributable to our five largest customers in aggregate accounted for 48.1%, 49.7%, 54.3% and 59.0%, respectively, of our total revenue of the same period. The table below sets out the background information about our five largest customers for the periods indicated:

FY2016

Rank	Customer	Products/ services sold	Customer Type	Background	Headquarter location	Length of business relationship with our Group up to 30 June 2019 years	Credit Terms	Payment method	Sales amount RMB'000	Percentage of total sales %
1	J.J.A.	Candles, home fragrance and home accessories	Wholesaler	It principally engages in the wholesale of household and home decoration products. It sold some of its home decoration products under its self-owned brands, namely “atmosphere”, “Le Comptoir de la Bougie” and “Feerie”. Its head office has around 200 employees and almost 100,000 square feet of showrooms.	France	13	60 days	Telegraphic transfer	60,916	15.3
2	Customer A (Note)	Candles, home fragrance and home accessories	Retailer	It is the retail arm of a group of companies listed on the London Stock Exchange. It has over 500 stores in the United Kingdom and principally engages in general retail trade. It sold some of its home decoration products under its self-owned brands.	United Kingdom	12	Cash on delivery	Telegraphic transfer	47,677	11.9
3	Top Marketing	Candles, home fragrance and home accessories	Wholesaler	It principally engages in export business of wood products, ceramics, household hardware etc. It has 3 offices located in Taiwan and in the PRC. It sold some of its home decoration products under third party brands.	Taiwan	19	Cash on delivery	Telegraphic transfer	31,646	7.9

BUSINESS

Rank	Customer	Products/ services sold	Customer Type	Background	Headquarter location	Length of business relationship with our Group up to 30 June 2019 <i>years</i>	Credit Terms	Payment method	Sales amount <i>RMB'000</i>	Percentage of total sales %
4	Koopman	Candles, home fragrance and home accessories	Wholesaler	It principally engages in the wholesale trade of home decoration products, food, toys etc. It is a global trading house with showrooms and offices in over 24 countries. It sold some of its home decoration products under third party brands.	Netherlands	10	Cash on delivery	Documents against payment	27,145	6.8
5	Customer B	Candles, home fragrance and home accessories	Retailer	It has over 300 stores in Europe and principally engages in retail trading, including home decoration products and accessories such as handicrafts, stamps, coins etc. It sold products under its own brand name.	Germany	15	Cash on delivery	Telegraphic transfer	24,806	6.2
Total									192,190	48.1

FY2017

Rank	Customer	Products/ services sold	Customer Type	Background	Headquarter location	Length of business relationship with our Group up to 30 June 2019 <i>years</i>	Credit Terms	Payment method	Sales amount <i>RMB'000</i>	Percentage of total sales %
1	Customer A <i>(Note)</i>	Candles, home fragrance and home accessories	Retailer	It is the retail arm of a group of companies listed on the London Stock Exchange. It has over 500 stores in the United Kingdom and is principally engages in general retail trade. It sold some of its home decoration products under its self-owned brands.	United Kingdom	12	Cash on delivery	Telegraphic transfer	72,207	16.2

BUSINESS

Rank	Customer	Products/ services sold	Customer Type	Background	Headquarter location	Length of business relationship with our Group up to 30 June 2019 <i>years</i>	Credit Terms	Payment method	Sales amount <i>RMB'000</i>	Percentage of total sales %
2	J.J.A.	Candles, home fragrance and home accessories	Wholesaler	It principally engages in the wholesale of household and home decoration products. It sold some of its home decoration products under its self-owned brands, namely “atmosphere”, “Le Comptoir de la Bougie” and “Feeric”. Its head office has around 200 employees and almost 100,000 square feet of showrooms.	France	13	60 days	Telegraphic transfer	65,064	14.6
3	Top Marketing	Candles, home fragrance and home accessories	Wholesaler	It principally engages in export business of wood products, ceramics, household hardware etc. It has 3 offices located in Taiwan and in the PRC. It sold some of its home decoration products under third party brands.	Taiwan	19	Cash on Delivery	Telegraphic transfer	38,446	8.6
4	Koopman	Candles, home fragrance and home accessories	Wholesaler	It principally engages in the wholesale trade of home decoration products, food, toys etc. It is a global trading house with showrooms and offices in over 24 countries. It sold some of its home decoration products under third party brands.	Netherlands	10	Cash on delivery	Documents against payment	23,001	5.2
5	Customer C	Candles, home fragrance and home accessories	Wholesaler	It is a global trading corporation that principally engages in the export of more than 20,000 products, including household products, electronics, seasonal accessories etc. It sold some of its home decoration products under third party brands.	Netherlands	6	Cash on delivery	Telegraphic transfer	22,856	5.1
Total									221,574	49.7

BUSINESS

FY2018

Rank	Customer	Products/ services sold	Customer Type	Background	Headquarter location	Length of business relationship with our Group up to 30 June 2019 years	Credit Terms	Payment method	Sales amount RMB'000	Percentage of total sales %
1	J.J.A.	Candles, home fragrance and home accessories	Wholesaler	It principally engages in the wholesale of household and home decoration products. It sold some of its home decoration products under its self-owned brands, namely “atmosphere”, “Le Comptoir de la Bougie” and “Feeric”. Its head office has around 200 employees and almost 100,000 square feet of showrooms.	France	13	60 days	Telegraphic transfer	77,484	17.4
2	Koopman	Candles, home fragrance and home accessories	Wholesaler	It principally engages in the wholesale trade of home decoration products, food, toys etc. It is a global trading house with showrooms and offices in over 24 countries. It sold some of its home decoration products under third party brands.	Netherlands	10	Cash on delivery	Documents against payment	46,819	10.5
3	Customer A (Note)	Candles, home fragrance and home accessories	Retailer	It is the retail arm of a group of companies listed on the London Stock Exchange. It has over 500 stores in the United Kingdom and principally engages in general retail trade. It sold some of its home decoration products under its self-owned brands.	United Kingdom	12	Cash on delivery	Telegraphic transfer	40,943	9.2
4	Top Marketing	Candles, home fragrance and home accessories	Wholesaler	It principally engages in export business of wood products, ceramics, household hardware etc. It has 3 offices located in Taiwan and in the PRC. It sold some of its home decoration products under third party brands.	Taiwan	19	Cash on delivery	Telegraphic transfer	39,155	8.8

BUSINESS

Rank	Customer	Products/ services sold	Customer Type	Background	Headquarter location	Length of business relationship with our Group up to 30 June 2019 <i>years</i>	Credit Terms	Payment method	Sales amount <i>RMB'000</i>	Percentage of total sales %
5	Customer D	Candles, home fragrance	Retailer	It principally engages in the general retail trade in the United Kingdom. It sold some of its home decoration products are sold under its self-owned brands.	United Kingdom	5	Cash on delivery	Telegraphic transfer	37,238	8.4
Total									241,639	54.3

6M2019

Rank	Customer	Products/ services sold	Customer Type	Background	Headquarter location	Length of business relationship with our Group up to 30 June 2019 <i>years</i>	Credit Terms	Payment method	Sales amount <i>RMB'000</i>	Percentage of total sales %
1	J.J.A.	Candles, home fragrance and home accessories	Wholesaler	It principally engages in the wholesale of household and home decoration products. It sold some of its home decoration products under its self-owned brands, namely “atmosphere”, “Le Comptoir de la Bougie” and “Feeric”. Its head office has around 200 employees and almost 100,000 square feet of showrooms.	France	13	60 days	Telegraphic transfer	43,783	20.2
2	Customer A <i>(Note)</i>	Candles, home fragrance and home accessories	Retailer	It is the retail arm of a group of companies listed on the London Stock Exchange. It has over 500 stores in the United Kingdom and principally engages in general retail trade. It sold some of its home decoration products under its self-owned brands.	United Kingdom	12	Cash on delivery	Telegraphic transfer	27,903	12.9

BUSINESS

Rank	Customer	Products/ services sold	Customer Type	Background	Headquarter location	Length of business relationship with our Group up to 30 June 2019 years	Credit Terms	Payment method	Sales amount RMB'000	Percentage of total sales %
3	Koopman	Candles, home fragrance and home accessories	Wholesaler	It principally engages in the wholesale trade of home decoration products, food, toys etc. It is a global trading house with showrooms and offices in over 24 countries. It sold some of its home decoration products under third party brands.	Netherlands	10	Cash on delivery	Documents against payment	27,194	12.6
4	Top Marketing	Candles, home fragrance and home accessories	Wholesaler	It principally engages in export business of wood products, ceramics, household hardware etc. It has 3 offices located in Taiwan and in the PRC. It sold some of its home decoration products under third party brands.	Taiwan	19	Cash on delivery	Telegraphic transfer	17,559	8.1
5	Customer D	Candles, home fragrance	Retailer	It principally engages in the general retail trade in the United Kingdom. It sold some of its home decoration products under its self-owned brands.	United Kingdom	5	Cash on delivery	Telegraphic transfer	11,200	5.2
Total									127,639	59.0

Note: The sales amount attributable to Customer A is the aggregate sales amounts of Customer A and its affiliated companies.

None of our Directors, their respective close associates or any Shareholder (who, to the best knowledge of our Directors, owns more than 5% of the issued share capital of our Company as at the Latest Practicable Date) had any interest in any of our five largest customers during the Track Record Period. All of our five largest customers during the Track Record Period are Independent Third Parties.

Payment and credit terms

We do not enter into long-term or framework agreement with our customers. Customers usually place purchase orders and we issue sales confirmation to them. The following table sets forth the salient terms of sales contained in our standard sales confirmation issued by us to our major customers:

Customer order	:	The sales confirmation contains the reference number of the customer purchase order for tracking
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BUSINESS

Specifications	:	The sales confirmation contains product descriptions such as model number, colour, weight of the wax (in case of candles), scent type and packing requirement, as well as the batch number for tracking
Shipment date	:	Usually we are able to ship the ordered products around 80 to 95 days after issuance of the sales confirmation
Term of delivery	:	In most cases, on FOB basis, and in exceptional cases limited to a few customers, on CIF basis
Payment terms	:	We normally deliver the products after receiving payments
Ordered quantity	:	Either expressed in pieces or cartons. If the quantity of goods delivered is lesser than the agreed quantity by a small percentage (e.g. 1.5%), the customer is not entitled to reject the goods
Unit price	:	Usually denominated in USD. We generally set the price in accordance with current market prices and production costs. See “Our Customers – Pricing policy” in this section for details

Except for our sale to consumers where we accept payment by cash or through electronic payment gateways and no credit period is granted to these consumers, we generally accept payments from customers by way of bank telegraphic transfer.

Credit assessment

Our average trade receivables turnover days were 48 days, 46 days, 46 days and 52 days, respectively, for FY2016, FY2017, FY2018 and 6M2019. It is our policy to review overdue balances and our receivable balances on an ongoing basis and appropriate assessment is made by our management team to determine whether or not provision for impairment of trade receivables should be made. As at 31 December 2016, 2017 and 2018 and 30 June 2019, the allowance for impairment of trade receivables amounted for RMB0.9 million, RMB0.2 million, RMB0.5 million and RMB1.1 million. Subsequent to the Track Record Period and up to the Latest Practicable Date, we had not experienced any material difficulty in collecting receivables from our major customers when they fall due.

Pricing policy

We decide our product prices based on the price of similar products in the market and our production costs. Other factors which affect our pricing decision include technical complexity, profit margin we expect to achieve, relationship with the relevant customers, credit and payment terms, size of the orders, and expected date of delivery. We also offer volume rebate to certain customers by reference to our aggregate sales over a 12-month period to such customers.

After-sale services and product return

To better serve our customers and collect market information in a timely manner, it is our policy that all complaints, feedbacks and enquiries from our customers shall be handled and answered as soon as possible upon receipt. Our sales and marketing team is responsible for receiving and handling complaints from overseas customers and providing after-sale services to customers. In general, if there is any complaint, feedback or inquiry in relation to our products, our technical team will provide relevant service. Our customers may also contact our sales representatives who follow their respective accounts to address their complaints, feedbacks or enquiries.

We generally do not accept product return except for quality reasons. For overseas sales, we accept demand for product return or replacement within three months after arrival of the products at the destination ports. In the event that the issues relate to product quality, we follow up closely with our customers on any requests for product return, conduct investigation on customers' complaints, arrange for payment refund or rectification after the complaint has been confirmed, and may enter into negotiations with our customers to resolve the issue on a case by case basis.

During the Track Record Period and up to the Latest Practicable Date, we were not subject to any material product liability claim or material adverse publicity relating to our products or their quality, nor had we encountered any product return or recall which had a material impact on us. Please refer to “Risk Factors – Product liability claims may be brought against us and may materially and adversely harm our business, financial position and reputation” in this prospectus relating to the nature of the product liability risks associated with the products manufactured and sold by us.

SEASONALITY

Our production level and sale performance are subject to seasonality. Demands for our products are directly related to the purchase and consumption pattern of the consumers in our target markets. Our major products are fast-moving consumer goods and they are mainly exported to Europe where candles and home fragrance are part of their daily lifestyle and consumption habits and candles are commonly used for decoration during festive seasons such as Christmas or Halloween. Therefore, taking into account the lead time required from placing order to delivery and the time required for international shipment, we generally receive higher orders and hence experience higher sales during the second half of the year compared to the rest of the year.

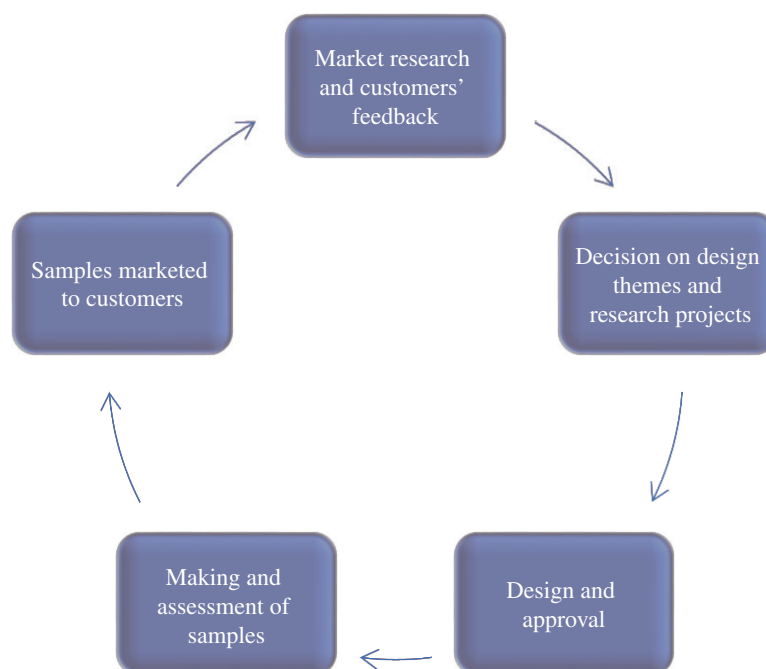
RESEARCH AND DEVELOPMENT

Our product design and research capability is a key element to our core competitiveness. We aim at differentiating our products from those of our peers in terms of variety and quality. We have achieved this through the continuous efforts and expertise of our design team, which is responsible for the outlook designs of our products, and our technical team, which is responsible for raw materials and ingredient innovation, technical feasibility and safety compliance.

As regards product design, our design team is responsible for conceiving product concepts and graphic designs of our products. Most of the members in the team have obtained a degree or professional education qualification in design related disciplines and possessed an average of eight years of industry experience. During the Track Record Period, we offered over 1,000 types of Home Decoration Products of varying designs, sizes, aromatic scents and ingredients.

As regards development in the materials and ingredients of candles and home fragrance, our technical team is based in our engineering and technical centre, which has been accredited as Ningbo Enterprise Engineering Technical Centre (寧波市企業工程技術中心) in 2011. Our technical team is responsible for improving and developing our existing product lines, including quality improvement and introduction of new style and technology, package and design as well as identifying new products in the market. As at 30 June 2019, our technical team consisted of 52 members, 43 of which had obtained a degree or professional education qualification, and the key members of the technical team had at least over 15 years of industry experience. There was an increase in personnel in the technical team during 6M2019 as we had carried out five product development projects for candles and home fragrance.

The major research and development process of our key products is illustrated as follows:



1. Market research and customers' feedback

Our sales and marketing team, design team and technical team maintain a close dialogue so that the latest market trends, consumers' preference, new designs and ideas can be integrated in our product development efforts. Our sales and marketing team is active in participating in trade fairs and exhibitions in which they can collect first-hand market intelligence from customers and competitors. We also gather market information and promote our products through our subsidiary in Australia. In addition, our sales and marketing team and design team also obtain information from the internet in order to keep abreast of the latest market trends in customers' preference.

Our technical team, on the other hand, keep tracks on the latest technology and rules of compliance by cooperation with relevant institutions and their own research.

2. Decision on design themes and research projects

Based on the information gathered from market research, we devise proposals for product development to be approved by our managements. For artistic and outlook designs, we will come up with themes of our products in the next year. The themes and items included in the projects will be devised by our design team subject to the approval from the manager of our sales and marketing team.

For raw materials and technical projects, our technical team will devise projects for development on their own or with the cooperating institute. Such projects will be subject to approval from our management team.

During the Track Record Period, we had a cooperation agreement with Ningbo Institute of Technology, Zhejiang University (浙江大學寧波理工學院), for a term of three years pursuant to which: (i) the research institute agreed to provide us with research and technical supports in new product development and commercialisation of research results; (ii) we agreed to provide on the job training to the teachers and students of the institute, and offer work opportunities for its graduates. In addition to the cooperation agreement, we have signed an agreement for a particular research project with Ningbo Institute of Technology, Zhejiang University, for fragrance oil, under which we have the right to apply for patents and shall be entitled to use such patent rights and distribute related benefits. We also had a tri-partite agreement with The Ningbo Institute of Materials Technology & Engineering of Chinese Academy of Sciences (中科院寧波材料所) and a post-doctorate researcher, under which, the post-doctorate researcher will be jointly engaged by the institute and us to provide research and technical supports to our Group in our research project for new materials for candle products for a term of two years, and all the intellectual property rights of the research shall belong to our Group.

Our cooperation with these scientific institutes enhances our research capability and demonstrates our commitment to utilise ingredients of the latest technology in our products.

Currently, the research focus of the post-doctorate researcher from The Ningbo Institute of Materials and Technology & Engineering of Chinese Academy of Sciences is the use of plant wax for improvement of product performance and reduction of production costs.

We are dedicated to developing techniques for making candles with slow-burning and stable and longer lasting release of fragrance. According to the F&S Report, our natural plant candles and home fragrance are expected to have strong market potential as they are made from eco-friendly materials that align with the concept of healthy living and the growing level of environmental awareness among consumers.

3. Design and approval

The design drafts will be subject to discussion between the design team and the sales and marketing team. The sales and marketing team will assess the design in terms of market acceptability. The design will be standardised in terms of measurement and raw material requirements to the extent that it is ready to be mass produced. Once approved, the design will be recorded in a request form signed by the marketing manager and presented to the production team to produce samples.

4. Making and assessment of samples

When the samples are made, the production team records the data and raw materials relevant to the samples for future reference. The samples, together with the feedback of production team in the production process, will be presented to the design and sales and marketing teams for further assessment. The technical team, on the other hand, will provide feedback on technicality and compliance with the applicable standards or legal requirements.

5. Samples marketed to customers

Once a sample is approved, it will be showcased in our booth in the trade fairs and showroom or presented during our visits to customers. Our sales and marketing team may also promote the new products directly to the customers. Customers may accept our samples and place orders or they may provide comments for adjustments on the samples to suit their requirements.

Our research capacity is recognised at the national level. We have obtained the status of “High and New Technology Enterprise” since 2008 (which is subject to renewal every three years). The current status was renewed in 2017 and will expire in November 2020.

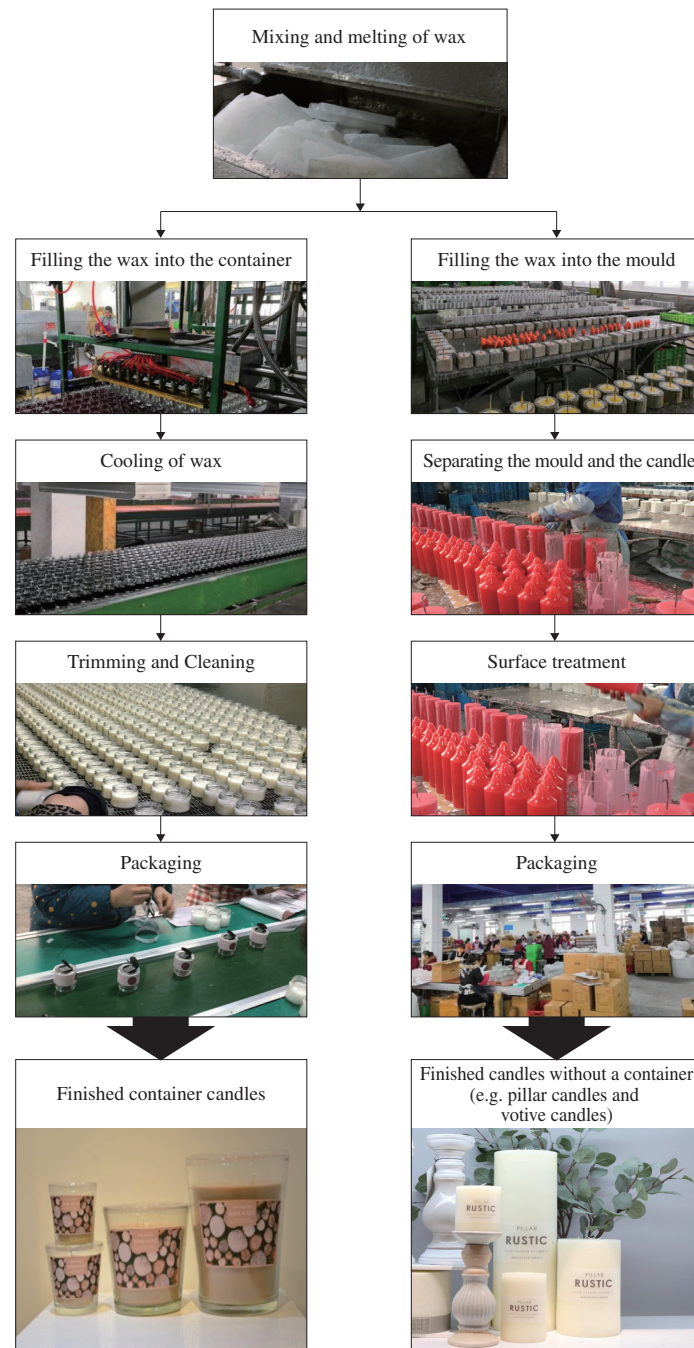
As at the Latest Practicable Date, we had registered the following material intellectual property rights: (i) 43 trademarks in the PRC, Hong Kong, EU, the US and Australia; (ii) six patents in the PRC; and (iii) one domain name. For details, see “Statutory and General Information – B. Further Information about the Business of our Group – 2. Intellectual property rights” in Appendix IV to this prospectus. During the Track Record Period, (i) our expenses relating to raw materials and consumables incurred for research and development purposes amounted to RMB7.5 million, RMB7.3 million, RMB7.5 million and RMB4.3 million, respectively; and (ii) employee benefit expenses incurred for research and development personnel amounted to RMB6.3 million, RMB7.0 million, RMB6.5 million and RMB3.5 million, respectively.

In addition, as at the Latest Practicable Date, we had seven pending patent applications which were related to developments in wax ingredients and artistic and outlook designs of candles and ancillary products.

PRODUCTION

Production process

Depending on the complexity of the products, generally the typical lead time for candles is around 80 to 95 days. The following illustrates two major production methods of candles which depend on whether the final products are filled into a container or not:



BUSINESS

Melting	:	Based on technical requirements, the different mixtures of ingredients undergo a melting process to create different wax bases, such as paraffin, plant-based wax and composite wax.
Filling the wax into the container or the mould	:	Liquified wax is poured into different types of moulds or containers. Wicks are being inserted into the wax during the process.
Cooling of wax	:	When the wax is cooled down, the semi-finished products will be separated from the mould or be left in the container for trimming.
Surface treatment	:	When the semi-finished products are de-moulded, they will undergo mechanical polishing, drilling or milling. Their surfaces will then be painted or processed by silk screen.
Trimming and cleaning	:	Products are trimmed and cleaned.
Packing and storing	:	Upon inspection, the finished products will be assembled, packed into boxes and stored in our warehouse.

Our production facilities

As at the Latest Practicable Date, we carried out production activities at two production bases situated at Ningbo and Shaoxing of Zhejiang Province, respectively, with a gross floor area of 24,635.5 sq.m. (which includes properties for production purpose only) in aggregate. Our Ningbo Plant and Shaoxing Plant were partly situated on properties leased from Ningbo Investment and Shaoxing Jingming, the companies controlled by Mr. Jin, a connected person of our Company. For details of the leasing arrangement, see “Continuing Connected Transactions” in this prospectus.

BUSINESS

We assign the production tasks to our two production bases in accordance with the then production capacities and degree of utilisation. The main differences of the two production bases are set out as follows:

	Ningbo Plant	Shaoxing Plant
Types of products to be produced	<ul style="list-style-type: none"> mainly produces container candles. 	<ul style="list-style-type: none"> candles without containers such as pillar candles, votive candles and dipped candles.
Productivity	<ul style="list-style-type: none"> higher productivity and with higher degree of automation and standardisation. The machines and equipment are mainly used to carry out the procedures of fixing of wax in the containers, filling of wax into containers together with the conveyor belts and control systems of the wax filling machines. For the melting of wax, filling of wax into moulds, surface treatment, trimming and cleaning, packing and storing, our production staff would carry out these procedures by hand with the assistance of other simple equipment such as boiling system for wax melting, moulds and tools. 	<ul style="list-style-type: none"> lower than the productivity of the Ningbo Plant with high degree of reliance on manual capabilities. The production procedures are mostly carried out by our production staff by hand with the assistance of simple equipment such as boiling system for wax melting, moulds and tools.
No. of production employees as at 30 June 2019	185	93

BUSINESS

As at 30 June 2019, we had 278 employees in aggregate to operate and manage our production facilities. As at the Latest Practicable Date, there were eight production lines for candles in our Ningbo Plant and two production lines for candles in our Shaoxing Plant. The table below sets forth our designed production capacity, production volume and utilisation rate for our production facilities at Ningbo and Shaoxing during the Track Record Period:

	Designed production capacity ^(Note 1)			Production volume ^(Note 2)			Average utilisation rate ^(Note 3)
	Ningbo Plant	Shaoxing Plant	Total (a) (number of Standard Product in million)	Ningbo Plant	Shaoxing Plant	Total (b)	(b)/(a)
FY2016	16.5	4.8	21.3	13.2	4.1	17.3	81.2%
FY2017	15.5	4.9	20.4	15.3	4.7	20.1	98.4%
FY2018	15.4	4.9	20.3	14.0	5.3 ^(Note 4)	19.3	95.1%
6M2019	7.5	2.5	9.9	5.7	2.0	7.7	77.6% ^(Note 5)

Notes:

- For illustrative purpose only, the designed production capacity is calculated based on the number of a standard-sized candle (7.3 x 8 cm candle with container) (the “Standard Product”) that could be produced per year based on our Directors’ estimation. In this connection, we assume the production hours per day to be eight hours and the production days per year to be 304 days during the Track Record Period.
- The production volume is calculated by reference to our production records. For illustrative purpose only, to calculate the production volume, the number of products of varying size and types are converted into Standard Product by reference to the production requirements of such products based on our Directors’ estimation.
- Utilisation rate is derived by dividing the production volume of the Standard Product by the designed production capacity of our production facilities.
- We recorded higher production volume of Shaoxing Plant than its designed production capacity in FY2018 because our production facilities had been operating overtime at more than the assumed production hours to fulfill certain purchase orders during the peak season.
- Average utilisation rate in 6M2019 was generally lower because our production activities and sales were generally lower in the first half of the year than the second half.

Our production level is subject to seasonality. As our major products are mainly exported to Europe where they are used for decoration during festive seasons in the second half of the year, taking into account the lead time required from placing order to delivery and the time required for international shipment, we generally experience higher sales during the second half of the year. This would lead to the generally higher level of average utilisation rate of our production facilities in the second half of the year comparing to the first half. See “Seasonality” in this section for details.

As advised by our PRC Legal Advisers, as at the Latest Practicable Date, we had obtained all the relevant licenses and certificates required to operate our production facilities in each of our Ningbo Plant and Shaoxing Plant.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any significant interruptions in our business and operations nor any prolonged suspension of manufacturing operations arising from failure or breakdowns of machineries or equipment, which may significantly affect our business or financial position.

BUSINESS

Machinerics and maintenance

Set forth below are details of our major machines and equipment used in our production:

Ningbo Plant

Name of machinery/ equipment	Number of machinery/ equipment	Function	Average years in operation	Estimated average useful life (years)	Estimated average remaining useful life (years)
Wax filling machine and control system	17	Filling of wax into container	1.8	10	8.2
Automatic wick fixing machine	1	Insertion of wick into wax	2	10	8
Wax pouring machine	2	Pouring wax into mould	1	10	9
Wick twisting machine	1	Twisting of wick	4	10	6

Shaoxing Plant

The Shaoxing Plant does not have any major production machine and equipment. The production procedures are mostly carried out by our production staff by hand with the assistance of simple equipment such as boiling system for wax melting, moulds and tools.

We own all of the major machines and equipment used in our production process and have implemented a maintenance system for our machines and equipment, including scheduled downtimes for maintenance and repairs, and regular inspections of production facilities and equipment in order to maintain our production lines at optimal levels. Our production team carries out routine inspection of machines and equipment every three months and annual overhaul.

RAW MATERIALS AND SUPPLIERS

Raw materials

Our major raw materials comprise wax, containers, packaging materials, candle holder accessories and aroma essence. Packaging materials include wrapping papers, plastic ribbons and cardboard boxes for inner and outer packaging. We procure a majority of our principal raw materials from suppliers situated in the PRC and we believe that such raw materials are readily available in the market. We also purchase from domestic importers or overseas suppliers plant-based wax, dye and fragrance originated in South-East Asia and France. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we did not experience quality issues, significant delays or shortages of major raw materials, which could materially and adversely affect our business operation.

BUSINESS

The raw materials and consumables used for FY2016, FY2017, FY2018 and 6M2019 amounted to RMB137.4 million, RMB148.5 million, RMB151.7 million and RMB65.4 million, respectively.

Our procurement team is responsible for selection and assessment of suppliers, with the inputs from our quality control team as to testing of raw materials and our technical team as to technical and compliance requirements. Our procurement team is responsible for placing orders for the raw materials. As at 30 June 2019, our procurement team comprised 21 employees.

Major suppliers

Our suppliers comprise suppliers of raw materials and consumables and contract manufacturers. Given the diverse nature of the products manufactured by us and our contract manufacturers, we have maintained an extensive network to support our operation. For FY2016, FY2017, FY2018 and 6M2019, we made procurement from over 400, 440, 500 and 300 suppliers respectively. Our major suppliers of raw material and consumables are corporate entities who are principally engaged in the production and/or sale of wax, containers, accessories and aroma essence in the PRC. For details of our contract manufacturers, see “Subcontracting Arrangement” in this section.

Our relationship with our five largest suppliers during the Track Record Period ranged from two years to 11 years. For FY2016, FY2017, FY2018 and 6M2019, our purchase attributable to our five largest supplier accounted for 22.0%, 23.3%, 21.6% and 25.3%, respectively, of our cost of purchase for the same periods. The tables below set out the background information about our five largest suppliers for the periods indicated:

FY2016

Rank	Supplier	Products/ services purchased	Background	Headquarter location	Length of business relationship with our Group up to 30 June 2019 (years)	Credit Terms	Payment method	Purchase amount RMB'000	Percentage of total purchase %
1	Group A (Note 1)	Wax	It principally engages in the sale of chemical products and raw materials.	PRC	2-5	Payment on delivery	Bank Transfer	16,630	5.8
2	Group B (Note 2)	Wax	It principally engages in trading and distributing chemical products, building materials, daily necessities.	PRC	10-11	Payment on delivery	Bank Transfer	15,111	5.2
3	Ningbo Haishu Huasen Daily Necessities Co. Ltd. (宁波市海曙華森日用品有限公司) (Note 3)	Reed Diffuser	It principally engages in manufacturing and processing plastic products, daily cleaning and fragrance products, electronic accessories, hardware, candles and moulds.	PRC	5	Payment on delivery	Bank Transfer	14,278	4.9
4	Nantong Mingyi Glass Technology Co. Ltd. (南通明藝玻璃科技有限公司)	Containers	It principally engages in research and development, manufacturing, processing and sale of glass products.	PRC	7	Payment on delivery	Bank Transfer	8,964	3.1

BUSINESS

Rank	Supplier	Products/ services purchased	Background	Headquarter location	Length of business relationship with our Group up to 30 June 2019 (years)	Credit Terms	Payment method	Purchase amount RMB'000	Percentage of total purchase %
5	Ninghai Haolaiyun Daily Necessities Co. Ltd. (寧海縣豪 來讓日用品有限公 司)	Reed Diffuser	It principally engages in manufacturing and processing miscellaneous plastic products for daily use, plastic parts and fragrance.	PRC	8	Payment on delivery	Bank Transfer	8,628	3.0
Total								63,611	22.0

FY2017

Rank	Supplier	Products/ services purchased	Background	Headquarter location	Length of business relationship with our Group up to 30 June 2019 (years)	Credit Terms	Payment method	Purchase amount RMB'000	Percentage of total purchase %
1	Ningbo Haishu Huasen Daily Necessities Co. Ltd (寧波市海 曙華森日用品有限公 司) (Note 3)	Reed Diffuser	It principally engages in manufacturing and processing plastic products, daily cleaning and fragrance products, electronic accessories, hardware, candles and moulds.	PRC	5	Payment on delivery	Bank Transfer	22,745	6.8
2	Group B (Note 2)	Wax	It principally engages in trading and distributing chemical products, building materials, daily necessities.	PRC	10-11	Payment on delivery	Bank Transfer	19,289	5.8
3	Shanggao Huayuan Glass Technology Co., Ltd. (上高華源 玻璃科技有限公司)	Containers	It principally engages in the manufacturing of glass products.	PRC	4	Payment on delivery	Bank Transfer	15,461	4.6
4	Ningbo Fengcai Handicraft Co. Ltd. (寧波豐彩工藝品有 限公司)	Mirror and wire	It principally engages in manufacturing and trading arts and crafts design products.	PRC	9	Payment on delivery	Bank Transfer	11,573	3.5
5	Tianjin Huatai Candle Co. Ltd. (天津市華 泰蠟燭有限責任公 司)	Candles	It principally engages in the production of candles.	PRC	5	Payment on delivery	Bank Transfer	8,716	2.6
Total								77,784	23.3

BUSINESS

FY2018

Rank	Supplier	Products/ services purchased	Background	Headquarter location	Length of business relationship with our Group up to 30 June 2019 (years)	Credit Terms	Payment method	Purchase amount RMB'000	Percentage of total purchase %
1	Ningbo Haishu Huasen Daily Necessities Co. Ltd (寧波市海曙華森日用品有限公司) (Note 3)	Reed Diffuser	It principally engages in manufacturing and processing plastic products, daily cleaning and fragrance products, electronic accessories, hardware, candles and moulds.	PRC	5	Payment on delivery	Bank Transfer	27,421	8.1
2	Shanggao Huayuan Glass Technology Co., Ltd (上高華源玻璃科技有限公司)	Containers	It principally engages in the manufacturing of glass products.	PRC	4	Payment on delivery	Bank Transfer	13,763	4.1
3	Group B (Note 2)	Wax	It principally engages in trading and distributing chemical products, building materials, daily necessities.	PRC	10-11	Payment on delivery	Bank Transfer	11,547	3.4
4	Changzhou Jintan Star Candle Co. Ltd. (常州市金壇星星制燭有限公司)	Candles	It principally engages in manufacturing and sale of artistic candles, manufacturing and processing of paper boxes.	PRC	3	Payment on delivery	Bank Transfer	11,525	3.4
5	Ningbo Fengcai Handicraft Co. Ltd. (寧波豐彩工藝品有限公司)	Mirror and wire	It principally engages in manufacturing and trading arts and crafts design products.	PRC	9	Payment on delivery	Bank Transfer	8,684	2.6
Total								72,940	21.6

BUSINESS

6M2019

Rank	Supplier	Products/ services purchased	Background	Headquarter location	Length of business relationship with our Group up to 30 June 2019 (years)	Credit Terms	Payment method	Purchase amount RMB'000	Percentage of total purchase %
1	Ningbo Haishu Huasen Daily Necessities Co. Ltd (寧波市海曙華森日用品有限公司) (Note 3)	Reed Diffuser	It principally engages in manufacturing and processing plastic products, daily cleaning and fragrance products, electronic accessories, hardware, candles and moulds.	PRC	5	Payment on delivery	Bank Transfer	18,876	10.1
2	Shanggao Huayuan Glass Technology Co., Ltd (上高華源玻璃科技有限公司)	Containers	It principally engages in the manufacturing of glass products.	PRC	4	Payment on delivery	Bank Transfer	9,185	4.9
3	Shandong Gexnan Light Industry Products Co. Ltd (山東格萱輕工製品有限公司)	Containers	It principally engages in the manufacturing and sale of glass, ceramics, metal and wooden crafts and accessories.	PRC	2	Payment on delivery	Bank Transfer	7,234	3.9
4	Changzhou Jintan Star Candle Co. Ltd. (常州市金壇星星制燭有限公司)	Candles	It principally engages in manufacturing and sale of artistic candles, manufacturing and processing of paper boxes.	PRC	3	Payment on delivery	Bank Transfer	7,031	3.7
5	Group B (Note 2)	Wax	It principally engages in trading and distributing chemical products, building materials, daily necessities.	PRC	10-11	Payment on delivery	Bank Transfer	4,986	2.7
Total								47,312	25.3

Notes:

- Group A includes Ningbo Huashang Supply Chain Co. Ltd. (寧波華商供應鏈股份有限公司) (which was not our five largest suppliers during the Track Record Period) and Ningbo Huashang Petrochemical Sales Co. Ltd. (寧波華商石化銷售有限公司). Both companies are under the same control and the cost of purchase attributed to them are consolidated for illustrative purpose.
- Group B includes Fushun Jinye Petrochemical Co. Ltd. (撫順金業石化有限公司) and Harbin Jintong Chemical Products Distribution Co. Ltd. (哈爾濱金通化工產品經銷有限公司) (which was not our five largest suppliers during the Track Record Period). Both companies are under the same control and the cost of purchase attributed to them are consolidated for illustrative purpose.
- Ningbo Yinzhou Huasen Daily Necessities Co. Ltd. (寧波市鄞州華森日用品有限公司) changed its name to Ningbo Haishu Huasen Daily Necessities Co. Ltd. (寧波市海曙華森日用品有限公司) on 5 September 2017. We adopt the new name of the aforesaid for illustrative purpose.

BUSINESS

During the Track Record Period, we did not enter into any long-term agreement with our suppliers. We will issue purchase order to them for each purchase. The salient terms of our purchase order with our suppliers of raw materials and consumables and contract manufacturers during the Track Record Period are as follows:

Key terms	Descriptions
Product description	The specification of the raw materials or products, such as product type, model number and product specifications, are included.
Order details	The number of pieces for each color and/or size, the unit price and the total amount, are specified.
Delivery	The supplier shall be responsible for all delivery arrangements and to deliver products to our specified location at their own risk and cost.
Payment terms	Our suppliers typically require us to pay on delivery. We will settle the payments accordingly. Payments are typically made by bank transfer and in RMB. For overseas suppliers, we typically settle by US dollars in advance.
Returns policy	Acceptance of raw materials and products upon delivery will only be regarded as a preliminary acceptance. If the raw materials or products provided by our supplier do not meet our standards, our supplier shall bear full responsibility generally, our supplier will either (i) refund the entire batch of raw materials or products, (ii) rework, replace and redeliver the faulty raw materials or products or (iii) provide discount on the price upon negotiation with us.
Safety compliance	Raw materials or products from our suppliers shall not contain any specified level of heavy metal, including lead, steel, zinc etc., or any substance that would affect human health or the environment. All raw materials or products shall meet the requirements of the latest regulations of EU, including but not limited to Restriction of Hazardous Substances (RoHS) and REACH. Any losses or fines resulting from incompliance of relevant regulations shall be borne by the supplier.

We have in place measures to stabilise the price and sources of supply of our major raw materials. See “Inventory Management” in this section for details.

During the Track Record Period and up to the Latest Practicable Date, we were in material compliance with the terms of the contracts with our major suppliers, and we had not experienced nor were we aware of any circumstance leading to early termination of the supply contract or contractual disputes with or claims by our major suppliers.

None of our Directors, their respective close associates or any Shareholder (who, to the best knowledge of our Directors, owns more than 5% of the issued share capital of our Company as at the Latest Practicable Date) had any interest in any of our five largest suppliers during the Track Record Period. All of our five largest suppliers during the Track Record Period are Independent Third Parties.

To the best knowledge of our Directors, we did not have any overlap between our other major customers and major suppliers during the Track Record Period and up to the Latest Practicable Date.

Supplier assessment and evaluation process

In order to ensure smooth production process and our product quality, we have established a supplier assessment policy, which is applicable to both suppliers for raw materials and contract manufacturers, standardising aspects such as supplier selection, assessment and follow-up actions. We select our suppliers mainly based on the following criteria: (a) price; (b) product and service quality which is demonstrated by its ability to comply with the standards set by us or our customers; (c) payment terms offered; (d) background and credibility of the supplier; and (e) length of our business relationship. We have established stable relationships with the suppliers of our principal raw materials.

Selection process

Where there is a potential supplier, our procurement team will investigate into and request for the corporate documents, backgrounds of the supplier and information of its products. We will also evaluate the product samples of the supplier candidate, qualification, technical expertise and other indicators.

During the process, our procurement team will work with the quality control department as to testing of samples and the technical team as to technical and compliance requirements. They will assess the suppliers on a number of designated indicators as mentioned in the paragraph above. The teams will then jointly issue a report for their findings. Upon the approval of our procurement team, suppliers who have passed assessment will be included in our list of qualified suppliers.

Evaluation process

We conduct annual evaluation on our existing suppliers which include a site visit. Such evaluation is carried out by the input of various teams, including our quality control team, procurement team, production team and technical team. The teams will evaluate on the quality, price, delivery performance, packaging, certification, services and approval of business operation relating to the products. They will then compile a supplier annual evaluation table according to the results of the assessment and recommended actions for approval from the management.

Apart from regular evaluation, we may also conduct evaluation on suppliers on an *ad hoc* basis when we have any concern on the supplier such as product quality, delivery, price and service.

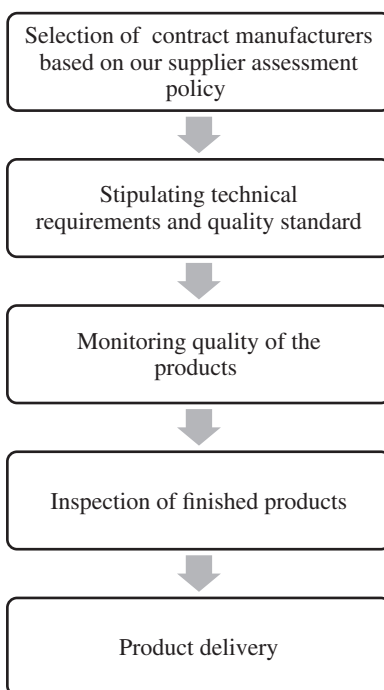
SUBCONTRACTING ARRANGEMENT

During the Track Record Period, we subcontracted to external manufacturers certain production orders. Such arrangements allow us to focus our scarce resources on manufacturing of candles with higher technical content, as well as on product development, designs and innovation, with a view to optimise our cost of production. We apply the same set of selection and evaluation process in our subcontracting arrangement as in our suppliers. For details, see “Raw Materials and Suppliers” in this section.

Our subcontracting arrangements could be broadly divided into two main categories. In the first category, the contract manufacturers produce the finished products based on our specifications and parameters which have been approved by us and they will procure the raw materials based on our requirements. This category of subcontracting would cover the cases where we envisage a need to optimise our cost of production and increase our overall production efficiency during peak seasons by allocating some orders which do not require high technical complexity to external contract manufacturers, or where we are not equipped with the relevant production facilities.

In the second category of subcontracting, we provide the contract manufacturers with semi-finished products for their further processing such as packaging and surface treatment. The contract manufacturers will procure the raw materials based on our requirements.

Our subcontracting arrangement can be simplified in the flow chart below:



We had developed with our five largest contract manufacturers one year to 10 years of business relationship as at 30 June 2019. We select the contract manufacturer candidate(s) by reference to their technical capability, price, work quality, qualification and previous related work experience. During the Track Record Period, we engaged two contract manufacturers to produce home fragrance products and we were their major client during the same period. All of our contract manufacturers were Independent Third Parties during the Track Record Period.

BUSINESS

We generally do not enter into any long-term agreements with our contract manufacturers. We enter into service agreements with our contract manufacturers on a per order basis. We adopt the same set of agreement with the contract manufacturers as our other suppliers. For details, see “Raw Materials and Suppliers – Major Suppliers” in this section.

The unit price we agree to pay to our contract manufacturers is determined by reference to a number of factors, including costs of raw materials, technical elements of products, and delivery terms. Subcontracting cost for FY2016, FY2017, FY2018 and 6M2019 were RMB146.7 million, RMB167.2 million, RMB155.8 million and RMB83.5 million, respectively, which accounted for 46.7%, 47.9%, 46.1% and 51.3%, respectively, of our cost of sales. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material dispute with our contract manufacturer.

The following table sets forth the breakdown of our revenue and gross profit by production model for the periods indicated:

Product by production model	FY2016 Revenue		FY2017 Revenue		FY2018 Revenue		6M2019 Revenue	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Self-manufactured	194,935	48.8	202,676	45.5	203,943	45.9	88,130	40.8
Outsourced	204,538	51.2	243,184	54.5	240,761	54.1	128,126	59.2
Total	399,473	100.0	445,860	100.0	444,704	100.0	216,256	100.0

Product by production model	FY2016		FY2017		FY2018		6M2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Self-manufactured	47,925	24.6	54,415	26.8	58,266	28.6	26,970	30.6
Outsourced	37,270	18.2	42,106	17.3	48,763	20.3	26,619	20.8
Total	85,195	21.3	96,521	21.6	107,029	24.1	53,589	24.8

BUSINESS

The tables below sets out the background information of our five largest contract manufacturers, all of them are Independent Third Parties, for the periods indicated:

For FY2016

Rank	Contract manufacturers	Products/ services purchased	Background	Headquarter location	Length of business relationship with our Group up to 30 June 2019 (years)	Credit terms	Payment method	Purchase amount RMB'000	Percentage to purchase amount from all contract manufacturers %
1	Ningbo Haishu Huasen Daily Necessities Co. Ltd. (寧波市海曙華森日用品有限公司) (Note 1)	Reed Diffuser	It principally engages in manufacturing and processing plastic products, daily cleaning and fragrance products, electronic accessories, hardware, candles and moulds.	PRC	5	Payment on delivery	Bank Transfer	15,891	10.9
2	Ninghai Haolaiyun Daily Necessities Co. Ltd. (寧海縣豪來韻日用品有限公司)	Reed Diffuser	It principally engages in manufacturing and processing miscellaneous plastic products for daily use, plastic parts and fragrance.	PRC	8	Payment on delivery	Bank Transfer	8,287	5.7
3	Taizhou Huangyan Kaile Xing Craft Factory (台州黃岩凱樂星工藝廠)	Candles	It principally engages in manufacturing of candles, wood products, foam, glass, steel products, plastic art crafts and cement products.	PRC	10	Payment on delivery	Bank Transfer	7,111	4.9
4	Linhai Boye Handicraft Co. Ltd. (臨海市博嘑工藝品有限公司)	Candles	It principally engages in manufacturing bamboo wood, plastic, leather handicrafts, clothes, furniture and artisan candles.	PRC	5	Payment on delivery	Bank Transfer	6,799	4.7
5	Shaoxing Shangyu Hongyuan Risheng Wax Co. Ltd. (紹興上虞宏遠日昇蠟業有限公司)	Candles	It principally engages in manufacturing and processing of candles, boxes, metal products. It is also engaged in the sale of ancillary materials for candles.	PRC	5	Payment on delivery	Bank Transfer	6,495	4.5
Total:								44,583	30.7

BUSINESS

FY2017

Rank	Contract manufacturers	Products/ services purchased	Background	Headquarter location	Length of business relationship with our Group up to 30 June 2019 (years)	Credit terms	Payment method	Purchase amount RMB'000	Percentage to purchase amount from all contract manufacturers %
1	Ningbo Haishu Huasen Daily Necessities Co. Ltd. (寧波市海曙華森日用品有 限公司) (Note 1)	Reed Diffuser	It principally engages in manufacturing and processing plastic products, daily cleaning and fragrance products, electronic accessories, hardware, candles and moulds.	PRC	5	Payment on delivery	Bank Transfer	21,647	13.0
2	Ningbo Fengcai Handicraft Co. Ltd. (寧波豐彩工藝品 有限公司)	Mirror and wire	It principally engages in manufacturing and trading arts and crafts design products.	PRC	9	Payment on delivery	Bank Transfer	10,317	6.2
3	Tianjin Huatai Candle Co. Ltd. (天津市華泰蠟燭有 限責任公司)	Candles	It principally engages in manufacturing and trading arts and crafts design products.	PRC	5	Payment on delivery	Bank Transfer	8,230	4.9
4	Changzhou Jintan Star Candle Co. Ltd. (常州市 金壇星星制燭有限公司)	Candles	It principally engages in manufacturing and sale of artistic candles, manufacturing and processing of paper boxes.	PRC	3	Payment on delivery	Bank Transfer	7,114	4.3
5	Linhai Boye Handicraft Co. Ltd. (臨海市博嘜工藝品 有限公司)	Candles	It principally engages in manufacturing bamboo wood, plastic, leather handicrafts, clothes, furniture and artisan candles.	PRC	5	Payment on delivery	Bank Transfer	6,885	4.1
Total:								54,193	32.5

BUSINESS

FY2018

Rank	Contract manufacturers	Products/ services purchased	Background	Headquarter location	Length of business relationship with our Group up to 30 June 2019 (years)	Credit terms	Payment method	Purchase amount RMB'000	Percentage to purchase amount from all contract manufacturers %
1	Ningbo Haishu Huasen Daily Necessities Co. Ltd. (寧波市海曙華森日用品有 限公司) (Note 1)	Reed Diffuser	It principally engages in manufacturing and processing plastic products, daily cleaning and fragrance products, electronic accessories, hardware, candles and moulds.	PRC	5	Payment on delivery	Bank Transfer	20,959	13.6
2	Changzhou Jintan Star Candle Co. Ltd. (常州市 金壇星星制燭有限公司)	Candles	It principally engages in manufacturing and sale of artistic candles, manufacturing and processing of paper boxes.	PRC	3	Payment on delivery	Bank Transfer	12,721	8.2
3	Taizhou Huangyan Kaile Xing Craft Factory (台州 黃岩凱樂星工藝廠)	Candles	It principally engages in manufacturing of candles, wood products, foam, glass, steel products, plastic art crafts and cement products.	PRC	10	Payment on delivery	Bank Transfer	7,608	4.9
4	Dandong Jiaxin Handicraft Co. Ltd. (丹東佳信工藝品 有限公司)	Candles	It principally engages in manufacturing and sale of artistic products, candle products, wax boxes, wax holders and machinery.	PRC	1	Payment on delivery	Bank Transfer	7,561	4.9
5	Linhai Boye Handicraft Co. Ltd. (臨海市博嘜工藝品 有限公司)	Candles	It principally engages in manufacturing bamboo wood, plastic, leather handicrafts, clothes, furniture and artisan candles.	PRC	5	Payment on delivery	Bank Transfer	6,874	4.4
Total:								55,723	36.1

BUSINESS

6M2019

Rank	Contract manufacturers	Products/ services purchased	Background	Headquarter location	Length of business relationship with our Group up to 30 June 2019 (years)	Credit terms	Payment method	Purchase amount RMB'000	Percentage to purchase amount from all contract manufacturers %
1	Ningbo Haishu Huasen Daily Necessities Co. Ltd. (寧波市海曙華森日用品有限公司) (Note 1)	Reed Diffuser	It principally engages in manufacturing and processing plastic products, daily cleaning and fragrance products, electronic accessories, hardware, candles and moulds.	PRC	5	Payment on delivery	Bank Transfer	12,425	14.5
2	Changzhou Jintan Star Candle Co. Ltd. (常州市金壇星制燭有限公司)	Candles	It principally engages in manufacturing and sale of artistic candles, manufacturing and processing of paper boxes.	PRC	3	Payment on delivery	Bank Transfer	5,544	6.5
3	Tianjin Huatai Candle Co. Ltd. (天津市華泰蠟燭有限公司)	Candles	It principally engages in manufacturing and trading arts and crafts design products.	PRC	5	Payment on delivery	Bank Transfer	4,369	5.1
4	Shandong Gexnan Light Industry Products Co. Ltd. (山東格萱輕工製品有限公司)	Containers	It principally engages in the manufacturing and sale of glass, ceramics, metal and wooden crafts and accessories.	PRC	2	Payment on delivery	Bank Transfer	3,947	4.6
5	Linhai Boye Handicraft Co. Ltd. (臨海市博嘑工藝品有限公司)	Candles	It principally engages in manufacturing bamboo wood, plastic, leather handicrafts, clothes, furniture and artisan candles	PRC	5	Payment on delivery	Bank Transfer	3,526	4.1
Total:								29,811	34.8

Note:

1. Ningbo Yinzhou Huasen Daily Necessities Co. Ltd. (寧波市鄞州華森日用品有限公司) changed its name to Ningbo Haishu Huasen Daily Necessities Co. Ltd. (寧波市海曙華森日用品有限公司) on 5 September 2017. We adopt the new name of the aforesaid entity for illustrative purpose.

INVENTORY MANAGEMENT

Our inventory includes raw materials, work in progress and finished goods. Our procurement team is responsible for monitoring the inventory level to meet the production requirements and minimise any waste on inventory or obsolete inventory for our production facilities. As at 31 December 2016, 2017 and 2018 and 30 June 2019, our inventories amounted to RMB27.9 million, RMB36.5 million, RMB39.3 million and RMB47.7 million, respectively. We procure raw materials according to our production plans, volumes of orders on hand and our evaluation of price fluctuations of the raw materials. We adopt procurement procedures according to the nature of raw materials which are summarised as follows:

Procurement of wax

With the PRC being one of the major producing countries of paraffin in the world, we have an abundant supply of paraffin which is sufficient to meet our needs. To ensure we are able to procure at the competitive price, we will compare similar products and supply terms of several supplier candidates and seek quotations from them before making procurement. Our procurement team closely monitor the price fluctuations of paraffin in real time and to prepare price fluctuation assessment reports on a quarterly basis, so as to determine the best time for procurement of paraffin.

Our plant-based wax is originated in Southeast Asian countries. We purchase plant-based wax from domestic importers, and procurement is made according to our production plans.

Procurement of fragrance and containers

For auxiliary materials such as aroma essence and containers which have relatively shorter procurement cycle, abundant supply and stable prices, we usually procure these products based on customer orders. The quantity of purchase of such materials depend on the quantity of the orders on hand.

We have storage spaces in our Ningbo Plant and Shaoxing Plant for storage of raw materials and finished goods. We retrieve our inventory on a first-in first-out principle and proper approvals are required for inventory retrievals. Throughout the years, we perform stock takes on a monthly basis and perform inventory ageing analysis from time to time to ensure that inventories are properly managed and that there is no unnecessary accumulation of aged inventories. During the Track Record Period, we did not experience any damage or loss of stocks or have any ageing stocks that would have a material impact on our business operations or financial conditions.

Our inventory turnover days for FY2016, FY2017, FY2018 and 6M2019 were 31 days, 34 days, 41 days and 48 days, respectively. Provision for inventory of our Group as at 31 December 2016, 2017, 2018 and 30 June 2019 were nil, RMB0.2 million, RMB0.2 million and RMB0.3 million, respectively.

LOGISTICS AND TRANSPORTATION

We principally deliver our products to overseas customers on a free on board (FOB) basis under which we are generally responsible for the delivery of our products to the shipment port and the corresponding cost of delivery in the PRC is borne by us. In that case, our customer is responsible for the international shipment and the related expenses.

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Exceptionally and limited to a few customers only, we deliver our products on cost, insurance and freight (CIF) basis under which we cover transportation fees, custom clearance, international sea and air freight charges and insurance fee.

Risks and titles of our products are passed to our customers when our products are collected by or delivered to our customers.

During the Track Record Period, we outsourced the delivery and logistics services to external service providers, who were Independent Third Parties, to deliver our products from our or our contract manufacturers' warehouses. These external logistics service providers are responsible for any damage to our finished products during the transportation and shall compensate us for the loss suffered as a result. For FY2016, FY2017, FY2018 and 6M2019, we had engaged four logistics service providers, and our transportation expenses amounted to RMB10.9 million, RMB14.2 million, RMB11.6 million and RMB6.0 million, respectively, during the same periods.

For procurement of major raw materials, our suppliers are generally responsible for arranging in their delivery to our warehouse and their selling prices are inclusive of the logistics expenses.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material disruption or damage to products in the delivery process.

QUALITY CONTROL

We are committed to product quality and have established a quality control system over our entire production process. As at the Latest Practicable Date, we have taken into account the following quality standards in our production process:

Serial number	Descriptions
QB/T 2902-2007	Art candle products standard
QB/T 2903-2007	Jar candle products standard
QB/T 2119-2007	Basic candle products standard
GB/T 22256-2008	Jelly candle products standard
SN/T 3839-2014	Commodity inspection standard
QB/T 4359-2012	Tea-wax products standard
QB/T 4362-2012	Wax products standard
HDB/QB 096-2015	Single consumption inspection standard

We have also taken into account the following international standards in our production process:

EU standards	Descriptions
BS EN 15493-2007	: Candles – Specification for fire safety
BS EN 15494-2007	: Candles – Product safety label

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EU standards		Descriptions
BS EN 15426-2007	:	Candles – Specification for sooting behavior
REACH Regulation EC1907/2006	:	Registration, Evaluation, Authorisation and Restriction of Chemicals
BS EN 71-3-1995	:	Safety of toys – Part 3: Migration of certain elements
BS EN 1183-1997	:	Materials and articles in contact with foodstuffs – Test methods for thermal shock and thermal shock endurance
Germany standard		Descriptions
RAL GZ-041/1	:	Special Quality and Inspection Specifications for household candles, tapered candles, pillar candles, and other candles

Quality monitoring

We have in place policy to monitor the quality of the incoming raw materials provided by our suppliers. We conduct assessments on our raw materials suppliers by reference to the quality of raw materials supplied, price and efficiency.

Our procurement department has adopted measures to handle unqualified incoming raw materials. We have a “supplier management and quality assurance system” in place, which records all the data of suppliers that have a cooperative relationship with us, such as their product quality, production capacity, delivery time and other indicators that we believe are essential to us and our customers.

We recognise the importance of safety, quality and environmental controls as it can directly affect our reputation as well as our profitability. Accordingly, we have established and implemented an integrated management system for safety, environment and quality management. We have received certificates of registration for our current compliance with the ISO 9001:2015 (quality management system) and ISO 14001:2015 (environmental management system). Our Directors believe that an effective management system would help reduce our exposure to these claims and improve our overall profitability.

We have also set up internal quality standards and policies, such as “inspection specifications on outsourcing”, “quality inspection standards”, “sampling inspection standards on finished products” and “regulations on inspections” to better control and ensure quality of our products.

Quality control over our contract manufacturers

Our procurement team regularly conducts assessment to review outsourcing orders in order to prevent any problems that may affect the quality of our products during production and transportation processes. Our procurement team will then follow up closely with our contract manufacturers and they are required to provide us with the first batch of finished products for inspection prior to mass production. Our quality control team will then carry out sampling assessment on the outsourced final products.

Incoming raw materials

Our procurement team conduct inspections on incoming raw materials on a sampling basis. It may also cooperate with our procurement team to formulate corresponding corrective and preventive measures. The unqualified raw materials will be returned to our suppliers for replacement.

Production

Members of our quality control team collaborate with our technical team to carry out various inspections, check and re-check at each key stage of our production process. Our finished products go through various internal quality inspection system, such as the “sensory inspection” and “type inspection”, which covers quality indicators such as color, product surface effects, odour and safety compliance. These various inspections and checks throughout our production process ensure that our products adhere to our customers’ specifications, comply with our quality standards and are free of major defects.

Codes of conduct from our customers

We agree to abide by the respective terms and conditions or respective codes of conduct of certain customers which include the requirements of our products to conform to certain laws or regulations and to our customers’ specifications. As such, we have adopted comprehensive quality control procedures to ensure that our products meet the relevant industry standards as well as our internal standards.

In addition, some of our customers require us to abide by their requirements which include, among others, no discrimination and harassment, child labour, wages, working hours and environment, health and safety.

In accordance with the respective codes of conduct of our major customers, our major customers may conduct audit at our production facilities to ensure that the requirements as stipulated in their respective codes of conduct have been complied with. No material irregularity was spotted in the factory audits conducted by our major customers during the Track Record Period and up to the Latest Practicable Date.

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AWARDS AND RECOGNITIONS

Awards or recognitions received during the Track Record Period which are material to our business are set out below:

Award/Recognition	Awarding authority/ Accreditation body	Date of award	Validity period of the award
Zhejiang Cultural Export Key Enterprises	Department of Commerce of Zhejiang Province, the Publicity Department of Zhejiang Province of the Communist Party of China, Zhejiang Provincial Department of Culture and Tourism and Zhejiang Province Radio and Television Bureau	July 2019	2019–2020
National Cultural Export Key Enterprise	Ministry of Finance, Ministry of Culture, Ministry of Commerce, Ministry of Radio, Film and Television, and the Publicity Department of the Communist Party of China	June 2016, February 2018, September 2019	2015 to 2016, 2017 to 2018, 2019 to 2020
High and New Technology Enterprise	Ningbo Science and Technology Bureau, Ningbo Finance Bureau, Ningbo State Taxation Bureau, Ningbo Local Taxation Bureau	September 2017	November 2017 to November 2020
Vice President Unit	The Fifth Council of China Daily-use Chemical Industry Association	November 2016	November 2021

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Award/Recognition	Awarding authority/ Accreditation body	Date of award	Validity period of the award
Zhejiang Cultural Model Enterprise Award	Zhejiang Provincial Department of Culture and Tourism	September 2018	Permanent subject to review by awarding authority every two years

ENVIRONMENTAL COMPLIANCE

We place great emphasis on environmental protection in our business operations. An internal policy has been adopted to manage waste emissions and usages of energies. We are subject to environmental laws and regulations in the PRC governing water pollution, air pollution, discharge of solid wastes and noise pollution relating to our operations. For further details, see “Regulatory Overview – PRC Laws and Regulations” in this prospectus.

We generate a small amount of waste during our manufacturing process and we have adopted a set of waste treatment procedures in our production facilities to prevent or minimise pollution and have implemented measures to control gas emitted and water waste discharged during the production process to comply with applicable environmental standards. We have spent RMB1.8 million in purchasing environmental protection equipment for installation in our production facilities. We have also engaged external industrial waste collectors to collect such waste for disposal or recycling. Other than that, our manufacturing processes do not generate significant chemical waste, waste water or other industrial waste. Therefore, we believe the negative effect of our production processes on the environment is very limited. Nevertheless, we have taken measures to ensure our compliance with all applicable environmental protection laws and regulations, such as, (i) the Environmental Protection Law of the PRC 《中華人民共和國環境保護法》; and (ii) the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes 《中華人民共和國固體廢物污染環境防治法》. The management system of our production facilities has been assessed and certified as meeting the environmental management requirements of ISO14001:2015.

As of the Latest Practicable Date, we had conducted and passed all environmental impact assessment and/or environmental acceptance inspections in compliance with the relevant requirements under the applicable PRC laws and regulations. Our PRC Legal Advisers have confirmed that we were in all material respects in compliance with all applicable environmental protection laws and regulations in the PRC and had obtained all permits and licences necessary for our business and operations in the PRC during the Track Record Period and up to the Latest Practicable Date. We had not been subject to any fines or administrative action involving non-compliance with any relevant environmental regulations, nor are our Directors aware of any pending or threatened action by an environmental regulatory authority.

During the Track Record Period, we did not incur significant expenditures for compliance with the environmental laws, and we do not expect to incur significant cost in relation to compliance with environmental laws in the future.

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OCCUPATIONAL HEALTH AND SAFETY

Occupational health and safety

We endeavour to provide a healthy and safe work environment for our employees and have implemented safety guidelines applicable to all employees with a view to further promote occupational health and workplace safety and to ensure compliance with applicable laws and regulations. During the Track Record Period, we also provided adequate training on occupational safety to our employees when recruiting and arranging work for them. In addition, we organised annual and biannual health checks for entitled employees as required by the applicable laws and regulations. For further details of the applicable occupational health and safety requirements and regulations, see “Regulatory Overview” in this prospectus.

To ensure that our employees strictly comply with our internal regulations, during the Track Record Period, we issued and registered internal labour regulations stipulating among others, order at workplace, occupational safety, protection of assets, crisis management and fire safety.

As advised by our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, we did not experience any material fire hazard, and we were in all material respects in compliance with all applicable occupational health and safety laws and regulations in the PRC.

EMPLOYEES

As at 31 December 2018 and the 30 June 2019, we had 431 and 476 full-time employees. Three of our employees were based in Australia, who performed, respectively, management, sales and marketing, and logistics function in Neobee, our subsidiary in Australia. The rest of our employees were based in the PRC. A breakdown of our employees by function as at 31 December 2018 and 30 June 2019 is set forth below:

Function	Number of employees	
	as at 31 December 2018	as at 30 June 2019
Management	6	8
Accounting	14	19
Design	7	8
Production	263	278
Quality control	10	14
Sales and marketing	34	45
Human resources and administration	15	9
Procurement	20	21
Logistics	29	22
Research and development	33	52
Total	431	476

During the Track Record Period, we maintained a good working relationship with our employees. Our ability to recruit and retain experienced and skilled labour is critical to our production stability, quality and continued development.

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We generally recruit our employees in the open market through job postings online, in newspapers and in schools. Our management team closely examines all applications and invites candidates with desirable qualities for interview. We have not experienced any difficulty in recruitment and retention of experienced or skilled personnel.

We provide on-the-job training to our employees to improve their skills and product knowledge and to keep them updated on new developments. We also arrange external professional training to our employees.

We have established a trade union. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any major labour dispute or other labour disturbances that had interfered with our operations.

The remuneration packages for our employees are formulated by our management team and include salary, discretionary bonuses and allowances, which are reviewed as part of our internal appraisal on an annual basis. For FY2016, FY2017, FY2018 and 6M2019, our employee benefit expenses of all staff were RMB40.9 million, RMB42.5 million, RMB43.7 million and RMB17.9 million, respectively.

As required by the applicable PRC laws and regulations, we have made contributions to the social insurance (including pension plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing provident fund for our employees in the PRC during the Track Record Period. In addition, pursuant to the applicable Australian laws and regulations, we have made contributions to a superannuation fund for our Australian employees during the Track Record Period. As advised by our PRC Legal Advisers and our Australian Legal Advisers, save as disclosed in “Business – Compliance and Litigation – Regulatory compliance”, we had complied in material respects with the relevant laws and regulations in the PRC and Australia in respect of our contributions to social insurance and housing provident fund and to the superannuation fund (as the case may be), respectively, during the Track Record Period and up to the Latest Practicable Date.

COMPETITION

According to Frost & Sullivan, the candle and home fragrance market in the PRC is relatively concentrated, with small number of players being greater in scale, and the rest of the market comprise scattered and small manufacturers. According to Frost & Sullivan, in 2018, in terms of revenue from the manufacturing and sales of candles and home fragrance, we ranked second and fourth, respectively, in the PRC. China is the largest exporter of candles to EU, accounting for 65.4% of EU’s total import value of candles, which amounted to Euro 361.7 million. On the other hand, according to Frost and Sullivan, the demand for candles and home fragrance in EU, one of the major consumption markets of such products, is expected to keep growing.

According to Frost & Sullivan, players in the candle and home fragrance markets compete primarily in terms of factors such as (i) product design and research capability; (ii) production capability; (iii) distribution network/sales channel; and (iv) economy of scale. We believe that with our strengths in product innovation, our commitment to high-quality products, our worldwide customer base, our integrated production facilities, together with the proposed implementation of our future plans as set out in “Our Business Strategies” in this section, we will be able to continue to distinguish ourselves from our competitors and enlarge our market share.

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INSURANCE

During the Track Record Period and as at the Latest Practicable Date, we carried various insurance policies covering our buildings, fixed assets, and finished goods. We also maintained social security insurance for our employees and Compulsory Traffic Accident Liability Insurance For Motor Vehicles pursuant to PRC laws and regulators.

We believe that our insurance coverage is adequate and is in line with the industry practice. During the Track Record Period and up to the Latest Practicable Date, we had not made or been the subject of any material product liability or insurance claims.

OUR PROPERTIES

Owned properties

The following table summarises the information regarding our owned properties as at the Latest Practicable Date:

Address	Approximate gross floor area of land/building sq.m.	Land use right expiry date	Owner	Land/building usage
Xuejia Village, Gulin Town, Haishu District, Ningbo City (寧波市海曙區古林鎮薛家村)	Gross land use area of 11,743.6 sq.m./Gross building area of 13,689.54 sq.m.	16 October 2051	Ningbo Kwung's	Industrial/Industrial and showroom
Room 338, Block 1, Shounan Road Talent Residences, Yinzhou District, Ningbo City (寧波市鄞州區首南街道人才公寓1幢338室)	Gross floor area of 63.82 sq.m./Gross internal floor area of 45.68 sq.m.	16 December 2077	Ningbo Kwung's	Residential
Car Parking Space Number 039, Basement Level 2, Shounan Road Talent Residences, Yinzhou District, Ningbo City (寧波市鄞州區首南街道人才公寓地下二層039號車位)	Gross land use area of 13.56 sq.m./Gross building area of 13.56 sq.m.	16 December 2077	Ningbo Kwung's	Car parking space

As advised by our PRC Legal Advisers, as at the Latest Practicable Date, we had obtained the relevant certificates and permits necessary for, and legally owned, the properties as mentioned above.

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Leased properties

As at the Latest Practicable Date, we leased the following properties:

Address	Approximate leased area <i>sq.m.</i>	Leased term	Rent and Fees <i>RMB</i>	Usage	Landlord
Xuejia Village, Gulin Town, Haishu District, Ningbo City 寧波市海曙區古林鎮薛家村	4,746.47	1 January 2020 – 30 June 2020	Yearly rent of 683,491.68	Warehouse	Ningbo Investment
Dasong Salt Fields, Zhanqi Town, Yinzhou District, Ningbo City 寧波市鄞州區瞻岐鎮大嵩鹽場	300	20 December 2018 – 19 December 2020	Yearly rent of 4,800	Factory/Office	Independent Third Party
Portion of 1st Floor, Wanda Plaza, No. 999 Siming Middle Road, Yinzhou District, Ningbo City 寧波市鄞州區四明中路999號 寧波鄞州萬達廣場的一層部分 區域	8.6	22 December 2018 – 21 December 2019 ^(Note)	Venue management fee of 209,808 and property management fee of 6,192 per year	Shop	Independent Third Party
Counter L1-K01, F1 Floor, Yinxiang Plaza, No. 288 Qianhu North Road (Street), Yinzhou District, Ningbo City 寧波市鄞州區錢湖北街路288號 印象城商場第F1層編號為 L1-K01號的島櫃位	38.35	28 March 2019 – 27 March 2020	Monthly rent of 6,696 or 16% of the monthly turnover, whichever is higher, and management fee of 1,304 per month	Shop	Independent Third Party
No. 1437 Renmin East Road, Eco-industrial Park, Shaoxing City 紹興市生態產業園 人民東路1437號	13,317	10 September 2018 – 9 September 2021	Yearly rent of 1,402,979	Office and production facilities	Shaoxing Jingming
Room 1522, No.129 Liuhe Road, Xi Hu Qu, Hangzhou City 杭州西湖區留和路129號1552室	30	11 November 2019 – 11 November 2020	Monthly rent of 15,000	Shop	Independent Third Party

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Address	Approximate leased area <i>sq.m.</i>	Leased term	Rent and Fees <i>RMB</i>	Usage	Landlord
Shop No.2F-DZ-03, Yintai Shopping Centre, No.99 Qing Shao Nian Gong South Road, Xushan Street, Cixi City 慈溪市澹山街青少年宮南路99號銀泰購物中心2F-DZ-03鋪位	18	13 July 2019 – 12 July 2020	Yearly rent of 80,000	Shop	Independent Third Party
Shop No. 1F-DZ-34, Yu Yao Yin Tai Mall, No.217 Xinjian North Road, Yuyao City 余姚市新建北路217號余姚銀泰1F-DZ-34的鋪位	16	20 July 2019 – 19 July 2020	Yearly rent of 60,000	Shop	Independent Third Party
Counter No. 30, 2nd Floor, Tianyi Square International Shopping Centre, No.166 Zhongshan East Road, Haishu District, Ningbo City 寧波市海曙區中山東路166號天一廣場國際購物中心2樓30號櫃位	48	1 June 2019 – 31 May 2020	Monthly rent of 7,500 or 25% of the monthly sales amount, whichever is higher	Shop	Independent Third Party
Shop No.B1-13A/14A, Ningbo Lai Fu Shi Plaza, 99 Daqing South Road, Jiangbei District, Ningbo City 寧波市江北區大慶南路99號寧波來福士廣場B1-13A/14A	33.42	17 October 2019 – 25 December 2020	Monthly rent of 20,720.40	Shop	Independent Third Party
Room K02, level 1, Lecheng Centre Space 3, Sanhuan Central Road, Chaoyang District East, Beijing City 北京市朝陽區東三環中路「樂成中心 Space3」地上1層K02號房屋	15.92	20 October 2019 – 19 October 2020	Monthly rent of 9,552	Shop	Independent Third Party

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Address	Approximate leased area <i>sq.m.</i>	Leased term	Rent and Fees <i>RMB</i>	Usage	Landlord
Central Area, LIVAT 3 Tuanjie Zhong Lu, Wuxi Economic Development Zone, Jiangsu Province, China 江蘇無錫經濟開發區團結中路 3號無錫薈聚中心場地	15	23 November 2019 – 22 November 2020	Monthly rent of 12,318.75 or the monthly split amount as shown on the statement provided by the landlord, whichever is higher		Independent Third Party
Area JY-CD-003, Taizhou Wanda Plaza, no. 799 Kaida Road, Jiajiang District, Taizhou City 台州市椒江區開發大道路799號 台州萬達廣場一層JY-CD-003部 分區域場地	15	1 December 2019 – 30 November 2020	Yearly rent of 36,000		Independent Third Party
Counter No. 2011101010076, Level 1, Kugu Plaza, 152 Yaohang Street, Haishu District, Ningbo City 寧波市海曙區藥行街152號寧波 酷購店一樓2011101010076號 櫃位	10	13 September 2019 – 31 August 2021	13 September 2019 – 31 August 2020: Monthly rent of 12,000 or 20% of monthly sales amount; 1 September 2019 – 31 August 2021: Monthly rent of 13,000 or 21% of monthly sales amount	Shop	Independent Third Party

Note: As at the Latest Practicable Date, we were in the process of negotiating for the renewal of the term of the lease with the landlord.

The premises situated at Xuejia Village and Renmin East Road were leased from Ningbo Investment and Shaoxing Jingming, our connected persons. See “Continuing Connected Transactions” in this prospectus for further details.

As at the Latest Practicable Date, the total gross floor area of our two production bases amounted to 24,635.5 sq.m., which comprised (i) Ningbo Plant which consisted of the gross building area of 13,689.54 sq.m. and the leased area of 4,746.47 sq.m. from Ningbo Investment situated at Xuejia Village, Gulin Town, Haishu District, Ningbo City, deducting the office space of 7,117.47 sq.m. (which was not used for production purpose); and (ii) Shaoxing Plant which consisted of the

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leased area of 13,317 sq.m. from Shaoxing Jingming situated at No. 1437 Renmin East Road, Eco-industrial Park, Shaoxing City. Ningbo Investment and Shaoxing Jingming are companies controlled by Mr. Jin, a connected person of our Company.

Since its incorporation in 2016, Neobee has been authorised by Independent Third Parties to occupy the premises and conduct business at Unit 4/376 Newbridge Road Moorebank NSW 2170, Australia, which has been used by Neobee as an office and warehouse. As at the Latest Practicable Date, the monthly fee for occupying the said premises is AUD7,024.60.

We do not engage in any property activity as defined in Rule 5.01 of the Listing Rules. As at the Latest Practicable Date, we had no single property interest that forms part of our non-property activities having a carrying amount of 15% or more of our total assets as at 30 June 2019. On that basis, we are not required by Rule 5.01B of the Listing Rules to include in this prospectus any valuation report. Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (WUMP) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (WUMP) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we had various intellectual property rights which were considered material to our business, including 43 registered trademarks in the PRC, Hong Kong, the US, EU and Australia, six registered patents in the PRC and one domain name. We also had 20 pending trademark applications and seven pending patent applications in the PRC. For details, see “Statutory and General Information – B. Further information about the business of our Group – 2. Intellectual property rights” in Appendix IV to this prospectus.

Our Directors have confirmed that, to their best knowledge after making all reasonable enquiries, as at the Latest Practicable Date, we were not aware of any material infringement of any intellectual property rights of our Group which had an adverse effect on our business nor were we aware of any pending or threatened litigation or legal proceedings against us relating to the infringement of any intellectual property rights owned by third parties.

BUSINESS

LICENCES AND APPROVALS

As advised by our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, we had obtained all requisite permits, licences and approvals necessary for our business operations in the PRC, and as at the Latest Practicable Date, such approvals, licences and permits had not been revoked, cancelled or otherwise expired and we had not been materially penalised by national or local authorities for violations of laws and regulations.

Particulars of our material permits, licences and approvals are set out as follows:

Permits, licences and approvals	Issuing body	Expiry date
1. Business license	State Administration for Industry and Commerce of the People's Republic of China	3 January 2029
2. Registration certificate of customs declaration unit of the People's Republic of China	General Administration of Customs of the People's Republic of China	Permanent
3. Record registration form for foreign trade operators	Ministry of Commerce of the People's Republic of China	N/A ^(Note 2)
4. Safety production standardization certificate	State Administration of Work Safety	18 July 2019 ^(Note 1)
5. Institution credit code certificate	National Administration for Code Allocation to Organizations	13 November 2023
6. High and New Technology Enterprise certificate	Ningbo Science and Technology Bureau, Ningbo Finance Bureau, Ningbo State Taxation Bureau, Ningbo Local Taxation Bureau	28 November 2020

Notes:

1. We have applied renewal of safety production standardization certificate in April 2019, in accordance with our PRC Legal Advisers, there is no legal impediment for us to renew the certificate.
2. There is no effective period stated in the relevant permit, licence or approval, in accordance with our PRC Legal Advisers, these permit, licence or approval will remain effective upon registration.

COMPLIANCE AND LITIGATION

Regulatory compliance

The table below sets forth a summary of certain incidents of historical non-compliance with the applicable laws and regulations during the Track Record Period. Our Directors believe that these incidents of non-compliance would not have a material operational or financial impact on us.

Name of entity involved	Particulars of non-compliance	Reasons for non-compliance	Maximum fine/penalty	Remedial action
Ningbo Kwung's, Ningbo Aromage Homeware, and Ningbo Koman (collectively, the "Non-compliant Ningbo Subsidiaries")	Each of the Non-compliant Ningbo Subsidiaries failed to pay social insurance contributions in full for our employees, in contravention of the Social Insurance Law of the PRC 《中華人民共和國社會保險法》.	Each of the Non-compliant Ningbo Subsidiaries paid social insurance contributions according to a contribution base accepted and confirmed by its employees. Such contribution base was higher than the minimum contribution base published by local authorities from time to time, but was lower than the contribution base as required under the Social Insurance Law of the PRC 《中華人民共和國社會保險法》, forming a deficit of social insurance contribution payments.	Pursuant to the Social Insurance Law of the PRC 《中華人民共和國社會保險法》, where an employer fails to make social insurance contributions in full and on time, the social insurance authority is entitled to order it to make all outstanding social insurance contributions within a stipulated time period and impose a late payment fee at the rate of 0.05% per day from the date on which the contributions became due. If such employer fails to make the overdue contributions within the stipulated time period, the social insurance authority is entitled to impose a fine equivalent to 1 to 3 times of the overdue amount.	<p>On 7 January 2019, Haishu Human Resources and Social Security Bureau, a competent authority, issued three letters, which confirmed that the Non-compliant Ningbo Subsidiaries had paid social insurance for their employees, and there was no record of any administration penalty imposed against the Non-compliant Ningbo Subsidiaries since their establishment because of any non-compliance with the relevant social security laws and regulations.</p> <p>On 7 January 2019, Haishu Human Resources and Social Security Bureau, a competent authority, confirmed to our PRC Legal Advisers in an interview that the current social insurance coverage and payment of contributions by Non-compliant Ningbo Subsidiaries were in normal status and there was no arrear of contribution payment found. The actual social insurance contributions of the Non-compliant Ningbo Subsidiaries were in line with local regulations and local regulatory requirements. The Bureau also recognised the fact that employees had voluntarily agreed with the Non-compliant Ningbo Subsidiaries to make social insurance contributions as described, and would not take the initiative to order the Non-compliant Ningbo Subsidiaries to pay any outstanding social insurance contributions and would not impose any late payment fee or penalties.</p>

BUSINESS

Name of entity involved	Particulars of non-compliance	Reasons for non-compliance	Maximum fine/penalty	Remedial action
Shaoxing Keyuan	Shaoxing Keyuan failed to pay social insurance contributions in full for its employees, in contravention of the Social Insurance Law of the PRC 《中華人民共和國社會保險法》	Shaoxing Keyuan paid social insurance contributions according to a contribution base accepted and confirmed by its employees. Such contribution base is higher than the minimum contribution base published by local authorities from time to time, but lower than the contributions base as required under the Social Insurance Law of the PRC 《中華人民共和國社會保險法》, forming a deficit of social insurance contribution payments.	Pursuant to the Social Insurance Law of the PRC 《中華人民共和國社會保險法》, where an employer fails to make social insurance contributions in full and on time, the social insurance authority is entitled to order it to make all outstanding social insurance contributions within a stipulated time period and impose a late payment fee at the rate of 0.05% per day from the date on which the contributions became due. If such employer fails to make the overdue contributions within the stipulated time period, the social insurance authority is entitled to impose a fine equivalent to 1 to 3 times of the overdue amount.	On 8 January 2019, Shaoxing Yuecheng District Social Security Management Bureau, a competent authority, issued a letter, which confirmed that Shaoxing Keyuan had paid relevant social insurance for its employees, and there was no payment in arrears. On 22 February 2019, the Shaoxing City Yuecheng District Tax Service of the State Administration, a competent authority, confirmed to our PRC Legal Advisers in an interview that there was no outstanding social insurance payment of Shaoxing Keyuan, and that it had no pending investigation, query, claim or other such matters against Shaoxing Keyuan.

Our Controlling Shareholder, Mr. Jin, has undertaken to indemnify our Group for any and all financial loss caused by the failure of the above-mentioned subsidiaries to pay full social insurance contributions as required under the Social Insurance Law of the PRC 《中華人民共和國社會保險法》 for our employees.

According to our PRC Legal Advisers, Haishu Human Resources and Social Security Bureau and Shaoxing Yuecheng District Social Security Management Bureau are the competent authorities as these entities had made social security registration with and social insurance contribution for their respective employees to these bureaux who are the “social security agencies” within the meaning of Article 8 of the Social Insurance Law of the PRC, under which such social security agencies shall provide social security services and be responsible for, among other things, social security registration, maintaining records of individuals’ rights and interests, and social security payments. Based on the above, our PRC Legal Advisers opine that (i) each of the Non-compliant Ningbo Subsidiaries and Shaoxing Keyuan had fulfilled the local regulatory requirements for payment of social insurance contributions; (ii) the probability of the Non-compliant Ningbo Subsidiaries and Shaoxing Keyuan being ordered to compensate or to pay a late payment fee, or penalised for its failure to pay social insurance contributions for their employees in full is very low; and (iii) there is no material adverse impact on our financial condition or business operation as a result of the non-compliant incidents outlined in this subsection.

Save as disclosed in this subsection, our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, we had complied in all material respects with the applicable laws and regulations in the countries in which our subsidiaries carry on their business, and there was no non-compliance incident the nature of which is material or systemic.

Our Directors confirm that, there was no claim, litigation or arbitration proceedings pending or threatened against us or any of our Directors which would have a material adverse effect on our operations, financial condition, operating results or reputation during the Track Record Period and up to the Latest Practicable Date.

Litigation

Our Directors confirm that, as at the Latest Practicable Date, we were not aware of any pending or threatened litigation, arbitration or administrative proceeding against us or any of our subsidiaries which could have a material adverse effect on our financial condition or results of operations.

INTERNAL CONTROL

Our Directors believe that internal control is crucial to the development and success of our business. Our Directors are responsible for monitoring the implementation of our internal control measures and reviewing their effectiveness. In preparation for the Listing, and to ensure our internal control systems are sufficient for management of external and internal risks and comply with applicable laws and regulations, in December 2018, our Group engaged an independent internal control adviser (the “**IC Adviser**”), to perform a review of the internal control system of our Group and provide recommendations on the findings identified in December 2018 and January 2019. The IC Adviser performed a follow-up review in July 2019.

Internal control measures

During the internal control review, the IC Adviser provided recommendations for our management’s consideration to enhance our internal control systems. We have adopted and implemented these measures, highlights of which include:

- Environmental, social and governance – we have adopted an internal control policy to protect the environment and reduce the wastes emitted during the production process, such as managing use of water and electricity, controlling air pollutants, noise and hazarding solid wastes and also recycling the solid waste and garbage in the production facilities.
- Internal control mechanism – we have established and adopted an internal control mechanism to manage and govern the corporate governance and procedures, codes of conducts, conflict of interests and staff training, enhance the Group’s internal compliance system and monitor proper conduct of business.
- Risk management and monitoring mechanism – the Group has adopted a risk management policy and instituted a formal risk management mechanism to identify, analyse and control the internal and external risks faced by the Group, which will be reviewed from time to time to check its effectiveness.
- Compliance with the Listing Rules – the Group has established and adopted various mechanisms and procedures for the compliance with the requirements under the Listing Rules, including but not limited to connected transactions, conflicts of interest, and disclosure of inside information. We have appointed China Industrial Securities as our compliance adviser to advise us on compliance matters in relation to the Listing Rules.

BUSINESS

- Financial management system – the Group has established a financial management system and adopted policy to cover financial reporting and accounting matters within the Group (including the Australian subsidiary) to ensure compliance with the Listing Rules and all relevant laws and regulations of the countries where members of our Group are located.
- Risk management – we will implement measures to manage our foreign exchange risk. For details, see “Financial Information – Foreign exchange risk management measures” in this prospectus.

We have adopted the following specific internal control measures to prevent recurrence of the historical non-compliance incidents in respect of social insurance contribution as disclosed in the “Compliance and Litigation – Regulatory Compliance” above:

- our Group has adopted the social insurance contribution payment mechanism, under which our PRC subsidiaries’ accountants will prepare tables showing calculations of the amounts to be contributed each month for each of its staff in the PRC. Such tables will be submitted to our chief financial officer, Mr. Lau Chung Wai for his approval, with assistance with our PRC legal adviser if necessary, before payment.

Views of our Directors and the Sole Sponsor

On the basis of the above, our Directors believe that the internal control measures will effectively ensure a proper internal control system and maintain good corporate governance practices of our Group. In view of the measures in place, our Directors are of the view, and the Sole Sponsor concurs, that these internal control measures adopted by us are adequate and effective under the Listing Rules to ensure ongoing compliance with the relevant laws and regulations by our Group.

Our Directors are of the view, and the Sole Sponsor concurs, that (i) we had carried out remedial actions and (ii) the historical non-compliance incidents did not involve any dishonesty on the part of our Directors or their occurrence did not cause the Sponsor to cast any doubt on their integrity or competence, and that such non-compliance incidents (i) do not affect our Directors’ suitability to act as directors of a listed issuer under Rules 3.08 and 3.09 of the Listing Rules; and (ii) do not affect our Company’s suitability for listing under Rule 8.04 of the Listing Rules.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately after completion of the Global Offering (assuming that the Over-allotment Option is not exercised), Mr. Jin, through his 100% shareholding in King Harmony, legally and beneficially own in total approximately 54.14% of the issued Shares of our Company. Accordingly, Mr. Jin and King Harmony are directly or indirectly entitled to the exercise of 30% or more of the voting power at general meetings of our Company immediately following the Listing and will be regarded as our Controlling Shareholders under the Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS AND THEIR RESPECTIVE CLOSE ASSOCIATES

Our Group is independent from our Controlling Shareholders because our Group is managerially, operationally and financially independent from our Controlling Shareholders. Based on these three reasons and the corresponding basis for asserting such reasons in the following, we are satisfied that our Group is capable of carrying on our business independently from our Controlling Shareholders (including any close associates thereof) after the Listing.

Management independence

Board

Our Board consists of seven Directors, comprising three executive Directors, one non-executive Director and three independent non-executive Directors.

Each of our Directors is aware of his fiduciary duties as a Director which require, among other things, that he acts for the benefit and in the best interests of our Group and does not allow any conflict between his duties as a Director and his 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 associates, the interested Director(s) shall abstain from voting at the relevant Board meeting in respect of such transactions and shall not be counted in the quorum.

Although Mr. Jin, one of our Controlling Shareholders and executive Directors, is also the sole shareholder and director of King Harmony, being our Controlling Shareholder directly holding approximately 54.14% of the issued share capital of our Company immediately after the Listing (assuming that the Over-allotment Option is not exercised), our Board functions independently of the board of directors of King Harmony and other companies involving in the private investments which Mr. Jin may have apart from the investment in our Company. Since King Harmony is an investment holding company with no operative business and Mr. Jin is not involved in any other businesses that are in competition with our business, our Directors believe that the independence of the management of our Group will not be affected or compromised by the common directorship of Mr. Jin on our Board and his respective interests in King Harmony and his other private investments.

In the circumstances where our executive Directors or non-executive Director are required to abstain from voting due to potential conflicts of interest, our independent non-executive Directors will make their business judgment for the decision making process of our Board. Given the experience of our independent non-executive Directors, see “Directors, Senior Management and Staff” in this prospectus for further details of their qualifications and experiences, our Directors believe that the remaining Board can still function properly in the event that our executive Directors are required to abstain from voting.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Committee

We have established the Audit Committee, the Remuneration Committee and the Nomination Committee. Each committee consists of a majority of independent non-executive Directors. Further, we believe that our independent non-executive Directors will be able to exercise their independent judgment and will be able to provide impartial opinion and professional advice in the decision making process of our Board to protect the interests of our Shareholders.

Based on the above, our Directors are satisfied that our Board, as a whole together with our senior management, are able to perform the managerial role in our Group independently.

Operational independence

On the following basis, our Directors are of the view that our Group had been and will be operating independently from our Controlling Shareholders and their close associates during the Track Record Period and upon the Listing, respectively:

- (i) we had not relied on trademarks owned by our Controlling Shareholders, or other companies controlled by our Controlling Shareholders;
- (ii) we have sufficient capital, equipment and employees to operate our business independently from our Controlling Shareholders;
- (iii) we have independent access to customers and suppliers;
- (iv) our Company had its own administrative and corporate governance infrastructure (including its own accounting and human resources departments); and
- (v) upon the Listing, our Company will have established a set of internal control procedures to facilitate the effective operation of our business.

Financial independence

On the following basis, our Directors are of the view that our Group had been and will be financially independent from our Controlling Shareholders and any of their respective closes associates during the Track Record Period and upon the Listing, respectively:

- (i) our Group has an independent financial system and makes financial decisions according to our own business needs;
- (ii) during the Track Record Period, our Group had sufficient capital to operate our business independently and had adequate internal resources to support our daily operations;
- (iii) our Directors believe that we are and will be able to obtain financing such as bank loans, if necessary, from external sources on market terms and conditions without reliance on our Controlling Shareholders;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (iv) the guarantee provided by Ningbo Investment, a company established in the PRC and wholly-owned by Mr. Jin, in favour of a bank in the PRC for a loan advanced to Ningbo Kwung's will be released and replaced by the corporate guarantee executed by our Company upon the Listing; and
- (v) there will be no financial assistance, security and/or guarantee provided by our Controlling Shareholders and their respective close associates in favour of our Group or vice versa upon Listing.

All the non-trade amounts due to and from our Controlling Shareholders and companies controlled by our Controlling Shareholders, as well as all guarantees, indemnities and other securities provided by us for the benefit of our Controlling Shareholders, and companies controlled by our Controlling Shareholders, or vice versa, will be fully settled or released before the Listing Date. There will be no financial assistance, security and/or guarantee provided by our Controlling Shareholders and their respective close associates in favor of our Group or vice versa upon the Listing.

RULE 8.10 OF THE LISTING RULES

As at the Latest Practicable Date, each of our Controlling Shareholders, our Directors and their respective associates did not have any interest in a business apart from our Group's business which competes and is likely to compete, directly or indirectly, with our Group's business and would require disclosure under Rule 8.10 of the Listing Rules.

CORPORATE GOVERNANCE MEASURES FOR RESOLVING ACTUAL AND/OR POTENTIAL CONFLICTS OF INTERESTS

Our Directors recognise the importance of good corporate governance in protecting our Shareholders' interests as well as resolving actual and/or potential conflicts of interests between our Company and our Controlling Shareholders and Directors. We would adopt the following measures to safeguard good corporate governance standards and to avoid potential conflict of interests between our Group and our Controlling Shareholders and Directors:

- (i) where a Shareholders' meeting is to be held for considering proposed transactions in which any of our Controlling Shareholders or any of their associates has a material interest, the relevant Controlling Shareholder(s) will abstain from voting on the relevant resolutions and shall not be counted in the quorum in the voting;
- (ii) our Company has established internal control mechanisms to identify connected transactions. Upon the Listing, if our Company enters into connected transactions with our Controlling Shareholders or any of their associates, our Company will comply with the applicable Listing Rules;
- (iii) the management structure of our Group includes an audit committee, a remuneration committee and a nomination committee, the terms of reference of each of which will require them to be alert to prospective conflict of interest and to formulate their proposals accordingly;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (iv) where our Directors reasonably request the advice of independent professionals, such as financial advisers, the appointment of such independent professionals will be made at our Company's expenses; and
- (v) we have appointed China Industrial Securities as our compliance adviser to provide advice and guidance to us in respect of compliance with the applicable laws and regulations, as well as the Listing Rules, including various requirements relating to corporate governance.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest that may arise between our Group and our Controlling Shareholders, and to protect our minority Shareholders' interests after the Listing.

CONTINUING CONNECTED TRANSACTIONS

OVERVIEW

During the Track Record Period, our Group entered into transactions with persons who will, upon the Listing, become connected persons of our Group, namely Ningbo Investment and Shaoxing Jingming in the ordinary and usual course of business of our Group, which are expected to continue upon Listing and will constitute continuing connected transactions (as defined under Chapter 14A of the Listing Rules) of our Group upon Listing. Such continuing connected transactions are expected to be fully exempt from the reporting, announcement, annual review and independent Shareholders' approval requirements under the Listing Rules for the three years ending 31 December 2021.

RELATIONSHIP BETWEEN OUR GROUP AND THE CONNECTED PERSONS

Ningbo Investment is a company established in the PRC and wholly-owned by Mr. Jin (being our founder, our executive Director and one of our Controlling Shareholders) and hence is a connected person of our Company under Chapter 14A of the Listing Rules. As at the Latest Practicable Date, Ningbo Investment was principally engaged in the business of property leasing.

Shaoxing Jingming was established in the PRC with limited liability on 17 April 2004 and was wholly-owned by Ningbo Kwung's prior to the Reorganisation. Upon completion of the Reorganisation, Shaoxing Jingming ceased to be a member of our Group and is owned as to 98% and 2% by Ningbo Investment and Mr. Jin, respectively. Shaoxing Jingming is a connected person of our Company under Chapter 14A of the Listing Rules. As at the Latest Practicable Date, Shaoxing Jingming was principally engaged in the business of property leasing.

EXEMPT CONTINUING CONNECTED TRANSACTIONS – TENANCY AGREEMENTS

As confirmed by our Directors, Shaoxing Keyuan has entered into a tenancy agreement with Shaoxing Jingming on 9 September 2018. On 25 December 2018, Ningbo Kwung's has entered into a tenancy agreement with Ningbo Investment (collectively, the **"Tenancy Agreements"**). A summary of the terms and conditions of the Tenancy agreements is set out as below:

Date of Tenancy Agreement	Landlord	Tenant	Premises	Approximate gross floor area	Annual rent	Term	Use of property
9 September 2018	Shaoxing Jingming	Shaoxing Keyuan	No. 1437 Renming East Road, Shaoxing Eco-Industrial Park (紹興市生態產業園區人民東路1437號)	13,317 sq. m.	RMB1,402,979	10 September 2018 – 9 September 2021	Office and production facilities
25 December 2018	Ningbo Investment	Ningbo Kwung's	Xuejia Village, Gulin Town, Haishu District, Ningbo, Zhejiang Province, China (中國浙江省寧波市海曙區古林鎮薛家村)	4,746.47 sq. m.	RMB683,491.68	1 January 2019 – 31 December 2019	Warehouse and showroom

CONTINUING CONNECTED TRANSACTIONS

The terms of the Tenancy Agreements were negotiated on an arm's length basis with reference to the market rental of similar properties in nearby areas, which was confirmed by a valuation report as appraised by an independent valuer. The rent is payable by Shaoxing Keyuan and Ningbo Kwung's on an annual basis pursuant to the terms of the Tenancy Agreements.

Our Directors are of the view that the rent under the Tenancy Agreements are fair, reasonable and on normal commercial terms or better.

Implications under the Listing Rules

As disclosed above, Shaoxing Jingming and Ningbo Investment are connected persons of our Company for the purpose of the Listing Rules. The transactions contemplated under the Tenancy Agreements with Shaoxing Jingming and Ningbo Investment constitute continuing connected transactions for our Company pursuant to Chapter 14A of the Listing Rules.

Given that each of the applicable percentage ratios (other than profit ratio) for the transactions contemplated under the Tenancy Agreements by reference to Rule 14.07 of the Listing Rules is expected to be less than 5% and the annual consideration of each of the transaction is less than HK\$3 million, the transactions contemplated under the Tenancy Agreements with Ningbo Investment and Shaoxing Jingming fall within the *de minimis* threshold under Rule 14A.76 of the Listing Rules and will be exempted from the reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Our Directors consider that the continuing connected transactions above are (i) conducted on normal commercial terms or better to our Group; (ii) carried out in our Group's ordinary and usual course of business; and (iii) fair and reasonable, and in the interest of our Company and our Shareholders as a whole.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Capitalisation Issue and the Global Offering (assuming that the Over-allotment Option is not exercised and without taking into account any Shares which may be granted pursuant to the Share Option Scheme), the following persons will have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who will directly or indirectly, be interested in 10% or more of the number of any class of Shares carrying the rights to vote in all circumstances at general meetings of any other member of our Group:

Name of Shareholders	Capacity/Nature of Interest	Number of Shares as at the Latest Practicable Date	Approximate percentage of shareholding in our Company as at the Latest Practicable date (%)	Number of Shares immediately upon completion of Capitalisation Issue and the Global Offering	Approximate percentage of shareholding in our Company immediate upon the completion of Capitalisation Issue and the Global Offering (%)
King Harmony	Beneficial owner	50,526	72.18	216,540,000	54.14
Mr. Jin	Interest in controlled corporation	50,526	72.18	216,540,000 (Note 3)	54.14
Ms. Chen Jiangyan (陳薑諺女士)	Interest of spouse	50,526	72.18	216,540,000 (Note 4)	54.14
DMA (Note 1)	Beneficial owner	12,624	18.03	54,102,857	13.52
Mr. Ru	Interest in controlled corporation	12,624	18.03	54,102,857 (Note 5)	13.52
Unione (Note 2)	Beneficial owner	5,450	7.79	23,357,143	5.84

Notes:

1. DMA is a company incorporated in the BVI for holding the shareholding interests in our Company of Mr. Ru, Mr. Tian, Ms. Jin Lijuan, Ms. Jin Ying, Ms. Feng and Mr. Jiang.
2. Unione is a company incorporated in the BVI for holding the shareholding interests in our Company of Ms. Zhou, Mr. Hu, 20 employees of our Group, two Independent Third Parties and four former employees of our Group.

SUBSTANTIAL SHAREHOLDERS

3. King Harmony is wholly-owned by Mr. Jin. Under the SFO, Mr. Jin is deemed to be interested in the 216,540,000 Shares owned by King Harmony.
4. The 216,540,000 Shares are registered in the name of King Harmony, a company wholly-owned by Mr. Jin. Under the SFO, since Ms. Chen Jiangyan is the spouse of Mr. Jin, Ms. Chen Jiangyan is deemed to be interested in all the Shares where Mr. Jin is interested in under the SFO.
5. DMA is owned as to 80.70% by Mr. Ru. Under the SFO, Mr. Ru is deemed to be interested in the 54,102,857 Shares owned by DMA. Mr. Ru is the brother-in-law of Mr. Jin.

Save as disclosed in this section, our Directors are not aware of any person who will, immediately following the completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option), have an interest or a short position in our Shares or underlying Shares which would be required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of 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 the rights to vote in all circumstances at general meetings of any other member of our Group.

Save as disclosed in this section, the substantial shareholders are not related to one another.

Save as disclosed in this section, as at the Latest Practicable Date, we were not aware of any arrangement which may on a subsequent date result in a change of control of our Company.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

DIRECTORS

Our Board is responsible for and has the general powers for the management and conduct of our business. Our Board currently consists of seven Directors, including three executive Directors, one non-executive Director and three independent non-executive Directors. The following table sets forth brief information of our Directors:

Name	Age	Position	Date of joining our Group	Date of appointment as Director	Responsibilities in our Group	Relationship with other Director(s) and/or senior management
Mr. Jin Jianxin (金建新先生)	53	Executive Director, chairman and the chief executive officer	4 January 1999	15 November 2018	Executing board resolutions, formulating the business development plans and strategies and overseeing the daily business operation of our Group	Uncle of Mr. Tian and brother-in-law of Mr. Ru
Mr. Ru Liming (茹黎明先生)	57	Executive Director	9 February 2004	15 November 2018	Formulating the business development plans and strategies, organising board meetings and executing board resolutions of our Group	Brother-in-law of Mr. Jin
Mr. Tian Dong (田東先生)	40	Executive Director	17 November 2004	13 March 2019	Overseeing the financial and capital operation of our Group	Nephew of Mr. Jin
Mr. Shao Patrick (邵平先生)	53	Non-executive Director	29 June 2015	13 March 2019	Formulating the business development plans and strategies of our Group	N/A
Mr. Zhou Kai (周凱先生)	47	Independent non-executive Director	16 December 2019	16 December 2019	Providing independent advice to our Board	N/A
Mr. Yang Herong (楊和榮先生)	56	Independent non-executive Director	16 December 2019	16 December 2019	Providing independent advice to our Board	N/A

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Name	Age	Position	Date of joining our Group	Date of appointment as Director	Responsibilities in our Group	Relationship with other Director(s) and/or senior management
Mr. Lai Chun Yu (黎振宇先生)	43	Independent non-executive Director	16 December 2019	16 December 2019	Providing independent advice to our Board	N/A

DIRECTORS

Executive Directors

Mr. JIN Jianxin (金建新先生), aged 53, is our executive Director, chairman and the chief executive officer. He is our founder and joined our Group in January 1999. He was appointed as a Director of our Company on 15 November 2018 and was redesignated as an executive Director on 8 May 2019. He is responsible for executing board resolutions, formulating business development plans and strategies and overseeing the daily business operation of our Group. He is the uncle of Mr. Tian and the brother-in-law of Mr. Ru.

Mr. Jin has over 19 years of experience in the manufacturing, marketing and selling of candle products. He has been the chairman of the board of Ningbo Kwung's since its establishment and is primarily responsible for the overall management of Ningbo Kwung's. Since 2016, he has been appointed as the vice chairman of China Daily-use Chemical Industry Association (Candle Division) (中國日用化工協會蠟燭分會).

Mr. Jin graduated from Beijing International Studies University (北京第二外國語學院) with a degree of bachelor of economics in July 1989. He was awarded with the qualification of Senior Economist by the Zhejiang Province Human Resources and Social Security Department (浙江省人力資源和社會保障廳) in February 2011. In January 2014, he was named as Culture New Zhejiang Entrepreneur (文化新浙商) by the Selection Committee of the Culture New Zhejiang Entrepreneur (文化新浙商評選組委會).

Mr. Jin was a director or supervisor of the following companies during the time when they were dissolved. As far as he was aware, the dissolution of the companies has not resulted in any liability or obligation imposed against him. The relevant details are as follows:

Name	Place of incorporation	Nature of business	Date of dissolution	Means of dissolution	Reasons for dissolution
Ningbo Shunyuan Kitchen Technology Company Limited (寧波舜元廚房科技有限公司)	PRC	Selling of kitchen appliances	26 November 2018	Deregistration	Dormant
Ningbo Shunyuan Food Company Limited (寧波舜元食品有限公司)	PRC	Selling of food products	26 November 2018	Deregistration	Cessation of business

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Name	Place of incorporation	Nature of business	Date of dissolution	Means of dissolution	Reasons for dissolution
Ningbo Yinzhou Xuanya Trading Company Limited (寧波市鄞州暄亞商貿有限公司)	PRC	Selling of food and electronic products	8 October 2018	Deregistration	Cessation of business
Ningbo Dalongyong Electronic Commerce Company Limited (寧波大龍甬商電子商務有限公司)	PRC	Online electronic trading and software development	12 March 2018	Deregistration	Dormant
Kwung's Wisdom Co., Limited	Hong Kong	Investment holding	12 January 2018	Deregistration	Dormant
Hezhi Gongchuang (Ningbo) Cultural Development Co., Ltd. (合智共創(寧波)文化發展有限公司)	PRC	Culture related activities	24 November 2015	Deregistration	Dormant
Ningbo Yima International Trading Company Limited (寧波宜瑪國際貿易有限公司)	PRC	Import and export trade	23 September 2015	Deregistration	Cessation of business
Ningbo Xuejia Property Company Limited (寧波薛家置業有限公司)	PRC	Development, operation and management of properties	3 August 2015	Deregistration	Dormant

Mr. RU Liming (茹黎明先生), aged 57, is our executive Director. He was appointed as a Director of our Company on 15 November 2018 and was redesignated as an executive Director on 8 May 2019. He is responsible for formulating the business development plans and strategies, organising board meetings and executing board resolutions. He is the brother-in-law of Mr. Jin.

Mr. Ru has solid experience in the manufacturing and selling of candle products. Before joining our Group, he was a deputy factory director of Shaoxing Kwung's Candles & Giftware Co., Ltd. (紹興曠世蠟業禮品有限公司) from June 2002 to February 2004 and was responsible for supervising and coordinating the candle manufacturing and quality control process. In February 2004, he joined our Group as a deputy general manager of Ningbo Kwung's. He was appointed as a director of Ningbo Kwung's in June 2015 and was responsible for overseeing the daily operation and assisting the chairman of the board to formulate the business development strategies of Ningbo Kwung's.

Mr. Ru graduated from Zhejiang University of Technology (浙江工業大學) with a diploma of mechanical engineering (機制工藝與設備專業) in October 1996.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Ru was a director of the following companies during the time when they were dissolved. As far as he was aware, the dissolution of the companies have not resulted in any liability or obligation imposed against him. The relevant details are as follows:

Name	Place of incorporation	Nature of business	Date of dissolution	Means of dissolution	Reasons for dissolution
Henan Kwung's	PRC	Designing, manufacturing and processing of wax products	22 August 2018	Deregistration	Dormant
Ningbo Bokuang Investment Consulting Co., Ltd. (寧波博曠投資諮詢有限公司)	PRC	Provision of investment consultancy services	3 August 2016	Deregistration	Dormant

Mr. TIAN Dong (田東先生), aged 40, is our executive Director. He was appointed as a Director of our Company on 13 March 2019 and was redesignated as an executive Director on 8 May 2019. He is responsible for overseeing the financial and capital operation of our Group. He is the nephew of Mr. Jin.

Mr. Tian has been working in our Group for more than 10 years. He joined our Group in 2004 as an office administrator of the performance appraisal office of Ningbo Kwung's and was promoted to supervisor of the information system department of Ningbo Kwung's in November 2008. Since November 2011, he has been working as the secretary of the board of Ningbo Kwung's and has been responsible for the corporate governance, organisation of the directors' and shareholders' meetings of Ningbo Kwung's.

Mr. Tian graduated from Zhejiang University of Science and Technology (浙江科技學院) with a degree of computer science and technology (計算機科學與技術) in June 2002. He also obtained a master degree of science in distributed systems and networks from University of Kent in November 2004. Mr. Tian was a director or supervisor of the following companies during the time when they were dissolved. As far as he was aware, the dissolution of the companies has not resulted in any liability or obligation imposed against him. The relevant details are as follows:

Name	Place of incorporation	Nature of business	Date of dissolution	Means of dissolution	Reasons for dissolution
Ningbo Chunlin Elderly Care Service Management Co., Ltd. (寧波椿林養老服務管理有限公司)	PRC	Elderly care service management	3 August 2016	Deregistration	Dormant

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Name	Place of incorporation	Nature of business	Date of dissolution	Means of dissolution	Reasons for dissolution
Ningbo Boyuan Investment Consultancy Company Limited (寧波博源投資諮詢有限公司)	PRC	Investment holding	13 October 2014	Deregistration	Cessation of business
Ningbo Weiliang Yuansu Daily Necessities Company Limited (寧波微量元素生活用品有限公司)	PRC	Wholesale and retail of daily commodities	14 August 2014	Deregistration	Cessation of business
Ningbo Kreativ Gift Co., Ltd.	BVI	Investment holding	1 May 2013	Struck off	Cessation of business
Yiwu Suda Import and Export Trade Company Limited (義烏速達進出口有限公司)	PRC	Import and export trade	28 March 2011	Deregistration	Dormant

Non-executive Director

Mr. SHAO Patrick (邵平先生), aged 53, is our non-executive Director. Mr. Shao joined our Group as a director of Ningbo Kwung's in June 2015 and was appointed as a Director of our Company on 13 March 2019 and was redesignated as a non-executive Director on 8 May 2019. He is primarily responsible for formulating the business development plans and strategies of our Group.

Mr. Shao has extensive experience in business strategies formulation, business development and operation. From June 2005 to July 2015, he was the vice general manager of Guangzhou Shi Xinli Metal Limited (廣州市新力金屬有限公司), a brake pad friction materials manufacturing company and was primarily responsible for the development of new products and formulation of business strategies of the company. Currently, he is the vice general manager and director of human resources department of Zhangjiagang Xinli Metal Limited (張家港新力金屬有限公司), a PRC company engaging in the manufacturing of brake pad friction materials. He is responsible for formulating the business strategies and overseeing the daily operation of the company.

Mr. Shao graduated from Peking University (北京大學) with a degree of bachelor of Chinese Literature in July 1989.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Independent non-executive Directors

Mr. ZHOU Kai (周凱先生), aged 47, is our independent non-executive Director. He was appointed as our independent non-executive Director on 16 December 2019. He is responsible for providing independent advice to our Board.

Mr. Zhou has more than 10 years of experience in the area of financial development and regulations. The following table sets forth the working experience of Mr. Zhou:

Period	Name of entity	Principal business activities	Position held	Responsibilities
May 2018 – Present	Ningbo Zhenhai Rural Commercial Bank Limited (寧波市鎮海農村商業銀行股份有限公司)	Bank	Independent non-executive director	Responsible for the corporate governance of the bank
April 2018 – Present	Zhejiang Jinzong Law Firm (浙江金眾律師事務所)	Law firm	Lawyer	Providing legal advices to clients in the area of corporate governance and financial activities
November 2012 – July 2017	The Financial Affairs Office of Ningbo Municipal Government (寧波市人民政府金融工作辦公室)	Government authority	Deputy director	Formulating and organising the implementation of the development plans of the local capital market; supervising the financial activities in the district
December 2008 – November 2012	The Financial Affairs Office of Yinzhou, District Government, Ningbo (寧波市鄞州區人民政府金融工作辦公室)	Government authority	Director	Formulating and organising the implementation of the development plans of the local financial market; supervising the financial activities in the district

Mr. Zhou graduated from Nanjing University (南京大學) with a degree of bachelor of political science in the school of political science and public administration in July 1994. He also obtained a master degree of public administration from The Australian National University in July 2004. Mr. Zhou was admitted as a lawyer in the PRC in June 2000.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. YANG Herong (楊和榮先生), aged 56, is our independent non-executive Director. He was appointed as our independent non-executive Director on 16 December 2019. He is responsible for providing independent advice to our Board.

Mr. Yang has more than 20 years of experience in the area of finance, investment and management. The following table sets forth the working experience of Mr. Yang:

Period	Name of entity	Principal business activities	Position held	Responsibilities
November 2007 – Present	Chisage Holding Group Co., Ltd (中哲控股集團有限公司)	Investment	Chairman	Formulating business strategies and overseeing the operation of the company
March 2007 – Present	Ningbo Chisage Mushang Holding Limited (寧波中哲慕尚控股有限公司)	Retail and brand management	Chairman	Overseeing the operation of the company
May 2005 – October 2007	Ningbo Zhonghui Investment Co., Ltd. (寧波中匯投資有限公司)	Property development and investment	Chairman	Overseeing the operation of the company
December 2001 – April 2005	Ningbo Hehe Import & Export Co., Ltd. (寧波合和進出口有限公司)	Import and export trade	Chairman	Overseeing the operation of the company

Mr. Yang graduated from Huainan Mining Institute (淮南礦業學院) (presently known as Anhui University of Science & Technology) with a degree of mine construction (礦井建設專業) in December 1982. He also obtained a master degree of business administration from Nanyang Technological University in May 2010.

Since August 2018, Mr. Yang has become a non-executive director of Mulsanne Group Holdings Limited (stock code: 1817), a PRC fashion menswear company listed on the Main Board on 27 May 2019, and is responsible for providing strategic advice on the business development, operations and management of the listed group.

Mr. Yang was a director of the following companies during the time when they were dissolved. As far as he is aware, the dissolution of the companies have not resulted in any liability or obligation imposed against him. The relevant details are as follows:

Name	Place of incorporation	Nature of business	Date of dissolution	Means of dissolution	Reasons of dissolution
Ningbo Zhongzhe Houshan Culture Communication Co., Ltd. (寧波中哲後山文化傳播有限公司)	PRC	Culture related activities	18 July 2018	Deregistration	Dormant

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Name	Place of incorporation	Nature of business	Date of dissolution	Means of dissolution	Reasons of dissolution
GXG International Investment Co., Limited	Hong Kong	Investment holding	23 June 2017	Deregistration	Dormant
Ningbo Wanhe Garment Co., Ltd. (寧波丸和製衣有限公司)	PRC	Manufacturing of garments	21 June 2011	Deregistration	Cessation of business

Mr. LAI Chun Yu (黎振宇先生), aged 43, is our independent non-executive Director. He was appointed as our independent non-executive Director on 16 December 2019. He is responsible for providing independent advice to our Board.

Mr. Lai has more than 17 years of experience in the area of accounting, auditing and financial management. From July 2000 to December 2003, he worked as an accountant in Ernst & Young. From August 2005 to June 2007, he worked as a financial controller of Qin Jia Yuan Media Services Company Limited (presently known as SMI Culture & Travel Group Holdings Limited), a media services provider listed on the Stock Exchange (stock code: 2366), and was primarily responsible for assisting in the budget preparation, treasury, internal control and investor relation matter of the company. From May 2009 to June 2017, he worked as a company secretary of Amber Energy Limited (presently known as Puxing Energy Limited), a clean energy provider in the PRC listed on the Stock Exchange (stock code: 90), and was responsible for assisting in the listing and corporate governance matters of the company. Since February 2018, he has become the director of MCGI Consultancy Limited, a business consultancy firm in Hong Kong, and has been responsible for the strategic planning, business development and operation of the company.

Mr. Lai obtained a degree of bachelor of business (accountancy) from Queensland University of Technology in August 1999. Mr. Lai has become a Certified Practising Accountant of CPA Australia since November 2002. He was admitted as a certified public accountant of HKICPA in January 2004 and has become a fellow member of HKICPA since 2010.

Mr. Lai has held directorship in the following listed companies in Hong Kong in the last three years:

Period	Name of entity	Principal business activities	Position held	Responsibilities
October 2019 – Present	Tailam Tech Construction Holdings Limited (stock code: 6193)	Manufacture and sale of concrete piles and commercial concrete in the PRC	Independent non-executive director	Providing independent advice to the board of the Company
October 2014 – August 2018	Anxian Yuan China Holdings Limited (stock code: 922)	Provision of funeral service in the PRC	Independent non-executive director	Providing independent advice to the board of the Company

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Period	Name of entity	Principal business activities	Position held	Responsibilities
April 2013 – June 2016	Amber Energy Limited (stock code: 90)	Development, operation and management of power plants fueled by natural gas	Executive director	Responsible for strategic planning, corporate management, corporate finance and investor relationship function of the group

Disclosure required under Rules 13.51(2) of the Listing Rules

Save as disclosed in this section, each of our Directors confirms with respect to himself that: (i) he has not held any directorship in the three years prior to the Latest Practicable Date in other public companies, the securities of which are listed on any securities market in Hong Kong or overseas; (ii) he does not hold other positions in our Company or other members of our Group; (iii) he is independent from and he does not have any relationship with other Directors, senior management, substantial shareholders or Controlling Shareholders of our Company; (iv) he does not have any interest in our Shares within the meaning of Part XV of the SFO, save as disclosed in “Appendix IV – D. Disclosure of Interests – 1. Disclosure of interests of our Directors”; (v) he does not have any interest in any business which competes or may compete, directly or indirectly, with us, which is disclosable under the Listing Rules; and (vi) to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no additional information relating to our Directors that is required to be disclosed pursuant to Rule 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.

SENIOR MANAGEMENT

Our member of senior management is responsible for the day-to-day management of our business. The follow table sets out certain information concerning our member of senior management:

Name	Age	Position	Date of joining our Group	Responsibilities in our Group	Relationship with other Director(s) and/or senior management
Mr. Lau Chung Wai (劉仲緯)	37	Chief financial officer and company secretary	1 March 2019	Overseeing the investment, compliance and financial affairs of our Group	N/A

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Lau Chung Wai (劉仲緯先生), aged 37, was appointed as our chief financial officer on 1 March 2019 and is responsible for overseeing the investment, compliance and financial affairs of our Group.

Mr. Lau has over 14 years of experience in accounting and finance. The following table sets forth the working experience of Mr. Lau:

Period	Name of entity	Principal business activities	Positions held	Responsibilities
August 2017 – present	IAG Holdings Limited (stock code: 8513)	Manufacture and sale of injection moulded plastic parts for disposable medical devices and the provision of tooling services	Company secretary	Responsible for the company secretarial matters of the group
August 2015 – March 2019	Da Sen Holdings Group Limited (stock code: 1580)	Manufacture and sale of plywood products and biomass wood pellets	Chief financial officer and company secretary	Overseeing the investment, legal and financial affairs of the group
May 2013 – July 2015	Passion Art International Holdings Limited	Manufacture and sale of furniture and home decoration products	Group financial controller	Responsible for the investment, legal and financial affairs of the group
September 2011 – April 2013	Starcom Worldwide, a subsidiary of Publicis Groupe SA, a company listed on the Euronext Paris (stock code: PUB.PA)	Media agency	Finance manager	Responsible for the financial affairs of the group
September 2004 – September 2011	Ernst & Young	Assurance	Manager of assurance department (last position)	Providing assurance and accounting services to clients

Mr. Lau has held directorship in the following listed company in Hong Kong in the last three years:

Period	Name of entity	Principal business activities	Positions held	Responsibilities
June 2019 – present	Fufeng Group Limited (stock code: 546)	Corn-based biochemical products manufacturing	Independent non-executive director	Providing independent judgement to the board
November 2018 – present	Metropolis Capital Holdings Limited (stock code: 8621)	Vehicle finance leasing	Independent non-executive director	Providing independent judgment to the board

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Lau graduated from the Hong Kong University of Science and Technology with a bachelor of business administration in accounting in November 2004. He was admitted as a certified public accountant of HKICPA in January 2008 and has become a fellow member of HKICPA since May 2015.

Save as disclosed in this section, Mr. Lau has not held any directorship in any other public companies, the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years.

COMPANY SECRETARY

Mr. Lau was appointed as our company secretary on 13 March 2019. For the biography of Mr. Lau, see “Directors, Senior Management and Staff – Senior Management” in this section above.

BOARD COMMITTEES

Audit Committee

We established our Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3.3 of the Code on Corporate Governance Practices pursuant to a resolution of our Directors passed on 16 December 2019. The primary duties of our Audit Committee are, among other things, to make recommendations to our Board on the appointment, reappointment and removal of external auditors, review the financial statements and provide advice in respect of financial reporting, oversee our financial reporting process, internal control, risk management systems and audit process, and perform other duties and responsibilities assigned by our Board.

At present, our Audit Committee comprises Mr. Shao, being our non-executive Director and Mr. Lai and Mr. Zhou, being our independent non-executive Directors. Mr. Lai is the chairman of our Audit Committee.

Remuneration Committee

We established our Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B1.2 of the Code on Corporate Governance Practices pursuant to a resolution of our Directors passed on 16 December 2019. The primary duties of our Remuneration Committee are to review and approve the management’s remuneration proposals, make recommendations to our Board on the remuneration package of our Directors and senior management and ensure none of our Directors determines his own remuneration.

At present, our Remuneration Committee comprises Mr. Jin, being our executive Director, and Mr. Zhou and Mr. Lai, being our independent non-executive Directors. Mr. Zhou is the chairman of our Remuneration Committee.

Nomination Committee

We established our Nomination Committee with written terms of reference in compliance with paragraph A5.2 of the Code on Corporate Governance Practices pursuant to a resolution of our Directors passed on 16 December 2019. The primary duties of our Nomination Committee are to review the structure, size, composition of our Board, and our board diversity policy (the “**Board**

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Diversity Policy”) to assess the independence of our independent non-executive Directors, and select or make recommendations on the selection of individuals nominated for directorships.

At present, our Nomination Committee comprises Mr. Jin, being our executive Director, and Mr. Yang and Mr. Lai, being our independent non-executive Directors. Mr. Yang is the chairman of our Nomination Committee.

BOARD DIVERSITY

We have adopted the Board Diversity Policy which sets out the approach to achieve and maintain an appropriate balance of diversity perspectives of our Board that are relevant to our Group’s development and performance quality. Pursuant to the Board Diversity Policy, we will select candidates for Directors based on a range of diversity perspectives, including but not limited to professional experience and qualifications, gender, age, cultural and education background, knowledge, ethnicity, skills, industry experience and length of service. The ultimate decision will be based on merit and the contribution that selected candidates will bring to our Board.

Our Board has a balanced mix of experiences and background, including but not limited to experiences in candle manufacturing, finance, investment, business management and accounting. Our Board members obtained degrees in various major including economics, computer science and technology, Chinese literature, political science and administration, mine construction and accounting. Moreover, our Board members are comprised of a wide range of ages, ranging from 40 years old to 57 years old.

While we recognise that the gender diversity at our Board level can be improved given its current composition of all male Directors and proposed independent non-executive Directors, we will continue to increase the proportion of female members over time when selecting and making recommendations on suitable candidates for our Board appointments and that our Board shall ensure that appropriate balance of gender diversity is achieved with reference to stakeholders’ expectation and international and local recommended best practices, with the ultimate goal of bringing our Board to gender parity.

Our Nomination Committee is delegated by our Board to be responsible for compliance with relevant codes governing board diversity under the Corporate Governance Code. Subsequent to the Listing, our Nomination Committee will review the Board Diversity Policy from time to time to ensure its continued effectiveness and we will disclose in our corporate governance report a summary of the Board Diversity Policy and related objectives we have set and the progress on achieving the objectives on an annual basis.

CORPORATE GOVERNANCE CODE

Pursuant to code provision A.2.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. However, we do not have a separate chairman and chief executive officer and Mr. Jin currently performs these two roles. Throughout our business history, Mr. Jin, being a founder of our Group and a Controlling Shareholder, has held the key leadership position of our Group and has been deeply involved in the formulation of corporate strategies and management of the business and operations of our Group since its establishment. Taking into account the consistent leadership within our Group, our Board believes that it is in the best interests of our Group and our Shareholders as a whole to have Mr. Jin

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taking up both roles for effective and efficient overall strategic planning and continuation of the implementation of such plans for our Group. Our Board considers that the balance of power and authority under the present arrangement will not be impaired and this structure will enable our Company to make and implement decisions promptly and effectively.

Save as disclosed in this section, our Company has complied with the code provisions of the Corporate Governance Code in Appendix 14 to the Listing Rules.

Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code each financial year and comply with the “comply or explain” principle in our corporate governance report which will be included in our annual report upon the Listing.

REMUNERATION POLICY

Our Directors and senior management receive compensation in the form of salaries, benefits in kind and discretionary bonuses relating to our performance. We also reimburse them for expenses which are necessary and reasonably incurred in relation to all business and affairs carried out by us from time to time or for providing services to us or executing their functions in relation to our business and operations. We regularly review and determine the remuneration and compensation package of our Directors and senior management, by reference to, among other things, market level of salaries paid by comparable companies, the respective responsibilities of our Directors and senior management and our performance.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

For FY2016, FY2017, FY2018 and 6M2019, the aggregate remuneration, including directors’ fees, basic salaries, allowances and retirement benefit contribution, paid or payable by us to our Directors was approximately RMB0.3 million, RMB0.4 million, RMB0.5 million and RMB0.2 million, respectively.

For FY2016, FY2017, FY2018 and 6M2019, the aggregate amount of contributions to retirement benefit schemes for our Directors was approximately nil, nil, nil and nil, respectively.

For FY2016, FY2017, FY2018 and 6M2019, the aggregate of bonus paid to or receivable by our Directors was approximately nil, nil, nil and nil, respectively.

For FY2016, FY2017, FY2018 and 6M2019, the aggregate remuneration, including basic salaries and allowances, discretionary bonus and retirement benefits scheme contributions, paid or payable to the five highest paid individuals (excluding our Directors) by our Group was approximately RMB1.0 million, RMB1.4 million, RMB1.1 million and RMB0.9 million, respectively.

Save as disclosed in this subsection, no other emoluments have been paid, or are payable by us to our Directors and the five highest paid individuals during the Track Record Period.

Under the arrangements currently in force, we estimate the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding discretionary bonus) for the year ending 31 December 2019 will be approximately RMB443,000. Following the Listing, our Remuneration Committee will make recommendations on the remuneration of our Directors taking into account the performance of our Directors and market standards and the remuneration will be subject to approval

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by our Shareholders. Accordingly, the historical remuneration to our Directors during the Track Record Period may not reflect the future levels of remuneration of our Directors.

During the Track Record Period, no remuneration was paid by us to, or received by, our Directors or the five highest paid individuals as an inducement to join or upon joining us or as compensation for loss of office. There was no arrangement under which any of our Directors waived or agreed to waive any remuneration during the Track Record Period.

For additional information on our Directors' remuneration during the Track Record Period as well as information on the highest paid individuals, see "Appendix I – Accountant's Report – note 35" for further details.

COMPLIANCE ADVISER

We have appointed China Industrial Securities as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, we shall consult and, if necessary, seek advice from our compliance adviser on a timely basis in the following circumstances:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be of a notifiable or connected transaction, is contemplated including but not limited to share issues and share repurchase;
- (iii) where we proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, developments or results of operations of our Group deviate from any forecast, estimate, or other information in this prospectus; and
- (iv) where the Stock Exchange makes an enquiry of us regarding unusual movements in the price or trading volume of the Shares.

The term of appointment of our compliance adviser shall commence on the Listing Date and end on the date of despatch of our annual report in respect of our financial results for the first full financial year commencing after the Listing and such appointment shall be subject to extension by mutual agreement.

SHARE CAPITAL

AUTHORISED AND ISSUED SHARE CAPITAL

The authorised and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid prior to and immediately upon completion of the Capitalisation Issue and the Global Offering:

Authorised share capital

	<i>HK\$</i>
10,000,000,000 Shares	10,000,000

Issued share capital

The issued share capital of our Company immediately upon completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised) will be as follows:

Issued and to be issued, fully-paid or credited as fully-paid:

	<i>HK\$</i>
70,000 Shares in issue as at the date of this prospectus	70
299,930,000 Shares in issue under the Capitalisation Issue	299,930
100,000,000 Shares to be issued pursuant to the Global Offering (excluding any Shares which may be issued under the Over-allotment Option)	100,000
<u>400,000,000</u>	<u>400,000</u>

Assuming the Over-allotment Option is exercised in full, the issued share capital of our Company immediately upon completion of the Global Offering and the Capitalisation Issue will be as follows:

Issued and to be issued, fully-paid or credited as fully-paid:

	<i>HK\$</i>
70,000 Shares in issue as at the date of this prospectus	70
299,930,000 Shares in issue under the Capitalisation Issue	299,930
115,000,000 Shares to be issued pursuant to the Global Offering (inclusive of all Shares which may be issued under the Over-allotment Option)	115,000
<u>415,000,000</u>	<u>415,000</u>

SHARE CAPITAL

ASSUMPTIONS

The above tables assume that the Global Offering has become unconditional and the issue of Shares pursuant thereto is made as described herein. It does not take into account any Shares which may be allotted and issued or repurchased by us under the general mandates granted to our Directors to issue or repurchase Shares as referred to in the paragraph headed “Share Capital – General Mandate to Issue Shares” or “Share Capital – General Mandate to Repurchase Shares” in this section below, as the case may be.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08(1)(a) of the Listing Rules, at the time of the Listing and at all times thereafter, our Company must maintain the minimum prescribed percentage of 25% of the issued share capital of our Company in the hands of the public (as defined in the Listing Rules).

RANKING

The Offer Shares will be ordinary shares in the share capital of our Company and will rank *pari passu* in all respects with all Shares currently in issue or to be issued as mentioned in this prospectus and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus other than entitlement under the Capitalisation Issue.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme, details of which are set out in the paragraph headed “Statutory and General Information – E. Share Option Scheme” in Appendix IV to this prospectus. As at the Latest Practicable Date, no option had been granted under the Share Option Scheme.

GENERAL MANDATE TO ISSUE SHARES

Conditional on the conditions as stated in the paragraph headed “Structure of the Global Offering – Conditions of the Global Offering” of this prospectus, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares and to make or grant offers, agreements or options which might require such Shares to be allotted and issued or dealt with subject to the requirement that the aggregate nominal value of our Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued (otherwise than pursuant to a rights issue, or scrip dividend scheme or similar arrangements, or a specific authority granted by our Shareholders) shall not exceed the aggregate of:

- (i) 20% of the total number of our Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering (not including Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme); and
- (ii) the total number of our Shares repurchased by our Company pursuant to the authority granted to our Directors referred to in the paragraph headed “General Mandate to Repurchase Shares” below in this section.

SHARE CAPITAL

This mandate does not cover Shares to be allotted, issued, or dealt with under a rights issue. This mandate will remain in effect until whichever is the earliest of:

- (i) the conclusion of our Company's next annual general meeting;
- (ii) the expiration of the period within which our Company's next annual general meeting is required to be held by the Articles or any other applicable laws of the Cayman Islands; and
- (iii) the passing of an ordinary resolution of the Shareholders in a general meeting revoking, varying or renewing such mandate.

For further details of this general mandate, see "A. Further Information about Our Company and Our Subsidiaries – 3. Written resolutions of our Shareholders passed on 16 December 2019" in Appendix IV to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Conditional on the conditions as stated in the paragraph headed "Structure of the Global Offering – Conditions of the Global Offering" in this prospectus, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase such number of Shares as will represent not more than 10% of the total number of Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange or on any other stock exchange on which the Shares may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, and such repurchases are made in accordance with all applicable laws, rules and regulations and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed "Statutory and General Information – A. Further Information about Our Company and Our Subsidiaries – 6. Repurchase by our Company of our own securities" in Appendix IV to this prospectus.

This mandate will remain in effect until whichever is the earliest of:

- (i) the conclusion of our Company's next annual general meeting;
- (ii) the expiration of the period within which our Company's next annual general meeting is required to be held by the Articles or any other applicable laws of the Cayman Islands; and
- (iii) the passing of an ordinary resolution of the Shareholders in a general meeting revoking, varying or renewing such mandate.

For further details of this share repurchase mandate, see the paragraphs headed "Statutory and General Information – A. Further Information about Our Company and Our Subsidiaries – 3. Written resolutions of our Shareholders passed on 16 December 2019" and "Statutory and General Information – A. Further Information about Our Company and Our Subsidiaries – 6. Repurchase by our Company of our own securities" in Appendix IV to this prospectus.

SHARE CAPITAL

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Pursuant to the Companies Law and the terms of our Memorandum and Articles, our Company may from time to time by ordinary resolution of Shareholders (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide our Shares into several classes; (iv) subdivide our Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may, subject to the provisions of the Companies Law, reduce its share capital or capital redemption reserve by our Shareholders passing special resolution. For details, see “Summary of the Constitution of Our Company and Cayman Islands Company Law – 2. Articles of Association – 2.1. Shares – Alteration of capital” in Appendix III to this prospectus.

Pursuant to the Companies Law and the terms of our Memorandum and Articles, all or any of the special rights attached to our Share or any class of our Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class. For details, see “Summary of the Constitution of the Company and Cayman Islands Company Law – 2. Articles of Association – 2.1. Shares – Variation of rights of existing shares or classes of shares” in Appendix III to this prospectus.

FINANCIAL INFORMATION

You should read this section in conjunction with our consolidated financial information, including the notes thereto, as set out in “Appendix I – Accountant’s Report” to this prospectus. The consolidated financial information has been prepared in accordance with HKFRSs.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include those discussed in “Risk Factors”.

OVERVIEW

Founded in 1999, we are a leading original design manufacturer of Home Decoration Products targeting overseas markets. Our Home Decoration Products, comprising candles, home fragrance and home accessories, are widely used by consumers for improvements of indoor environment and atmosphere. Candles and home fragrance, being our principal products, are popular products in ordinary people’s daily life. There has been long history about their uses in different cultures. Throughout our history of around 20 years, we endeavoured to incorporate our creativity and ideas into our products, and take pride in the worldwide distribution of our products across overseas markets. According to the F&S Report, in terms of revenue from the manufacturing and sales of candles and home fragrance we ranked second and fourth in the PRC in 2018.

For each of FY2016, FY2017, FY2018, 6M2018 and 6M2019, our total revenue was RMB399.5 million, RMB445.9 million, RMB444.7 million, RMB168.2 million and RMB216.3 million, respectively. For the same period, our net profit for the years were RMB45.5 million, RMB37.6 million, RMB77.1 million, RMB6.5 million and RMB7.6 million, respectively.

For FY2018, had the net gain on disposal of a subsidiary of RMB42.5 million resulted from Reorganisation, the Listing expenses of RMB5.2 million and their corresponding tax impacts been excluded, the adjusted net profit for FY2018 would have been RMB45.3 million. For 6M2019, had the Listing expenses of RMB7.5 million and its corresponding tax impacts been excluded, the adjusted net profit for 6M2019 would have been RMB14.0 million. For details of the Reorganisation, see “History, Development and Reorganisation – Step 5” and note 12 of the Accountant’s Report in Appendix I to this prospectus. For calculation of adjusted net profit, see “Results of operations – Non-HKFRS measures” in this section.

BASIS OF PRESENTATION

Our Company was incorporated as a limited liability company in the Cayman Islands on 13 November 2018. Our Company is an investment holding company and has not carried out any business since the date of its incorporation. In preparation for the Listing, our Group underwent the Reorganisation, pursuant to which our Company became the holding company of the subsidiaries now comprising our Group on 18 December 2018. For details, see “History, development and reorganization” in this prospectus.

FINANCIAL INFORMATION

The financial information has been prepared by our Directors based on accounting policies which conform with HKFRS issued by the HKICPA, on the basis of preparation as set out in note 2.1 of the Accountant's Report in Appendix I to this prospectus, and no adjustments have been made in preparing the financial information.

The preparation of our financial information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires the Directors to exercise its judgement in the process of applying our Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to our financial information are disclosed in note 4 of the Accountant's Report in Appendix I.

Inter-company transactions, balances and unrealised gains/losses on transactions between Group companies are eliminated on consolidation.

EFFECTS OF THE NEW AND AMENDMENTS TO HKFRS TO OUR GROUP

Our historical financial information has been prepared based on our underlying financial statements, in which HKFRS 9 "Financial Instruments" ("**HKFRS 9**"), and HKFRS 15 "Revenue from Contracts with Customers" ("**HKFRS 15**") and HKFRS 16 "Leases" ("**HKFRS 16**") in lieu of HKAS 39 "Financial Instruments: Recognition and Measurement" ("**HKAS 39**"), HKAS 18 "Revenue" ("**HKAS 18**") and HKAS 17 "Leases" ("**HKAS 17**") have been adopted and applied consistently since the beginning of, and throughout, the Track Record Period in the preparation of our financial statements, such that our historical consolidated financial information prepared under HKFRS 9, HKFRS 15 and HKFRS 16 is comparable on a period-to-period basis. Nonetheless, we have carried out an internal assessment with our best efforts based on the principles set out in HKAS 39, HKAS 18 and HKAS 17, and based on such internal assessment, we consider that the impact on our financial position and performance during the Track Record Period would be insignificant if HKAS 39, HKAS 18 and HKAS 17, instead of HKFRS 9, HKFRS 15 and HKFRS 16 had been applied.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations and our financial condition have been and will continue to be principally affected by a number of factors, many of which may not be within our control, including those set out below.

Design and development of new products to meet consumer preferences and tastes

Our success is largely attributable to our ability to design and develop new products. If we fail to design and develop products that meet our consumers' expectation, our results of operation 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 the global market for our Home Decoration Products. The level of consumer demand is dependent on the global economic environment, household disposable income and consumption preferences of our target customers. We need to keep up with changes in consumer preferences and tastes in order to maintain and increase our market share and profitability. Our ability to assess and react to changes in consumer demand, preferences and tastes will directly affect our business and results of operations.

FINANCIAL INFORMATION

Product mix

Our Home Decoration Products, comprising candles, home fragrance and home accessories, are widely used by end-consumers for improvements of indoor environment and atmosphere. We believe our diverse product offerings enable us to capitalise on changing market trends and consumer preferences. Gross profit margin of different products varies according to factors such as raw material costs, production costs, subcontracting fee, product pricing and seasonal demand. As a result, our overall gross profit margin will vary from period to period depending on product mix across segments.

Our ability to expand our product offerings and provide a diversity of our product mix will have a significant impact on our results of operations and our competitiveness in our industry in our target geographical markets. We intend to continue to optimise our product portfolio in response to the changes in market conditions and consumers' preferences to maximise our sales and profits.

Price fluctuation of raw materials and consumables used in our production

Our major raw materials are wax, containers and aroma essence. Our cost of raw materials and consumables represents a substantial portion of our total cost of sales. For FY2016, FY2017, FY2018, 6M2018 and 6M2019, cost of raw materials and consumables used accounted for 47.5%, 44.4%, 44.8%, 42.4% and 34.9% of our total purchase, respectively. The prices of most of our raw materials and consumables generally follow the price trends of, and vary with, market conditions. Suppliers of these raw materials may also be subject to factors beyond our control, including but not limited to market shortages, suppliers' business interruptions, and overall economic conditions, all of which may have an impact on their respective market prices from time to time. The following table sets out our average purchase prices of major raw materials and consumables during the Track Record Period:

	FY2016	FY2017	FY2018	6M2018	6M2019
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Wax	5,809.3/tonne	6,494.9/tonne	6,076.0/tonne	5,979.4/tonne	5,857.2/tonne
Containers	1.1/piece	1.1/piece	1.2/piece	1.2/piece	1.0/piece
Aroma essence	107.6/kg	109.5/kg	100.0/kg	106.0/kg	109.7/kg

FINANCIAL INFORMATION

For illustrative purposes only, a sensitivity analysis of our net profit with reference to the price fluctuation of our major raw materials and consumables during the Track Record Period is set out as follows. Hypothetical fluctuation in the purchase prices of raw materials and consumables are assumed to be 5%, 10% and 20% with reference to historical fluctuations. The following table demonstrates how the hypothetical effects of increase or decrease in the prices of our major raw materials and consumables affect our net profit, assuming we are not able to pass on such changes to our customers while all other factors remain unchanged:

	Hypothetical increase/ decrease of 5% in price of wax RMB'000	Hypothetical increase/ decrease of 10% in price of wax RMB'000	Hypothetical increase/ decrease of 20% in price of wax RMB'000
Decrease/increase in our profit before tax:			
FY2016	2,325	4,651	9,301
FY2017	2,273	4,545	9,090
FY2018	2,201	4,403	8,805
6M2018	1,016	2,031	4,062
6M2019	953	1,905	3,809

	Hypothetical increase/ decrease of 5% in price of containers RMB'000	Hypothetical increase/ decrease of 10% in price of containers RMB'000	Hypothetical increase/ decrease of 20% in price of containers RMB'000
Decrease/increase in our profit before tax:			
FY2016	1,806	3,612	7,223
FY2017	2,189	4,378	8,756
FY2018	2,146	4,293	8,586
6M2018	746	1,491	2,983
6M2019	1,106	2,212	4,424

FINANCIAL INFORMATION

	Hypothetical increase/ decrease of 5% in price of aroma essence RMB'000	Hypothetical increase/ decrease of 10% in price of aroma essence RMB'000	Hypothetical increase/ decrease of 20% in price of aroma essence RMB'000
Decrease/increase in our profit before tax:			
FY2016	524	1,047	2,095
FY2017	554	1,107	2,215
FY2018	489	978	1,956
6M2018	230	460	920
6M2019	338	677	1,354

For illustrative purpose of breakeven analysis only, for FY2016, FY2017, FY2018, 6M2018 and 6M2019, if price of wax had increased by 113.7%, 95.7%, 201.7%, 35.6% and 49.6%, respectively, our profit before tax for the same periods would have been nil, assuming all other variables remain constant.

Fluctuations in foreign exchange rates

As our sales during the Track Record Period are primarily settled in US\$ whereas our purchases and operating costs of our production plant and offices during the Track Record Period were primarily settled in RMB, we are exposed to foreign exchange risk. During the Track Record Period, our Group had net foreign exchange gains/(losses) of RMB6.7 million, RMB(7.7) million, RMB4.8 million, RMB0.6 million and RMB1.6 million, respectively. In addition, we are exposed to risks associated with currency conversion and the exchange rate system in the PRC.

Our profit margins will be negatively affected to the extent that we are unable to increase the selling prices of our Home Decoration Products to our overseas customers to account for any appreciation of RMB against US\$. Further, any future significant fluctuations in the exchange rate will result in increases or decreases in our reported costs and earnings, and, accordingly, our business, financial conditions, operating results and prospects.

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES AND JUDGEMENT

We have identified certain accounting policies that are significant to the preparation of our Group's financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgements relating to accounting items. In each case, the determination of these items requires management judgements based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider: (i) our selection of critical accounting policies; (ii) the judgements and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. We set forth below those accounting policies that we believe are of critical importance to us or involve the most significant estimates and judgements used in the preparation of our Group's financial statements. Our significant accounting policies, estimates and judgements, which are important for an understanding of our financial condition and results of operations, are set forth in details in note 2 and note 4 to the Accountant's Report in Appendix I to this prospectus.

FINANCIAL INFORMATION

RESULTS OF OPERATIONS

The following table summarises the consolidated statements of comprehensive income from the financial statements for the Track Record Period, details of which are set out in the Accountant's Report in Appendix I to this prospectus.

	FY2016		FY2017		FY2018		6M2018		6M2019	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue	Amount	Percentage of total revenue	Amount	Percentage of total revenue	Amount	Percentage of total revenue
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Revenue	399,473	100.0	445,860	100.0	444,704	100.0	168,216	100.0	216,256	100.0
Cost of sales	(314,278)	(78.7)	(349,339)	(78.4)	(337,675)	(75.9)	(134,568)	(80.0)	(162,667)	(75.2)
Gross profit	85,195	21.3	96,521	21.6	107,029	24.1	33,648	20.0	53,589	24.8
Administrative expenses	(38,532)	(9.6)	(41,227)	(9.2)	(47,766)	(10.7)	(18,958)	(11.3)	(25,185)	(11.6)
Selling and marketing expenses	(6,202)	(1.6)	(8,444)	(1.9)	(6,910)	(1.6)	(2,861)	(1.7)	(2,966)	(1.4)
Net impairment gains/(loss) on financial assets	1,321	0.3	642	0.1	(228)	(0.1)	58	0.0	(804)	(0.4)
Other income	4,602	1.2	3,752	0.8	5,871	1.3	2,558	1.5	883	0.4
Other gains/(losses) – net	6,698	1.7	(7,776)	(1.7)	30,885	6.9	(7,182)	(4.3)	(15,725)	(7.3)
Operating profit	53,082	13.3	43,468	9.7	88,881	20.0	7,263	4.3	9,792	4.5
Finance income	60	0.0	59	0.0	88	0.0	26	0.0	32	0.0
Finance costs	(281)	(0.1)	(36)	0.0	(161)	0.0	(53)	0.0	(370)	(0.2)
Finance (costs)/income – net	(221)	(0.1)	23	0.0	(73)	0.0	(27)	0.0	(338)	(0.2)
Profit before income tax	52,861	13.2	43,491	9.8	88,808	20.0	7,236	4.3	9,454	4.4
Income tax expense	(7,329)	(1.8)	(5,845)	(1.3)	(11,757)	(2.6)	(691)	(0.4)	(1,848)	(0.9)
Profit for the year	45,532	11.4	37,646	8.4	77,051	17.3	6,545	3.9	7,606	3.5

Non-HKFRS measures

We recognised non-recurring items in FY2018 and 6M2019. To supplement our consolidated financial statements which are presented in accordance with HKFRS, we also presented the adjusted net profit before tax, adjusted net profit for the year and adjusted net profit margin as non-HKFRS measures.

FINANCIAL INFORMATION

We present these additional financial measures as these were used by our management to evaluate our financial performance by eliminating the impact of non-recurring items including Listing expenses and net gain on the disposal of our subsidiary, which are considered not indicative for evaluation of the actual performance of our business. The adjusted profit before tax, adjusted net profit and adjusted net profit margin are not measures of performance under HKFRS. We believe these non-HKFRS measures are a more accurate indication of our profitability and operating performance for FY2018 and 6M2019. However, these non-HKFRS measures should not be considered in isolation or construed as an alternative to net income or operating income, or as an indicator of our operating performance or other consolidated operations or cash flow data prepared in accordance with HKFRS. The use of non-HKFRS measures has material limitations as an analytical tool, as it does not include all items that impact our profit for the relevant year. Potential investors should be aware that these non-HKFRS measures presented in this prospectus may not be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation.

The table below sets forth the adjusted profit before tax, adjusted net profit and adjusted net profit margin in FY2018 and 6M2019:

	FY2018 <i>RMB'000</i>	6M2019 <i>RMB'000</i>
Adjusted profit before tax		
Profit before income tax	88,808	9,454
Adjusted for:		
(i) Listing expenses	5,178	7,539
(ii) net gain on disposal of a subsidiary ⁽¹⁾	(42,491)	–
	<u>51,495</u>	<u>16,993</u>
Adjusted profit before tax	<u>51,495</u>	<u>16,993</u>
Adjusted net profit		
Profit for the year	77,051	7,606
Adjusted for:		
(i) Listing expenses	5,178	7,539
(ii) net gain on disposal of a subsidiary ⁽¹⁾	(42,491)	–
(iii) corresponding tax impact ⁽²⁾	5,597	(1,131)
	<u>45,335</u>	<u>14,014</u>
Adjusted net profit	<u>45,335</u>	<u>14,014</u>
Adjusted net profit margin⁽³⁾	10.2%	6.5%

Notes:

- (1) Net gain on the disposal of a subsidiary of RMB42.5 million related to the sale of our then subsidiary, Shaoxing Jingming, pursuant to Reorganisation. For details of the Reorganisation, see “History, Development and Reorganisation – Step 5” and note 12 to the Accountant’s Report in Appendix I to this prospectus.
- (2) The corresponding tax impact is calculated by deducting Listing expenses and net gain on disposal of a subsidiary and applying the tax rate of 15%.
- (3) Adjusted net profit margin is derived from dividing adjusted net profit by revenue for FY2018 and 6M2019.

FINANCIAL INFORMATION

DESCRIPTION OF SELECTED ITEMS IN STATEMENTS OF COMPREHENSIVE INCOME

Revenue

Our revenue generated mainly from the sale of candles, home fragrance and home accessories. The following table provides a breakdown of our revenue by product segments during the Track Record Period:

Product	FY2016 Revenue		FY2017 Revenue		FY2018 Revenue		6M2018 Revenue		6M2019 Revenue	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Candles	290,827	72.8	326,117	73.1	311,038	70.0	114,475	68.1	139,888	64.7
Home fragrance	44,311	11.1	46,245	10.4	64,964	14.6	21,241	12.6	35,528	16.4
Home accessories	64,335	16.1	73,498	16.5	68,702	15.4	32,500	19.3	40,840	18.9
Total	399,473	100.0	445,860	100.0	444,704	100.0	168,216	100.0	216,256	100.0

As illustrated above, for FY2016, FY2017, FY2018, 6M2018 and 6M2019, our Group's revenue from candles accounted for 72.8%, 73.1%, 70.0%, 68.1% and 64.7% of our total revenue, respectively, while revenue from home fragrance accounted for 11.1%, 10.4%, 14.6%, 12.6% and 16.4% of our total revenue, respectively, and revenue from home accessories accounted for 16.1%, 16.5%, 15.4%, 19.3% and 18.9% of our total revenue, respectively. During the Track Record Period, candles remained as our major products sold to our customers. While our home fragrance product comprised the smallest share in terms of revenue for FY2016 and FY2017, it became the earning driver and outpaced both candles and home accessories in terms of growth rate. For home accessories, since there are a large variety of products which are consumer goods, including glassware, candle accessories and decoration, kitchenware, furniture and others, with relatively short life cycle as the demand for and consumers' preference over such products are susceptible to continuous changes, we need to refine the product mix and specifications according to the market trend. As such, our Directors believe that our revenue from this product segment is subject to more volatile fluctuations.

FINANCIAL INFORMATION

The following table sets forth the breakdown of our revenue of home fragrance by type:

	FY2016		FY2017		FY2018		6M2018		6M2019	
	Revenue		Revenue		Revenue		Revenue		Revenue	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Home fragrance in liquid form										
50ml or below	14,370	32.4	12,540	27.1	16,462	25.3	4,967	23.4	7,447	21.0
Above 50ml to 100ml	10,985	24.8	13,926	30.2	26,906	41.4	7,107	33.5	15,668	44.1
Above 100ml	7,770	17.6	9,770	21.1	8,813	13.6	3,085	14.5	7,582	21.3
Sub-total	33,125	74.8	36,236	78.4	52,181	80.3	15,159	71.4	30,697	86.4
Home fragrance in solid form	5,156	11.6	7,208	15.6	6,622	10.2	3,857	18.1	3,691	10.4
Giftsets and others	6,030	13.6	2,801	6.0	6,161	9.5	2,225	10.5	1,140	3.2
Total	<u>44,311</u>	<u>100.0</u>	<u>46,245</u>	<u>100.0</u>	<u>64,964</u>	<u>100.0</u>	<u>21,241</u>	<u>100.0</u>	<u>35,528</u>	<u>100.0</u>

The following table sets forth the breakdown of our revenue of home fragrance in liquid form by outlook design:

	FY2016		FY2017		FY2018		6M2018		6M2019	
	Revenue		Revenue		Revenue		Revenue		Revenue	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Glass containers with decoration	4,946	14.9	5,621	15.5	29,551	56.6	6,536	43.1	15,966	52.0
Transparent glass container without decoration	28,179	85.1	30,615	84.5	22,630	43.4	8,623	56.9	14,731	48.0
Total	<u>33,125</u>	<u>100.0</u>	<u>36,236</u>	<u>100.0</u>	<u>52,181</u>	<u>100.0</u>	<u>15,159</u>	<u>100.0</u>	<u>30,697</u>	<u>100.0</u>

FINANCIAL INFORMATION

The following table sets forth the breakdown of our revenue of home accessories by type:

	FY2016		FY2017		FY2018		6M2018		6M2019	
	Revenue		Revenue		Revenue		Revenue		Revenue	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Glassware	25,777	40.1	30,637	41.7	33,478	48.7	15,801	48.6	15,974	39.1
Non-glassware										
Candle accessories and decorations	28,379	44.1	32,726	44.5	28,472	41.4	13,507	41.6	20,825	51.0
Kitchenware	9,797	15.2	6,738	9.2	4,487	6.5	2,337	7.2	2,077	5.1
Furniture and others	382	0.6	3,397	4.6	2,265	3.4	855	2.6	1,964	4.8
Total	64,335	100.0	73,498	100.0	68,702	100.0	32,500	100.0	40,840	100.0

The following table sets forth the breakdown of our revenue by different business models for the periods indicated:

Business models	FY2016		FY2017		FY2018		6M2018		6M2019	
	Revenue		Revenue		Revenue		Revenue		Revenue	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
ODM sale	385,952	96.6	432,525	97.0	430,141	96.7	161,938	96.3	209,981	97.1
Branded sale	13,521	3.4	13,335	3.0	14,563	3.3	6,278	3.7	6,275	2.9
Total	399,473	100.0	445,860	100.0	444,704	100.0	168,216	100.0	216,256	100.0

As illustrated above, for FY2016, FY2017, FY2018, 6M2018 and 6M2019, our Group's revenue derived from ODM sale accounted for 96.6%, 97.0%, 96.7%, 96.3% and 97.1% of our total revenue, respectively, while revenue from branded sale accounted for 3.4%, 3.0%, 3.3%, 3.7% and 2.9% of our total revenue, respectively. Our revenue composition remained stable during the Track Record Period.

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The following table sets forth the breakdown of our revenue by production model for the periods indicated:

Product by production model	FY2016 Revenue		FY2017 Revenue		FY2018 Revenue		6M2018 Revenue		6M2019 Revenue	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Self-manufactured										
Candles	194,935	48.8	202,676	45.5	203,943	45.9	79,578	47.3	88,130	40.8
Outsourced										
Candles	95,892	24.0	123,441	27.7	107,095	24.1	34,897	20.7	51,758	23.9
Home fragrance	44,311	11.1	46,245	10.4	64,964	14.6	21,241	12.7	35,528	16.4
Home accessories	64,335	16.1	73,498	16.5	68,702	15.4	32,500	19.3	40,840	18.9
Sub-total	<u>204,538</u>	<u>51.2</u>	<u>243,184</u>	<u>54.5</u>	<u>240,761</u>	<u>54.1</u>	<u>88,638</u>	<u>52.7</u>	<u>128,126</u>	<u>59.2</u>
Total	<u>399,473</u>	<u>100.0</u>	<u>445,860</u>	<u>100.0</u>	<u>444,704</u>	<u>100.0</u>	<u>168,216</u>	<u>100.0</u>	<u>216,256</u>	<u>100.0</u>

As illustrated above, for FY2016, FY2017, FY2018, 6M2018 and 6M2019, our revenue derived from self-manufactured products accounted for 48.8%, 45.5%, 45.9%, 47.3% and 40.8%, respectively, of our total revenue, while revenue from products that were outsourced to contract manufacturers for production accounted for 51.2%, 54.5%, 54.1%, 52.7% and 59.2%, respectively, of our total revenue. Our revenue composition remained stable during the Track Record Period.

By geographical regions

During the Track Record Period, we market and sell a substantial proportion of our products to customers situated in Europe. Sales of our products to customers in European countries contributed for 72.5%, 74.1%, 76.3%, 75.0% and 77.0% of our total revenue, respectively. For FY2016, FY2017, FY2018, 6M2018 and 6M2019, our overseas sale accounted for 98.8%, 99.0%, 98.8%, 98.7% and 98.3% of our total revenue.

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The following table sets forth the breakdown of our revenue by geographical market based on customers' locations during the Track Record Period:

Geographical market	FY2016 Revenue		FY2017 Revenue		FY2018 Revenue		6M2018 Revenue		6M2019 Revenue	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Overseas										
France	85,610	21.4	92,479	20.7	107,203	24.1	41,229	24.5	52,112	24.1
United Kingdom	75,323	18.9	109,144	24.5	86,618	19.5	30,826	18.3	33,605	15.5
Netherlands	40,566	10.2	48,564	10.9	62,557	14.1	20,053	11.9	33,934	15.7
Germany	73,184	18.3	59,058	13.2	51,091	11.5	23,500	14.0	28,199	13.0
Taiwan	32,172	8.1	39,061	8.8	40,209	9.0	15,057	9.0	18,140	8.4
Canada	15,836	4.0	20,133	4.5	22,520	5.1	8,840	5.2	9,034	4.2
Hong Kong	39,705	9.9	32,351	7.3	18,629	4.2	8,362	5.0	10,435	4.8
Others (<i>Note</i>)	32,097	8.0	40,660	9.1	50,635	11.3	18,219	10.8	27,206	12.6
Sub-total	394,493	98.8	441,451	99.0	439,462	98.8	166,086	98.7	212,665	98.3
PRC	4,980	1.2	4,409	1.0	5,242	1.2	2,130	1.3	3,591	1.7
Total	399,473	100.0	445,860	100.0	444,704	100.0	168,216	100.0	216,256	100.0

Note: "Others" comprise Australia, Norway, Portugal, Spain, New Zealand and 18 other countries, and sales to each of such 18 countries accounted for less than 1% of our total revenue for the relevant year.

For FY2016, FY2017 and FY2018, our revenue from France, the Netherlands, Taiwan and Canada were generally in line with our overall growth in revenue. Our revenue from the United Kingdom decreased in FY2018 compared to FY2017 mainly because Customer A (which is located in the United Kingdom), in anticipation of the poor market sentiment caused by Brexit according to our understanding, reduced its order from us to relieve pressure on its inventory level resulting from its procurement during FY2017. Our revenue from Germany decreased throughout the Track Record Period mainly because of the decrease in orders by Customer B and two other customers in Germany as a result of the change of product mix they sold to their customers which negatively impacted their procurement decision on us.

For 6M2019, we recorded growth in our major geographical regions compared to 6M2018. The percentage of our revenue contributed from the United Kingdom decreased mainly because of the decrease in number of customers from the United Kingdom.

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By customer types

The following tables sets forth our revenue breakdown by customer type during the Track Record Period:

Customer type	FY2016		FY2017		FY2018		6M2018		6M2019	
	Revenue		Revenue		Revenue		Revenue		Revenue	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Retailers	166,113	41.6	198,501	44.5	181,639	40.8	64,519	38.4	79,438	36.7
Wholesalers	227,581	57.0	234,024	52.5	248,502	55.9	97,419	57.9	130,543	60.4
Distributors	92	0.0	641	0.1	60	0.0	47	0.0	139	0.1
End customers	5,687	1.4	12,694	2.9	14,503	3.3	6,231	3.7	6,136	2.8
Total	399,473	100.0	445,860	100.0	444,704	100.0	168,216	100.0	216,256	100.0

Cost of sales

Our cost of sales mainly represents subcontracting cost, raw materials and consumables used, employee benefit expenses, transportation expenses and utilities.

The following table sets forth, for the periods indicated, a breakdown of our cost sales by nature:

Cost of sales	FY2016		FY2017		FY2018		6M2018		6M2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Subcontracting cost	146,741	46.7	167,221	47.9	155,816	46.1	62,393	46.4	83,493	51.3
Raw materials and consumables used	129,003	41.0	140,383	40.2	142,723	42.3	56,132	41.7	60,894	37.4
Employee benefit expenses	20,305	6.5	20,243	5.8	19,797	5.9	7,485	5.6	8,200	5.1
Transportation expenses	10,909	3.5	14,160	4.1	11,640	3.4	5,079	3.8	5,988	3.7
Taxes and surcharges	3,618	1.1	4,343	1.2	4,216	1.2	1,686	1.2	1,478	0.9
Others	3,702	1.2	2,989	0.8	3,483	1.1	1,793	1.3	2,614	1.6
Total	314,278	100.0	349,339	100.0	337,675	100.0	134,568	100.0	162,667	100.0

Subcontracting cost is our main cost of sales, accounting for 46.7%, 47.9%, 46.1%, 46.4% and 51.3% of our total cost of sales for FY2016, FY2017, FY2018, 6M2018 and 6M2019, respectively. Subcontracting cost accounted for a higher percentage of cost of sales for 6M2019 due to stronger demand of our home fragrance during the Track Record Period.

Employee benefit expenses comprises of wages, salaries and bonuses, pension costs, housing funds, medical insurances and other social insurances and other employee benefits.

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The following table sets out the breakdown of our cost of sales by product segment during the Track Record Period:

Product	FY2016		FY2017		FY2018		6M2018		6M2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Candles	223,827	71.2	249,217	71.3	236,457	70.0	92,097	68.4	104,363	64.2
Home fragrance	36,662	11.7	38,313	11.0	46,525	13.8	16,048	11.9	26,130	16.0
Home accessories	53,789	17.1	61,809	17.7	54,693	16.2	26,423	19.7	32,174	19.8
Total	314,278	100.0	349,339	100.0	337,675	100.0	134,568	100.0	162,667	100.0

Gross profit and gross profit margin

The following table sets forth a breakdown of gross profit and gross profit margin by product segments for the periods indicated:

Product	FY2016		FY2017		FY2018		6M2018		6M2019	
	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
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Candles	67,000	23.0	76,900	23.6	74,581	24.0	22,378	19.5	35,525	25.4
Home fragrance	7,649	17.3	7,932	17.2	18,439	28.4	5,193	24.4	9,398	26.5
Home accessories	10,546	16.4	11,689	15.9	14,009	20.4	6,077	18.7	8,666	21.2
Total	85,195	21.3	96,521	21.6	107,029	24.1	33,648	20.0	53,589	24.8

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The following table sets forth a breakdown of gross profit and gross profit margin by production model for the periods indicated:

Product	FY2016		FY2017		FY2018		6M2018		6M2019	
	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
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Self-manufactured										
Candles	47,925	24.6	54,415	26.8	58,266	28.6	18,742	23.6	26,970	30.6
Outsourced										
Candles	19,074	19.9	22,485	18.2	16,315	15.2	3,636	10.4	8,555	16.5
Home fragrance	7,649	17.3	7,932	17.2	18,439	28.4	5,193	24.4	9,398	26.5
Home accessories	10,547	16.4	11,689	15.9	14,009	20.4	6,077	18.7	8,666	21.2
Sub-total	37,270	18.2	42,106	17.3	48,763	20.3	14,906	16.8	26,619	20.8
Total	85,195	21.3	96,521	21.6	107,029	24.1	33,648	20.0	53,589	24.8

The following table sets forth the breakdown of our gross profit and gross profit margin of home fragrance by type:

	FY2016		FY2017		FY2018		6M2018		6M2019	
	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
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Home fragrance in liquid form										
50ml or below	1,748	12.2	1,545	12.3	4,321	26.2	1,317	26.5	1,671	22.4
Above 50ml to 100ml	2,344	21.3	2,833	20.3	9,283	34.5	2,400	33.8	4,135	26.4
Above 100ml	1,411	18.2	1,562	16.0	2,097	23.8	376	12.2	1,954	25.8
Sub-total	5,503	16.6	5,940	16.4	15,701	30.1	4,093	27.0	7,760	25.3
Home fragrance in solid form	1,212	23.5	1,116	15.5	1,602	24.2	843	21.9	1,047	28.3
Giftsets and others	934	15.5	876	31.3	1,136	18.4	262	11.8	591	51.9
Total	7,649	17.3	7,932	17.2	18,439	28.4	5,198	24.5	9,398	26.5

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The following table sets forth the breakdown of our gross profit and gross profit margin of home fragrance in liquid form by outlook design:

	FY2016		FY2017		FY2018		6M2018		6M2019	
	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
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Glass containers with decoration	1,297	26.2	1,103	19.6	10,356	35.0	4,636	29.1	4,765	29.8
Transparent glass container without decoration	4,206	14.9	4,837	15.8	5,345	23.6	6,435	25.4	2,995	20.3
Total	5,503	16.6	5,940	16.4	15,701	30.1	11,071	27.0	7,760	25.3

The following table sets forth the breakdown of our gross profit and gross profit margin of home accessories by type:

	FY2016		FY2017		FY2018		6M2018		6M2019	
	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
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Glassware	4,235	16.4	5,272	17.2	6,932	20.7	3,040	19.2	3,588	22.5
Non-glassware										
Candle accessories and decorations	4,865	17.1	4,848	14.8	5,604	19.7	2,309	17.1	4,217	20.3
Kitchenware	1,437	14.7	1,004	14.9	960	21.4	555	23.7	448	21.6
Furniture and others	10	2.8	565	16.6	513	22.7	172	20.1	413	21.0
Total	10,547	16.4	11,689	15.9	14,009	20.4	6,076	18.7	8,666	21.2

For FY2016, FY2017, FY2018, 6M2018 and 6M2019, our gross profit amounted to RMB85.2 million, RMB96.5 million, RMB107.0 million, RMB33.6 million and RMB53.6 million, respectively. The overall gross profit margin was 21.3%, 21.6%, 24.1%, 20.0% and 24.8%, respectively. The higher overall gross profit margin in FY2018 compared to FY2017 primarily reflected the significant increase in the gross profit margin of home fragrance products from 17.2% for FY2017 to 28.4% for FY2018. For details, see “Review of Historical Results of Operations – FY2018 compared to FY2017 – Gross profit and gross profit margin” in this section.

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The following table sets forth the breakdown of our gross profit and gross profit margin by different business models for the periods indicated:

Business model	FY2016		FY2017		FY2018		6M2018		6M2019	
	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
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
ODM sale	80,196	20.8	91,350	21.1	101,711	23.6	31,784	19.6	51,376	24.5
Branded sale	4,999	37.0	5,171	38.8	5,318	36.5	1,864	29.7	2,213	35.3
Total	85,195	21.3	96,521	21.6	107,029	24.1	33,648	20.0	53,589	24.8

We recorded higher gross profit margin from branded sales during the Track Record Period mainly due to the reason that products under this segment were sold to end-consumers directly or through distributors in the PRC, which allowed us to fix higher prices for them, and the associated goodwill and brand recognition of such products.

Other income

Other income represents rental income and government grants relating to financial support and tax refund. The government grants received during the Track Record Period were one-off in nature, and there is no certainty that we will receive the same government grants in the future. Other income amounted to RMB4.6 million, RMB3.8 million, RMB5.9 million, RMB2.6 million and RMB0.9 million, respectively, for FY2016, FY2017, FY2018, 6M2018 and 6M2019.

Other gains/(losses) – net

Other gains and losses mainly represents net foreign exchange gains and losses, net fair value gains and losses on foreign currency forward contracts, net fair value gains on USD:RMB fixed-fixed cross currency interest rate swap, net fair value gains on wealth management products issued by commercial banks and net gains on disposal of subsidiaries. We recorded a gain of RMB6.7 million for FY2016, a loss of RMB7.8 million for FY2017, a gain of RMB30.9 million for FY2018, a loss of RMB7.2 million for 6M2018 and a loss of RMB15.7 million for 6M2019.

Fair value gains/(losses) on forward contracts

During the Track Record Period, to manage our foreign currency exposure arising from our business operations, we entered into several foreign currency forward contracts with commercial banks to lock in the exchange rates from 6.388 to 6.890 for the sale of USD14.0 million on a future date within one year on 31 December 2018 and from 6.771 to 6.841 for the sale of USD96.7 million on a future date within 18 months on 30 June 2019. Due to the change in fair value of the currency forward contracts, we recognised a gain of RMB1.3 million for FY2016, nil for FY2017, a loss of RMB17.2 million for FY2018, a loss of RMB8.2 million for 6M2018 and a loss of RMB17.0 million for 6M2019, respectively, as a result of the fluctuation between RMB and US\$ during the respective years.

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We will implement internal policies, which set forth overall principles and monitoring of our future investments in derivative financial instruments. For details, see “Quantitative and qualitative disclosures about market risks – Foreign exchange risk – Foreign exchange risk management measures” in this section.

Net foreign exchange loss or gain

Our net foreign exchange loss or gain primarily arises from the realised exchange difference on settlement of trade receivables. During the Track Record Period, we recorded net exchange gains/(losses) of RMB6.7 million, RMB(7.7) million, RMB4.8 million, RMB0.6 million and RMB1.6 million, respectively. For further details, see “Quantitative and qualitative disclosures about financial risks – Foreign exchange risk” in this section.

Net impairment gain/(losses) on financial assets

Net impairment losses on financial assets represents net of reversal/(provision) for impairment of trade receivables and other receivables, which amounted to a gain of RMB1.3 million, a gain of RMB0.6 million, a loss of RMB0.2 million, a gain of RMB58,000 and a loss of RMB0.8 million, respectively, for FY2016, FY2017, FY2018, 6M2018 and 6M2019.

The following table sets forth the breakdown of our net impairment (losses)/gains on financial assets for the periods indicated:

	FY2016	FY2017	FY2018	6M2018	6M2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Reversal/(provision) for impairment:					
– trade receivables	1,222	679	(246)	38	(693)
– other receivables	99	(37)	17	20	(111)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>1,321</u>	<u>642</u>	<u>(229)</u>	<u>58</u>	<u>(804)</u>

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Administrative expenses

Administrative expenses primarily comprise employee benefit expenses, raw materials and consumables used, Listing expenses, depreciation and others.

The following table sets forth a breakdown of our administrative expenses for the periods indicated:

Administrative expenses	FY2016		FY2017		FY2018		6M2018		6M2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Employee benefit expenses	18,830	48.9	19,490	47.3	21,998	46.1	10,598	55.9	9,225	36.6
Raw materials and consumables used	8,394	21.8	8,102	19.6	8,884	18.6	2,754	14.5	4,523	18.0
Listing expenses	–	–	–	–	5,178	10.8	–	–	7,539	29.9
Depreciation	2,842	7.4	2,959	7.2	3,277	6.9	1,799	9.5	639	2.5
Utilities	1,160	3.0	2,813	6.8	2,073	4.3	1,056	5.6	701	2.8
Professional expenses	791	2.0	1,399	3.4	1,345	2.8	699	3.7	533	2.1
Travelling expenses	1,171	3.0	1,010	2.4	1,036	2.2	380	2.0	256	1.0
Amortisation and depreciation of right-of-use assets	1,859	4.8	1,859	4.5	1,452	3.0	541	2.9	294	1.2
Entertainment expenses	1,061	2.8	1,095	2.7	500	1.1	251	1.3	230	0.9
Others	2,424	6.3	2,500	6.1	2,023	4.2	880	4.6	1,245	5.0
Total	38,532	100.0	41,227	100.0	47,766	100.0	18,958	100.0	25,185	100.0

Administrative expenses amounted to RMB38.5 million, RMB41.2 million, RMB47.8 million, RMB19.0 million and RMB25.2 million for FY2016, FY2017, FY2018, 6M2018 and 6M2019, respectively. As a percentage of total revenue, our administrative expenses accounted for 9.6%, 9.2%, 10.7%, 11.3% and 11.6%, respectively during the respective years/periods.

During the Track Record Period, our expenses relating to raw materials and consumables used incurred for research and development purposes amounted to RMB7.5 million, RMB7.3 million, RMB7.5 million, RMB2.8 million and RMB4.3 million, respectively; and employee benefit expenses incurred for research and development personnel amounted to RMB6.3 million, RMB7.0 million, RMB6.5 million, RMB2.9 million and RMB3.5 million, respectively.

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Selling and marketing expenses

Selling and marketing expenses primarily comprise employee benefit expenses, sample inspection and express fee, sales commission, advertising and promotion expenses, travelling expenses and others.

The following table sets forth a breakdown of our selling and marketing expenses for the periods indicated:

Selling and marketing expenses	FY2016		FY2017		FY2018		6M2018		6M2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Employee benefit expenses	1,775	28.6	2,723	32.2	1,952	28.3	789	27.6	458	15.4
Sample inspection and express fee	1,928	31.1	2,124	25.2	1,583	22.9	889	31.1	1,046	35.3
Sales commission	1,291	20.8	1,990	23.6	1,471	21.3	692	24.2	600	20.2
Advertising and promotion express	941	15.2	875	10.4	1,085	15.7	317	11.1	309	10.4
Travelling expenses	10	0.2	592	7.0	300	4.3	91	3.2	344	11.6
Others	258	4.2	139	1.6	519	7.5	83	2.8	209	7.1
Total	6,202	100.0	8,444	100.0	6,910	100.0	2,861	100.0	2,966	100.0

Selling and marketing expenses amounted to RMB6.2 million, RMB8.4 million, RMB6.9 million, RMB2.9 million and RMB3.0 million for FY2016, FY2017, FY2018, 6M2018 and 6M2019, respectively. As a percentage of total revenue, our selling and marketing expenses accounted for 1.6%, 1.9%, 1.6%, 1.7% and 1.4%, respectively during the respective years/periods.

Finance (costs)/income – net

Finance costs and income comprise of interest expenses on our interest-bearing bank borrowings and interest income. Net finance (costs)/income amounted to RMB(0.2) million, RMB23,000, RMB(73,000), RMB(27,000) and RMB(0.3) million for FY2016, FY2017, FY2018, 6M2018 and 6M2019, respectively.

Income tax expense

Our Group is subject to income tax on an individual legal entity basis on profits arising in or derived from the tax jurisdictions in which companies comprising our Group domicile or operate.

(i) Cayman Islands income tax

Our Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

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(ii) BVI income tax

Under the current laws of the BVI, entities incorporated in BVI are not subject to tax on their income or capital gains.

(iii) Hong Kong income tax

No provision for Hong Kong profit tax was made as our Group did not derive any income subject to Hong Kong profit tax during the Track Record Period.

(iv) PRC corporate income tax

Income tax provision of our Group in respect of operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the years, based on the existing legislation, interpretations and practices in respect thereof. The statutory tax rate was 25% for the Track Record Period.

Ningbo Kwung's was qualified as a HNTTE since 2008 and renewed its qualification in November 2017, and it is subject to a reduced preferential EIT rate of 15% from 2008 to November 2020 according to the applicable tax preference applicable to the HNTTE. The current tax preferential period starts from 1 January 2017 to 31 December 2019.

According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2018, during the period from 1 January 2018 to 31 December 2020 enterprises engaging in research and development activities are entitled to claim 175% of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year ("**Super Deduction**") while the deduction rate was 150% before then. Our Group has made its best estimate for the Super Deduction to be claimed for our Group's entities in ascertaining their assessable profits during the Track Record Period.

Our income tax expenses were RMB7.3 million, RMB5.8 million, RMB11.8 million, RMB0.7 million and RMB1.8 million for FY2016, FY2017, FY2018, 6M2018 and 6M2019, respectively; the effective tax rate for the same period was 13.9%, 13.4%, 13.2%, 9.5% and 19.5%, respectively.

During the Track Record Period and up to the Latest Practicable Date, we had fulfilled all our income tax obligations and have not had any unresolved income tax issues or disputes with the relevant tax authorities.

REVIEW OF HISTORICAL RESULTS OF OPERATION

6M2019 compared to 6M2018

Revenue

Our revenue increased by RMB48.1 million or 28.6% to RMB216.3 million for 6M2019 from RMB168.2 million for 6M2018, which was mainly the combined result of (i) the increase in purchase orders from our three largest customers, which contributed (a) a revenue increase in candles of RMB21.3 million, or 49.4%, (b) a revenue increase in home fragrance of RMB10.0 million, or 139.9%, (c) a revenue increase in home accessories of RMB6.6 million, or 61.3%; and (ii) the depreciation of RMB against USD for 6M2019 as we billed and received payment from our

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customers mainly in USD. Based on our understanding and discussions with our three largest customers, they increased the amount of purchase or product variety from us during 6M2019 to cope with their respective business expansion or the orders received from their own customers. On the other hand, according to Frost & Sullivan, the market for candles, home fragrance and home accessories continued to grow in the first half of 2019, and our Group's performance was in line with the general growth trend.

Cost of sales

Our cost of sales increased by RMB28.1 million, or 20.9%, to RMB162.7 million for 6M2019 from RMB134.6 million for 6M2018 which was generally in line with our growth in revenue.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit rose by RMB19.9 million, or 59.3%, to RMB53.6 million for 6M2019 from RMB33.6 million for 6M2018. Our gross profit margin increased from 20.0% for 6M2018 to 24.8% for 6M2019 primarily because of (i) the depreciation of RMB against USD for 6M2019 since we billed and received payment from our customers in USD, and (ii) the lower gross profit margin for candles for 6M2018. We recorded lower gross profit margin for candles for 6M2018 because we sold our candles at a lower price to maintain our product competitiveness in overseas markets by virtue of the RMB appreciation during the first quarter of 2018.

Other income

Our other income decreased by RMB1.7 million or 65.5% to RMB0.9 million for 6M2019 from RMB2.6 million for 6M2018. The decrease in other income was mainly because we disposed of our property in FY2018 pursuant to the Reorganisation such that we did not record rental income for 6M2019 and there was a decrease in the government grants due to lesser amount of non-recurring subsidies incurred for 6M2019.

Other gains and losses

Our other gains and losses increased by RMB8.5 million, or 119.0%, to a loss of RMB15.7 million for 6M2019 from a loss of RMB7.2 million for 6M2018. The increase was mainly due to an increase of net fair value losses on foreign currency forward contracts of RMB8.7 million as a result of RMB depreciation against USD.

Administrative expenses

Our administrative expenses increased by RMB6.2 million, or 32.6%, to RMB25.2 million for 6M2019 from RMB19.0 million for 6M2018. The increase in administrative expenses was mainly because of Listing expenses of RMB7.5 million.

Selling and marketing expenses

Our selling and marketing expenses remained relatively stable at RMB2.9 million for 6M2018 and RMB3.0 million for 6M2019.

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Income tax expense

Our income tax expenses increased by RMB1.1 million, or 157.1%, to RMB1.8 million for 6M2019 from RMB0.7 million for 6M2018. The increase in tax expenses was mainly due to higher profit before income tax for 6M2019. The effective tax rate of 19.5% for 6M2019 was higher than the effective tax rate of 9.5% for 6M2018, which was mainly because there was relatively higher proportion of research and development expenses incurred for 6M2018 as compared to 6M2019, for which we were entitled to claim 175% of the expenses as tax deductible expense for PRC's corporate income tax purpose. In addition, Listing expenses of RMB7.5 million incurred for 6M2019 was not deductible for tax purpose, resulting in higher effective tax rate for 6M2019.

Profit for the period

As a result of the foregoing, profit for the year increased by RMB1.1 million, or 16.9%, to RMB7.6 million for 6M2019 from RMB6.5 million for 6M2018. Our net profit margin decreased slightly from 3.9% for 6M2018 to 3.5% for 6M2019. Had the Listing expenses of RMB7.5 million and their corresponding tax impacts been excluded, the adjusted net profit would have been RMB14.0 million. Our adjusted net profit margin was 6.5% for 6M2019.

FY2018 compared to FY2017

Revenue

Our revenue decreased slightly by RMB1.2 million, or 0.3%, to RMB444.7 million for FY2018 from RMB445.9 million for FY2017 due to (i) a decrease in revenue from candles of RMB15.1 million, or 4.6%, from RMB326.1 million for FY2017 to RMB311.0 million for FY2018, since Customer A, our largest customer for FY2017 and a chain retailer in the United Kingdom, reduced its order with us to relieve pressure on its inventory level resulting from its procurement during FY2017, mainly as a result of the poor market sentiment caused by Brexit leading to a decrease in our total revenue by RMB31.3 million for FY2018, although at the same time our overall sales to customers situated in European countries increased from 74.1% to 76.3% of our total revenue for the same financial year, and (ii) the decrease in our revenue from home accessories of RMB4.8 million, or 6.5%, from RMB73.5 million for FY2017 to RMB68.7 million for FY2018, while partially offset by an increase in our revenue from home fragrance of RMB18.8 million, or 40.5%, from RMB46.2 million for FY2017 to RMB65.0 million for FY2018, primarily attributable to the increase in our sales of RMB14.5 million contributed by four of our five largest customers for FY2018. Our Directors believe that our revenue from home accessories is more volatile because this segment consisted of a large variety of products with relatively short life cycle and were subject to continuous changing consumer's preference, and we recorded slightly lower revenue from this segment for FY2018 because of the decrease in our sales of non-glassware products even though we were able to achieve a higher profit margin from non-glassware products due to the upgrade of the specifications.

Cost of sales

Cost of sales slightly decreased by RMB11.7 million, or 3.3%, to RMB337.7 million for FY2018 from RMB349.3 million for FY2017. Such decrease was mainly due to the decrease in the cost of sales from candles of RMB12.8 million, or 5.1%, and from home accessories of RMB7.1 million, or 11.5%, resulted from its decrease in revenue for the reason mentioned above, partially offset by the increase in the cost of sales from home fragrance of RMB8.2 million, or 21.4% for the reasons mentioned above.

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Gross profit and gross profit margin

As a result of the foregoing, our gross profit rose by RMB10.5 million, or 10.9%, from RMB96.5 million for FY2017 to RMB107.0 million for FY2018, with home fragrance as the major driver – an increase of RMB10.5 million, or 132.4%, for FY2018. Our gross profit margin increased from 21.6% for FY2017 to 24.1% for FY2018, which was the combined result of (i) the increase in gross profit margin of home fragrance from 17.2% for FY2017 to 28.4% for FY2018, and (ii) the increase in gross profit margin of home accessories from 15.9% for FY2017 to 20.4% for FY2018.

Regarding home fragrance, the increase in gross profit margin from 17.2% for FY2017 to 28.4% for FY2018 was mainly attributed to (i) the overall increase in the average selling price by around 20.7% of home fragrance under this segment mainly because (a) the orders for home fragrance in liquid form of bigger size took up a larger proportion of our overall revenue under this segment in FY2018; and (b) we sold home fragrance with improved outlook design and packing which had higher selling prices generally because of their higher production requirements and higher retail prices that could be set by our customers or downstream retailers. For FY2018, we evolved product designs and packing such as using the technique of electroplating to create a metallic-like surface on the container, colour spraying and screen printing to impress pattern and designs on bottle, and sticking flash powder on glass surface such that our products could appeal to a wider spectrum of end-consumers especially those consumers who can afford higher retail price. By contrast, home fragrance packed with simple and transparent glass container without any surface treatment or with only simple label on the packing took up a larger proportion of the Group's sales under home fragrance segment for FY2017 compared to FY2018; (ii) the overall increase in our sales of home fragrance to our major customers; and (iii) our management's effort in maintaining the purchase price of home fragrance such as negotiating with the relevant contract manufacturer to obtain lower prices of repeated orders so as to obtain a volume rebate (in the form of discount to the initial purchase price) as the amount of our purchase from the relevant contract manufacturer increased, partially offset by a mild increase in the purchase price of home fragrance. As a result of the foregoing, we recorded higher gross profit margin from our sales of home fragrance for FY2018.

Regarding home accessories, the increase in gross profit margin from 15.9% for FY2017 to 20.4% for FY2018 was mainly because (i) we were able to maintain the cost of purchase of home accessories as the volume of repeated orders from existing customers of home accessories increased so that we were able to negotiate for a competitive price for such orders with the relevant suppliers; (ii) there were upgrades of the specifications of the home accessories sold by us generally. For glassware, for example, such products had more sophisticated design and functional or value-added features, and for non-glassware (such as candle accessories), the products we sold were made of materials of higher specifications such as the use of metal or ceramic materials for candle holder or base and we were able to set higher selling price for some of such products to reflect the change in product quality or specifications; and (iii) to a certain extent, there was an impact of the appreciation of USD against RMB during the same period as we billed and received payment from customers in USD. As a result of the foregoing, we recorded higher profit margin from our sales of home accessories for FY2018.

Other income

Other income increased by RMB2.1 million, or 55.3%, to RMB5.9 million for FY2018 from RMB3.8 million for FY2017. The increase in other income was mainly due to the unconditional subsidies of RMB2.0 million granted by the government which primarily related to exports of cultural related products.

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Other gains and losses

Other gains and losses increased by RMB38.7 million to a gain of RMB30.9 million for FY2018 from a loss of RMB7.8 million for FY2017. The increase was mainly due to (i) the net gain of RMB42.5 million on the disposal of a subsidiary, Shaoxing Jingming, resulted from the Reorganisation; (ii) a net foreign exchange gain of RMB4.8 million, partially offset by the net fair value losses on foreign currency forward contracts of RMB15.2 million. For details of the Reorganisation, see “History, Development and Reorganisation – Step 5” and note 12 to the Accountant’s Report in Appendix I to this prospectus.

Administrative expenses

Administrative expenses increased by RMB6.6 million, or 16.0%, to RMB47.8 million for FY2018 from RMB41.2 million for FY2017. The increase was primarily due to (i) the Listing expenses of RMB5.2 million for FY2018; and (ii) an increase in employee benefit expenses of RMB2.5 million that resulted from an increase in salaries of our administrative staff, partially offset by the decrease in utilities of RMB0.7 million that resulted from the disposal of Shaoxing Jingming, our then subsidiary of our Company, in October 2018 pursuant to the Reorganisation.

Selling and marketing expenses

Selling and marketing expenses decreased by RMB1.5 million or 18.2% to RMB6.9 million for FY2018 from RMB8.4 million for FY2017. The decrease was primarily due to (i) a decrease in employee benefit expenses of RMB0.8 million resulted from higher salaries and bonus paid to our sales staff for FY2017 because of our business growth in FY2017; and (ii) a decrease in sales commission of RMB0.5 million granted to our overseas trade agencies.

Income tax expense

Income tax expense increased by RMB6.0 million, or 103.4%, to RMB11.8 million for FY2018 from RMB5.8 million for FY2017. The increase was in line with the increase in the profit before tax for the respective period. Our effective tax rate remained stable at 13.4% and 13.2% for FY2017 and FY2018, respectively.

Profit for the year

As a result of the foregoing, profit for the year increased by RMB39.4 million, or 104.8%, to RMB77.0 million for FY2018 from RMB37.6 million for FY2017. Our net profit margin increased from 8.4% for FY2017 to 17.3% for FY2018 was primarily due to the net gain of RMB42.5 million on the disposal of our then subsidiary pursuant to the Reorganisation.

Excluding the effect of the net gain of RMB42.5 million on the disposal of our then subsidiary pursuant to the Reorganisation and the Listing expenses of RMB5.2 million, after adjusting the corresponding tax impact, our adjusted net profit for FY2018 would be RMB45.3 million, an increase of RMB7.7 million, or 20.5%, from RMB37.6 million for FY2017. Our adjusted net profit margin would be 10.2% for FY2018. Such increase was primarily due to the significant increase in gross profit margins of home fragrance and home accessories explained above. For details, see “Results of Operations – Non-HKFRS measures” in this section.

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FY2017 compared to FY2016

Revenue

Our revenue increased by RMB46.4 million, or 11.6%, to RMB445.9 million for FY2017 from RMB399.5 million for FY2016, which was mainly contributed by the increase in revenue from candles of RMB35.3 million, or 12.1%, from RMB290.8 million for FY2016 to RMB326.1 million for FY2017. The increase in revenue was primarily contributed by (i) the increase in our sales of RMB25.0 million from Customer A, our largest customer for FY2017, due to its expected high demand for our products from the end users; and (ii) the increase of 49 new customers which contributed for more than RMB10.0 million of our revenue.

Cost of sales

Cost of sales increased by RMB35.1 million, or 11.1%, to RMB349.3 million for FY2017 from RMB314.3 million for FY2016. Such increase was in proportion to the increase in revenue.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit rose by RMB11.3 million, or 13.3%, from RMB85.2 million for FY2016 to RMB96.5 million for FY2017. Our gross profit margin remained stable at 21.3% and 21.6% for FY2016 and FY2017, respectively.

Other income

Other income decreased by RMB0.9 million, or 18.5%, to RMB3.8 million for FY2017 from RMB4.6 million for FY2016. The decrease in other income was mainly due to the unconditional subsidies granted by the government of RMB1.1 million during FY2016 for the successful listing of Ningbo Kwung's on the NEEQ, while there were no more subsidies granted by the government in relation to the listing on the NEEQ for FY2017.

Other gains and losses

Other gains and losses decreased to a loss of RMB7.8 million for FY2017 from a gain of RMB6.7 million for FY2016. The loss was mainly due to net foreign exchange losses of RMB7.7 million for FY2017 from a net foreign exchange gain of RMB6.7 million for FY2016 and the net fair value gain on foreign currency forward contract of RMB1.3 million for FY2016, resulting from the depreciation of US\$ against RMB in FY2017.

Administrative expenses

Administrative expenses increased by RMB2.7 million, or 7.0%, to RMB41.2 million for FY2017 from RMB38.5 million for FY2016. The increase was primarily due to (i) an increase in utilities of RMB1.7 million because we paid for the utilities of the property we leased out through our former subsidiary, Shaoxing Jingming; (ii) an increase in our employee benefit expenses which was in line with our growth in business; and (iii) an increase in professional fee of RMB0.6 million for the early phase of preparation of A-share listing which was later aborted, partially offset by a slight decrease in raw materials and consumables of RMB0.3 million.

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Selling and marketing expenses

Selling and marketing expenses increased by RMB2.2 million, or 36.1%, to RMB8.4 million for FY2017 from RMB6.2 million for FY2016. The increase was primarily due to (i) an increase in employee benefit expenses of RMB0.9 million that resulted from an expansion of our sales staff for FY2017; (ii) an increase in sales commission of RMB0.7 million; and (iii) increase in travelling expenses of RMB0.6 million.

Income tax expense

Income tax expense decreased by RMB1.5 million, or 20.5%, to RMB5.8 million for FY2017 from RMB7.3 million for FY2016. The decrease was in proportion to the decrease in our profit before income tax. Our effective tax rate remained stable at 13.9% and 13.4% for FY2016 and FY2017, respectively.

Profit for the year

As a result of the foregoing, profit for the year decreased by RMB7.9 million, or 17.4%, to RMB37.6 million for FY2017 from RMB45.5 million for FY2016. Our net profit margin decreased from 11.4% for FY2016 to 8.4% for FY2017 primarily due to the increase in other losses of RMB14.5 million during FY2017, which mainly comprised the net foreign exchange loss of RMB7.7 million for FY2017 as compared to the net foreign exchange gain of RMB6.7 million for FY2016, together with no fair value gain on foreign currency forward contracts for FY2017 as compared to net fair value gains on foreign currency forward contracts of RMB1.3 million for FY2016.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

Our primary uses of cash are for the payment of procurement of raw materials and consumables used, employee benefit expenses, various operating expenses, dividends paid, income tax paid and capital expenditure and have been primarily funded through cash generated from our operations. Upon completion of the Global Offering, we currently expect that there will not be any material change in the sources and uses of cash of our Group in the future, except that we would have additional funds from proceeds of the Global offering for implementing our future plans as detailed under the section headed “Future Plans and Use of Proceeds” in this prospectus.

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The following table summarises, for the periods indicated, our statements of cash flows:

	FY2016	FY2017	FY2018	6M2018	6M2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Net cash generated from/(used in) operating activities	20,123	65,531	21,125	(15,688)	(11,532)
Net cash generated from/(used in) investing activities	1,943	(4,614)	51,793	(33,336)	(138,382)
Net cash generated from/(used in) financing activities	<u>(13,381)</u>	<u>(16,061)</u>	<u>(57,899)</u>	<u>(256)</u>	<u>119,479</u>
Net increase/(decrease) in cash and cash equivalents	8,685	44,856	15,019	(49,280)	(30,435)
Cash and cash equivalents at beginning of year	22,049	31,532	74,400	74,400	92,611
Effect of foreign exchange rate changes	<u>798</u>	<u>(1,988)</u>	<u>3,192</u>	<u>(1,297)</u>	<u>157</u>
Cash and cash equivalents at end of year	<u><u>31,532</u></u>	<u><u>74,400</u></u>	<u><u>92,611</u></u>	<u><u>23,823</u></u>	<u><u>62,333</u></u>

Operating activities

During the Track Record Period, our cash inflow from operating activities was principally from cash inflow from our operation. Our cash outflow used in operating activities was principally for purchase of raw materials, subcontracting fee, employee benefit expenses and other operating expenses.

For 6M2019, our Group had net cash used in operating activities of RMB11.5 million. Our net cash outflow was attributable to the income tax paid of RMB8.5 million and cash flow used in operations of RMB3.1 million. Our cash flow generated from operations primarily consisted of profit before income tax of RMB9.5 million, adjusted by non-cash charges of RMB19.3 million and negative changes in working capital, which mainly included (i) a decrease in trade and other payables of RMB20.5 million; (ii) an increase in prepayments, deposits and other receivables of RMB10.1 million; and (iii) an increase in inventories of RMB8.4 million, which were offset by the decrease in trade receivables of RMB5.7 million.

For FY2018, our Group had net cash generated from operating activities of RMB21.1 million. Our net cash inflow was attributable to cash flow generated from operations of RMB26.2 million and partially offset by the income tax paid of RMB5.2 million. Our cash flow generated from operations primarily consisted of profit before income tax of RMB88.8 million, adjusted by non-cash charges of RMB(25.1) million and negative changes in working capital, which mainly included (i) an increase in trade receivables of RMB36.8 million; (ii) an increase in prepayments, deposits and other receivables of RMB15.3 million; (iii) an increase in inventories of RMB2.8 million; and (iv) the offset by the increase in trade and other payables of RMB16.8 million.

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For FY2017, our Group had net cash generated from operating activities of RMB65.5 million. Our net cash inflow was attributable to cash flow generated from operations of RMB71.6 million and partially offset by the income tax paid of RMB6.1 million. Our cash flow generated from operations primarily consisted of profit before income tax of RMB43.5 million, adjusted by non-cash charges of RMB13.2 million and positive changes in working capital, which mainly included (i) a decrease in trade receivables of RMB9.6 million; (ii) a decrease in prepayments, deposits and other receivables of RMB3.6 million; (iii) an increase in trade and other payables of RMB9.1 million; and (iv) the offset by an increase in inventories of RMB8.6 million.

For FY2016, our Group had net cash generated from operating activities of RMB20.1 million. Our net cash inflow was attributable to cash flow generated from operations of RMB26.4 million and partially offset by the income tax paid of RMB6.3 million. Our cash flow generated from operations primarily consisted of profit before income tax of RMB52.9 million, adjusted by non-cash charges of RMB(2.3) million and negative changes in working capital, which mainly included (i) an increase in trade receivables of RMB16.2 million; (ii) an increase in prepayments, deposits and other receivables of RMB3.4 million; (iii) an increase in inventories of RMB2.6 million; and (iv) the decrease in trade and other payables of RMB1.3 million.

Our Group's net cash generated from operating activities for FY2016 and FY2018 are at similar level while our Group's net cash generated from operating activities for FY2017 are at higher level, which was mainly due to the more timely settlement by our customers in respect of our sales and also lesser amount of advance payments made to our suppliers in respect of our purchase of raw materials during FY2017.

Investing activities

During the Track Record Period, our cash inflow from investing activities was principally from proceeds from disposal of subsidiaries and proceeds from disposals of wealth management products issued by commercial banks. Our cash outflow used in investing activities was principally for purchases of property, plant and equipment and payments for purchase of wealth management products issued by commercial banks. Our Group has an internal policy to govern its investment on wealth management products which includes:

- reviewing our cash position and identifying the cash available for investment;
- investing in wealth management products which are suitable to our risk portfolio;
- appointing a creditable qualified professional financial institution with good credit status to make the investment; and
- signing contract with the financial institution to state clearly the amount, the time limit and nature of the investment.

We adopt a prudent approach in selecting wealth management products. Our investment decisions are made on a case-by-case basis and after the consideration of a number of factors, such as duration of investment and the expected returns. To control our risk exposure, we have in the past sought, and may continue in the future to seek, investments that provide guaranteed principal as well as other low-risk financial products that provide higher investment returns than demand deposits at commercial banks. We determine the risk level of the financial products with reference to the risk classifications provided by the relevant banks or issuers.

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After making an investment, we closely monitor the performance and fair value of the financial products we invested in. We adjust our exposure based on a number of factors, including, among others, prevalent market conditions, investment performance and our expectation of investment gains as set forth in the initial investment plans. Our finance department is primarily responsible for taking action when identifying any adverse change to our investments.

The valuation of these wealth management products is based on certain significant inputs which is not an observable market data and accordingly, these wealth management products are classified as level 3 financial instruments in accordance with applicable accounting standards adopted by our Group. The fair value of these wealth management products is determined based on the discounted cash flow model using the discount rate by referring to the adjusted short-term lending rate issued by the banks. In relation to the valuation of these wealth management products, our Directors adopted the following procedures: (i) reviewed the terms of wealth management products; (ii) performed valuation procedures based on financial and non-financial information; (iii) carefully considered all information which require management assessments and estimates; and (iv) reviewed the valuation working and results. Our Directors are satisfied with the valuation exercise for financial assets categorised as level 3 financial instruments in our historical financial information for the purpose of preparing the Accountant's Report set out in Appendix I to this Prospectus.

Details of the fair value measurement of wealth management products issued by commercial banks, particularly the valuation technique and key inputs, including unobservable inputs, range of inputs and relationship of unobservable inputs to fair value are disclosed in note 3.3 (iii) to the Notes to the historical financial information of our Group for the Track Record Period as set out in the Accountant's Report issued by the Reporting Accountant in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants in Appendix I to this prospectus. The Reporting Accountant's opinion on the historical financial information of our Group for the Track Record Period as a whole is set out in Appendix I to this prospectus.

The Sole Sponsor has performed the following in relation to the valuation of the financial assets of our Group: (i) obtained and reviewed the "Guidance note on directors' duties in the context of valuations in corporate transactions" issued by SFC in 2017 and "International Valuation Standards 2017" issued by International Valuation Standards Council; (ii) obtained and reviewed the principal terms of wealth management products agreements during the Track Record Period; and (iii) discussed with the management of our Group and the Reporting Accountant to (a) understand the nature of our Group's financial instruments requiring level 3 measurements under the fair value classification; (b) understand the key basis and assumptions for the valuation of wealth management products; and (c) understand and assess the reasonableness of the valuation methodology, data inputs and the valuation process involved in the valuation of these wealth management products adopted by our Company. Having considered the work done by our Directors and the Reporting Accountant's opinion on the historical financial information of our Group for the Track Record Period as a whole set out in Appendix I to this prospectus, nothing has come to the Sole Sponsor's attention that would cause the Sole Sponsor to cast doubt on the valuation analysis of financial assets at fair value through profit or loss categorised within level 3 of fair value measurement.

Mr. Lau, our chief financial officer, will manage and keep track with the investment and report to the Board from time to time. For information regarding the qualifications and experience of Mr. Lau, see "Directors, Senior Management and Staff" in this prospectus.

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For 6M2019, our Group had net cash used in investing activities of RMB138.4 million, which was primarily attributable to (i) the deemed distribution of RMB163.7 million; (ii) the purchase of property, plant and equipment of RMB3.6 million, partially offset by the proceeds from the disposal of a subsidiary, Shaoxing Jingming, of RMB29.0 million.

For FY2018, our Group had net cash generated from investing activities of RMB51.8 million, which was primarily attributable to (i) the proceeds from the disposal of wealth management products issued by commercial banks of RMB142.4 million, and (ii) the proceeds from the disposal of our then subsidiary of RMB59.5 million, partially offset by (i) the payments for the purchase of wealth management products issued by commercial banks of RMB142.4 million; and (ii) purchase of property, plant and equipment of RMB7.1 million.

For FY2017, our Group had net cash used in investing activities of RMB4.6 million, which was primarily attributable to (i) the payments for the purchase of wealth management products issued by a commercial bank of RMB9.6 million; (ii) the purchase of property, plant and equipment of RMB9.3 million; (iii) the purchase of intangible assets on ERP system in implementation of RMB1.5 million, partially offset by the proceeds from the disposal of the wealth management products issued by a commercial bank of RMB14.6 million.

For FY2016, our Group had net cash generated from investing activities of RMB1.9 million, which was primarily attributable to proceeds from the disposal of the wealth management products issued by a commercial bank of RMB46.0 million, partially offset by (i) the payments for the purchase of wealth management products issued by a commercial bank of RMB41.0 million; and (ii) the purchase of property, plant and equipment of RMB2.9 million.

Financing activities

During the Track Record Period, our cash inflow from financing activities was principally capital contribution from the owners of our Company and proceeds from loans from related parties. Our cash outflow used in financing activities was principally dividend paid by our subsidiary, repayment of loans from related parties and repayment of bank borrowings.

For 6M2019, our Group had net cash generated from financing activities of RMB119.5 million, which was primarily attributable to (i) the capital contribution from the owners of our Company of RMB114.6 million; (ii) proceeds from the borrowings of RMB20.0 million; (iii) the loans from a related party of RMB6.9 million, partially offset by (i) the repayment of bank borrowings of RMB20.0 million and (ii) the payments for listing expenses of RMB1.1 million.

For FY2018, our Group had net cash used in financing activities of RMB57.9 million, which was primarily attributable to the dividends paid by our subsidiary of RMB105.0 million, partially offset by the capital contribution from the owners of our Company of RMB49.0 million.

For FY2017, our Group had net cash used in financing activities of RMB16.1 million, which was attributable to (i) the dividends paid by our subsidiary of RMB15.1 million; and (ii) principal elements of lease payment of RMB1.4 million, partially offset by the capital contribution from non-controlling shareholders of RMB0.4 million.

For FY2016, our Group had net cash used in financing activities of RMB13.4 million primarily attributable to (i) repayments of loans from related parties of RMB8.0 million; (ii) dividends paid by

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our subsidiary of RMB7.0 million; (iii) repayment of bank borrowings of RMB5.0 million, partially offset by the loans from a related party of RMB8.0 million.

Net Current Assets

We recorded net current assets of RMB99.9 million, RMB120.4 million, RMB126.2 million, RMB130.8 million and RMB120.0 million as at 31 December 2016, 2017, 2018, 30 June 2019 and 31 October 2019, respectively. The table below sets out selected information for our current assets and current liabilities as at the dates indicated, respectively:

	As at 31 December			As at 30 June 2019	As at 31 October 2019 (Unaudited)
	2016 RMB\$'000	2017 RMB\$'000	2018 RMB'000	RMB'000	RMB'000
Current Assets					
Inventories	27,896	36,454	39,261	47,701	44,014
Trade receivables	63,828	49,085	64,330	60,203	67,113
Prepayments, deposits and other receivables	12,181	8,484	164,746	32,704	28,069
Financial assets at fair value through profit or loss	5,000	–	1,530	–	–
Cash and cash equivalents	31,532	74,400	92,611	62,333	77,984
	<u>140,437</u>	<u>168,423</u>	<u>362,478</u>	<u>202,941</u>	<u>217,180</u>
Current Liabilities					
Trade and other payables	38,306	45,933	222,159	51,721	55,017
Contract liabilities	689	1,829	2,428	3,829	1,553
Current tax liabilities	199	290	6,745	2,265	2,265
Current lease liabilities	1,390	–	1,870	2,256	1,945
Financial liabilities at fair value through profit or loss	–	–	3,069	12,028	24,385
	<u>40,584</u>	<u>48,052</u>	<u>236,271</u>	<u>72,099</u>	<u>85,165</u>
Net current assets	<u>99,853</u>	<u>120,371</u>	<u>126,207</u>	<u>130,842</u>	<u>132,015</u>

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Our Group's net current assets increased from RMB99.9 million as at 31 December 2016 to RMB120.4 million as at 31 December 2017. The increase in our net current assets was mainly due to (i) an increase in cash and cash equivalents of RMB42.9 million; (ii) an increase in inventory of RMB8.6 million, partially offset by (i) a decrease in trade receivables of RMB14.7 million; (ii) an increase in trade and other payables of RMB7.6 million; (iii) a decrease in financial assets at fair value through profit and loss of RMB5.0 million; and (iv) a decrease of prepayments, deposits and other receivables of RMB3.7 million.

Our Group's net current assets increased to RMB126.2 million as at 31 December 2018. The increase in our net current assets was mainly due to (i) an increase in prepayment, deposits and other receivables of RMB156.3 million; (ii) an increase in cash and cash equivalents of RMB18.2 million; (iii) an increase in trade receivables of RMB15.2 million; partially offset by (i) an increase in trade and other payables of RMB176.2 million; and (ii) an increase in current tax liabilities of RMB6.5 million.

Our Group's net current assets increased to RMB130.8 million as at 30 June 2019. The slight increase was due to (i) a decrease in trade and other payables of RMB170.4 million which was primarily attributable to the settlement of the amount due to related parties; partially offset by (i) a decrease in prepayments, deposits and other receivables of RMB132.0 million which was primarily attributable to the settlement of amount due from related parties; and (ii) a decrease in cash and cash equivalents of RMB30.3 million.

Our Group's net current assets increased to RMB132.1 million as at 31 October 2019. The increase was primarily due to an increase in cash and cash equivalents of RMB15.7 million and an increase in trade receivables of RMB6.9 million, partially offset by (i) an increase in financial liabilities at fair value through profit or loss of RMB12.4 million; (ii) a decrease in prepayments, deposits and other receivables of RMB4.6 million; and (iii) a decrease in inventories of RMB3.7 million.

Working Capital

Our Directors confirm that, taking into consideration the financial resources presently available to us, including internal resources and the estimated net proceeds from the Global Offering, we have sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this prospectus.

Our Directors are not aware of any other factors that would have a material impact on our Group's liquidity. Details of the funds necessary to meet our existing operations and to fund our future plans are set out in "Future Plans and Use of Proceeds" in this prospectus.

DESCRIPTION OF CERTAIN ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Property, plant and equipment

Our property, plant and equipment consist of buildings, transportation equipment, electronic equipment, machinery, furniture, leasehold improvements and assets under construction. Assets under construction represented the machinery and office building renovation cost of Ningbo Kwung's as at 31 December 2016, 2017 and 2018 and 30 June 2019. We had property, plant and equipment of

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RMB29.6 million, RMB35.0 million, RMB31.4 million and RMB34.9 million as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively.

The following table sets forth the breakdown of our property, plant and equipment as at the respective dates indicated:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Buildings	23,008	23,345	13,677	21,390
Transportation equipment	1,369	983	638	496
Electronic equipment	507	529	506	563
Machinery	3,473	3,940	6,707	6,705
Furniture	343	259	500	876
Leasehold improvements	904	792	1,176	2,143
Assets under construction	–	5,136	8,150	2,771
Total	29,604	34,984	31,354	34,944

Our property, plant and equipment increased from RMB29.6 million as at 31 December 2016 to RMB35.0 million as at 31 December 2017, primarily as a result of additions of assets under construction of RMB5.1 million.

Our property, plant and equipment decreased from RMB35.0 million as at 31 December 2017 to RMB31.4 million as at 31 December 2018, primarily as a result of the decrease in buildings of RMB9.7 million due to the disposal of Shaoxing Jingming resulted from the Reorganisation, partially offset by additions of machinery of RMB2.8 million and assets under construction of RMB3.0 million.

Our property, plant and equipment increased to RMB34.9 million as at 30 June 2019 primarily as a result of the increase in buildings of RMB7.7 million, offset by the decrease in assets under construction of RMB5.4 million.

For details of our property, plant and equipment, see note 15 to the Accountant's Report as set out in Appendix I to this prospectus.

Right-of-use assets

Our right-of-use assets represent land use rights and properties.

Our land use rights represent prepaid operating lease payments for land located in the PRC. The net book value as at 31 December 2016, 2017, 2018 and 30 June 2019 were RMB18.3 million, RMB17.8 million, RMB8.0 million and RMB7.9 million, respectively. The net book value of land use rights as at 31 December 2016 and 2017 remained relatively stable. The net book value of land use rights decreased to RMB8.0 million as at 31 December 2018 because of the disposal of Shaoxing Jingming for FY2018. The net book value of land use rights as at 30 June 2019 remained relatively stable.

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Our Group leases properties for own use. Our net book value as at 31 December 2016, 2017, 2018 and 30 June 2019 were RMB1.4 million, nil, RMB5.2 million and RMB4.3 million respectively.

Investment properties

Our Group's investment properties were located in the PRC during the Track Record Period. The net book value as at 31 December 2016, 2017, 2018 and 30 June 2019 were RMB23.7 million, RMB22.9 million, nil and nil, respectively. Our investment properties as at 31 December 2016 and 2017 remained stable. Our investment properties decreased to nil as at 31 December 2018 and 30 June 2019 because of the disposal of Shaoxing Jingming for FY2018. Our Group did not own any investment properties since the disposal of Shaoxing Jingming.

Inventories

Our inventories consist of raw materials, work in progress and finished goods. We had inventories of RMB27.9 million, RMB36.5 million, RMB39.3 million and RMB47.7 million as at 31 December 2016, 2017, 2018 and 30 June 2019, respectively.

The following table sets forth the components of our inventories as at the respective dates indicated:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	14,550	20,923	20,506	27,253
Work in progress	1,884	2,154	2,849	4,640
Finished goods	11,462	13,559	16,086	16,147
Provision for inventory	—	(182)	(180)	(339)
Total	27,896	36,454	39,261	47,701

Our balance of inventories increased from RMB27.9 million as at 31 December 2016 to RMB36.5 million as at 31 December 2017, which was mainly attributable to (i) an increase in raw materials of RMB6.4 million because we procured more raw materials near the end of 2016 for our production to satisfy new orders placed by our customers before year end; and (ii) an increase in finished goods of RMB2.1 million due to the new orders placed by our customers before the year end.

Our balance of inventories increased from RMB36.5 million as at 31 December 2017 to RMB39.2 million as at 31 December 2018, primarily as a result of an increase in finished goods of RMB2.5 million due to the new orders placed by our customers before the year end.

Our balance of inventories increased to RMB47.7 million as at 30 June 2019 primarily because of the increase in raw materials in expectation of an increase in new orders for the second half of the year.

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We generally produce our products upon order confirmations from our customers. Hence, we only maintain our inventory levels of raw materials based on our production plan in upcoming three months. We periodically review our inventory levels for slow moving inventory, obsolescence or declines in market value. Allowance is made when the net realisable value of inventories falls below the carrying amount or any of the inventories is identified obsolete. As at 31 December 2016, 2017, 2018 and 30 June 2019, our provision for inventory were nil, RMB0.2 million, RMB0.2 million and RMB0.3 million, respectively.

The following table sets forth the turnover days of our inventories for the periods indicated:

	FY2016	FY2017	FY2018	6M2019
Inventories turnover days ⁽¹⁾	<u>31</u>	<u>34</u>	<u>41</u>	<u>48</u>

(1) Inventories turnover days were calculated based on the average of the opening and closing inventories divided by cost of sales for the respective years/period multiplied by 360/180 for the year/period.

Our inventories turnover days were 31 days, 34 days, 41 days and 48 days for FY2016, FY2017, FY2018 and 6M2019, respectively. We maintained low inventories turnover days as we manufactured our products after our customers placed order with us. The slight increase in our inventories turnover days was in line with our growth in inventories balance as at 31 December 2016, 2017, 2018, and 30 June 2019.

As at 31 October 2019, RMB36.1 million, or 75.8%, of our inventories as at 30 June 2019 had been sold or utilised.

Trade receivables

The following table sets forth our trade receivables as at the respective dates indicated:

	As at 31 December			As at
	2016	2017	2018	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables due from:				
– third parties	58,723	49,292	64,783	61,349
– related parties	6,011	–	–	–
Less: allowance for impairment of trade receivables	<u>(906)</u>	<u>(207)</u>	<u>(453)</u>	<u>(1,146)</u>
Trade Receivables – net	<u>63,828</u>	<u>49,085</u>	<u>64,330</u>	<u>60,203</u>

Our trade receivables decreased from RMB63.8 million as at 31 December 2016 to RMB49.1 million as at 31 December 2017 and increased to RMB64.3 million as at 31 December 2018 primarily due to the timing difference on our recognition of our sales.

Our trade receivables decreased to RMB60.2 million as at 30 June 2019 due to the timing difference on the recognition of our sales.

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The following table sets forth the aging analysis of our trade receivables based on invoice date:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	34,145	28,833	24,129	38,359
Over 30 days and within 180 days	29,566	20,228	39,843	19,367
Over 180 days and within one year	101	108	630	3,573
Over one year and within two years	896	121	131	–
Over two years	26	–	50	–
Over three years	–	–	–	50
Total	64,734	49,292	64,783	61,349

With the exception of a few customers granted with a credit period of 30 to 60 days, all trade receivables are due for payment upon the issuance of invoice.

Our trade receivables which were past due for over 180 days amounted to RMB1.0 million, RMB0.2 million, RMB0.8 million and RMB3.6 million as at 31 December 2016, 2017, 2018 and 30 June 2019, respectively. Our Group does not hold any collateral as security over our trade receivables. Further details of impairment on trade receivables aged by invoice date are set out in note 21 of Accountant's Report included in Appendix I to this prospectus.

As at 31 October 2019, RMB55.7 million, or 90.8%, of our trade receivables outstanding as at 30 June 2019 were settled.

The table below sets forth a summary of average turnover days of trade receivables as at the dates indicated:

	FY2016	FY2017	FY2018	6M2019
Trade receivables turnover days ⁽¹⁾	48	46	46	52

(1) Trade receivables turnover days were calculated based on the average of the opening and closing trade receivables divided by revenue for the respective years/period multiplied by 360/180 for the year/period.

Our trade receivables turnover days remained stable at 48 days, 46 days, 46 days and 52 days for FY2016, FY2017, FY2018 and 6M2019, respectively.

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Prepayments, deposits and other receivables

The following table sets forth the breakdown of our other receivables as at the respective dates indicated:

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Prepayments				
– Advances to suppliers	6,996	3,538	12,411	21,657
– Listing expenses	–	–	1,646	3,721
– Prepaid income tax	165	470	153	185
– Prepaid value-added tax	218	466	1,250	1,130
	<u>7,379</u>	<u>4,474</u>	<u>15,460</u>	<u>26,693</u>
Other receivables				
– Deposits	136	64	29	28
– Advance to employees	348	357	482	1,392
– Recoverable value-added tax	4,219	3,607	5,174	4,507
– Amount due from related parties	–	–	143,652	50
– Others	162	50	–	196
	<u>4,865</u>	<u>4,078</u>	<u>149,337</u>	<u>6,173</u>
Sub-total	<u>12,244</u>	<u>8,552</u>	<u>164,797</u>	<u>32,866</u>
Less: allowance for impairment of other receivables	<u>(63)</u>	<u>(68)</u>	<u>(51)</u>	<u>(162)</u>
Total	<u><u>12,181</u></u>	<u><u>8,484</u></u>	<u><u>164,746</u></u>	<u><u>32,704</u></u>

Our prepayments mainly represent advances to suppliers. Our suppliers of wax required prior payment before delivery. Our advances to suppliers decreased from RMB7.0 million as at 31 December 2016 to RMB3.5 million as at 31 December 2017, and increased to RMB12.4 million as at 31 December 2018 and further increased to RMB21.7 million as at 30 June 2019, which were due to the timing difference between payment and delivery.

Our other receivables remained relatively stable at RMB4.9 million and RMB4.1 million as at 31 December 2016 and 2017, respectively. Our other receivables increased to RMB149.3 million as at 31 December 2018 primarily due to the amount due from related parties of RMB143.7 million as a result of the Reorganisation. The amounts due from related parties are unsecured, interest-free, repayable on demand. As at the Latest Practicable Date, such amounts were fully settled. For details, see “History, Development and Reorganisation – Step 8” and note 33(d) to the Accountant’s Report

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in Appendix I to this prospectus. Our other receivables decreased to RMB6.2 million as at 30 June 2019 because such amount due from related parties resulted from the Reorganisation have been settled.

Trade and other payables

Our trade payables represent trade payables, other payables, staff salaries and welfare payables, and accrued taxes other than income tax. Trade and other payables as at 31 December 2016, 2017, 2018 and 30 June 2019 were RMB38.3 million, RMB45.9 million, RMB222.2 million and RMB51.7 million, respectively, a breakdown of which is set out below:

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Trade payables due to:				
– related parties	1,291	–	–	–
– third parties	20,040	28,767	40,906	31,656
Other payables due to:				
– related parties	114	–	163,681	7,021
– third parties	1,816	2,703	1,881	6,115
Staff salaries and welfare payables	14,109	13,164	12,181	6,413
Accrued taxes other than income tax	936	1,299	3,510	516
Total	38,306	45,933	222,159	51,721

Our other payables due to related parties of RMB163.7 million as at 31 December 2018 was incurred as a result of the Reorganisation, which was unsecured, interest-free and repayable on demand. For details, see “History, Development and Reorganisation – Step 8” and note 26(b) to the Accountant’s Report in Appendix I to this prospectus. As at 30 June 2019, our other payables to related parties mainly comprised of RMB6.9 million payable to Mr. Jin, which was related to the payment of fees on behalf of our Group to professional parties outside the PRC. Such amount payable to Mr. Jin will be settled upon Listing.

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The table below sets forth, as at the end of reporting periods indicated, the aging analysis of our trade payables:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	20,668	27,547	39,049	30,195
Over one year and within two years	597	1,057	1,183	714
Over two years	66	163	674	747
Total	21,331	28,767	40,906	31,656

The following table sets out the average trade payables turnover days for the Track Record Period:

	FY2016	FY2017	FY2018	6M2019
Trade payables turnover days ⁽¹⁾	25	27	37	35

(1) Trade payables turnover days were calculated based on the average of the opening and closing trade payables divided by total purchase for the respective years/period multiplied by 360/180 for the year/period.

The slight increase in the turnover days for trade payables from 25 days for FY2016 to 37 days for FY2018 was mainly due to more subcontracting production arranged for our home fragrance products. It usually takes relatively longer period of time to inspect and accept the products from subcontractors as compared to raw materials before we make payments, and therefore the trade payable turnover days are a bit longer. Our turnover days for trade payables remained stable at 35 days for 6M2019.

As at 31 October 2019, RMB29.1 million, or 91.8%, of trade payables outstanding as at 30 June 2019 were settled. Our Directors confirmed that during the Track Record Period up to the Latest Practicable Date, there was no material default in payment of trade payables.

CAPITAL EXPENDITURES

Our Group's capital expenditures have principally consisted of expenditures on acquisitions and construction of property, plant and equipment in our operations. During the Track Record Period, our Group incurred capital expenditures of RMB2.6 million, RMB9.1 million, RMB8.3 million and RMB5.2 million, respectively, a majority of which came from additions of machinery and leasehold improvements and assets under construction. For details, see note 15 to the Accountant's Report as set out in Appendix I to this prospectus. Subsequent to the Track Record Period and up to the Latest Practicable Date, we did not make any material capital expenditure.

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PROPERTY INTERESTS

Our Directors confirm that, as at the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 5.01 to 5.10 of the Listing Rules. As at the Latest Practicable Date, our property interests do not form part of our property activities and no single property interest that forms part of our non-property activities has a carrying amount of 15% or more of our total assets.

CONTRACTUAL AND CAPITAL COMMITMENTS

Operating lease commitments as lessee

Our Group leases warehouse and factory workshop under non-cancellable operating lease agreements within one year contract period, and the majority of our lease agreements are signed with related parties at market price.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Within one year	46	–	108	183

Operating lease commitments as lessor

Our Group rents factory workshop under non-cancellable operating lease agreements. The lease terms are between one year to three years, and the majority of our lease agreements are signed with independent third parties.

The future aggregate minimum lease income under non-cancellable operating leases are as follows. Our Group has no investment property after the disposal of Shaoxing Jingming.

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Within one year	722	1,266	–	–
Over one year and within two years	1,266	1,152	–	–
Over two years and within three years	1,152	426	–	–
Over three years	426	–	–	–
Total	3,566	2,844	–	–

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INDEBTEDNESS

Save for the bank borrowings of RMB5.0 million we repaid during FY2016 and an one-year term loan of RMB20.0 million borrowed in January 2019 and repaid in May 2019, during the Track Record Period and up to 31 October 2019, being the latest practicable date for the purpose of the indebtedness statement in this prospectus, we had no bank borrowings.

As at 30 June 2019 and 31 October 2019, RMB6.9 million and RMB7.0 million was due to Mr. Jin related to the payment of fees on behalf of our Group to professional parties outside the PRC. Such balance will be settled upon Listing.

As at 31 October 2019, being the latest practicable date for the purpose of the indebtedness statement, we had unutilised banking facilities of RMB37.0 million. Our Directors confirmed that they are not aware of any foreseeable problem in obtaining banking facilities for our business should the need arises, having considered our Company is financially healthy in general.

Lease liabilities

HKFRS 16 Leases (“**HKFRS 16**”), which is mandatory for the financial year beginning 1 January 2019, have been consistently applied throughout the Track Record Period, we recognised right-of-use assets and the corresponding lease liabilities in respect of all leases, except for short-term leases and low-value assets. Our total lease liabilities amounted to RMB1.4 million, nil, RMB5.4 million, RMB4.8 million and RMB3.9 million as at 31 December 2016, 2017, 2018, 30 June 2019 and 31 October 2019, respectively.

Contingent liabilities

As at 31 October 2019, being the latest practicable date for the purpose of the indebtedness statement, we did not have any material contingent liabilities or guarantees.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, as at the Latest Practicable Date, our Group did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, pledges, finance leases or hire purchases commitments, guarantees, material covenants, or other material contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENT

As at the Latest Practicable Date, we had not entered into any off-balance sheet transaction.

TRANSACTIONS WITH RELATED PARTIES

With respect to the related party transactions set forth in the Accountant’s Report in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms or such terms that were no less favourable to our Group than those available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole. For details, see note 33 to the Accountant’s Report in Appendix I to this prospectus.

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The Directors confirm that all outstanding balances with related parties will be fully settled upon Listing.

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios as at each of the dates indicated:

	FY2016	FY2017	FY2018	6M2019
Return on equity (%) ⁽¹⁾	25.9	18.9	45.1	N/A
Return on total assets (%) ⁽²⁾	21.1	15.3	18.8	N/A

	As at 31 December			As at
	2016	2017	2018	30 June 2019
Current ratio (times) ⁽³⁾	3.5	3.5	1.5	2.8
Quick ratio (times) ⁽⁴⁾	2.8	2.7	1.4	2.2
Gearing ratio (%) ⁽⁵⁾	0.0	0.0	0.0	0.0
Net debt to equity ratio ⁽⁶⁾	N/A	N/A	N/A	N/A

Notes:

- (1) Return on equity for FY2016, FY2017, FY2018 was calculated based on the profit for the year for the respective years divided by the total equity as at 31 December 2016, 2017 and 2018 and multiplied by 100%. The ratio for 6M2019 is not applicable as it is not comparable to the ratio of a full financial year.
- (2) Return on total assets for FY2016, FY2017, FY2018 was calculated based on the profit for the year for the respective years divided by the total assets as at 31 December 2016, 2017 and 2018 and multiplied by 100%. The ratio for 6M2019 is not applicable as it is not comparable to the ratio of a full financial year.
- (3) Current ratios as at 31 December 2016, 2017, 2018 and 30 June 2019 were calculated based on the total current assets as at the respective dates divided by the total current liabilities as at 31 December 2016, 2017, 2018 and 30 June 2019.
- (4) Quick ratio as at 31 December 2016, 2017, 2018 and 30 June 2019 was calculated based on the total current assets less inventories and divided by total current liabilities as at 31 December 2016, 2017, 2018 and 30 June 2019.
- (5) Gearing ratios as at 31 December 2016, 2017, 2018 and 30 June 2019 were calculated based on the total debt as at the respective dates divided by total equity as at 31 December 2016, 2017, 2018 and 30 June 2019 and multiplied by 100%.
- (6) Net debt to equity ratios as at 31 December 2016, 2017, 2018 and 30 June 2019 was calculated based on net debts (being total borrowings net of cash and cash equivalents) as at 31 December 2016, 2017, 2018 and 30 June 2019 divided by total equity as at the respective 31 December 2016, 2017, 2018 and 30 June 2019.

Return on equity

Our return on equity was 25.9%, 18.9% and 45.1% for FY2016, FY2017 and FY2018, respectively. Our return on equity decreased from 25.9% for FY2016 to 18.9% for FY2017 was primarily due to the decrease of other gains of RMB6.7 million for FY2016 to other losses of RMB7.8 million for FY2017 attributable to (i) net foreign exchange gain of RMB6.7 million for FY2016, (ii) the net fair value gain on foreign currency forward contracts of RMB1.3 million for FY2016, and (iii) net foreign exchange loss of RMB7.7 million for FY2017.

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Our return on equity increased to 45.1% for FY2018 primarily due to the gain on disposal of our then subsidiary of RMB42.5 million resulted from the Reorganisation as previously explained.

Return on total assets

Our return on total assets was 21.1%, 15.3% and 18.8% for FY2016, FY2017 and FY2018, respectively. Our return on total asset decreased from 21.1% for FY2016 to 15.3% for FY2017 was primarily due to the same reasons as mentioned in above subsection headed “Return on equity”.

Our return on total asset increased to 18.8% for FY2018 mainly due to the decrease in the Group’s total asset level after the dividend distribution of RMB105 million during FY2018.

Current ratio

Our current ratio was 3.5, 3.5, 1.5 and 2.8 as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. Our current ratio remained relatively stable as at 31 December 2016 and 2017. The decrease in current ratio to 1.5 was due to the amount due from related parties of RMB143.7 million and the amount due to related parties of RMB163.7 million resulted from the Reorganisation as previously explained.

Our current ratio increased to 2.8 as at 30 June 2019 which was relatively stable compared to the current ratio as at 31 December 2016 and 2017.

Quick ratio

Our quick ratio was 2.8, 2.7, 1.4 and 2.2 as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. Our quick ratio remained relatively stable as at 31 December 2016 and 2017. The decrease in current ratio to 1.4 was due to the amount due from related parties of RMB143.7 million and the amount due to related parties of RMB163.7 million resulted from the Reorganisation as previously explained.

Our quick ratio increased to 2.2 as at 30 June 2019 which was relatively stable compared to the quick ratio as at 31 December 2016 and 2017.

Gearing ratio

Gearing ratio was 0, 0, 0 and 0 as at 31 December 2016, 2017 and 2018 and 30 June 2019 as our Group has no bank borrowings and the insignificant lease liabilities compared to total equity as at the end of the respective years.

Net debt to equity ratio

Net debt to equity ratio was not applicable to our Group as at 31 December 2016, 2017, 2018 and 30 June 2019 as our Group recorded net cash as at the end of the respective years.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to a variety of financial risk including credit risk, liquidity risk and foreign exchange risk. Details of the risk to which we are exposed are set out in note 3 to the Accountant’s Report, the text of which is set out in Appendix I to this prospectus.

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Foreign exchange risk

Our Group sells products in overseas market and is exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to the US\$. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the functional currency of our relevant Group entity.

Our Group also entered into foreign currency forwards in relation to products sales for the next 12 months that do not qualify as ‘highly probable’ forecast transactions and hence do not satisfy the requirements for hedge accounting (economic hedges). The foreign currency forwards are subject to the same risk management policies as all other derivative contracts. However, they are accounted for as derivative financial instruments with gains (losses) recognised in the consolidated statement of comprehensive income.

Exposure

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	US\$	US\$	US\$	US\$
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	62,639	45,039	59,096	57,484
Foreign currency forwards	–	–	(3,069)	(14,623)
USD:RMB fixed-fixed				
cross-currency interest rate				
swap	–	–	1,530	–

Sensitivity

As shown in the table above, our Group is primarily exposed to changes in USD exchange rates. For illustrative purposes only, a sensitivity analysis of our net profit with reference to a hypothetical 10% fluctuation of exchange rate of RMB/USD during the Track Record Period is set out as follow.

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
RMB/USD exchange rate				
– increase 10%	5,324	3,828	4,892	51,620
RMB/USD exchange rate				
– decrease 10%	(5,324)	(3,828)	(4,892)	(51,620)

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Foreign exchange risk management measures

Our management team is responsible for monitoring our Group's foreign exchange exposure mainly arising from the customers' purchase orders denominated in US dollars. The management team monitors our exposure to foreign exchange risk in reference mainly to the purchase order amounts and the level of the outstanding trade receivables from time to time. Our management team regularly reviews and examines (i) the compliance of our hedging transactions; (ii) soundness of our internal control policy; and (iii) the accuracy of the disclosure of information regarding our foreign exchange risk exposure.

Our foreign exchange risk management measures involve, among other things, the following:

- (i) monitoring of material purchase orders denominated in foreign currencies;
- (ii) monitoring the exchange rate fluctuations on a weekly basis by collecting the prevailing market information; and
- (iii) investing in derivative financial instruments, for example foreign exchange forward contracts, whereby all such financial products are transacted only with authorised financial institutions and undertaken only in situations where we have actual needs.

In respect of our investments in derivative financial instruments, we have formulated an investment management policy to analyse and assess the risk and benefit of each investment. In determining the amount and duration of each investment, we consider a number of factors including (i) the duration of the production and sales cycle attributing to the risk exposure; (ii) costs associated with the entering into the investment transaction; (iii) potential financial return and loss of the instrument; and (iv) the expected market trends of exchange rate fluctuations.

To implement our foreign exchange risk management measures, our accounting team is responsible for maintaining accurate accounting records on foreign currency sales and purchase transactions and investments and monitoring of relevant exchange rates on a weekly basis. Our financial controller is responsible for recommending any investment strategy and preparing detailed risk and benefit assessment of any proposed investment products. Mr. Lau, our chief financial officer, is responsible for monitoring the performance of our investment on a regular basis and our Board is responsible for approval and oversight of our foreign exchange risk measures.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, there were no circumstances that would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Listing Rules.

LISTING EXPENSES

Listing expenses mainly comprise professional fees, underwriting commission (excluding incentive fee) and fees incurred in connection with the Listing and the Global Offering. During the Track Record Period, we incurred listing expenses of RMB16.4 million, of which RMB12.7 million was charged to our consolidated statements of comprehensive income during the Track Record Period and RMB3.7 million was included in prepayments and will be subsequently charged to equity upon completion of the Listing. We expect to incur underwriting commissions and other additional listing expenses of RMB17.1 million after 30 June 2019 (assuming an Offer Price of

FINANCIAL INFORMATION

HK\$1.44 per Share, being the mid-point of the indicative Offer Price range, and assuming no exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme), of which RMB8.5 million will be charged to the consolidated statements of comprehensive income after 30 June 2019, and RMB8.6 million will be charged to equity upon completion of the Listing.

Our Directors would like to emphasise that the Listing expenses stated above are the current estimation for reference purpose and the actual amount to be recognised is subject to adjustments based on audit and the then changes in variables and assumptions. Prospective investors should note that the financial performance of our Group for the year ending 31 December 2019 would be materially and adversely affected by the listing expenses mentioned above.

DIVIDENDS

During the Track Record Period, the dividends paid by our Group were RMB7.0 million, RMB15.1 million, RMB105.0 million and nil for FY2016, FY2017, FY2018 and 6M2019, respectively. Our Board does not have a pre-determined dividend payout ratio. The payment and the amount of any dividends, if paid, will depend on our results of operations, cash flows, financial condition, future prospects, capital expenditure, expansion plans and other factors that our Board may consider relevant. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Company in the future.

In particular, the dividend distribution made for FY2018 was mainly related to the one-off proceeds of approximately RMB105.1 million arising from the disposal of a subsidiary during FY2018 as a return on such investment.

Any distributable profits that are not distributed in any given year will 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 operations.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 13 November 2018 and is an investment holding company. At 30 June 2019, the Company had share premium of RMB163.7 million. Such share premium was available for distribution, calculated in accordance with the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

Please see “Unaudited Pro Forma Financial Information” in Appendix II to this prospectus for our unaudited pro forma adjusted consolidated net tangible assets.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there have not been any material adverse changes in our financial or trading position or prospects subsequent to the Track Record Period and up to the date of this prospectus. As far as we are aware, there was no material change in the general market conditions that had affected or would affect our business operations or financial conditions materially and adversely.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

We aim to expand our business to maintain and strengthen our market position by pursuing the following strategies (the “**Expansion Plan**”):

- Establish physical presence overseas to increase market penetration of our products, better serve our major customers and enlarge our customer base in our major market
- Expand and upgrade our production facilities to strengthen our in-house production capabilities to achieve economies of scale
- Strengthen our research and development capabilities to enrich our product offering and increase our overall competitiveness
- Upgrade our information system and logistics capabilities to increase our operational efficiency
- Enhance our sales and marketing efforts to cultivate brand loyalty and capture potential business opportunities in markets outside Europe

See “Business – Our Business Strategies” for the detailed implementation of our Expansion Plan.

REASONS FOR LISTING

Capture business opportunities and address our funding needs

Positive market outlook and our consistent approach to focus our overseas sales in Europe

We are a manufacturer and supplier of Home Decoration Products, targeting overseas markets. Europe is the largest geographical market for our products, accounting for 72.5%, 74.1%, 76.3%, 75.0% and 77.0%, respectively, of our total revenue for FY2016, FY2017, FY2018, 6M2018 and 6M2019. Most of our major customers during the Track Record Period are situated in Europe. The use of candles and home fragrance has been integrated into the daily life of consumers in Europe, whether for home decoration or personal relaxation, and thus, the size of the European market is large. According to Frost & Sullivan, EU is the major consumption market of candles and home fragrance in the world. Consumption of candles in EU accounted for 43.4% of total consumption of candles in the world, which was Euro 15.1 billion, in 2018. The consumption of home fragrance products in EU accounted for 29.7% of total consumption of home fragrance products in the world, which was EUR 6.5 billion in 2018.

On the other hand, we see growth potential from the European markets. The European markets for candles and home fragrance witnessed a smooth expansion in recent years. According to Frost & Sullivan, market size of candles in EU in terms of retail sales value increased from Euro 5,955.8 million in 2014 to Euro 6,551.6 million in 2018, representing a CAGR of 2.4% from 2014 to 2018. Market size of home fragrance in EU in terms of retail sales value increased from Euro 1,543.1 million in 2014 to Euro 1,940.4 million in 2018, representing a CAGR of 5.9%. It is projected by Frost & Sullivan that the retail sales value of candles and home fragrance in EU will increase by a CAGR of 3.3% and 6.3%, respectively, from 2018 to 2023. For details, see “Industry Overview” in this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

In light of the size and moderate growth of the European market and our sales of candles and home fragrance in Europe only accounted for a very small proportion of the retail sales value in the relevant markets, we see the business potential from the European market and are commercially justified to further expand our market share and enlarge our customer base in Europe, which are commensurate with our historical business strategy and sales focus.

Commercial rationale to set up regional sales offices in order to increase sales to existing customers and win orders from new customers

Against the backdrop, we, as a PRC manufacturer and supplier of Home Decoration Products, sell products to customers primarily on B2B basis. Our major customers are mainly retailers or wholesalers situated in Europe, with limited or no business establishment in China according to the understanding of our Directors. Thus, one essential process of our business operation is to seek to meet potential overseas customers, promote and market our product concepts and samples to them, and identify export opportunities through various marketing channels such as attending trade fairs, inviting customers occasionally to visit our factories and showroom(s), paying a visit to our major customers. These are major channels through which our products can be marketed and showcased to our overseas customers.

Given a limited number of trade fairs that we can participate each year and the inconvenience and geographical barrier that might be caused to the potential overseas customers to visit us in China, our Group is not proactive and effective enough by relying solely on these marketing initiatives to retain existing customers and identify new customers, especially those who are large in scale and we are required to keep a close and frequent contacts with their procurement team should we want to secure regular and large volume orders from them. In addition, generally, the typical lead time for our products could take up to around 95 days from the issue of sales confirmation. Therefore, we will miss the sales window if we fail to proactively identify sales opportunities and secure sufficient sales orders ahead of the major sales seasons which are usually festive seasons in Europe.

On the other hand, historically we used overseas trade agencies to refer new customers and keep us updated of the latest development about our customers or overseas market given our limited overseas presence, but such arrangement could be a barrier to us to develop and consolidate direct business relationship with and obtain the best possible commercial terms from such referred customers, and increase our cost of sales by any sales commission that would be charged by the relevant overseas sales agent. As our business scale and understanding of overseas markets continue to grow, we could not solely rely on overseas trade agencies to refer new customers and expand our customer base in the long-run.

As one of our key marketing initiatives, during the Track Record Period, our senior management members attended business visits to major customers in EU to meet their procurement teams, listen to their requirements, obtain latest market information and understand their recent business development, which are useful information for our product and business planning and allow us to identify sales opportunities as earliest as possible. Nevertheless, since we have no physical presence in Europe, the distance between China and Europe and the substantial input of time incurred by our management for each business visit could impair the effectiveness of our marketing efforts and distract our management's attention from other part of our business operation. The constraints as mentioned above have limited our opportunity and capacity to further our business scale and relationship with major customers and to secure new customers.

FUTURE PLANS AND USE OF PROCEEDS

Further, we have received informal enquiry from potential customers about the availability of local sales team and support. We believe that the representatives of our customers will find it more convenient and hence will be more willing to approach us if we have sales representatives in the same or nearby geographical region who are familiar with their requirements, could readily and more intensively market our products as and when we identify a potential sales opportunity, closely follow-up purchase orders with them, and give timely responses and support, and we can reinforce confidence from the procurement teams of our customers through frequent communications. We are also able to compete effectively in terms of service level against our competitors which has local or regional sales office. We believe that elevating our service levels through establishing regional sales offices would allow us to consolidate our business relationship with major customers and demonstrating our commitment to the regional market, which are vital for us to secure more orders and generate more collaborative opportunity with them.

For potential customers, it is always our plan to expand our customer base overseas and increase our market coverage through selling products to new customers who are large-scale retail chain. We have discussed and explored business opportunities with two potential new customers who are large-scale consumer goods distributors or wholesalers based in the United Kingdom and Netherlands, respectively. We plan to proactively showcase our product lines and maintain regular contacts with them, with a view to become their shortlisted supplier and obtain large volume and regular sales orders from them. For background information relating to these two potential new customers, see “Business – Our Business Strategies – Expand and upgrade our production facilities to strengthen our in-house production capabilities to achieve economics of scale” in this prospectus. Having regional sales offices in Europe could facilitate us in carrying out our sales and marketing plan with new customers who previously have no or short business track record with us and enhance their confidence in us by increasing our visibility in the market.

In terms of research and development, as an ODM supplier of consumer products, product design and development is an integral part of our business model, and our capability in this respect differentiates us from our peers. Currently we analyse and anticipate consumer’s preference and fashion trend mainly by reference to the feedbacks from our staff who have attended the customer visits or trade fairs, the information from our overseas trade agencies, and other publicly available information. Converting concepts into product is an ongoing process and require us to refresh the ideas and polish the design based on our available information and creativity of our designers. With our sales and marketing personnel stationing in Europe, we can closely study the consumer’s preference and consumption habit in our target markets, obtain first-hand market information and can keep ourselves abreast of the latest fashion trend by conducting in-depth market research on and keeping regular contact with local customers or consumers, which in turn, supply ideas to our design team on a continuous basis and increase our ability to convert product concepts into widely accepted and popular consumer products.

While we managed to grow our business in Europe since our establishment in 1999 without the establishment of overseas sales office, in light of the reasons as mentioned above, the increasing expectation from our customers, intensifying market competition over the years, coupled with the advantage of obtaining first-hand market information and having a closer interaction with major customers or potential new customers, we have grown to a size which warrants regional sales offices in Europe to propel our business growth and facilitate the execution of our marketing initiatives. Establishing regional sales offices in Europe is also in line with our previous business practice, as we acquired a subsidiary in Australia in 2017 when we plan to explore overseas market for self-branded products.

FUTURE PLANS AND USE OF PROCEEDS

Having considered the above, we plan to allocate 21.8% of the net proceeds from the Global Offering to finance our plan to establish two regional sales offices in Europe to drive our growth and capture market share. See “Business – Our Business Strategies” for the detailed implementation of our plan.

Commercial rationale to expand our production capacity and capability to cope with our future growth

To align with our overseas expansion plan and capture business opportunities from the markets of candles and home fragrance, we need to maintain sufficient spare production capacity to satisfy the potential increase in purchase orders from customers and consumers. During the Track Record Period, the utilisation rates of our production facilities for candles maintained at a relatively high level. For FY2016, FY2017, FY2018 and 6M2019, the average utilisation rate of our production facilities was 81.2%, 98.4%, 95.1% and 77.6%, respectively.

Therefore, without compromising the quality and production lead time, where our production facilities are or are expected to be almost reaching its maximum capacity, we may have to give up new production orders for candles and run the risk of losing customers or sales expansion opportunity. We have encountered situations in the past where potential or existing customers made enquires with us on our production capacity and expressed an indication to place new or larger size of the purchase order, but since during the relevant period, having considered our then production capacity and high utilisation rate, we reluctantly declined certain of such requests for ensuring product quality and timely delivery, or experience delay in the delivery of our products, or where such products were suitable for subcontracting, we outsourced their production to contract manufacturers, which our controls over the cost and quality were not as effective and direct as those over our in-house production, and may not be preferred by some customers.

For candles, during the Track Record Period, it was our practice to outsource the production under certain circumstances. For details, see “Business – Subcontracting Arrangement” in this prospectus. We normally subcontract the production of candles (e.g. basic candles) which do not require high technical complicity. We believe that this is the way we could minimise our cost of monitoring the quality of subcontracted products which do not have high technical requirements and could minimise our initial capital investment given our limited resources. We also outsource the production of our products during peak seasons. For customised orders, in order to bargain for a higher price, we are required to retain a higher degree of control over the production cost and avoid the mark-ups from contract manufacturers, and hence, it is not our practice to outsource the production to the extent that we have spare production capacity and the required expertise, as we are able to produce efficiently on our own. For FY2016, FY2017, FY2018 and 6M2019, the gross profit margin from self-manufactured products was 24.6%, 26.8%, 28.6% and 30.6%, which was higher than the gross profit margin of 18.2%, 17.3%, 20.3% and 19.1% from products outsourced to contract manufacturers for the same periods. Further, we do not subcontract candles where our customers (usually major retail chains) have high quality expectation from us so that it is commercially desirable for us to undertake the production on our own to reinforce such customer’s confidence in our product quality. Accordingly, whilst we remain open to outsource the production to the extent necessary, where we have the required production capacity and expertise, it is our practice to produce candles on our own to achieve economics of scale. Having considered the utilisation rate of our production facilities and the potential increase in purchase orders that would result from the full and successful implementation of our business strategies as disclosed in “Business – Our Business Strategies” in this prospectus, we see the need to maintain spare production capacity for candles, which will allow us to receive new orders and expand our sales to existing customers.

FUTURE PLANS AND USE OF PROCEEDS

For home fragrance, during the Track Record Period, we were not equipped with the relevant production facilities and we outsourced the production of such products to two contract manufacturers. In light of (i) the historical and anticipated growth of market size of home fragrance in EU according to the F&S Report, (ii) the gradual growth of our revenue and gross profit from this product segment during the Track Record Period, (iii) the possibility of further improving our gross profit margin from this segment as more particularly elaborated below, (iv) our intention to reduce the degree of reliance on contract manufacturers as the size of this segment continues to grow and to better fulfill the requirements of our customers, and (v) our competence in handling the production of home fragrance as evidenced by the extensive experience and involvement of our senior management in the quality control and supply chain management of such products for many years, there is a driving force for us to expand our own production capability in home fragrance.

Upon setting up of the in-house production facilities for home fragrance, we will follow the same operation model as candle production and manage the operation with our existing management team. We will source raw materials such as aroma essence and functional flavours directly from the relevant suppliers to produce fragrance oil and diffuser. We will recruit a new production team to carry out the production activities of home fragrance. Save and except for the addition of production facilities and manpower to operate the production lines, it is not expected to have a material impact on our business operation. In terms of financial performance, our in-house production arrangement for home fragrance is expected to increase our profitability in this product segment having considered the following:

- we will be better placed to control over the cost of production, in particular, labour cost and cost of raw materials, and enjoy economies of scale as the volume of production and procurement increases;
- by gradually transforming the production model from subcontracting to in-house production, we will be able to internalise the cost of production of our two home fragrance contract manufacturers, minimise our exposure to fluctuations in purchase price as well as reduce our reliance on any single contract manufacturer or a small group of contract manufacturers, which is vital to us to maintain a stable cost-structure; and
- we will be able to directly monitor the in-house production process and hence exercise better control over product quality, thereby allowing us to effectively develop and market its home fragrance products to and secure orders from customers which place significant emphasis on product quality, and to command a higher price for such products in the future.

For illustrative purpose, based on our estimated labour cost calculated by reference to the staff cost and overheads for in-house production of candles incurred for 6M2019, and the preliminary quotations obtained from the suppliers of principal raw materials (such as containers, fragrance oil, diffuser and packing materials), after the commencement of the in-house production, we would be able to save around 7% to 10% in the cost of production and achieve around 5% to 7% increase in the average gross profit margin from the sale of self-manufactured home fragrance compared to the home fragrance sourced from our existing contract manufacturers, assuming that the specifications of the home fragrance are the same as those we sold in 6M2019 and that the costs of raw materials would be fluctuated within the range of 5%.

FUTURE PLANS AND USE OF PROCEEDS

On the other hand, to support our expansion plan in respect of self-branded products as more particularly disclosed in “Business – Our Business Strategies” in this prospectus, we are keen to increase in-house production capacity capability, which we will generally have higher flexibility in the pricing and product mix, and will have better protection on the associated intellectual property rights of our Group such as the use of our brand names and designs of the packaging.

Please see “Business – Our Business Strategies – Expand and upgrade our production facilities to strengthen our in-house production capabilities to achieve economies of scale” which sets out our key considerations in support of this Expansion Plan. Having considered the above, we plan to allocate 47.5% of the net proceeds from the Global Offering to finance our Expansion Plan with respect to production.

Commercial rationale to strengthen our research and development capabilities

As more particularly disclosed in “Business – Our Business Strategies” in this prospectus, due to the nature of our principal products which are consumer goods, we are required to continue to spend our efforts in product innovation and enhancing product performance which are crucial to our long-term success and profitability, and will strengthen our market position as a leading manufacturer and supplier of candles and home fragrance. To cope with the future technological advancement on manufacturing technique, rapidly changing consumer’s preference, demanding standards on the compositions and features of the products sold by us, we consider necessary to strengthen our research and development capabilities by enriching our product offering and enhancing their features, responding to market change on a timely basis by studying closely the prevailing industry and fashion trends and incorporating latest market information into our product planning process, in order to seize business opportunities and stay competitive. Thus, we plan to allocate 12.3% of the net proceeds from the Global Offering for upgrading our research and development infrastructure, recruiting experienced research staff and formulating and executing new research projects with high business potential.

Our Directors are of the view that the business strategies contemplated under the Expansion Plan are reasonable and commercially justified. Given that these plans are interconnected with each other, the Expansion Plan is a coherent and integrated plan and it is not commercially practicable to carry out the Expansion Plan partially or selectively.

Funding needs

As at 31 October 2019, we had an aggregate amount of cash and cash equivalent of RMB78.0 million. We recognised an increase in cash and cash equivalents during FY2017 and FY2018 which were mostly contributed by the net cash inflows from operating activities of RMB84.3 million, proceeds of RMB59.5 million from one-off disposal of our subsidiary for the purpose of the Reorganisation and capital contribution from Shareholders of RMB49.0 million, offset by the dividend of RMB120.1 million paid to Shareholders during FY2018.

Our daily operation involves various types of cash flows, including but not limited to, payments to suppliers, employees and trade receipts from customers. We have a capital management practice to maintain a sufficient level of working capital to pay to the employees timely and also fulfil our obligation to pay suppliers according to the credit terms granted by the suppliers. Since most of the suppliers require payment upon delivery of products, we normally maintain a level of fund which is sufficient for upcoming two months of payments to suppliers. During FY2018, we received on average RMB43.8 million monthly from customers while we paid on average RMB36.8 million to

FUTURE PLANS AND USE OF PROCEEDS

suppliers. Accordingly, we target a safe general working capital level of not less than RMB29.8 million to support our daily operation. Our Directors consider it is necessary to carefully manage our available financial resources and to maintain our sufficient liquidity position to support the working capital requirements of our daily operation.

Taking into account the capital in the amounts of RMB71.1 million and RMB28.5 million which are required to finance our Expansion Plan for the first 12 months period since the implementation of our Expansion Plan (January to December 2020) and the remaining period of the Expansion Plan thereafter, respectively, and our requirement to maintain a safe general working capital level, our cash on hand is not sufficient to finance our Expansion Plan to a full extent.

Pursuing equity financing versus debt financing

Our Directors have carefully considered the desirability to finance our Expansion Plan through debt financing, and determined that it is in the interest of our Company to seek equity financing instead which is considered as more attractive than relying solely on debt financing in light of the following:

- (i) in the PRC, private enterprises always encounter difficulties in obtaining debt financing from banks. The availability of the debt financing from banks is subject to a number of factors, such as any tightening fiscal and monetary policies of the PRC government, the general economic conditions of the PRC, the overall performance of the industry sector in which we carry on our business, and the bank's risk management policy, which are beyond the control of private enterprises in the PRC and may change from time to time. In addition, as more particularly disclosed under "Business – Our Business Strategies" in this prospectus, we plan to establish our physical presence in the European market. For this purpose, we would need sufficient capital in foreign currencies to fund the initial capital and expenses to be incurred. In light of the above and based on our Directors' experience, there exists uncertainty for us as a private company to secure sufficient credit lines outside the PRC from banks on commercially acceptable terms, or at all, for business expansion purposes. By contrast, equity financing by way of Listing will provide us the necessary and immediately available fund outside the PRC to finance our overseas expansion;
- (ii) as a private company, it is usual for the lending bank to impose restrictive covenants such as collateral requirement, cash deposit requirement, maintenance of certain levels of financial ratios and restrictions on the use of the loan proceeds of our required scale for non-trade use, which in turn, would limit the amount of funds that we are able to apply for our Expansion Plan, restrict our business activities such as our ability to pay dividends or obtain additional financing, and hinder our future expansion. According to our recent dealing with the PRC banks, it is likely that they will impose one or more of the abovementioned covenants or restrictions and are unable to lend a significant amount to us for the purpose of business expansion;
- (iii) further, as at 31 October 2019, our non-current assets available as collaterals, which comprised mainly land use rights, buildings, assets under construction and machinery, amounted to RMB60.7 million. Considering the value of the non-current assets that we could offer as collateral(s), we may not be able to offer collateral(s) of sufficient value and hence raise sufficient fund from the banks to fund our Expansion Plan. Moreover, reliance on such sources of collateral will inevitably limit the amount of debt financing which would in turn hinder our future business development;

FUTURE PLANS AND USE OF PROCEEDS

- (iv) lending banks generally require our Controlling Shareholders to provide collateral or personal guarantee to secure our payment obligations, especially for long-term loans of significant amount. There is no assurance that such security will be made available by our Controlling Shareholders at all times and the withdrawal or unavailability of any such security for whatever reasons would reduce the amount of banking facilities made available to us. It would also not be in the best interest of our Company to rely on debt financing that may involve personal guarantee or collateral provided by our Controlling Shareholders and their associates as it is our strategy to minimise connected transactions and related party transactions in order to carry out our business independently from connected persons;
- (v) reliance on debt financing to fund future operation may expose us to increasing financial cost as the lending rates fluctuate from time to time. Despite the current low interest rate environment, assuming we are able to obtain debt financing from banks, there is no assurance that whether and until when low interest rate environment will be prolonged in the future. Any interest rate hikes could significantly impact our financial performance; and
- (vi) servicing debt obligations could be burdensome to our operations. If we fail to service such debt obligations on time or we are unable to comply with any of the covenants, we could be in default of such debt obligations and our liquidity, financial credibility and financial condition could be materially and adversely affected.

Balancing the above factors and having considered our funding needs for implementing our Expansion Plan, our Directors consider that equity financing is a more attractive option than debt financing at this juncture and that pursuing equity financing by way of Listing is in the interest of our Company and its Shareholders as a whole.

Enhancing corporate profile

The competition in our industry is keen, comprising a large number of small and scattered candle manufacturers, and the price competition among them is fierce. Therefore, it is crucial for us to increase our overall competitiveness by continuing to strengthen our corporate profile and reputation, which we could leverage for exploring and attracting new customers and increasing market share. In addition, our customers are mainly situated in Europe and some of our major customers are renowned home decor wholesalers or chain retailers in Europe. Thus, we are endeavoured to elevate our corporate profile and reputation which are relevant considerations for our customers when selecting overseas supplier. Brand image is also a major tool for us to develop brand loyalty among consumers of our self-branded products. In addition, our listing status following the Listing will increase the confidence of our customers and suppliers in our financial standing and corporate governance, which in turn, enhance our credibility and hence our bargaining power when fixing the commercial terms with them and earn us more opportunities to collaborate with them.

Attracting talents

We rely on qualified and experienced designers and technicians in product development process, which is an integral part of our ODM sale and branded sale businesses. Following the Listing, our corporate profile and enhanced brand awareness can help us attract, recruit and retain our valued skilled employees, which is instrumental for our long-term growth.

FUTURE PLANS AND USE OF PROCEEDS

Taking into account the above considerations, our Directors believe that the Listing is beneficial to our Company and its Shareholders as a whole.

USE OF PROCEEDS

The following table sets forth the estimated net proceeds of the Global Offering which we will receive, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering (the “**Net Proceeds**”), assuming the Over-allotment Option is not exercised:

Amount of Net Proceeds	Assuming the Over-allotment Option is not exercised (HK\$ million)	Assuming the Over-allotment Option is exercised in full (HK\$ million)
If the Offer Price is fixed at HK\$1.44 per Share (being the mid-point of the Offer Price range stated in this prospectus)	106.8	127.4
If the Offer Price is fixed at HK\$1.60 per Share (being the high end of the Offer Price range stated in this prospectus)	122.1	145.0
If the Offer Price is fixed at HK\$1.28 per Share (being the low end of the Offer Price range stated in this prospectus)	91.5	109.8

We intend to apply the Net Proceeds, assuming the Over-allotment Option is not exercised and an Offer Price of HK\$1.44 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), for the following purposes:

- 47.5%, or HK\$50.8 million (equivalent to RMB45.6 million), will be used to increase our production lines for candles and expand our production capability in home fragrance;
- 22.4%, or HK\$23.9 million (equivalent to RMB21.6 million), will be used for establishing two regional sales offices in Europe;
- 12.3%, or HK\$13.1 million (equivalent to RMB11.8 million), will be used to strengthen our research and development capabilities;
- 8.4%, or HK\$9.0 million (equivalent to RMB8.1 million), will be used to upgrade our information system and logistics capacities; and
- 9.4%, or HK\$10.0 million (equivalent to RMB9.0 million), will be used for general working capital purpose.

FUTURE PLANS AND USE OF PROCEEDS

If the Offer Price is set at the highest or lowest point of the indicative Offer Price range, the Net Proceeds, assuming that the Over-allotment Option is not exercised, will increase by HK\$15.3 million or decrease by HK\$15.3 million, respectively, and in such event, we intend to increase or decrease, respectively, the Net Proceeds to be used for the above purposes on a pro-rata basis.

In the event that the Over-allotment Option is exercised in full, we estimate that we will receive additional Net Proceeds of HK\$20.6 million, after deducting underwriting commissions, fees and other estimated expenses payable by us, assuming an Offer Price of HK\$1.44 per Offer Share (being the mid-point of the Offer Price range of HK\$1.28 to HK\$1.60 per Offer Share). We intend to apply all additional Net Proceeds for the same purposes as set out above on a pro rata basis.

To the extent that the Net Proceeds are not immediately applied to the above purposes, we intend to place the same in short-term deposits with licensed banks or financial institutions in Hong Kong and/or through money market instruments as permitted by the relevant laws and regulations. In the event that we would require additional financing apart from the Net Proceeds for our expansion plans, the shortfall will be financed by our internal resources and bank financing as appropriate.

UNDERWRITING

HONG KONG PUBLIC OFFER UNDERWRITERS

Sole Global Coordinator

China Industrial Securities International Capital Limited

Joint Bookrunners

China Industrial Securities International Capital Limited
BOCOM International Securities Limited

Joint Lead Managers and Underwriters

China Industrial Securities International Capital Limited
BOCOM International Securities Limited
Blackwell Global Securities Limited
Lee Go Securities Limited
Sinomax Securities Limited
Yicko Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offer

Hong Kong Public Offer Underwriting Agreement

Pursuant to the Hong Kong Public Offer Underwriting Agreement, our Company is initially offering for subscription by public in Hong Kong of 10,000,000 Hong Kong Public Offer Shares at the Offer Price under the Hong Kong Public Offer, on and subject to the terms and conditions set forth in this prospectus and the Application Forms. The Hong Kong Public Offer Underwriters have agreed, on and subject to the terms and conditions in the Hong Kong Public Offer Underwriting Agreement, to procure subscribers for, or failing which they shall subscribe for, the Hong Kong Public Offer Shares.

The Hong Kong Public Offer Underwriting Agreement is subject to various conditions, which include, without limitation:

- (a) the Listing Committee granting the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus; and
- (b) the International Placing Underwriting Agreement having been executed, becoming unconditional and not having been terminated.

Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination if, at any time before 8:00 a.m. on the Listing Date:

- (a) there develops, occurs, exists or comes into force:

UNDERWRITING

- (i) any change or development involving a prospective change, or any event or series of events resulting in or representing a change or development, or prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal, regulatory or market conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies) in or affecting Hong Kong, China, the United States, the United Kingdom, France, Germany, the Netherlands, Spain, Portugal, the Cayman Islands, the BVI or any other jurisdiction relevant to any member of our Group (collectively, the “**Relevant Jurisdictions**”); or
- (ii) any new laws, rules, statutes, ordinances, regulations, guidelines, opinions, notices, circulars, orders, judgements, decrees or rulings of any governmental authority (the “**Law**”) or change or development involving a prospective material change in existing Laws or any change or development involving a prospective material change in the interpretation or application of the Law by any court or other competent authority in any of the Relevant Jurisdictions; or
- (iii) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, epidemics, pandemics, outbreak of diseases, civil commotion, riot, public disorder, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God, accident or interruption or delay in transportation) in or affecting any of the Relevant Jurisdictions; or
- (iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency, declaration of a national or international emergency or war, or calamity or crisis in or affecting any of the Relevant Jurisdictions; or
- (v) (1) any, moratorium, suspension of, or restriction or limitation on, trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the American Stock Exchange, the NASDAQ National Market, the London Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or the Tokyo Stock Exchange or (2) a general moratorium on commercial banking activities in New York (imposed at Federal or New York State level or other competent authority), London, the United Kingdom, France, Germany, the Netherlands, Spain, Portugal, Japan, Hong Kong or China, declared by the relevant authorities, or a disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any of the Relevant Jurisdictions; or
- (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, the United States or by the United Kingdom, France, Germany, the Netherlands, Spain, Portugal, on any of the Relevant Jurisdictions; or

UNDERWRITING

- (vii) any material change or prospective material change in taxation or exchange controls, currency exchange rates or foreign investment regulations in any of the Relevant Jurisdictions (including without limitation a devaluation of the Hong Kong dollar, MOP or the Renminbi against any foreign currencies) or the implementation of any exchange control in any of the Relevant Jurisdictions; or
- (viii) 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
- (ix) the commencement by any state, governmental, judicial, law enforcement agency, regulatory or political body or organisation (collectively, the “**Organisations**”) of any action, proceedings, investigation or enquiry, or any sanction, penalty or reprimand imposed or issued by any of the Organisations, against any member of our Group or any Director or an announcement by any of the Organisations that it intends to take any such action; or
- (x) any litigation or claim being threatened or instigated against any member of our Group or any Director; or
- (xi) a Director being charged with an indictable offence or prohibited by operation of Law or otherwise disqualified from taking part in the management of a company; or
- (xii) the chairman or chief executive officer of our Company vacating his office; or
- (xiii) a material breach or contravention by any member of our Group of the Companies (WUMP) Ordinance, the Companies Ordinance, the Listing Rules or any applicable Law; or
- (xiv) a prohibition on our Company for whatever reason from allotting and issuing the Offer Shares (including any additional Shares issued under the exercise of the Over-allotment Option) under the terms of the Global Offering; or
- (xv) non-compliance of this prospectus, the relevant offering circulars (or any other documents used in connection with the subscription of the Offer Shares) or any aspect of the Global Offering with the Companies (WUMP) Ordinance, the Companies Ordinance, the Listing Rules or any other applicable Law; or
- (xvi) other than with the approval of the Sole Global Coordinator, the issue or requirement to issue by our Company of a supplement or amendment to this prospectus (or to any other documents used in connection with the subscription of the Offer Shares) under the Companies (WUMP) Ordinance, Companies Ordinance, the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (xvii) a valid demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable before its stated maturity; or
- (xviii) any material loss or material damage sustained by any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person); or

UNDERWRITING

(xix) a petition is presented for the winding up or liquidation of any member of our Group or bankruptcy of any Director, or any member of our Group or any Director makes any composition or arrangement with its or his creditors or enters into a scheme of arrangement, or any resolution is passed for the winding up of any member of our Group, or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any member of our Group or any Director or any analogous matter occurs in respect of any member of our Group or any Director,

and which, in any such case and in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters),

- (1) is or will or may or is likely to be materially adverse to, or materially and prejudicially affect, the business, management, general affairs, financial or trading position or prospects of our Group as a whole; or
 - (2) has or will have or may or is likely to have an adverse effect on the success, marketability or pricing of the Global Offer or the level of applications under the Hong Kong Public Offer or the level of interest under the International Placing; or
 - (3) makes or will or may or is likely to make it impracticable, inadvisable or inexpedient to proceed with the Hong Kong Public Offer and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus; or
 - (4) makes or will or may or is likely to make it impracticable, inadvisable or inexpedient for any part of the Hong Kong Underwriting Agreement (including underwriting), the Hong Kong Public Offer and/or the Global Offering (including processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof) to be performed or implemented as envisaged; or
- (b) there comes to the notice of the Sole Global Coordinator or any of the Hong Kong Underwriters after the date of the Hong Kong Underwriting Agreement:
- (i) any statement or information, or any matter or circumstance that renders or could render any statement or information, contained in this prospectus, the Application Forms, the formal notice and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offer and/or the International Placing (including any supplement or amendment to any of the documents) (collectively, the “**Offer Documents**”) was or has or may become, untrue, incorrect or misleading in any respect or that any estimate, forecast, expression of opinion, intention or expectation expressed in any Offer Document is not or may not be, in the sole and absolute opinion of the Sole Global Coordinator, fair and honest and based on reasonable assumptions; or
 - (ii) any matter or circumstance has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the date of this prospectus and not having been disclosed in this prospectus, constitute a material omission from any of the Offer Documents and/or in any notices, announcements, advertisements,

UNDERWRITING

communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offer (including any supplement or amendment thereto); or

- (iii) any material breach of, or any event rendering untrue, incorrect or misleading in any material respect, any of the warranties or representations given by our Company, the executive Directors; or the Controlling Shareholders in the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or
- (iv) any material breach of any of the obligations, confirmation or undertakings of our Company, our Controlling Shareholder or the Executive Directors under the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or
- (v) any material event, act or omission which gives or may give or is likely to give rise to any liability of any of our Controlling Shareholders, Executive Directors and our Company pursuant to the indemnity provisions under the Hong Kong Underwriting Agreement; or
- (vi) any information, matter or event which in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters);
 - (1) is inconsistent in any respect with any information contained in Form B in Appendix 5 to the Listing Rules given by our Directors; or
 - (2) would cast any serious doubt on the integrity or reputation of any Director or the reputation of our Group; or
- (vii) any material adverse change or development or prospective material adverse change or development in the conditions, business, general affairs, management, prospects, assets, liabilities, shareholders' equity, profits, losses, operating results, the financial or trading position or performance of any member of our Group; or
- (viii) approval by the Listing Committee of the listing of, and permission to deal in, the Shares is refused or not granted, other than subject to customary conditions, on or before the date of approval of the Listing, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (ix) our Company withdraws any of this prospectus or any Application Forms (and any other documents used in connection with the contemplated subscription of the Offer Shares) or the Global Offering; or
- (x) any person (other than the Sole Global Coordinator and any of the Underwriters) has withdrawn or sought to withdraw its consent to being named in any of this prospectus or any Application Forms or to the issue of any of the Offer Documents.

UNDERWRITING

Undertakings to the Hong Kong Public Offer Underwriters

Undertakings by our Company

Our Company has undertaken to each of the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Hong Kong Underwriters that at any time from the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the Listing Date (the “**First Six-month Period**”), our Company will not (except for the issue of Shares under the Capitalisation Issue, the Global Offering, the Over-allotment Option and any options which may be granted under the Share Option Scheme) without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) (unless in compliance with the requirements set out in the Listing Rules):

- (a) offer, accept subscription for, pledge, charge, mortgage, allot, issue, sell, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase, any of our share capital or securities of our Company or any interest in our securities or any voting right or any other right attaching thereto (including but not limited any securities convertible into, exercisable or exchangeable for, or that represent the right to receive such share capital or securities or any interest in our share or debt capital); or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share or debt capital or securities or any interest in our securities or any voting right or any other right attaching thereto; or
- (c) offer or agree or contract to enter or enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or
- (d) publicly announce any intention to enter into any transaction described in (a), (b) or (c) above,

whether any of the foregoing transactions described in (a), (b) or (c) above is to be settled by delivery of share capital or such other securities, in cash or otherwise. Our Company further agrees that in the event of an issue or a disposal of any Shares, securities or any interest of our securities or any voting right or any other right attaching thereto after the First Six-month Period, our Company will take all reasonable steps to ensure that such an issue or a disposal will not create a disorderly or false market for the Shares.

Undertakings by our Controlling Shareholders

Each of our Controlling Shareholders has undertaken to our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Hong Kong Underwriters that, except pursuant to the Global Offering, the Over-allotment Option or, if applicable, the stock borrowing arrangement that may be entered into with the Stabilising Manager or its agent, our Controlling

UNDERWRITING

Shareholders will not, without the prior written consent of the Sole Global Coordinator (for themselves and on behalf of the Hong Kong Underwriters), at any time:

- (i) during the First Six-month Period:
 - (a) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or grant, contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interest or encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, or cause us to repurchase, any of our share or debt capital or our other securities or any interest in our share or debt capital or any voting right or any other right attaching thereto (including but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any of our share or debt capital or our other securities or any interest in our share or debt capital whether now owned or subsequently acquired, owned directly by our Controlling Shareholders (including holding as a custodian) or with respect to which our Controlling Shareholders have beneficial ownership (collectively, the “**Lock-up Shares**”)). The foregoing restriction is expressly agreed to preclude our Controlling Shareholders from engaging in any hedging or other transaction which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of the Lock-up Shares even if such Shares would be disposed of by someone other than our Controlling Shareholders. Such prohibited hedging or other transactions would include without limitation any short sale or any purchase, sale or grant of any right (including without limitation any put or call option) with respect to any of the Lock-up Shares or with respect to any security that includes, relates to, or derives any significant part of its value from such Shares; or
 - (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any of our share or debt capital or our other securities or any interest in our share or debt capital or any voting right or any other right attaching thereto; or
 - (c) offer or agree or contract to enter or enter into any transaction with the same economic effect as any transaction described in (i)(a) or (i)(b) above; or
 - (d) publicly announce any intention to enter into, any transaction described in (i)(a), (i)(b) or (i)(c) above,

whether any transaction described in (i)(a), (i)(b) or (i)(c) above is to be settled by delivery of Shares or such other securities in cash or otherwise; and

- (ii) during the period of six months commencing on the date on which the First Six-month Period expires (the “**Second Six-month Period**”) enter into any of the transactions in paragraphs (i)(a), (i)(b) or (i)(c) above or agree or contract to or publicly announce any intention to enter into any such transactions if, immediately following such transfer or disposal or upon the exercise or enforcement of such options, rights, interest or encumbrances, our Controlling Shareholders will cease to be our Controlling Shareholders.

UNDERWRITING

Each of our Controlling Shareholders further agrees that in the event of a disposal of any Shares, securities or any interest of our securities or any voting right or any other right attaching thereto after the Second Six-month Period, our Controlling Shareholders will take all reasonable steps to ensure that such a disposal will not create a disorderly or false market for our Shares.

Each of our Controlling Shareholders has undertaken to each of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Hong Kong Underwriters that at any time during the period from the commencement of the First Six-month Period to the date on which the Second Six-month Period expires, he/she/it shall:

- (a) if he/she/it pledges or charges or otherwise creates encumbrances over any Shares or securities of our Company or interests therein in respect of which he/she/it is the beneficial owner, whether directly or indirectly, immediately inform each of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Hong Kong Underwriters in writing of any such pledges or charges or encumbrances and the number of Shares or securities of our Company so pledged or charged or encumbered; and
- (b) if he/she/it receives any indication, either verbal or written, from any pledgee or chargee or encumbrance or such third party that any of the pledged, charged, encumbered Shares or other securities of our Company will be disposed of, immediately inform each of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Hong Kong Underwriters in writing of any such indication.

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 Global Offering 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 his/her/its 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 or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/she/it would cease to be our Controlling Shareholder.

UNDERWRITING

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 his/her/its shareholding is made in this prospectus and ending on the date which is 12 months from the Listing Date, immediately inform us of:

- (a) 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.

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 Global Offering (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.

International Placing

International Placing Underwriting Agreement

In connection with the International Placing, it is expected that our Company, our Controlling Shareholders and executive Directors will enter into the International Placing Underwriting Agreement with the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Sole Global Coordinator, the International Placing Underwriters and other parties (if any) on terms and conditions that are substantially similar to the Hong Kong Public Offer Underwriting Agreement as described above and on the additional terms described below.

Under the International Placing Underwriting Agreement, subject to the conditions set forth therein, the International Placing Underwriters are expected to procure subscribers and purchasers to subscribe for or purchase, or failing which they shall subscribe for or purchase, the International Placing Shares initially being offered pursuant to the International Placing. It is expected that the International Placing Underwriting Agreement may be terminated on similar grounds as the Hong Kong Public Offer Underwriting Agreement. Prospective investors shall be reminded that in the event that the International Placing Underwriting Agreement is not entered into, the Global Offering will not proceed. The International Placing Underwriting Agreement is conditional on and subject to the Hong Kong Public Offer Underwriting Agreement having been executed, becoming unconditional and not having been terminated. It is expected that pursuant to the International Placing Underwriting Agreement, our Company and Controlling Shareholders will make similar undertakings as those given pursuant to the Hong Kong Public Offer Underwriting Agreement as described in the paragraph headed “Undertakings to the Hong Kong Public Offer Underwriters” above in this section.

UNDERWRITING

Our Company is expected to grant to the International Placing Underwriters the Over-allotment Option. The Sole Global Coordinator or its agent, on behalf of the International 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 initially available under the Global Offering, at the Offer Price per International Placing Share, solely to cover over allocations, if any, in the International Placing.

The Over-allotment Option may be exercised by the Sole Global Coordinator any time from the Listing Date and until the 30th day after the last day for the lodging of applications under the Hong Kong Public Offer, being Wednesday, 5 February 2020. The purpose of the exercise of the Over-allotment Option is to settle any over-allocations in the International Placing, if any. See section headed “Structure of the Global Offering” for further details of the Over-allotment Option.

Commission, fees and expenses

The Hong Kong Public Offer Underwriters will receive a gross underwriting commission of 4.5% of the aggregate Offer Price of the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offer out of which any sub-underwriting commission and selling concession will be paid. For unsubscribed Hong Kong Public Offer Shares reallocated to the International Placing and any International Placing Shares reallocated from the International Placing to the Hong Kong Public Offer, we will pay an underwriting commission at the rate applicable to the International Placing and such commission will be paid to the International Placing Underwriters and not the Hong Kong Public Offer Underwriters.

Based on the Offer Price of HK\$1.44 per Offer Share (being the mid-point of the indicative range of the Offer Price), the aggregate commission, together with Stock Exchange listing fees, SFC transaction levy, Stock Exchange trading fees, legal and other professional fees and printing and other expenses relating to the Global Offering, are estimated to amount to approximately RMB33.5 million in total (assuming the Over-allotment Option is not exercised), and are payable by our Company with reference to the number of new Shares under the Global Offering respectively. We will also pay for all expenses in connection with any exercise of the Over-allotment Option.

SOLE SPONSOR’S AND UNDERWRITERS’ INTEREST IN OUR COMPANY

The Sole Sponsor will receive a sponsorship fee to the Global Offering. The Sole Global Coordinator and the Underwriters will receive an underwriting commission and/or praecipium. Particulars of these underwriting commission and expenses are set forth under the paragraph headed “Commission, fees and expenses” above.

We have appointed China Industrial Securities International Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules for the period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the full financial year commencing after the Listing Date.

None of the Sole Sponsor, the Sole Global Coordinator, 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 Global Offering.

UNDERWRITING

Following the completion of the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their respective obligations under the Hong Kong Public Offer Underwriting Agreement and/or the International Placing Underwriting Agreement.

The Sole 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 Sole Global Coordinator will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Global Offering. The Global Offering consists of:

- a. the Hong Kong Public Offer of 10,000,000 Offer Shares (subject to reallocation as mentioned below) in Hong Kong as described below under the paragraph headed “The Hong Kong Public Offer” below; and
- b. the International Placing of an aggregate of 90,000,000 Offer Shares (subject to reallocation as mentioned below) which will conditionally be placed with selected professional, institutional, and other investors under the International Placing.

Investors may apply for the Hong Kong Public Offer Shares under the Hong Kong Public Offer or indicate an interest, if qualified to do so, for the International Placing Shares under the International Placing, but may not do both. The number of Offer Shares to be offered under the Hong Kong Public Offer and the International Placing may be subject to reallocation as described in the section headed “The Hong Kong Public Offer – Reallocation” below.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offer.

THE HONG KONG PUBLIC OFFER

Number of Offer Shares initially offered

Our Company is initially offering 10,000,000 Hong Kong Public Offer Shares for subscription (subject to reallocation) at the Offer Price by members of the public in Hong Kong under the Hong Kong Public Offer, representing 10% of the total number of Offer Shares initially available under the Global Offering. The Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offer, subject to any reallocation of Offer Shares between the International Placing and the Hong Kong Public Offer, will represent 2.5% of the enlarged issued share capital of our Company immediately following the completion of the Capitalisation Issue and the Global Offering, assuming the Over-allotment Option is not exercised.

The Hong Kong 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 Hong Kong Public Offer is subject to the conditions as set out in the paragraph headed “Conditions of the Global Offering” of this section.

Allocation

Allocation of the Hong Kong Public Offer Shares to investors under the Hong Kong Public Offer will be based solely on the level of valid applications received under the Hong Kong Public Offer. The basis of allocation may vary, depending on the number of Hong Kong 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 Hong Kong Public Offer Shares than

STRUCTURE OF THE GLOBAL OFFERING

others who have applied for the same number of Hong Kong Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offer Shares.

The total number of Hong Kong Public Offer Shares available under the Hong Kong 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 pool A and 5,000,000 Offer Shares for pool B. The Hong Kong Public Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong 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 Hong Kong Public Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong 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 Hong Kong Public Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined).

Applicants can only receive an allocation of Hong Kong Public Offer Shares from either pool A or pool B and not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offer and any application for more than 5,000,000 Hong Kong Public Offer Shares, being 50% of the 10,000,000 Hong Kong Public Offer Shares initially available under the Hong Kong Public Offer are liable to be rejected.

Reallocation and clawback

The allocation of Shares between the Hong Kong Public Offer and the International Placing is subject to reallocation on the following basis:

- (a) Where the International Placing Shares are fully subscribed or oversubscribed:
 - (i) if the Hong Kong Public Offer Shares are undersubscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Public Offer Shares to the International Placing, in such proportions as the Sole Global Coordinator deems appropriate;
 - (ii) if the Hong Kong Public Offer Shares are not undersubscribed but the number of Offer Shares validly applied for under the Hong Kong Public Offer represents less than 15 times, the number of the Offer Shares initially available for subscription under the Hong Kong Public Offer, then up to 10,000,000 Offer Shares may be reallocated to the Hong Kong Public Offer from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offer will be increased to 20,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Global Offering;

STRUCTURE OF THE GLOBAL OFFERING

- (iii) if the number of Offer Shares validly applied for under the Hong Kong Public Offer represents 15 times or more but less than 50 times, the number of the Offer Shares initially available for subscription under the Hong Kong Public Offer, then 20,000,000 Shares will be reallocated to the Hong Kong Public Offer from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offer will be increased to 30,000,000 Offer Shares, representing 30% of the number of the Offer Shares initially available under the Global Offering;
 - (iv) if the number of Offer Shares validly applied for under the Hong Kong Public Offer represents 50 times or more but less than 100 times, the number of the Offer Shares initially available for subscription under the Hong Kong Public Offer, then 30,000,000 Shares will be reallocated to the Hong Kong Public Offer from the International Placing, so that the number of the Offer Shares available under the Hong Kong Public Offer will be increased to 40,000,000 Offer Shares, representing 40% of the number of the Offer Shares initially available under the Global Offering; and
 - (v) if the number of Offer Shares validly applied for under the Hong Kong Public Offer represents 100 times or more, the number of the Offer Shares initially available for subscription under the Hong Kong Public Offer, then 40,000,000 Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the number of the Offer Shares available under the Hong Kong Public Offering will be increased to 50,000,000 Offer Shares, representing 50% of the number of the Offer Shares initially available under the Global Offering.
- (b) Where the Placing Shares are undersubscribed:
- (i) if the Hong Kong Public Offer Shares are undersubscribed, the Global Offering will not proceed unless the Underwriters would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Global Offering on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements; and
 - (ii) if the Hong Kong Public Offer Shares are oversubscribed, irrespective of the number of times the number of Offer Shares initially available for subscription under the Hong Kong Public Offer, then up to 10,000,000 Offer Shares may be reallocated to the Hong Kong Public Offer from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offer will be increased to 20,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Global Offering.

In the event of reallocation of Offer Shares between the Hong Kong Public Offer and the International Placing in the circumstances where (x) the Placing Shares are fully subscribed or oversubscribed and the Hong Kong Public Offer Shares are oversubscribed by less than 15 times under paragraph (a)(ii) above or (y) the International Placing Shares are undersubscribed and the Hong Kong Public Offer Shares are fully subscribed or oversubscribed under paragraph (b)(ii) above, the final Offer Price shall be fixed at the low-end of the indicative Offer Price range (i.e. HK\$1.28 per Offer Share) stated in this prospectus.

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In addition, the Sole Global Coordinator (for itself and on behalf of the Underwriters) may reallocate the Offer Shares from the International Placing to the Hong Kong Public Offer to satisfy valid applications under the Hong Kong Public Offer. In accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, if such reallocation is done other than pursuant to Practice Note 18 of the Listing Rules, the maximum total number of Offer Shares that may be reallocated to the Hong Kong Public Offer following such reallocation shall be not more than double the initial allocation to the Hong Kong Public Offering (i.e. 20,000,000 Offer Shares).

In the event of a reallocation of Offer Shares from the International Placing to the Hong Kong Public Offer in circumstances under paragraph (a)(ii), (a)(iii), (a)(iv), (a)(v) and (b)(ii) above, the number of Offer Shares allocated to the International Placing will be correspondingly reduced.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

Applications

Each applicant under the Hong Kong 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 International Placing Shares under the International 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 International Placing Shares under the International Placing.

The listing of the Shares on the Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offer are required to pay, on application, the maximum offer price of HK\$1.60 per Offer Share in plus any brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share, amounting to a total of HK\$3,232.25 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" of this section below, is less than the maximum offer price of HK\$1.60 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. See section headed "How to apply for Hong Kong Public Offer Shares" for further information.

THE INTERNATIONAL PLACING

Number of International Placing Shares offered

Subject to reallocation as described above and the Over-allotment Option, the International Placing will consist of 90,000,000 new Shares, representing 90% of the total number of Offer Shares initially available under the Global Offering, assuming that the Over-allotment Option is not exercised. Subject to the reallocation of the Offer Shares between the International Placing and the Hong Kong Public Offer, the number of International Placing Shares initially offered under the International Placing will represent approximately 22.5% of our Company's enlarged issued share capital immediately after completion of the Capitalisation Issue and the Global Offering (without taking into account of any Shares which may be allotted and issued by our Company pursuant to the exercise of any options which may be granted under the Share Option Scheme or the Over-allotment Option).

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Allocation

Pursuant to the International Placing, the International Placing Shares will be conditionally placed on behalf of our Company by the International Placing Underwriters or through selling agents appointed by them. The International Placing Shares will be selectively placed to certain professional and 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 International Placing is subject to the Hong Kong Public Offer being unconditional.

Allocation of International Placing Shares pursuant to the International 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 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 Sole Global Coordinator (for itself and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Placing, and who has made an application under the Hong Kong Public Offer to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offer and to ensure that they are excluded from any application of Offer Shares under the Hong Kong Public Offer.

Reallocation

The total number of Offer Shares to be issued pursuant to the International Placing may change as a result of the clawback arrangement described in the subsection headed “The Hong Kong Public Offer – Reallocation” above, the exercise of the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offer.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, we are expected to grant the Over-allotment Option to the International Placing Underwriters, exercisable by the Sole Global Coordinator on behalf of the International Placing Underwriters.

Pursuant to the Over-allotment Option, the International Placing Underwriters will have the right, exercisable by the Sole Global Coordinator (for itself and on behalf of the International 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 Hong Kong Public Offer, being Wednesday, 5 February 2020, to require our Company to allot and issue, at the Offer Price, up to an aggregate of 15,000,000 additional New Shares, representing 15% of the number of Offer Shares initially being offered under the Global Offering, on the same terms and conditions as those applicable to the Global Offering, to cover over-allocations in the International 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.

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If the Over-allotment Option is exercised in full, the additional Offer Shares allotted and issued will represent approximately 3.6% of the enlarged issued share capital of our Company immediately following the completion of the Global Offering and the exercise of the Over-allotment Option.

STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allocation in connection with the Global Offering, the Stabilising Manager may choose to borrow, whether on its own or through its affiliates and agents, up to 15,000,000 Shares from our Controlling Shareholders 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.

If such stock borrowing arrangement with our Controlling Shareholders is entered into, it will only be effected by the Stabilising Manager or its agent for settlement of over-allocation in the International 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.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time to 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 Global Offering, 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 Global Offering, being Wednesday, 5 February 2020. 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 Hong Kong Public Offer, being Wednesday, 5 February 2020. 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 Global Offering.

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 minimizing 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 minimizing any reduction in the market price of our Shares; (iii) purchasing

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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 minimizing 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.

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 is expected to expire on Wednesday, 5 February 2020, being the 30th day after the last date for lodging applications under the Hong Kong 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 Global Offering, 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 Sole Global Coordinator, 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 International Placing, the Stabilising Manager may borrow up to 15,000,000 Shares from our Controlling Shareholders, equivalent to the maximum number of Shares to be allotted and issued by the 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 our Controlling Shareholders or their 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.

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No payments or other benefit will be made to our Controlling Shareholders by the Stabilising Manager in relation to the stock borrowing arrangement.

PRICING AND ALLOCATION

Determination of the Offer Price

The Sole Global Coordinator is soliciting from prospective investors indications of interest in acquiring the Offer Shares in the International Placing. Prospective investors will be required to specify the number of the Offer Shares under the International 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 Global Offering. Pricing for the Offer Shares for the purpose of the Global Offering will be fixed on the Price Determination Date, which is expected to be on or about Thursday, 9 January 2020, and in any event at or before 5:00 p.m. on Tuesday, 14 January 2020, by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company and the number of International Placing Shares to be allocated under the Global Offering will be determined shortly thereafter.

Range of Offer Price

The Offer Price will not be more than HK\$1.60 per Offer Share and is expected to be not less than HK\$1.28 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offer. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but not expected to be, lowered than the indicative Offer Price range as stated in this prospectus.

Price payable on application

Applicants for Offer Shares under the Hong Kong Public Offer must pay, on application, the maximum Offer Price of HK\$1.60 for each Hong Kong 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\$3,232.25 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\$1.60 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 Sole Global Coordinator (for itself and on behalf of the Underwriters) are unable to reach agreement on the Offer Price at or before 5:00 p.m. on Tuesday, 14 January 2020, the Global Offering will not proceed and will lapse.

See section headed “How to apply for Hong Kong Public Offer Shares” for further information.

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Change to the range of Offer Price

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective investors during a book-building process in respect of the International 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 Hong Kong Public Offer.

In such a 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 Hong Kong 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.kwungs.com**. The notice will include a confirmation or revision, as appropriate, of the working capital statement and the Global 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 or 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 Global Offering statistics, and any other financial information in this prospectus which may change as a result of any such change.

Before submitting applications for Hong Kong Public Offer Shares, applicants should have regard to the possibility that any announcement of an extension or reduction in the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offer. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the use of proceeds and the Global Offering 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 range, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon by our Company and the Sole Global Coordinator (for itself 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 Hong Kong 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 interests in the International Placing, and the level of applications in the Hong Kong Public Offer and the basis of allocation of the Hong Kong Public Offer Shares are expected to be published on Wednesday, 15 January 2020 on the Stock Exchange's website at **www.hkexnews.hk** and our Company's website at **www.kwungs.com**.

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UNDERWRITING

The Hong Kong Public Offer is fully underwritten by the Hong Kong Public Offer Underwriters under the terms of the Hong Kong Public Offer Underwriting Agreement. We expect to enter into the International Placing Underwriting Agreement relating to the International Placing on or around the Price Determination Day. These underwriting arrangements and the Underwriting Agreements are summarised in the section headed “Underwriting” in this prospectus.

CONDITIONS OF THE GLOBAL OFFERING

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 Global Offering (including the Shares which fall to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme or the Over-allotment Option) and such listing and permission not subsequently being revoked prior to the commencement of dealings in the Shares on the Stock Exchange.

2. International Placing Underwriting Agreement

The execution and delivery of the International Placing Underwriting Agreement on or about the Price Determination Date.

3. Obligations under the 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 us and the Sole Global Coordinator (for itself and on behalf of the Underwriters) at or before 5:00 p.m. on Tuesday, 14 January 2020, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offer and the International 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.

STRUCTURE OF THE GLOBAL OFFERING

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offer will be published by us on the Stock Exchange's website at **www.hkexnews.hk** and our Company's website at **www.kwungs.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 "How to apply for Hong Kong Public Offer Shares" in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving banks or other licensed bank(s) in Hong Kong licensed 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 Wednesday, 15 January 2020 but will only become valid certificates of title at 8:00 a.m. (Hong Kong time) on Thursday, 16 January 2020 provided that (i) the Global Offering has become unconditional in all respects, and (ii) the right of termination as described in the section headed "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offer – Grounds for termination" in this prospectus has not been exercised and has lapsed.

SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made for 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 Global Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, 16 January 2020, it is expected that dealings in Shares on the Stock Exchange will commence at 9:00 a.m. on Thursday, 16 January 2020.

Shares will be traded in board lots of 2,000 Shares each. The stock code of our Shares is 1925.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Public Offer Shares, then you may not apply for or indicate an interest for International Placing Shares.

To apply for Hong Kong Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at www.eipo.com.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Bookrunners, the Joint Lead Managers, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number; and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop (bearing the corporation name).

If an application is made by a person under a power of attorney, our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Sole Global Coordinator may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Public Offer Shares.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Public Offer Shares if you:

- are an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- are a Director or chief executive officer of our Company and/or any of its subsidiaries;
- are a core connected person of our Company or will become a core connected person of our Company immediately upon completion of the Global Offering;
- are a close associate (as defined in the Listing Rules) of any of the above; and
- have been allocated or have applied for any International Placing Shares or otherwise participate in the International Placing.

3. APPLYING FOR HONG KONG PUBLIC OFFER SHARES

Which application channel to use

For Hong Kong Public Offer Shares to be issued in your own name, (i) use a **WHITE** Application Form; or (ii) apply online through the designated website of **White Form eIPO** Service Provider at **www.eipo.com.hk**.

For Hong Kong 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, either (i) complete and sign the **YELLOW** Application Form; or (ii) give **electronic application instructions** to HKSCC via CCASS.

Where to collect the Prospectus and Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 30 December 2019 to 12:00 noon on Monday, 6 January 2020 from:

- (i) the following office of the Hong Kong Public Offer Underwriters:

China Industrial Securities International Capital Limited

7/F, Three Exchange Square 8 Connaught Place, Central Hong Kong

BOCOM International Securities Limited

9th Floor, Man Yee Building, 68 Des Voeux Road, Central, Hong Kong

Blackwell Global Securities Limited

26/F, Overseas Trust Bank Building, 160 Gloucester Road, Wanchai, Hong Kong

Lee Go Securities Limited

Suite 1202, 12/F, West Exchange Tower, 322 Des Voeux Road Central, Hong Kong

Sinomax Securities Limited

Room 2705-6, 27/F, Tower One, Lippo Centre, 89 Queensway, Hong Kong

Yicko Securities Limited

19/F, Tung Ning Building, 125-127 Connaught Road Central, Hong Kong

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- (ii) any of the following branches of Bank of China (Hong Kong) Limited, the receiving bank for the Hong Kong Public Offer:

District	Branch Name	Address
Hong Kong Island	Des Voeux Road West Branch	111-119 Des Voeux Road West, Hong Kong
Kowloon	Whampoa Garden Branch	Shop G8B, Site 1, Whampoa Garden, Hung Hom, Kowloon
New Territories	Tai Po Branch	68-70 Po Heung Street, Tai Po Market, New Territories
	East Point City Branch	Shop Nos. 217 D-E, Level 2, East Point City, 8 Chung Wa Road, Tseung Kwan O, New Territories

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 30 December 2019 until 12:00 noon on Monday, 6 January 2020 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "**BANK OF CHINA (HONG KONG) NOMINEES LIMITED – KWUNG'S HOLDINGS PUBLIC OFFER**" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Monday, 30 December 2019	– 9:00 a.m. to 5:00 p.m.
Tuesday, 31 December 2019	– 9:00 a.m. to 5:00 p.m.
Thursday, 2 January 2020	– 9:00 a.m. to 5:00 p.m.
Friday, 3 January 2020	– 9:00 a.m. to 5:00 p.m.
Saturday, 4 January 2020	– 9:00 a.m. to 1:00 p.m.
Monday, 6 January 2020	– 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Monday, 6 January 2020, the last application day or such later time as described in the paragraph headed "10. Effect of bad weather on the opening of the applications lists" in this section.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

- (i) undertake to execute all relevant documents and instruct and authorise our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and/or the Sole Global Coordinator (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 Hong Kong Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Law, the Companies Ordinance, the Companies (WUMP) Ordinance and the Memorandum and Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any of the International Placing Shares nor participated in the International Placing;
- (viii) agree to disclose to our Company, our Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Sole Global Coordinator, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Sole Global Coordinator and the Underwriters nor any of their respective officers or advisers will breach any law outside

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Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong 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 Hong Kong 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 Hong Kong Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Public Offer Shares allocated to you, and our Company and/or its agents to deposit any share certificate(s) into CCASS and/or to send any share certificate(s) and/or any refund cheque(s) and/or e-Refund payment instruction to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company, the Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (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.

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Additional instructions for Yellow Application Form

You may refer to the **YELLOW** Application Form for details.

Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

5. APPLYING THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in the paragraph headed “2. Who can apply” in this section, may apply through the **White Form eIPO** service for the Hong Kong Public Offer Shares to be allotted and registered in their own names through the designated website at **www.eipo.com.hk**.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

Time for submitting applications under the White Form eIPO

You may submit your application online to the **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Monday, 30 December 2019 until 11:30 a.m. on Monday, 6 January 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Monday, 6 January 2020 or such later time stated in the paragraph headed “10. Effect of bad weather on the opening of the application lists” under this section.

No multiple applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

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Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

Commitment to sustainability

The obvious advantage of the **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, the designated **White Form eIPO** Service Provider, will contribute HK\$2 for each “KWUNG’S HOLDINGS LIMITED” **White Form eIPO** application submitted via the website www.eipo.com.hk to support sustainability.

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling (852) 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time)

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place
Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are **not a CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf.

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You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Bookrunners, the Joint Lead Managers, the Sole Global Coordinator 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 Hong Kong 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 Hong Kong Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Hong Kong 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 International Placing;
 - (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
 - confirm that you understand that our Company, our Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Sole Global Coordinator and the Underwriters will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong 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 Hong Kong 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;

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- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Sole Global Coordinator, the Underwriters and/or their respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong 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 (WUMP) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offer results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Public Offer Shares;

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- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Law, the Companies Ordinance, the Companies (WUMP) Ordinance and the Memorandum and Articles of Association of our Company; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of giving electronic application instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum purchase amount and permitted numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 2,000 Hong Kong Public Offer Shares. Instructions for more than 2,000 Hong Kong 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 Hong Kong Public Offer Shares will be considered and any such application is liable to be rejected.

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Time for inputting electronic application instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Monday, 30 December 2019	– 9:00 a.m. to 8:30 p.m.	⁽¹⁾
Tuesday, 31 December 2019	– 8:00 a.m. to 8:30 p.m.	⁽¹⁾
Thursday, 2 January 2019	– 8:00 a.m. to 8:30 p.m.	⁽¹⁾
Friday, 3 January 2019	– 8:00 a.m.⁽¹⁾ to 8:30 p.m.	⁽¹⁾
Saturday, 4 January 2020	– 8:00 a.m. to 1:00 p.m.	⁽¹⁾
Monday, 6 January 2020	– 8:00 a.m. to 12:00 noon	⁽¹⁾

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and CCASS Investor Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, 30 December 2019 until 12:00 noon on Monday, 6 January 2020 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Monday, 6 January 2020, the last application day or such later time as described in “10. Effect of bad weather on the opening of the application lists” in this section.

No multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong 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 Hong Kong 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 (WUMP) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

Personal data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving banker, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Sole Global Coordinator, the

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Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Public Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Sole Global Coordinator and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or applying through the **White Form eIPO** service will be allotted any Hong Kong Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Monday, 6 January 2020.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong 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 or through the **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

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“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 2,000 Hong Kong Public Offer Shares. Each application or electronic application instruction in respect of more than 2,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or otherwise specified on the designated website at **www.eipo.com.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC). See section headed “Structure of the Global Offering – Pricing and allocation” for further details on the Offer Price.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is/are:

- a tropical cyclone warning signal number 8 or above;
- a “black” rainstorm warning; and/or
- Extreme Conditions,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 6 January 2020. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings or Extreme Conditions in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Monday, 6 January 2020 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in the section headed “Expected timetable” in this prospectus, an announcement will be made in such event.

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11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offer and the basis of allocation of the Hong Kong Public Offer on Wednesday, 15 January 2020 on our Company's website at **www.kwungs.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 (where appropriate) of successful applicants under the Hong Kong Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at **www.kwungs.com** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 9:00 a.m. on Wednesday, 15 January 2020;
- from the designated results of allocations website at **www.iporesults.com.hk** (alternatively: English **<https://www.eipo.com.hk/en/Allotment>**; Chinese **<https://www.eipo.com.hk/zh-hk/Allotment>**) with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Wednesday, 15 January 2020 to 12:00 midnight on Tuesday, 21 January 2020;
- by telephone enquiry line by calling (852) 2862 8669 between 9:00 a.m. and 10:00 p.m. from Wednesday, 15 January 2020 to Saturday, 18 January 2020; and
- in the special allocation results booklets which will be available for inspection during opening hours on Wednesday, 15 January 2020 and Friday, 17 January 2020 at all the receiving bank's designated branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Public Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. See section headed "Structure of the Global Offering" for further information.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG PUBLIC OFFER SHARES

You should note the following situations in which the Hong Kong Public Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this

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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 (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Joint Bookrunners, the Joint Lead Managers, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Public Offer Shares is void:

The allotment of Hong Kong Public Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Public Offer Shares and International Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;

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- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company, the Joint Bookrunners, the Joint Lead Managers or the Sole Global Coordinator 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 Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offer.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$1.60 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offer are not fulfilled in accordance with the paragraph headed "Conditions of the Global Offering" under the section headed "Structure of the Global Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Wednesday, 15 January 2020.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Public Offer Shares allotted to you under the Hong Kong Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Hong Kong Public Offer Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong 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 Hong Kong Public Offer Shares, wholly or partially unsuccessfully applied for;

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and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Wednesday, 15 January 2020. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid certificates of title at 8:00 a.m. on Thursday, 16 January 2020 provided that the Global Offering has become unconditional and the right of termination described in the section headed "Underwriting" in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, 15 January 2020 or such other date as announced by us.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Wednesday, 15 January 2020, by ordinary post and at your own risk.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Public Offer Shares or more, please follow the same instructions as described above for collecting refund cheque(s). If you have applied for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Wednesday, 15 January 2020, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Wednesday, 15 January 2020, 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 Hong Kong Public Offer Shares credited to your designated CCASS participant's stock account (other than a CCASS Investor Participant), you can check the number of Hong Kong 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 Hong Kong 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 Wednesday, 15 January 2020 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the White Form eIPO service

If you apply for 1,000,000 or more Hong Kong Public Offer Shares and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. and 1:00 p.m. on Wednesday, 15 January 2020, or such other date as notified by our Company as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Wednesday, 15 January 2020 by ordinary post at your own risk.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via electronic application instructions to HKSCC

Allocation of Hong Kong Public Offer Shares

For the purposes of allocating Hong Kong Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of share certificates into CCASS and refund of application monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor participant stock account on Wednesday, 15 January 2020, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offer in the manner specified in "11. Publication of Results" above on Wednesday, 15 January 2020. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 15 January 2020 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong 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 Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 15 January 2020. Immediately following the credit of the Hong Kong Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong 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.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 15 January 2020.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

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

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

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

The following is the text of a report set out on pages I-1 to I-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of 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.



羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF KWUNG'S HOLDINGS LIMITED AND CHINA INDUSTRIAL SECURITIES INTERNATIONAL CAPITAL LIMITED

Introduction

We report on the historical financial information of Kwung's Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-74, which comprises the consolidated statements of financial position as at 31 December 2016, 2017, 2018 and 30 June 2019, the Company's statement of financial position as at 31 December 2018 and 30 June 2019, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years ended 31 December 2016, 2017, 2018 and for the six months ended 30 June 2019 (the "Track Record Period"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-74 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 30 December 2019 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to

obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the Group's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at 31 December 2018 and 30 June 2019 and the consolidated financial position of the Group as at 31 December 2016, 2017, 2018 and 30 June 2019 and of the Group's consolidated financial performance and consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the six months ended 30 June 2018 and other explanatory information (together, the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “LISTING RULES”) AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**Adjustments**

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 30 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 30 December 2019

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

(a) Consolidated statements of comprehensive income

	<i>Note</i>	Year ended 31 December			Six months ended 30 June	
		2016	2017	2018	2018	2019
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(Unaudited)	
Revenue	6	399,473	445,860	444,704	168,216	216,256
Cost of sales	6, 7	(314,278)	(349,339)	(337,675)	(134,568)	(162,667)
Gross profit		<u>85,195</u>	<u>96,521</u>	<u>107,029</u>	<u>33,648</u>	<u>53,589</u>
Administrative expenses	7	(38,532)	(41,227)	(47,766)	(18,958)	(25,185)
Selling and marketing expenses	7	(6,202)	(8,444)	(6,910)	(2,861)	(2,966)
Net impairment losses on financial assets	21, 22	1,321	642	(228)	58	(804)
Other income	9	4,602	3,752	5,871	2,558	883
Other gains/(losses) – net	10	<u>6,698</u>	<u>(7,776)</u>	<u>30,885</u>	<u>(7,182)</u>	<u>(15,725)</u>
Operating profit		<u>53,082</u>	<u>43,468</u>	<u>88,881</u>	<u>7,263</u>	<u>9,792</u>
Finance income		60	59	88	26	32
Finance costs		<u>(281)</u>	<u>(36)</u>	<u>(161)</u>	<u>(53)</u>	<u>(370)</u>
Finance (costs)/income – net	11	<u>(221)</u>	<u>23</u>	<u>(73)</u>	<u>(27)</u>	<u>(338)</u>
Profit before income tax		52,861	43,491	88,808	7,236	9,454
Income tax expense	13	<u>(7,329)</u>	<u>(5,845)</u>	<u>(11,757)</u>	<u>(691)</u>	<u>(1,848)</u>
Profit for the year		<u>45,532</u>	<u>37,646</u>	<u>77,051</u>	<u>6,545</u>	<u>7,606</u>

	<i>Note</i>	Year ended 31 December			Six months ended 30 June	
		2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Profit attributable to:						
– Owners of the Company		45,627	37,699	77,010	6,668	7,631
– Non-controlling interests		(95)	(53)	41	(123)	(25)
Other comprehensive income						
<i>Items that may be reclassified subsequently to profit or loss</i>						
Exchange differences on translation of foreign operations		–	(4)	61	110	(1)
Total other comprehensive income, net of tax		–	(4)	61	110	(1)
Total comprehensive income for the year		45,532	37,642	77,112	6,655	7,605
Total comprehensive income attributable to:						
– Owners of the Company		45,627	37,696	77,059	6,756	7,630
– Non-controlling interests		(95)	(54)	53	(101)	(25)
Earnings per share (expressed in RMB per share)						
– Basic and diluted earnings per share						
(Note)	14	652	539	1,100	95	109

Note: The earnings per share presented above have not taken into account the proposed capitalisation issue pursuant to resolutions in writing of the shareholders passed on 16 December 2019 because the proposed capitalisation issue has not become effective as at date of this report.

(b) Consolidated statements of financial position

		As at 31 December			As at
		2016	2017	2018	30 June
	Note	RMB'000	RMB'000	RMB'000	2019
					RMB'000
Assets					
Non-current assets					
Property, plant and equipment	15	29,604	34,984	31,354	34,944
Investment properties	16	23,670	22,919	–	–
Right-of-use assets	18	19,610	17,751	13,223	12,157
Intangible assets	17	2,242	2,177	2,525	2,402
Deferred income tax assets	29	708	587	1,138	3,333
Total non-current assets		75,834	78,418	48,240	52,836
Current assets					
Inventories	20	27,896	36,454	39,261	47,701
Trade receivables	21	63,828	49,085	64,330	60,203
Prepayments, deposits and other receivables	22	12,181	8,484	164,746	32,704
Financial assets at fair value through profit or loss	23	5,000	–	1,530	–
Cash and cash equivalents	24	31,532	74,400	92,611	62,333
Total current assets		140,437	168,423	362,478	202,941
Total assets		216,271	246,841	410,718	255,777
Equity					
Equity attributable to owners of the Company					
Share capital	25	–	–	–	–
Share premium	25	–	–	163,681	163,681
Other reserves	26	113,054	116,902	(39,513)	(39,514)
Retained earnings		62,496	81,294	46,087	53,718
		175,550	198,196	170,255	177,885

		As at 31 December			As at
		2016	2017	2018	30 June
	Note	RMB'000	RMB'000	RMB'000	2019
					RMB'000
Non-controlling interests		137	593	646	621
Total equity		175,687	198,789	170,901	178,506
Liabilities					
Current liabilities					
Trade and other payables	27	38,306	45,933	222,159	51,721
Contract liabilities	6	689	1,829	2,428	3,829
Current tax liabilities		199	290	6,745	2,265
Financial liabilities at fair value through profit or loss	23	–	–	3,069	12,028
Lease liabilities	28	1,390	–	1,870	2,256
Total current liabilities		40,584	48,052	236,271	72,099
Non-current liabilities					
Financial liabilities at fair value through profit or loss	23	–	–	–	2,595
Lease liabilities	28	–	–	3,546	2,577
Total non-current liabilities		–	–	3,546	5,172
Total liabilities		40,584	48,052	239,817	77,271
Total equity and liabilities		216,271	246,841	410,718	255,777

(c) The Company's statement of financial position

		As at 31 December 2018 RMB'000	As at 30 June 2019 RMB'000
	Note		
Assets			
Non-current asset			
Investment in a subsidiary	a	163,681	163,681
Current assets			
Amounts due from related parties	b	114,632	424
Prepayments		–	3,721
Cash and cash equivalents		11	3,655
Total current assets		114,643	7,800
Total assets		278,324	171,481
Equity			
Share capital	25	–	–
Share premium	25	163,681	163,681
Accumulated losses		–	(7,529)
Total equity		163,681	156,152
Current liabilities			
Amount due to ultimate controlling shareholder	c	–	5,077
Amounts due to subsidiaries	d	114,643	5,225
Accruals and other payables		–	5,027
Total liabilities		114,643	15,329
Total equity and liabilities		278,324	171,481

Note a: Investment in a subsidiary represents the investment in Kwung's Investments.

Note b: Amounts due from related parties as at 31 December 2018 represent the shareholder contribution due from shareholders (Note 25(b)). The amounts have been received during the six months ended 30 June 2019.

Note c: Amount due to ultimate controlling shareholder as at 30 June 2019 represents the shareholder loan payable to ultimate controlling shareholder Mr. Jin. See Note 34(d).

Note d: Amounts due to subsidiaries as at 31 December 2018 represents consideration payable to a subsidiary to acquire the equity interests in Ningbo Kwung's. The amount has been paid during the six months ended 30 June 2019.

(d) Consolidated statements of changes in equity

		Attributable to owners of the Company					Non-	Total
		Share	Share	Other	Retained		controlling	
	Note	capital	premium	reserves	earnings	Subtotal	interests	equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at								
1 January 2016		—	—	108,881	28,355	137,236	(106)	137,130
Comprehensive income								
Profit/(loss) for the year		—	—	—	45,627	45,627	(95)	45,532
Transactions with owners in their capacity as owners								
Appropriation to statutory reserves		26(a)	—	—	4,486	(4,486)	—	—
Contribution from a non-controlling shareholder			—	—	—	—	225	225
Acquisition of shares in a subsidiary from non-controlling shareholder		33	—	—	(313)	—	(313)	113
Dividends paid by a subsidiary		30	—	—	—	(7,000)	(7,000)	—
			—	—	4,173	(11,486)	(7,313)	338
Balance at								
31 December 2016		—	—	113,054	62,496	175,550	137	175,687

		Attributable to owners of the Company						
		Share capital	Share premium	Other reserves	Retained earnings	Subtotal	Non-controlling interests	Total equity
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at								
1 January 2017		—	—	113,054	62,496	175,550	137	175,687
Comprehensive income								
Profit/(loss) for the year		—	—	—	37,699	37,699	(53)	37,646
Exchange differences on translation of foreign operations		26	—	(3)	—	(3)	(1)	(4)
		—	—	(3)	37,699	37,696	(54)	37,642
Transactions with owners in their capacity as owners								
Appropriation of statutory reserves		26(a)	—	—	3,851	(3,851)	—	—
Contribution from non-controlling shareholders			—	—	—	—	1,040	1,040
Disposal of a subsidiary		12	—	—	—	—	(530)	(530)
Dividends paid by a subsidiary		30	—	—	(15,050)	(15,050)	—	(15,050)
			—	—	3,851	(18,901)	(15,050)	510
			—	—	116,902	81,294	198,196	593
Balance at 31 December 2017		—	—	116,902	81,294	198,196	593	198,789

		Attributable to owners of the Company					Non-	
		Share capital	Share premium	Other reserves	Retained earnings	Subtotal	controlling interests	Total equity
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at								
1 January 2018		—	—	116,902	81,294	198,196	593	198,789
Comprehensive income								
Profit for the year		—	—	—	77,010	77,010	41	77,051
Exchange differences on translation of foreign operations		26	—	49	—	49	12	61
		—	—	49	77,010	77,059	53	77,112
Transactions with owners in their capacity as owners								
Issuance of ordinary shares		25	—	163,681	—	163,681	—	163,681
Deemed distribution to then shareholders of Ningbo Kwung's		25(b)	—	—	(163,681)	—	(163,681)	—
Appropriation to statutory reserves		25(a)	—	—	7,217	(7,217)	—	—
Dividends paid by a subsidiary		30	—	—	(105,000)	(105,000)	—	(105,000)
		—	163,681	(156,464)	(112,217)	(105,000)	—	(105,000)
Balance at								
31 December 2018		—	163,681	(39,513)	46,087	170,255	646	170,901

		Attributable to owners of the Company					Non-	Total
		Share	Share	Other	Retained		controlling	equity
		capital	premium	reserves	earnings	Subtotal	interests	
Note		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at								
1 January 2018								
		–	–	116,902	81,294	198,196	593	198,789
Comprehensive income								
Profit for the period		–	–	–	6,668	6,668	(123)	6,545
Exchange differences on translation of foreign operations		26	–	–	88	–	88	22
		–	–	88	6,668	6,756	(101)	6,655
Balance at 30 June 2018								
(Unaudited)								
		–	–	116,990	87,962	204,952	492	205,444
Balance at								
1 January 2019								
		–	163,681	(39,513)	46,087	170,255	646	170,901
Comprehensive income								
Profit for the period		–	–	–	7,631	7,631	(25)	7,606
Exchange differences on translation of foreign operations		26	–	–	(1)	–	(1)	–
		–	–	(1)	7,631	7,630	(25)	7,605
Balance at 30 June 2019								
		–	163,681	(39,514)	53,718	177,885	621	178,506

(e) Consolidated statements of cash flows

	<i>Note</i>	Year ended 31 December			Six months ended 30 June	
		2016	2017	2018	2018	2019
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(Unaudited)	
Cash flows from operating activities						
Cash generated from/(used in) operations	31(a)	26,367	71,595	26,246	(14,614)	(3,078)
Interest received		60	59	88	26	32
Income tax paid		(6,304)	(6,123)	(5,209)	(1,100)	(8,486)
Net cash generated from/(used in) operating activities		<u>20,123</u>	<u>65,531</u>	<u>21,125</u>	<u>(15,688)</u>	<u>(11,532)</u>
Cash flows from investing activities						
Purchase of property, plant and equipment		(2,883)	(9,302)	(7,051)	(4,675)	(3,610)
Proceeds from disposal of subsidiaries	31(b)	–	1,186	59,545	–	28,970
Deemed distribution		–	–	–	–	(163,681)
Purchase of intangible assets		(247)	(1,541)	(711)	(711)	(70)
Payments for purchase of wealth management products issued by commercial banks		(41,000)	(9,607)	(142,364)	(126,864)	–
Proceeds from disposal of wealth management products issued by commercial banks		46,072	14,647	142,364	98,905	–
Proceeds from disposal of property, plant and equipment	31(c)	<u>1</u>	<u>3</u>	<u>10</u>	<u>9</u>	<u>9</u>
Net cash generated from/(used in) investing activities		<u>1,943</u>	<u>(4,614)</u>	<u>51,793</u>	<u>(33,336)</u>	<u>(138,382)</u>

	<i>Note</i>	Year ended 31 December			Six months ended	
		2016	2017	2018	30 June	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Cash flows from financing activities						
Proceeds from borrowings		–	–	–	–	20,000
Repayment of bank borrowings		(5,000)	–	–	–	(20,000)
Loans from a related party	34(b)	8,000	–	–	–	6,861
Repayments of loans from a related party	34(b)	(8,000)	–	–	–	–
Interest paid		(281)	(36)	(161)	(53)	(370)
Capital contribution from the owners of the Company	25	–	–	49,048	–	114,632
Capital contribution from non-controlling shareholders		225	415	–	–	–
Payments for listing expenses		–	–	(967)	–	(1,061)
Principal elements of lease payments		(1,325)	(1,390)	(819)	(203)	(583)
Dividends paid by a subsidiary	30	(7,000)	(15,050)	(105,000)	–	–
Net cash (used in)/generated from financing activities		<u>(13,381)</u>	<u>(16,061)</u>	<u>(57,899)</u>	<u>(256)</u>	<u>119,479</u>
Net increase/(decrease) in cash and cash equivalents		8,685	44,856	15,019	(49,280)	(30,435)
Cash and cash equivalents at beginning of the year/period		22,049	31,532	74,400	74,400	92,611
Effect of foreign exchange rate changes		<u>798</u>	<u>(1,988)</u>	<u>3,192</u>	<u>(1,297)</u>	<u>157</u>
Cash and cash equivalents at end of the year/period		<u><u>31,532</u></u>	<u><u>74,400</u></u>	<u><u>92,611</u></u>	<u><u>23,823</u></u>	<u><u>62,333</u></u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1 GENERAL INFORMATION, REORGANIZATION AND BASIS OF PRESENTATION****1.1 General information**

Kwung's Holdings Limited (the "Company") was incorporated in the Cayman Islands on 13 November 2018 as an exempted company with limited liability under the Companies Law (Cap.22, law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is 89 Nexus Way, Camana Bay, Grand Cayman, KY1-9009, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the "Group") principally engage in design and manufacturing of home fragrance related products in the People's Republic of China (the "PRC"), distributing the products to overseas and in the PRC (the "Listing Business"). The ultimate controlling company is King Harmony Limited. The ultimate controlling shareholder of the Group is Mr. Jin Jianxin ("Mr. Jin" or the "Ultimate Controlling Shareholder").

1.2 Reorganization

Prior to the incorporation of the Company and the completion of the reorganization as described below (the "Reorganization"), the Listing Business was carried out through Ningbo Kwung's Wisdom Art & Design Co., Ltd. ("Ningbo Kwung's") and its subsidiaries in the PRC during the whole Track Record Period. Ningbo Kwung's is owned by Mr. Jin through Ningbo Kwung's Investment Holdings Co., Ltd. ("Ningbo Investment"), who held 72.18% equity interest of Ningbo Kwung's. Ningbo Kwung's is the holding company of all the PRC operating companies engaged in the Listing Business before the Reorganization.

In preparation for the initial listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited, the Reorganization was undertaken pursuant to which Ningbo Kwung's and its subsidiaries, engaged in the Listing Business, were transferred to the Company. The Reorganization mainly involved the following steps:

- (1) For the purpose of disposal of certain properties unrelated to the operation of the Listing Business, Shaoxing Shi Keyuan Home Interior Co., Ltd. ("Shaoxing Keyuan") was established in the PRC with limited liability on 17 September 2018 with Ningbo Kwung's as its sole shareholder.

In September 2018, Shaoxing Shi Jingming Cultural Development Co., Ltd. ("Shaoxing Jingming", formerly known as Shaoxing Koman Home Interior Co., Ltd., a direct wholly-owned subsidiary of Ningbo Kwung's) as vendor and Shaoxing Keyuan as purchaser entered into assets and labour contract transfer agreements, pursuant to which Shaoxing Jingming sold to Shaoxing Keyuan the assets and liabilities relating to the operations of Listing Business owned or held by Shaoxing Jingming. The transfers were completed on 28 September 2018.

On 19 October 2018, Ningbo Kwung's entered into two equity transfer agreements with Ningbo Investment and Mr. Jin, respectively. Pursuant to these equity transfer agreements, Ningbo Kwung's transferred 98% of its equity interest in Shaoxing Jingming to Ningbo Investment and 2% of its equity interest in Shaoxing Jingming to Mr. Jin at a consideration of RMB102,970,000 and RMB2,101,000 respectively. Upon completion of these equity transfers, Shaoxing Jingming ceased to be a subsidiary of the Group.

Shaoxing Jingming was consolidated by the Group till Ningbo Kwung's disposal all of its equity interests to Ningbo Investment and Mr. Jin on 19 October 2018.

- (2) In November 2018, the shareholders of Ningbo Kwung's incorporated, collectively or individually, the British Virgin Islands ("BVI") holding companies for holding their shareholding interests in the Company:

On 1 November 2018, King Harmony Limited ("King Harmony") was incorporated in BVI with limited liability. On the same date, one share of US dollar ("US\$")1.00 was allotted and issued to Mr. Jin and became a wholly owned subsidiary of Mr. Jin.

On 1 November 2018, Unione Limited ("Unione") was incorporated in BVI with limited liability. On the same date, total 27,250 shares of US\$1.00 each were allotted and issued to Mr. Chen Xuefeng and other 27 individual shareholders respectively.

On 2 November 2018, DMA Limited (“DMA”) was incorporated in BVI with limited liability. On the same date, total 31,560 shares of US\$1.00 each were allotted and issued to Mr. Ru Liming, Mr. Tian Dong, Ms. Jing Lijuan, Ms. Jin Ying, Ms. Feng Feng and Mr. Jiang Jilin respectively.

- (3) On 13 November 2018, the company was incorporated in the Cayman Islands with limited liability. Upon incorporation, one share of the Company was allotted and issued to the initial subscriber, which was then transferred to King Harmony on the same date.
- (4) On 15 November 2018, Kwung’s Investments Limited (“Kwung’s Investments”) was incorporated in BVI with limited liability. Mr. Jin subscribed for, and Kwung’s Investments allotted and issued, one share of Kwung’s Investments to Mr. Jin, following which Kwung’s Investments became wholly owned by Mr. Jin.

On 29 November 2018, Mr. Jin transferred one share in Kwung’s Investments, representing the entire issued shares of Kwung’s Investments, to the Company at a consideration of US\$1.00. After the share transfer, Kwung’s Investments became a wholly-owned subsidiary of the Company.

- (5) On 27 November 2018, Kwung’s Wisdom (Hong Kong) Co., Limited (“Kwung’s HK”) was incorporated in Hong Kong with limited liability. On the date of its incorporation, one share in Kwung’s HK was allotted and issued to Kwung’s Investments at a total subscription price of Hong Kong dollar (“HK\$”)1.00. As a result, Kwung’s HK became wholly owned by Kwung’s Investments. Following the transfer of one share in Kwung’s Investments from Mr. Jin to the Company as described above, Kwung’s HK became an indirect wholly-owned subsidiary of the Company.
- (6) On 10 December 2018, the shareholder of Ningbo Kwung’s, namely Ningbo Haishu Bode Investment Advisory Co., Ltd. (“Bode Investment”) transferred its 2% equity interests in Ningbo Kwung’s to Eversun Capital Limited (“Eversun Capital”, a company incorporated in Hong Kong and wholly-owned by Mr. Cheung Yue Kwong, an independent third party). Immediately after the completion of the equity transfer, Ningbo Kwung’s became a sino-foreign joint venture.
- (7) On 13 December 2018, Kwung’s HK entered into an equity transfer agreement with each of the then shareholders of Ningbo Kwung’s to acquire the entire shareholdings of Ningbo Kwung’s from each of its shareholders respectively at a total consideration of approximately RMB163,681,000. Immediately after the completion of these equity transfers, Ningbo Kwung’s became a wholly-owned subsidiary of Kwung’s HK.
- (8) On 19 December 2018, King Harmony, DMA, Unione and Well Happiness Limited (“Well Happiness”, a company incorporated in the BVI, wholly-owned by Mr. Cheung Yue Kwong) subscribed for, and the Company allotted and issued to them, a total of 69,999 shares. The shareholding structure in the Company immediately after completion of these share subscriptions closely resembled the then respective equity interests held by or attributable to each of the ultimate beneficial owners of Ningbo Kwung’s immediately after Ningbo Kwung’s was converted into a sino-foreign joint venture in above step (6).

Upon the completion of the above transfers, the Company became the holding company of Ningbo Kwung’s and the companies now comprising the Group.

The subsidiaries in which the Company held direct or indirect interest upon completion of the Reorganization and as at the date of this report are set out in Note 12.

1.3 Basis of presentation

Immediately prior to the Reorganization, the Listing Business was carried out by Ningbo Kwung’s and its subsidiaries which were under the control of the ultimate controlling shareholder. Pursuant to the Reorganization, the Listing Business under Ningbo Kwung’s is transferred to and held by the Company.

The Company and the newly established intermediate companies have not been involved in any other business prior to the Reorganization and their operations do not meet the definition of a business. The Reorganization is merely a reorganization of the Listing Business operated by Ningbo Kwung’s and does not result in any changes in business substance. Accordingly, the Group resulting from the Reorganization is regarded as a continuation of the Listing Business under Ningbo Kwung’s and for the purpose of this report, the Historical Financial Information of the Company now comprising the Group has been prepared and presented using the carrying value of the Listing Business as recorded in the consolidated financial statements of Ningbo Kwung’s for the Track Record Period.

For companies acquired from or disposed to third parties by Ningbo Kwung's during the Track Record Period, they are included in or excluded from the financial statements of the Group from the date of the acquisition or disposal.

Inter-company transactions, balances and unrealized gains/losses on transactions between Group companies are eliminated on consolidation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied throughout the Track Record Period.

2.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA and under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value.

The preparation of the Historical Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise their judgement in the process of applying Group accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4 of this report.

All effective standards, amendments to standards and interpretations, including HKFRS 9 Financial Instruments ("HKFRS 9"), HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15"), which are mandatory for the financial year beginning 1 January 2018, and HKFRS 16 Leases ("HKFRS 16"), which is mandatory for the financial year beginning 1 January 2019, have been consistently applied throughout the Track Record Period.

2.1.1 New standards, amendments and interpretations not yet adopted

For the Track Record Period, the Group has consistency adopted all the standards, amendments and interpretations effective for the financial reporting period commencing 2019.

The following new standards, amendments and interpretations had been issued but were not mandatory for the financial year beginning before 1 January 2020 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
HKFRS 17	Insurance Contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associates or joint ventures	To be determined
Amendments to HKFRS 3	Business Combinations	1 January 2020
Conceptual framework for financial reporting 2018	Conceptual Framework for Financial Reporting	1 January 2020
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020

The Group has already commenced an assessment of the impact of these new or revised standards, interpretation and amendments, certain of which are relevant to the Group's operations. According to the preliminary assessment made by the directors, no significant impact on the financial performance and position of the Group is expected when they become effective.

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(a) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity, and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

(b) Changes in ownership interests in subsidiaries without change of control

Transaction with non-controlling interests that do not result in loss of control are accounted for as equity transaction – that is, as transactions with the owner of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Investments in subsidiaries are also assessed for impairment in accordance with Note 2.9 and written down to their recoverable amounts.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker ("CODM"), who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized within "Other gains/(losses) – net" in the consolidated statements of comprehensive income.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognised in other comprehensive income.

(c) *Group companies*

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values, over their estimated useful lives as follows:

	Estimated useful lives
Buildings	5–30 years
Transportation equipment	5 years
Electronic equipment	3–5 years
Machinery	5–10 years
Furniture	5 years
Leasehold improvements	Shorter of the unexpired term of lease and their estimated useful lives

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized within "Other gains/(losses) – net" in the consolidated statements of comprehensive income.

2.6 Investment properties

Investment properties are held for long-term rental yields and are not occupied by the Group. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. Subsequently, they are also carried at cost less accumulated depreciation and impairment losses.

2.7 Intangible assets

(a) Patent

Patent is shown at historical cost. It has a finite useful life of 5 to 10 years and is subsequently carried at cost less accumulated amortization and impairment losses.

When determining the length of useful life of a patent, the Group takes into account the estimated period during which such asset can bring economic benefits to the Group.

(b) Software

Acquired software are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 to 10 years. The amortisation period for ERP system in implementation is 10 years.

Considering the acquired software are well-developed, off the shelf software with no contractual terms, and the Group can use the software as long as it can meet the Group's business needs, based on the current functionalities equipped by the software and the daily operation needs, the Group considers a useful life of 5–10 years is the best estimation under current business needs.

2.8 Impairment of non-financial assets

Goodwill is not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.9 Financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- **Fair value through other comprehensive income ("FVOCI"):** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.
- **Fair value through profit or loss ("FVPL"):** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iv) Impairment of financial assets

The Group assesses on a forward looking basis the expected credit losses associated with its debt instrument carried at amortised cost and financial assets at fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1.1 details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit loss.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the relevant company or the counterparty.

2.11 Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.12 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.13 Cash and cash equivalents

Cash and cash equivalents includes cash in hand and banks, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.15 Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Derivative financial instruments

The Group does not have any derivative financial instruments that qualify for hedge accounting.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Changes in the fair value of any derivative financial instruments are recognised immediately in the profit or loss, except where the derivative financial instruments are qualified for hedge accounting.

2.17 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.18 Employee benefits***(i) Pension obligations***

The Group only operates defined contribution pension plans. In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organized by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the governments.

The Group's contributions to the defined contribution retirement scheme are expensed as incurred.

(ii) *Housing funds, medical insurances and other social insurances*

Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurances and other social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each year. Contributions to the housing funds, medical insurances and other social insurances are expensed as incurred.

(iii) *Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

2.19 Provisions

Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.20 Revenue recognition

(i) *Sale of goods – wholesale*

The Group manufactures and sells a range of candles, home fragrance and home accessories in the wholesale market. Sales are recognised when control of the products has transferred, being when the products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The products are sold with retrospective volume rebates based on aggregate sales over a 12 months period to certain customers. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the rebates, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. The revenue from these sales are normally billable immediate upon the delivery of the products. No element of financing is deemed present as the sales are made with no credit term, which is consistent with market practice. The Group's obligation to replace faulty products under the standard warranty terms is assessed and recognised as a provision.

As receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(ii) *Sale of goods – retail*

The Group operates some stores selling candles, home fragrance and home accessories. Revenue from the sale of goods is recognised when a Group entity sells a product to the customer.

Payment of the transaction price is due immediately when the customer purchases the products and takes delivery in store. It is the Group's policy to sell its products to the end customer with a right of return within 7 days. Therefore, a refund liability (included in trade and other payables) and a right to the returned goods (included in other current assets) are recognised for the products expected to be returned. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method). Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

(iii) Accounting for costs to fulfil a contract

As the transportation activities occur before the customer obtains control of related products, they are not separate performance obligation, therefore, related costs are contract fulfil cost which are capitalised as assets according to HKFRS 15. These assets are amortised on a systematic basis that is consistent with the transfer to the customer of the goods to which the assets relate. Related assets are not material at the balance sheet date due to the short period of transportation and are charged into the cost of sales directly as incurred in the Track Record Period.

(iv) Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

(v) Assets recognised from incremental costs to obtain a contract

The Group applies the practical expedient in paragraph 94 of HKFRS 15 and recognises the incremental costs of obtaining contracts such as sales commissions as an expense when incurred if the amortisation period of the assets that the Group otherwise would have recognised is one year or less.

2.21 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.22 Leases

(i) The Group is the lessee

The Group leases properties and land use right in the PRC as lessee. Rental contracts of properties are typically made annually on a recurring basis but may have extension options as described below. The Group's interests in land use rights represent prepaid operating lease payments for land located in the PRC and the lease term is 50 years, which is included in right-of-use assets.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payment that are based on an index or a rate; and

- Payments of penalties for terminating the lease, if the lease term reflects the Group, as a lessee, exercising an option to terminate the lease.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liabilities;
- Any lease payments made at or before the commencement date, less any lease incentive received;
- Any initial direct costs; and
- Restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the consolidated statements of comprehensive loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise equipment and small items of office furniture.

Extension options are only included in the lease term if the lease is reasonably certain to be extended. The Group determine the lease term as the non-cancellable period of a lease, together with both:

- Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

(ii) The Group is the lessor

When assets are leased out under operating lease, the assets are included in the consolidated statements of financial position based on the nature of the assets. Rental income is recognised in the consolidated statements of comprehensive income on a straight-line basis over the term of the lease.

2.23 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.24 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants related to assets refer to government grants which are obtained by the Group for the purposes of purchase, construction or acquisition of the long-term assets. Government grants related to income refer to the government grants other than those related to assets.

Government grants related to assets are recorded as deferred income and recognised in consolidated statements of comprehensive income on a systemic basis over the useful lives of the assets, government grants to compensate the future costs, expenses or losses are recorded as deferred income and recognised in profit or loss when related costs incurred. Government grants related to income that compensate the incurred costs, expenses or losses are recognised in profit or loss directly in current period. The Group applies the presentation method consistently to the similar government grants in the financial statements.

3 FINANCIAL RISK MANAGEMENT**3.1 Financial risk factors**

The Group's activities expose it to a variety of financial risks: interest rate risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

3.1.1 Credit risk

Credit risk arises from cash and cash equivalents, contractual cash flows of debt instruments carried at amortised cost, FVPL, derivative financial assets and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables.

(i) Cash in banks

The Group expects that there is no significant credit risk associated with cash deposits at banks since they are substantially deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

(ii) Trade receivables

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit loss also incorporate forward looking information.

(iii) Other receivables

Other receivables at the end of each reporting period were mainly deposits, advances to employees and the amounts due from related parties. The directors of the Company consider the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on an ongoing basis during the Track Record Period. To assess whether there is a significant increase in credit risk the Group compares risk of a default occurring on the assets as at the reporting date with the risk of default as at the date of initial recognition. Especially the following indicators are incorporated:

- Internal credit rating;
- External credit rating;
- Actual or expected significant adverse changes in business, financial economic conditions that are expected to cause a significant change to the counterparty's ability to meet its obligations;
- Actual or expected significant changes in the operating results of the counterparty;
- Significant changes in the expected performance and behaviour of the counterparty; and
- The employment relationship with the employee debtor.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment/repayable demanded.

A default on a financial asset is when the counterparty fails to make contractual payments/repayable demanded within 90 days of when they fail due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group categories a loan or receivable for write off when a debtor fails to make contractual payments/repayable demanded greater than 180 days past due. Where loans or receivables have been written off, the Group continues to engage in enforcement

activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in the consolidated statements of comprehensive income.

Since the advances to employees and amounts due from related parties had no historical default, at each reporting period end, the expected losses of the advances to employees and amounts due from related parties are measured on a 12-month basis.

The directors of the Company believe that there was no material credit risk inherent in the Group's outstanding balance of other receivables.

(iv) *Forward-looking information incorporated in the expected credit loss model*

The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit loss. It considers available reasonable and supportive forwarding-looking information. The Group has identified key factors such as the gross domestic product ("GDP") of the countries in which it sells its goods to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

As at 31 December 2016, 2017, 2018 and 30 June 2019, the loss allowance provision was determined as follows:

Trade receivables

		2016		As at 31 December				2018		As at 30 June	
		Gross	Loss	Gross	Loss	Gross	Loss	Gross	Loss	Gross	Loss
		carrying	allowance	carrying	allowance	carrying	allowance	carrying	allowance	carrying	allowance
		amount	provision	amount	provision	amount	provision	amount	provision	amount	provision
		RMB'000		RMB'000		RMB'000		RMB'000		RMB'000	
Expected	loss rate										
Within 30 days	0.11%	34,145	37	28,835	31	24,129	26	38,359	41		
31 to 180 days	0.22%	29,566	66	20,228	45	39,843	89	19,367	43		
181 to 1 year	28.31%	101	28	108	30	630	178	3,573	1,012		
1 to 2 years	83.60%	896	749	121	101	131	110	–	–		
2 to 3 years	100.00%	26	26	–	–	50	50	–	–		
Over 3 years	100.00%	–	–	–	–	–	–	50	50		
		64,734	906	49,292	207	64,783	453	61,349	1,146		

Prepayments and other receivables (excluding prepaid income tax, prepaid value added tax, and recoverable value added tax)

			2016		As at 31 December 2017		2018		As at 30 June 2019	
	Expected loss rate	Basis for recognition of expected credit loss provision	Gross carrying amount	Loss allowance provision	Gross carrying amount	Loss allowance provision	Gross carrying amount	Loss allowance provision	Gross carrying amount	Loss allowance provision
			RMB'000		RMB'000		RMB'000		RMB'000	
Deposits	10%	12 months expected losses	136	14	64	6	29	3	28	3
Advances to employees	10%	12 months expected losses	348	35	357	36	482	48	1,392	139
Amounts due from related parties	0.1%	12 months expected losses	-	-	-	-	143,652	-	50	-
Others	10%	12 months expected losses	162	14	50	26	-	-	196	20
			<u>646</u>	<u>63</u>	<u>471</u>	<u>68</u>	<u>144,163</u>	<u>51</u>	<u>1,666</u>	<u>162</u>

Since the actual loss rate for each type of the receivables and the adjustments for forward looking macro-economic data did not have significant changes during the Track Record Period, the directors of the Company consider that the changes in the expected credit loss rate, if any, for provision matrix are insignificant throughout the Track Record Period.

3.1.2 Liquidity risk

Management aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of available financing, including loans from related parties to meet its daily operation working capital requirements.

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities for:

- (a) all non-derivative financial liabilities, and
- (b) net settled derivative financial instruments for which the contractual maturities are essential for an understanding of the timing of the cash flows.

Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

The Group's derivative financial instruments with a negative fair value has been included at their fair value of RMB3,069,000 and RMB14,623,000 as at 31 December 2018 and 30 June 2019 respectively within the less than 12 month time bucket. This is because the contractual maturities are not essential for an understanding of the timing of the cash flows. These contracts are managed on a net fair value basis rather than by maturity date.

	Less than 1 year RMB'000	Over 1 year RMB'000
Non-derivatives		
As at 31 December 2016		
Trade and other payables	23,262	—
Lease liabilities	1,390	—
	<u>24,652</u>	<u>—</u>
As at 31 December 2017		
Trade and other payables	31,471	—
As at 31 December 2018		
Trade and other payables	206,468	—
Lease liabilities	1,870	3,546
	<u>208,338</u>	<u>3,546</u>
As at 30 June 2019		
Trade and other payables	44,792	—
Lease liabilities	2,256	2,577
	<u>47,048</u>	<u>2,577</u>
Derivatives		
As at 31 December 2018		
Derivative financial instruments	3,069	—
As at 30 June 2019		
Derivative financial instruments	12,028	2,595

Trade and other payables here exclude non-financial liabilities of accrued payroll and other taxes payable.

3.1.3 Foreign exchange risk

The Group sells products internationally and is exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to the US\$. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the functional currency of the relevant group entity.

The Group also entered into foreign currency forwards in relation to products sales for the next 12 months that do not qualify as 'highly probable' forecast transactions and hence do not satisfy the requirements for hedge accounting (economic hedges). The foreign currency forwards are subject to the same risk management policies as all other derivative contracts. However, they are accounted for as derivative financial instruments with gains (losses) recognised in the consolidated statement of comprehensive income.

Exposure

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	US\$	US\$	US\$	US\$
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	62,639	45,039	59,096	57,484
Foreign currency forwards (Note 23)	–	–	(3,069)	(14,623)
USD:RMB fixed-fixed cross-currency interest rate swap	–	–	1,530	–
	<u>–</u>	<u>–</u>	<u>1,530</u>	<u>–</u>

Sensitivity

As shown in the table above, the Group is primarily exposed to changes in US\$ exchange rates. The sensitivity of net profit to changes in the exchange rates arises mainly from US\$ denominated financial assets and liabilities.

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
RMB/US\$ exchange rate				
– increase 10%	5,324	3,828	4,892	51,620
	<u>5,324</u>	<u>3,828</u>	<u>4,892</u>	<u>51,620</u>
RMB/US\$ exchange rate				
– decrease 10%	(5,324)	(3,828)	(4,892)	(51,620)
	<u>(5,324)</u>	<u>(3,828)</u>	<u>(4,892)</u>	<u>(51,620)</u>

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owners and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total debt less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheets plus net debt.

As at 31 December 2016, 2017, 2018 and 30 June 2019, the Group maintained at net cash position.

3.3 Fair value estimation

(i) Fair value hierarchy of financial assets and financial liabilities

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

<i>Recurring fair value measurements</i>	<i>Note</i>	Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>	Total <i>RMB'000</i>
At 30 June 2019					
Financial liabilities					
Foreign currency forwards	23	–	14,623	–	14,623
At 31 December 2018					
Financial assets					
USD:RMB fixed-fixed cross-currency interest rate swap	23	–	1,530	–	1,530
Financial liabilities					
Foreign currency forwards	23	–	3,069	–	3,069
At 31 December 2016					
Financial assets					
Wealth management products issued by commercial banks	23	–	–	5,000	5,000

There were no transfers among level 1, level 2 and level 3 for recurring fair value measurements during the year.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments
- for USD:RMB fixed – fixed cross-currency interest rate swap – present value of estimated future cash flows based on observable yield curves
- for forward currency forwards – present value of future cash flows based on forward exchange rates at the balance sheet date

- other techniques, such as discounted cash flow analysis

There were no changes in valuation techniques during the Track Record Period.

There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the Track Record Period.

(iii) *Valuation inputs and relationships to fair value*

Description	Fair value at 31 December 2016 RMB'000	Valuation Technique	Unobservable inputs	Range of inputs (probability- weighted average)	Relationship of unobservable inputs to fair value
Wealth management products issued by commercial banks	5,000	Discounted cash flow method	Rate of return	2.10%–3.30% (2.70%)	The higher the rate of return, the higher the fair value

If the rate of return of wealth management products issued by commercial banks held by the Group had been 1% higher/lower, the profit before income tax for the year ended 31 December 2016 would have been approximately RMB50,000 higher/lower.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) **Allowance on doubtful receivables**

The Group makes allowances on receivables based on assumptions about risk of default and expected loss rates. The Group used judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade and other receivables and doubtful debt expenses in the periods in which such estimate has been changed.

(b) **Current and deferred income tax**

The Group is subject to corporate income taxes in the PRC. Judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxations. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. The outcome of their actual utilisation may be different.

5 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors.

During the Track Record Period, the Group principally engages in the design, manufacture and processing of wax products, metal products, glass products and aromatherapy products. Management reviews the operating results of the business as one operating segment to make decisions about resources to be allocated. Therefore, the CODM of the Company regards that there is only one segment which is used to make strategic decisions.

As at 31 December 2016, 2017, 2018 and 30 June 2019, all of the non-current assets of the Group were located in the PRC.

Revenue from external parties contributing 10% or more of the total revenue of the Group is as follows:

	Year ended 31 December			Six months ended 30 June	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (Unaudited)	2019 RMB'000
J.J.A. SA.	60,916	65,064	77,484	35,193	43,783
Customer A (as defined in the prospectus)	47,677	72,207	*	*	*
Koopman International B.V.	*	*	46,819	*	27,194

* represents the amount of revenue from such customers which is less than 10% of the total revenue of that year.

6 REVENUE AND COST OF SALES

Revenue mainly comprises of proceeds from selling goods. An analysis of the Group's revenue and cost of sales by category for the years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019 is as follows:

	Year ended 31 December						Six months ended 30 June			
	2016 RMB'000		2017 RMB'000		2018 RMB'000		2018 RMB'000 (Unaudited)		2019 RMB'000	
	Revenue	Cost of sales	Revenue	Cost of sales	Revenue	Cost of sales	Revenue	Cost of sales	Revenue	Cost of sales
Revenue from customers:										
Candles	290,827	(223,827)	326,117	(249,217)	311,038	(236,457)	114,475	(92,097)	139,888	(104,363)
Home fragrance	44,311	(36,662)	46,245	(38,313)	64,964	(46,525)	21,241	(16,048)	35,528	(26,130)
Home accessories	64,335	(53,789)	73,498	(61,809)	68,702	(54,693)	32,500	(26,423)	40,840	(32,174)
	<u>399,473</u>	<u>(314,278)</u>	<u>445,860</u>	<u>(349,339)</u>	<u>444,704</u>	<u>(337,675)</u>	<u>168,216</u>	<u>(134,568)</u>	<u>216,256</u>	<u>(162,667)</u>
Timing of revenue recognition										
– At a point in time	<u>399,473</u>		<u>445,860</u>		<u>444,704</u>		<u>168,216</u>		<u>216,256</u>	

(a) Contract liabilities

The Group had recognised the following revenue-related contract liabilities:

	As at 31 December			As at 30 June
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Advanced payments from customers	<u>689</u>	<u>1,829</u>	<u>2,428</u>	<u>3,829</u>

(b) Significant change in contract liabilities

Contract liabilities of the Group mainly arise from the advanced payments made by customers while the underlying goods are yet to be delivered. Such liabilities increased as a result of the growth of the Group's business.

(c) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in each year relates to carried-forward contract liabilities.

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i>
Revenue recognised that was included in the contract liabilities balance at the beginning of the year					
Advanced payments from customers	1,262	689	1,829	1,829	2,428

(d) Unsatisfied performance obligations

The Group applies the practical expedient and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

(e) Assets recognised from incremental costs to obtain a contract

Contract obtaining costs incurred related to contracts such as sales commissions with an amortisation period of less than one year have been expensed as incurred.

7 EXPENSES BY NATURE

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Raw materials and consumables used	137,399	148,516	151,690	58,885	65,417
Subcontracting costs	146,741	167,221	155,816	62,393	83,493
Employee benefit expenses (Note 8)	40,910	42,456	43,748	18,872	17,883
Transportation expenses	10,909	14,160	11,640	5,079	5,988
Utilities	3,604	4,235	4,083	2,128	1,602
Depreciation of property, plant and equipment (Note 15)	2,576	2,764	3,244	1,689	1,560
Depreciation of investment properties (Note 16)	1,520	1,602	1,199	800	–
Amortisation of intangible assets (Note 17)	208	316	362	167	194
Amortisation and depreciation of right-of-use assets (Note 18)	1,859	1,859	1,452	541	1,066
Taxes and surcharges	3,618	4,343	4,216	1,686	1,478
Travelling expenses	1,182	1,602	1,335	471	600
Operating lease expenses	47	86	218	211	253
Business entertainment expenses	1,062	1,095	632	307	391
Sample inspection and express fees	2,385	2,506	1,982	1,048	1,376
Advertising and promotion expenses	941	875	1,085	317	309
Statutory audit fees	236	472	587	336	127
Other service fees	556	926	758	362	406
Listing expenses	–	–	5,178	–	7,539
Office expenses	638	588	440	153	290
Insurance expenses	300	169	381	80	43
Sales commission	1,291	1,990	1,471	692	600
Others	1,031	1,229	834	170	203
	<u>359,013</u>	<u>399,010</u>	<u>392,351</u>	<u>156,387</u>	<u>190,818</u>

8 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Wages, salaries and bonuses	28,953	30,165	31,869	14,069	14,335
Pension costs (Note a)	5,733	6,302	6,661	2,590	1,889
Housing funds, medical insurances and other social insurances (Note b)	4,588	4,743	4,290	1,613	1,260
Other employee benefits	1,636	1,246	928	600	399
	<u>40,910</u>	<u>42,456</u>	<u>43,748</u>	<u>18,872</u>	<u>17,883</u>

Note a: As stipulated by the rules and regulations in the PRC, the subsidiaries operating in the PRC contribute to state-sponsored retirement plans for its employees during the Track Record Period. The employees contribute approximately 8% of their basic salaries, while the subsidiaries contribute approximately 13–14% of the basic

salaries of its employees and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to the retired employees.

Note b: Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on approximately 25.4% of the salaries of the employees, subject to certain ceilings. The Group's liability in respect of these funds is limited to the contributions payable in each period.

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include 2, 1, 1, 1 and 0 directors for the years ended 31 December 2016, 2017, 2018, and the six months ended 30 June 2018 and 2019, whose emoluments are reflected in the analysis shown in Note 35. The emoluments payable to the remaining 3, 4, 4, 4 and 5 individuals for the Track Record Period are as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Wages, salaries and bonuses	779	1,136	892	443	736
Pension costs	109	159	125	62	86
Housing funds, medical insurances and other social insurances	86	125	97	49	74
	<u>974</u>	<u>1,420</u>	<u>1,114</u>	<u>554</u>	<u>896</u>

The emoluments fell within the following bands:

	Number of individuals			Six months ended 30 June	
	Year ended 31 December	2017	2018	2018	2019
	2016			(Unaudited)	
Emolument bands (in HK dollar)					
Nil – HK\$500,000	<u>3</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>5</u>

9 OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Other income					
Rental income	1,822	3,200	3,370	1,230	–
Government grants	2,780	552	2,501	1,328	883
– relating to financial support	2,527	545	2,499	1,326	883
– relating to tax refund	253	7	2	2	–
	<u>4,602</u>	<u>3,752</u>	<u>5,871</u>	<u>2,558</u>	<u>883</u>

Government grants are mainly related to unconditional government subsidies received by the Group from relevant government bodies.

10 OTHER GAINS/(LOSSES) – NET

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Losses on disposal of property, plant and equipment – net	(5)	(47)	(107)	(105)	(33)
Net foreign exchange gains/(losses)	6,729	(7,701)	4,818	570	1,622
Net fair value gains on USD:RMB fixed-fixed cross-currency interest rate swap (<i>Note 23</i>)	–	–	1,297	649	–
Net fair value gains/(losses) on forward contracts (<i>Note 23</i>)	1,254	–	(17,204)	(8,222)	(16,950)
Net fair value gains on wealth management products issued by commercial banks (<i>Note 23</i>)	72	40	387	158	–
Net gains on disposal of subsidiaries (<i>Note 12</i>)	–	614	42,491	–	–
Net impairment losses on prepayments	(665)	–	–	–	–
Donation expenses	(300)	(320)	(300)	–	–
Others	(387)	(362)	(497)	(232)	(364)
	<u>6,698</u>	<u>(7,776)</u>	<u>30,885</u>	<u>(7,182)</u>	<u>(15,725)</u>

11 FINANCE (COSTS)/INCOME – NET

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Finance income					
Interest income	<u>60</u>	<u>59</u>	<u>88</u>	<u>26</u>	<u>32</u>
Finance costs					
Interest expenses	(180)	–	–	–	(250)
Interest expenses on lease liabilities	<u>(101)</u>	<u>(36)</u>	<u>(161)</u>	<u>(53)</u>	<u>(120)</u>
	<u>(281)</u>	<u>(36)</u>	<u>(161)</u>	<u>(53)</u>	<u>(370)</u>
	<u>(221)</u>	<u>23</u>	<u>(73)</u>	<u>(27)</u>	<u>(338)</u>

12 SUBSIDIARIES

The Group's subsidiaries at 31 December 2016, 2017, 2018 and 30 June 2019 as at the date of this report are set out below. Unless otherwise stated, they have share capital that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group.

Names of the subsidiaries	Place and date of incorporation/ establishment	Issued and paid-up capital	Attributable equity interest of the Group				Attributable equity interest of the Group as at the date of this report %	Principal activities/place of operation	Name of statutory auditors and periods covered
			31 December 2016	31 December 2017	31 December 2018	30 June 2019			
Kwung's Investments	BVI 15 November 2018	US\$1	N/A	N/A	100.00%	100.00%	100.00%	Intermediate holding company	Note 1
Kwung's HK	Hong Kong 27 November 2018	HK\$1	N/A	N/A	100.00%	100.00%	100.00%	Intermediate holding company	Note 1
Ningbo Kwung's	Ningbo, the PRC 4 January 1999	RMB70,000,000	100.00%	100.00%	100.00%	100.00%	100.00%	Design, manufacture and processing; Wholesale and retail company	Tianjian CPAs LLP for the years ended 31 December 2016, 2017 and 2018
Ningbo Koman Import and export Co., Ltd.	Ningbo, the PRC 16 August 2012	RMB1,500,000	100.00%	100.00%	100.00%	100.00%	100.00%	Import or export of self-employed or agent goods and technology	Note 1
Shaoxing Jingming (Note 7)	Shaoxing, the PRC 20 December 2005	RMB1,080,000	100.00%	100.00%	–	–	–	Design, manufacture and processing of wax products	Note 1
Ningbo Aromage Homeware Co., Ltd. (Note 2)	Ningbo, the PRC 11 August 2014	RMB1,000,000	100.00%	100.00%	100.00%	100.00%	100.00%	Wholesale and retail of household items, handicrafts	Note 1
Ningbo Wuliang (Note 4)	Ningbo, the PRC 18 November 2016	RMB1,500,000	100.00%	100.00%	–	–	–	Design, manufacture and processing of wax products	Note 1
Ningbo Sotex (Note 7)	Ningbo, the PRC 2 June 2016	RMB1,500,000	100.00%	–	–	–	–	Design, manufacture and processing of home textiles	Note 1
Ningbo Roadon (Note 7)	Ningbo, the PRC 19 August 2016	RMB1,500,000	62.96%	–	–	–	–	Design, manufacture and processing of furniture, sunshade and children's products	Note 1
Nantong Guangda Wax Art Co., Ltd. (Note 3)	Nantong, the PRC December 2016	RMB765,000	51.00%	–	–	–	–	Design, manufacture and processing of wax products	Note 1

Names of the subsidiaries	Place and date of incorporation/ establishment	Issued and paid-up capital	Attributable equity interest of the Group				Attributable equity interest of the Group as at the date of this report %	Principal activities/place of operation	Name of statutory auditors and periods covered
			31 December 2016	31 December 2017	2018	30 June 2019			
Neobee Australia Pty Limited	Australia May 2017	AUD240,000	N/A	80.00%	80.00%	80.00%	80.00%	Trading Company	Independent Audit Services Pty Ltd for the year ended 31 December 2017 and 2018
Kwung's Wisdom Co., Limited	Hong Kong April 2017	US\$10,000	N/A	100.00%	–	–	–	Trading Company	Note 1
Henan Kwung's Wisdom Art & Design Co., Ltd. (Note 4)	Pingyu, the PRC 20 November 2017	RMB10,000,000	N/A	100.00%	–	–	–	Design, manufacture and processing of wax products	Note 1
Shaoxing Keyuan (Note 7)	Shaoxing, the PRC 17 September 2018	RMB20,000,000	N/A	N/A	100.00%	100.00%	100.00%	Design, manufacture and processing of wax products	Note 1
Ningbo Fenyuan Aromatherapy Products Co., Ltd. (Note 5)	Ningbo, the PRC 7 January 2019	RMB1,000,000	N/A	N/A	N/A	100.00%	100.00%	Design, manufacture and processing of wax products, metal products and glass products	Note 1
Hangzhou Aromage Homeware Co., Ltd. (Note 6)	Hangzhou, the PRC 21 May 2019	RMB500,000	N/A	N/A	N/A	100.00%	100.00%	Wholesale and retail of household items, handicrafts	Note 1

Note 1: No statutory audited financial statements in the Track Record Period have been prepared for these companies as it is not required to issue audited financial statements under the statutory requirements of its place of incorporation.

Note 2: In March 2016, Ningbo Kwung's acquired additional 30% equity interests of Ningbo Aromage Homeware Co., Ltd. at a consideration of RMB200,000. After the transaction, Ningbo Aromage Homeware Co., Ltd. became a wholly owned subsidiary of Ningbo Kwung's. See note 33.

Note 3: Nantong Guangda Wax Art Co., Ltd. was deregistered in the PRC on December 2017.

Note 4: Henan Kwung's Wisdom Art & Design Co., Ltd. ("Henan Kwung's") and Ningbo Wuliang Yuansu Cultural Development Co., Ltd. ("Ningbo Wuliang") were deregistered in the PRC on 22 August 2018 and 29 August 2018, respectively.

Note 5: Ningbo Fenyuan Aromatherapy Products Co., Ltd. was established in the PRC on 7 January 2019 as a wholly-owned subsidiary of Kwung's HK.

Note 6: Hangzhou Aromage Homeware Co., Ltd. was established in the PRC on 21 May 2019 as a wholly-owned subsidiary of Ningbo Aromage Homeware Co., Ltd..

Note 7: The Group disposed of these subsidiaries with material gain as below:

Disposal of subsidiaries

	Year ended 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
		Note a	Note b
Total disposal consideration	—	1,483	105,071
Total net assets/(liabilities) disposed of	—	869	62,580
– Property, plant and equipment	—	37	8,583
– Right-of-use assets	—	—	9,310
– Investment properties	—	—	21,720
– Other assets	—	1,285	2,808
– Amount due from Ningbo Kwung's	—	1	9,366
– Cash and cash equivalents	—	297	16,556
– Total liabilities	—	(221)	(5,763)
– Non-controlling interests	—	(530)	—
Gain on disposal	—	614	42,491

Note a: In January 2017, Ningbo Kwung's disposed of its 51% equity interests in Ningbo Roadon Leisure Products Co., Ltd. ("Ningbo Roadon") and 100% equity interests in Ningbo Sotex Art & Design Co., Ltd. ("Ningbo Sotex") to a related party Ningbo Kwung's Home Furniture Industrial Development Co., Ltd.

Note b: Ningbo Kwung's transferred 98% of its equity interest in Shaoxing Jingming to Ningbo Investment and 2% of its equity interest in Shaoxing Jingming to Mr. Jin at a consideration of RMB102,970,000 and RMB2,101,000 respectively. See Note 1.2 for more details on this transaction.

The property, plant and equipment, right-of-use assets and investment properties disposed of from the Group represented some idle buildings and investment properties for rental that were not related to the Listing Business.

13 INCOME TAX EXPENSE

The amounts of income tax expense charged to the consolidated statements of comprehensive income represent:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Current income tax					
– PRC corporate income tax	6,338	5,724	12,308	1,545	4,043
Deferred income tax (Note 29)					
– PRC corporate income tax	991	121	(551)	(854)	(2,195)
Income tax expense	7,329	5,845	11,757	691	1,848

(a) Cayman Island income tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

(b) British Virgin Islands income tax

Under the current laws of the British Virgin Islands, entities incorporated in British Virgin Islands are not subject to tax on their income or capital gains.

(c) Hong Kong profits tax

No provision for Hong Kong profits tax was made as the Group did not derive any income subject to Hong Kong profits tax during the Track Record Period.

(d) PRC corporate income tax

Income tax provision of the Group in respect of operations in Mainland China has been calculated at the applicable tax rate on the estimated assessable profits for the years, based on the existing legislation, interpretations and practices in respect thereof. The statutory tax rate was 25% for the Track Record Period.

Ningbo Kwung's was qualified as a "High and New Technology Enterprise" ("HNTE") since 2008 and renewed its qualification in November 2017, and it is subject to a reduced preferential corporate income tax rate of 15% from 2008 to November 2020 according to the applicable tax preference applicable to the HNTE.

According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2018, during the period from 1 January 2018 to 31 December 2020, enterprises engaging in research and development activities are entitled to claim 175% of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"), while the deduction rate was 150% before then. The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits during the Track Record Period.

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
Profit before income tax	52,861	43,491	88,808	7,236	9,454
Tax calculated at applicable corporate income tax rate of 25%	13,215	10,873	22,202	1,809	2,364
Tax effects of:					
– Expenses not deductible for taxation purposes	120	165	93	19	40
– Preferential income tax rate applied in Ningbo Kwung's	(5,154)	(4,557)	(8,976)	(771)	(1,941)
– Super deduction for research and development expenses	(1,118)	(1,131)	(1,612)	(674)	(1,058)
– Deductible tax losses and temporary differences not recognised for deferred income tax assets	266	495	50	308	2,443
Income tax expense	7,329	5,845	11,757	691	1,848

14 EARNINGS PER SHARE

The basic earnings per share is calculated on the profit attributable to owners of the Company by the weighted number of ordinary shares deemed to be in issue during each of the years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019. In determining the weighted average number of ordinary shares in issue during the Track Record Period, the 70,000 shares of the Company issued and allotted in relation to the Reorganization as detailed in Note 25 were deemed to have been in issue since 1 January 2016.

The Company did not have any potential ordinary shares outstanding during the Track Record Period. Diluted earnings per share is equal to basic earnings per share.

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	(Unaudited)				
Profit attributable to owners of the Company (RMB'000)	45,627	37,699	77,010	6,668	7,631
Weighted average number of ordinary shares in issue	70,000	70,000	70,000	70,000	70,000
Basic earnings per share for profit attributable to the owners of the Company (expressed in RMB per share)	652	539	1,100	95	109

Note: The earnings per share presented above have not taken into account the proposed capitalisation issue pursuant to the resolutions in writing of the shareholders passed on 16 December 2019 because the proposed capitalisation issue has not become effective as at date of this report.

15 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Transportation equipment	Electronic equipment	Machinery	Furniture	Leasehold improvements	Assets under construction	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016								
Cost	38,910	2,923	1,979	7,546	1,391	634	–	53,383
Accumulated depreciation	(14,335)	(1,339)	(1,497)	(5,463)	(1,017)	(115)	–	(23,766)
Net book value	24,575	1,584	482	2,083	374	519	–	29,617
Year ended 31 December 2016								
Opening net book value	24,575	1,584	482	2,083	374	519	–	29,617
Additions	–	151	114	1,532	41	542	189	2,569
Transfers	–	–	–	189	–	–	(189)	–
Disposals	–	–	–	(6)	–	–	–	(6)
Depreciation (Note 7)	(1,567)	(366)	(89)	(325)	(72)	(157)	–	(2,576)
Closing net book value	23,008	1,369	507	3,473	343	904	–	29,604
At 31 December 2016								
Cost	38,910	3,074	2,093	9,209	1,432	1,176	–	55,894
Accumulated depreciation	(15,902)	(1,705)	(1,586)	(5,736)	(1,089)	(272)	–	(26,290)
Net book value	23,008	1,369	507	3,473	343	904	–	29,604

APPENDIX I

ACCOUNTANT'S REPORT

	Buildings RMB'000	Transportation equipment RMB'000	Electronic equipment RMB'000	Machinery RMB'000	Furniture RMB'000	Leasehold improvements RMB'000	Assets under construction RMB'000	Total RMB'000
Year ended 31 December 2017								
Opening net book value	23,008	1,369	507	3,473	343	904	–	29,604
Additions	–	–	208	901	3	162	7,808	9,082
Transfers	2,672	–	–	–	–	–	(2,672)	–
Transfer to investment properties (Note 16)	(851)	–	–	–	–	–	–	(851)
Disposals	–	–	(50)	–	–	–	–	(50)
Disposal of subsidiaries (Note 12)	–	–	(19)	–	(18)	–	–	(37)
Depreciation (Note 7)	(1,484)	(386)	(117)	(434)	(69)	(274)	–	(2,764)
Closing net book value	<u>23,345</u>	<u>983</u>	<u>529</u>	<u>3,940</u>	<u>259</u>	<u>792</u>	<u>5,136</u>	<u>34,984</u>
At 31 December 2017								
Cost	40,731	3,074	2,232	10,111	1,416	1,338	5,136	64,038
Accumulated depreciation	(17,386)	(2,091)	(1,703)	(6,171)	(1,157)	(546)	–	(29,054)
Net book value	<u>23,345</u>	<u>983</u>	<u>529</u>	<u>3,940</u>	<u>259</u>	<u>792</u>	<u>5,136</u>	<u>34,984</u>
Year ended 31 December 2018								
Opening net book value	23,345	983	529	3,940	259	792	5,136	34,984
Additions	–	2	173	2,092	339	1,183	4,525	8,314
Transfers	–	–	–	1,511	–	–	(1,511)	–
Disposals	–	–	(3)	(109)	(5)	–	–	(117)
Disposal of Shaoxing Jingming (Note 12)	(8,349)	–	(56)	(178)	–	–	–	(8,583)
Depreciation (Note 7)	(1,319)	(347)	(137)	(549)	(93)	(799)	–	(3,244)
Closing net book value	<u>13,677</u>	<u>638</u>	<u>506</u>	<u>6,707</u>	<u>500</u>	<u>1,176</u>	<u>8,150</u>	<u>31,354</u>
At 31 December 2018								
Cost	19,676	2,753	1,811	10,104	1,453	2,521	8,150	46,468
Accumulated depreciation	(5,999)	(2,115)	(1,305)	(3,397)	(953)	(1,345)	–	(15,114)
Net book value	<u>13,677</u>	<u>638</u>	<u>506</u>	<u>6,707</u>	<u>500</u>	<u>1,176</u>	<u>8,150</u>	<u>31,354</u>
As at 1 January 2018								
Cost	40,731	3,074	2,232	10,111	1,416	1,338	5,136	64,038
Accumulated depreciation	(17,386)	(2,091)	(1,703)	(6,171)	(1,157)	(546)	–	(29,054)
Net book value	<u>23,345</u>	<u>983</u>	<u>529</u>	<u>3,940</u>	<u>259</u>	<u>792</u>	<u>5,136</u>	<u>34,984</u>

APPENDIX I

ACCOUNTANT'S REPORT

	Buildings <i>RMB'000</i>	Transportation equipment <i>RMB'000</i>	Electronic equipment <i>RMB'000</i>	Machinery <i>RMB'000</i>	Furniture <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Assets under construction <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended								
30 June 2018 (Unaudited)								
Opening net book value	23,345	983	529	3,940	259	792	5,136	34,984
Additions	–	–	35	1,122	122	664	3,011	4,954
Disposals	(2)	–	–	(107)	(5)	–	–	(114)
Depreciation (<i>Note 7</i>)	(784)	(191)	(68)	(229)	(34)	(383)	–	(1,689)
Closing net book value	<u>22,559</u>	<u>792</u>	<u>496</u>	<u>4,726</u>	<u>342</u>	<u>1,073</u>	<u>8,147</u>	<u>38,135</u>
As at 30 June 2018 (Unaudited)								
Cost	40,729	3,074	2,267	11,126	1,533	2,002	8,147	68,878
Accumulated depreciation	(18,170)	(2,282)	(1,771)	(6,400)	(1,191)	(929)	–	(30,743)
Net book value	<u>22,559</u>	<u>792</u>	<u>496</u>	<u>4,726</u>	<u>342</u>	<u>1,073</u>	<u>8,147</u>	<u>38,135</u>
As at 1 January 2019								
Cost	19,676	2,753	1,811	10,104	1,453	2,521	8,150	46,468
Accumulated depreciation	(5,999)	(2,115)	(1,305)	(3,397)	(953)	(1,345)	–	(15,114)
Net book value	<u>13,677</u>	<u>638</u>	<u>506</u>	<u>6,707</u>	<u>500</u>	<u>1,176</u>	<u>8,150</u>	<u>31,354</u>
Six months ended								
30 June 2019								
Opening net book value	13,677	638	506	6,707	500	1,176	8,150	31,354
Additions	–	–	134	448	110	671	3,829	5,192
Transfers	8,193	–	–	–	329	686	(9,208)	–
Disposals	–	–	–	(42)	–	–	–	(42)
Depreciation (<i>Note 7</i>)	(480)	(142)	(77)	(408)	(63)	(390)	–	(1,560)
Closing net book value	<u>21,390</u>	<u>496</u>	<u>563</u>	<u>6,705</u>	<u>876</u>	<u>2,143</u>	<u>2,771</u>	<u>34,944</u>
As at 30 June 2019								
Cost	27,869	2,753	1,945	10,402	1,892	3,878	2,771	51,510
Accumulated depreciation	(6,479)	(2,257)	(1,382)	(3,697)	(1,016)	(1,735)	–	(16,566)
Net book value	<u>21,390</u>	<u>496</u>	<u>563</u>	<u>6,705</u>	<u>876</u>	<u>2,143</u>	<u>2,771</u>	<u>34,944</u>

The net book value of property, plant and equipment pledged as collateral for the Group's borrowing facility as at the respective year end dates were as follows:

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Buildings	<u>11,655</u>	<u>13,842</u>	<u>–</u>	<u>–</u>

Depreciation of property, plant and equipment has been charged to the consolidated statements of comprehensive income (Note 7) as follows:

	Year ended 31 December			Six months ended 30 June	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (Unaudited)	2019 RMB'000
Cost of sales	1,266	1,499	1,166	748	589
Administrative expenses	1,227	1,164	1,952	915	811
Research and development expenses	83	101	126	26	160
	<u>2,576</u>	<u>2,764</u>	<u>3,244</u>	<u>1,689</u>	<u>1,560</u>

Assets under construction represented the machinery and office building renovation cost of Ningbo Kwung's as at 31 December 2016, 2017, 2018 and 30 June 2019.

16 INVESTMENT PROPERTIES

Investment properties are located in the PRC. The movement of investment properties is analysed as follows:

	Year ended 31 December			Six months ended 30 June	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (Unaudited)	2019 RMB'000
Cost	31,904	33,645	–	33,645	–
Accumulated depreciation	(8,234)	(10,726)	–	(11,526)	–
Net book value	<u>23,670</u>	<u>22,919</u>	<u>–</u>	<u>22,119</u>	<u>–</u>
Opening net book value	25,190	23,670	22,919	22,919	–
Transferred from property, plant and equipment (Note 15)	–	851	–	–	–
Depreciation (Note 7)	(1,520)	(1,602)	(1,199)	(800)	–
Disposal of Shaoxing Jingming (Note 12)	–	–	(21,720)	–	–
Closing net book value	<u>23,670</u>	<u>22,919</u>	<u>–</u>	<u>22,119</u>	<u>–</u>

Lease rental income relating to the lease of investment properties has been included in the consolidated statements of comprehensive income as follows:

	Year ended 31 December			Six months ended	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (Unaudited)	2019 RMB'000
Rental income	<u>1,217</u>	<u>2,163</u>	<u>1,863</u>	<u>341</u>	<u>–</u>

Depreciation of investment properties has been charged to the consolidated statements of comprehensive income (Note 7) as follows:

	Year ended 31 December			Six months ended 30 June	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (Unaudited)	2019 RMB'000
Administrative expenses	1,520	1,602	1,199	800	–
17 INTANGIBLE ASSETS					
	Patent right RMB'000	Software RMB'000	ERP system in implementation RMB'000	Total RMB'000	
At 1 January 2016					
Cost	954	1,049	–	2,003	
Accumulated amortization	(549)	(541)	–	(1,090)	
Net book value	405	508	–	913	
Year ended 31 December 2016					
Opening net book value	405	508	–	913	
Additions	20	26	1,491	1,537	
Amortization (Note 7)	(69)	(139)	–	(208)	
Closing net book value	356	395	1,491	2,242	
At 31 December 2016					
Cost	974	1,075	1,491	3,540	
Accumulated amortization	(618)	(680)	–	(1,298)	
Net book value	356	395	1,491	2,242	
Year ended 31 December 2017					
Opening net book value	356	395	1,491	2,242	
Additions	–	251	–	251	
Transfers	–	1,491	(1,491)	–	
Amortization (Note 7)	(74)	(242)	–	(316)	
Closing net book value	282	1,895	–	2,177	
At 31 December 2017					
Cost	974	2,817	–	3,791	
Accumulated amortization	(692)	(922)	–	(1,614)	
Net book value	282	1,895	–	2,177	

	Patent right RMB'000	Software RMB'000	ERP system in implementation RMB'000	Total RMB'000
Year ended 31 December 2018				
Opening net book value	282	1,895	–	2,177
Additions	–	711	–	711
Amortization (<i>Note 7</i>)	(74)	(288)	–	(362)
Disposal of Shaoxing Jingming (<i>Note 12</i>)	–	(1)	–	(1)
Closing net book value	208	2,317	–	2,525
At 31 December 2018				
Cost	974	3,519	–	4,493
Accumulated amortization	(766)	(1,202)	–	(1,968)
Net book value	208	2,317	–	2,525
At 1 January 2018				
Cost	974	2,817	–	3,791
Accumulated amortization	(692)	(922)	–	(1,614)
Net book value	282	1,895	–	2,177
Six months ended 30 June 2018 (Unaudited)				
Opening net book value	282	1,895	–	2,177
Additions	–	711	–	711
Amortization (<i>Note 7</i>)	(37)	(130)	–	(167)
Disposal of Shaoxing Jingming (<i>Note 12</i>)	–	–	–	–
Closing net book value	245	2,476	–	2,721
At 30 June 2018 (Unaudited)				
Cost	974	3,528	–	4,502
Accumulated amortization	(729)	(1,052)	–	(1,781)
Net book value	245	2,476	–	2,721
At 1 January 2019				
Cost	974	3,519	–	4,493
Accumulated amortization	(766)	(1,202)	–	(1,968)
Net book value	208	2,317	–	2,525
Six months ended 30 June 2019				
Opening net book value	208	2,317	–	2,525
Additions	23	48	–	71
Amortization (<i>Note 7</i>)	(31)	(163)	–	(194)
Closing net book value	200	2,202	–	2,402

	Patent right RMB'000	Software RMB'000	ERP system in implementation RMB'000	Total RMB'000
At 30 June 2019				
Cost	997	3,566	–	4,563
Accumulated amortization	(797)	(1,364)	–	(2,161)
Net book value	200	2,202	–	2,402

Amortization of intangible assets has been charged to the consolidated statements of comprehensive income (Note 7) as follows:

	Year ended 31 December			Six months ended 30 June	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (Unaudited)	2019 RMB'000
Administrative expenses	208	316	362	167	194

18 RIGHT-OF-USE ASSETS

	As at 31 December			As at 30 June	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (Unaudited)	2019 RMB'000
Land use rights	18,252	17,751	8,003		7,880
Properties	1,358	–	5,220		4,277
	19,610	17,751	13,223		12,157

(1) Land use rights

The Group's interests in land use rights represent prepaid operating lease payments for land located in the PRC and the lease term is 50 years. The net book amount of which is analyzed as follows:

	Year ended 31 December			Six months ended 30 June	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (Unaudited)	2019 RMB'000
Cost	23,323	23,323	10,807	23,323	10,807
Accumulated depreciation	(5,071)	(5,572)	(2,804)	(5,823)	(2,927)
Net book value	18,252	17,751	8,003	17,500	7,880
Opening net book value	18,753	18,252	17,751	17,751	8,003
Disposal of Shaoxing Jingming (Note 12)	–	–	(9,311)	–	–
Amortization charges (Note 7)	(501)	(501)	(437)	(251)	(123)
Closing net book value	18,252	17,751	8,003	17,500	7,880

Amortization charges have been charged to the consolidated statements of comprehensive loss as follows:

	Year ended 31 December			Six months ended 30 June	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (Unaudited)	2019 RMB'000
Administrative expenses	501	501	437	251	123

(2) Properties

The Group leases properties for own use. Information about leases for which the Group is a lessee is presented below:

	Year ended 31 December			Six months ended 30 June	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (Unaudited)	2019 RMB'000
Cost	2,716	2,716	6,235	2,319	6,235
Accumulated depreciation	(1,358)	(2,716)	(1,015)	(290)	(1,958)
Net book value	1,358	–	5,220	2,029	4,277
Opening net book value	–	1,358	–	–	5,220
Addition	2,716	–	6,235	2,319	–
Depreciation Charge (Note 7)	(1,358)	(1,358)	(1,015)	(290)	(943)
Closing net book value	1,358	–	5,220	2,029	4,277

The consolidated statements of comprehensive income and the consolidated statements of cash flows contain the following amounts relating to leases:

	Year ended 31 December			Six months ended 30 June	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (Unaudited)	2019 RMB'000
Depreciation charge of right-of-use assets	1,358	1,358	1,015	290	943
Interest paid	101	36	161	53	120
Expenses relating to low value leases	47	86	218	211	253
The cash outflow for leases as operating activities	47	86	218	211	253
The cash outflow for leases as financing activities	1,325	1,390	819	203	582

19 FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

	<i>Note</i>	As at 31 December		2018	As at 30 June
		2016	2017	2018	2019
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial assets					
Financial assets at amortised cost:					
Trade receivables	21	63,828	49,085	64,330	60,203
Other receivables (excluding recoverable value added tax)	22	646	471	144,163	1,666
Cash and cash equivalents	24	31,532	74,400	92,611	62,333
Financial assets at fair value through profit or loss	23	5,000	–	1,530	–
		<u>101,006</u>	<u>123,956</u>	<u>302,634</u>	<u>124,202</u>
Financial liabilities					
Liabilities at amortised cost:					
Trade and other payables	27	23,262	31,471	206,468	44,792
Lease liabilities	28	1,390	–	5,416	4,833
Financial liabilities at fair value through profit or loss	23	–	–	3,069	14,623
		<u>24,652</u>	<u>31,471</u>	<u>214,953</u>	<u>64,248</u>

20 INVENTORIES

	Six months ended 30 June			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	14,550	20,923	20,506	27,253
Work in progress	1,884	2,154	2,849	4,640
Finished goods	11,462	13,559	16,086	16,147
Provision for impairment of inventories	–	(182)	(180)	(339)
	<u>27,896</u>	<u>36,454</u>	<u>39,261</u>	<u>47,701</u>

The cost of inventories recognized as expense and included in “cost of sales” in the consolidated statements of comprehensive income amounted to RMB299,751,000, RMB330,836,000, RMB321,819,000, RMB127,802,000 and RMB154,941,000 for the years ended 31 December 2016, 2017, 2018, the six months ended 30 June 2018 and 2019, respectively.

21 TRADE RECEIVABLES

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables due from:				
Third parties	58,723	49,292	64,783	61,349
Related parties (<i>Note 34(d)</i>)	6,011	–	–	–
	64,734	49,292	64,783	61,349
Less: allowance for impairment of trade receivables	(906)	(207)	(453)	(1,146)
Trade receivables – net	63,828	49,085	64,330	60,203

(a) Trade receivables all arise from sales of goods.

As at 31 December 2016, 2017, 2018 and 30 June 2019, the gross carrying amounts of trade receivables before provision are denominated in the following currencies:

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
US\$	62,637	47,964	62,853	59,989
RMB	2,021	1,328	1,930	1,360
EUR	76	–	–	–
	64,734	49,292	64,783	61,349

As at 31 December 2016, 2017, 2018 and 30 June 2019, the ageing analysis of the trade receivables based on invoice date were as follows:

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	34,145	28,836	24,129	38,359
Over 30 days and within 180 days	29,566	20,227	39,843	19,367
Over 180 days and within one year	101	108	630	3,573
Over one year and within two years	896	121	131	–
Over two years	26	–	50	–
Over three years	–	–	–	50
	64,734	49,292	64,783	61,349

As at 31 December 2016, 2017, 2018 and 30 June 2019, the fair value of trade receivables approximated their carrying amounts. Sales of products are received in accordance with the terms of the relevant sales agreements, and due for payment upon the issuance of invoice.

The Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the assets. The expected loss rates are based on the payment profiles of sales over a period of 36 months and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the factors such as GDP of the countries in which it sells its goods to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analyzed. As at 31 December 2016, 2017, 2018 and 30 June 2019, the Group does not hold any collateral as security over these debtors.

	ECL Rate
Within 30 days	0.1%
Over 30 days and within 180 days	0.2%
Over 180 days and within one year	28.3%
Over one year and within two years	83.6%
Over two years	100.0%

Since the actual loss rates for the trade receivables and the adjustments for forward looking macroeconomic data did not have significant change during the Track Record Period, the directors of the Group consider that the change in the expected credit loss rate, if any, for provision matrix is insignificant throughout the Track Record Period.

Movements in the provision for impairment of trade receivables are as follows:

	Year ended 31 December			Six months ended	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
At the beginning of the year/period	(2,334)	(906)	(207)	(207)	(453)
Reversal/(Provision) for impairment	1,222	679	(246)	38	(693)
Transfer-out upon disposal of a subsidiary	—	20	—	—	—
Written off during the year/period	206	—	—	—	—
At the end of the year/period	<u>(906)</u>	<u>(207)</u>	<u>(453)</u>	<u>(169)</u>	<u>(1,146)</u>

22 PREPAYMENTS AND OTHER RECEIVABLES

The Group

	As at 31 December			As at
	2016	2017	2018	30 June
				2019
<i>Prepayments</i>				
– Advances to suppliers	6,996	3,538	12,411	21,657
– Listing expenses	–	–	1,646	3,721
– Prepaid income tax	165	470	153	185
– Prepaid value-added tax	218	466	1,250	1,130
	<u>7,379</u>	<u>4,474</u>	<u>15,460</u>	<u>26,693</u>
<i>Subtotal</i>				
Other receivables				
– Deposits	136	64	29	28
– Advances to employees	348	357	482	1,392
– Recoverable value-added tax	4,219	3,607	5,174	4,507
– Amounts due from related parties				
<i>(Note 34(d))</i>	–	–	143,652	50
– Others	162	50	–	196
	<u>4,865</u>	<u>4,078</u>	<u>149,337</u>	<u>6,173</u>
<i>Subtotal</i>				
Total	<u>12,244</u>	<u>8,552</u>	<u>164,797</u>	<u>32,866</u>
Less: Allowance for impairment of other receivables	<u>(63)</u>	<u>(68)</u>	<u>(51)</u>	<u>(162)</u>
	<u>12,181</u>	<u>8,484</u>	<u>164,746</u>	<u>32,704</u>

Movements in the provision for impairment of other receivables are as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
At the beginning of the year/period	(162)	(63)	(68)	(68)	(51)
Reversal/(Provision) for impairment	99	(37)	17	20	(111)
Written off during the year/period	<u>–</u>	<u>32</u>	<u>–</u>	<u>–</u>	<u>–</u>
At the end of the year/period	<u>(63)</u>	<u>(68)</u>	<u>(51)</u>	<u>(48)</u>	<u>(162)</u>

Movements in the provision for impairment of prepayments are as follows:

	Year ended 31 December			Six months ended 30 June	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (Unaudited)	2019 RMB'000
At the beginning of the year/period	–	–	–	–	–
Provision for impairment	(665)	–	–	–	–
Written off during the year/period	665	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
At the end of the year/period	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

23 FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets

	As at 31 December			As at 30 June	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	
Wealth management products issued by commercial banks (Note a)	5,000	–	–	–	
USD:RMB fixed-fixed cross-currency interest rate swap (Note b)	–	–	1,530	–	
	<u>5,000</u>	<u>–</u>	<u>1,530</u>	<u>–</u>	

Note a: For the year ended 31 December 2016, the financial instruments measured at fair value through profit or loss are wealth management products issued by commercial banks, denominated in RMB, with expected rate of return of 2.1% to 3.3% per annum. The return on these wealth management products is not guaranteed, hence the contractual cash flow does not qualify for solely payments of principal and interest. Therefore they are measured at fair value through profit or loss.

The fair values were based on cash flow discounted using the expected return based on management judgement and are within level 3 of the fair value hierarchy. The wealth management products were redeemed in January 2017.

Note b: The Group entered into two fixed-fixed cross currency interest rate swaps. One swap has a US\$2 million receive leg receiving interest at 1.8%, and a RMB12,840,000 pay leg paying interest at 3.87%; The other swap has a US\$2,000,000 receive leg receiving interest at 1.8%, and a RMB12,640,000 pay leg paying interest at 3.97% (Total of US\$4,000,000 and RMB25,480,000 are equivalent based on the spot rate at inception). The swaps have annual interest settlements, an one-year maturity.

Financial liabilities

	As at 31 December			As at 30 June	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	
Foreign currency forwards (Note c)					
– Current	–	–	3,069	12,028	
– Non-current	–	–	–	2,595	
	<u>–</u>	<u>–</u>	<u>3,069</u>	<u>14,623</u>	

Note c: The Group entered into several foreign currency forward agreements with commercial banks to lock in the exchange rates from 6.388 to 6.890 for the sale of US\$14,000,000 on a future date within 1 year at 31 December 2018 and from 6.671 to 6.841 for the sale of US\$96,700,000 on a future date within 18 months at 30 June 2019.

Amounts recognized in profit or loss

During the Track Record Period, the following losses/gains were recognized in other gains and losses.

	Year ended 31 December			As at 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Net fair value gains/(losses) (Note 10)					
– Realized	1,326	40	(13,981)	(1,170)	(2,327)
– Unrealized	–	–	(1,539)	(6,245)	(14,623)
	<u>1,326</u>	<u>40</u>	<u>(15,520)</u>	<u>(7,415)</u>	<u>(16,950)</u>

Risk exposure and fair value measurements

For information about the methods used in determining fair value, please refer to Note 3.3.

24 CASH AND CASH EQUIVALENTS

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Cash on hand	95	39	42	21
Cash in banks	31,348	74,259	92,295	62,007
Cash in other financial institutions (Note)	89	102	274	305
	<u>31,532</u>	<u>74,400</u>	<u>92,611</u>	<u>62,333</u>

The carrying amounts of cash and cash equivalents are denominated in the following currencies:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	14,270	3,501	35,209	25,139
US\$	17,261	70,898	57,245	37,194
EUR	1	1	157	–
	<u>31,532</u>	<u>74,400</u>	<u>92,611</u>	<u>62,333</u>

Note: Cash in other financial institutions was related to online sales and classified as cash and cash equivalents.

All cash at bank are deposits with original maturity within 3 months. The Group earns interest on cash at bank at floating bank deposit rates ranged from 0.30% to 1.94% during the Track Record Period.

25 SHARE CAPITAL AND SHARE PREMIUM

On 13 November 2018, the Company was incorporated in the Cayman Islands. At the date of incorporation, the authorised share capital is HK\$380,000 at par value of HK\$0.001.

Ordinary shares issued and fully paid:

	Number of ordinary shares	Nominal value of shares HK\$	Equivalent nominal value of shares RMB	Share premium RMB'000
At 13 November 2018 (date of incorporation) (<i>Note a</i>)	1	0.001	0.001	–
Issuance of ordinary shares (<i>Note b</i>)	69,999	69.999	61.333	163,681
At 31 December 2018 and 30 June 2019	70,000	70	61.33	163,681

(a) 1 share of HK\$0.001 was allotted and issued on 13 November 2018.

(b) The share issued on 13 November 2018 in above (a) was transferred to King Harmony on 20 November 2018. Additional 50,525 shares with nominal value of HK\$50.525, 12,624 shares with nominal value of HK\$12.624, 5,450 shares with nominal value of HK\$5.45 and 1,400 shares with nominal value of HK\$1.4 were allotted and issued to King Harmony, DMA, Unione and Well Happiness respectively on 19 December 2018.

As at 19 December 2018, the above shareholders of the Company have agreed to contribute RMB163,681,000 to the Company in aggregate, the difference between this amount and the nominal value of HK\$70 was recorded as share premium. RMB49,048,000 was paid by shareholders during 2018 and the remaining RMB114,632,000 was received during the six months ended 30 June 2019.

26 OTHER RESERVES

The Group

	Capital reserves RMB'000	Statutory reserves RMB'000	Translation differences RMB'000	Total other reserves RMB'000
As at 1 January 2016	91,365	17,516	–	108,881
Appropriation to statutory reserves (Note a)	–	4,486	–	4,486
Transaction with non-controlling interests (Note 33)	(313)	–	–	(313)
As at 31 December 2016	<u>91,052</u>	<u>22,002</u>	<u>–</u>	<u>113,054</u>
Appropriation to statutory reserves (Note a)	–	3,851	–	3,851
Exchange differences on translation of foreign operations	–	–	(3)	(3)
As at 31 December 2017	<u>91,052</u>	<u>25,853</u>	<u>(3)</u>	<u>116,902</u>
Appropriation to statutory reserves (Note a)	–	7,217	–	7,217
Exchange differences on translation of foreign operations	–	–	49	49
Deemed distribution to owners of Kwung's to effect the Reorganization (Note b)	(163,681)	–	–	(163,681)
As at 31 December 2018	<u>(72,629)</u>	<u>33,070</u>	<u>46</u>	<u>(39,513)</u>
(Unaudited)				
As at 1 January 2018	91,052	25,853	(3)	116,902
Exchange differences on translation of foreign operations	–	–	88	88
As at 30 June 2018	<u>91,052</u>	<u>25,853</u>	<u>85</u>	<u>116,990</u>
As at 1 January 2019	(72,629)	33,070	46	(39,513)
Exchange differences on translation of foreign operations	–	–	(1)	(1)
As at 30 June 2019	<u>(72,629)</u>	<u>33,070</u>	<u>45</u>	<u>(39,514)</u>

- (a) In accordance with the PRC Company Law, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the PRC Company Law, part of the statutory surplus reserve may be converted to share capital, provided that the remaining balance after the capitalization is not less than 25% of the registered capital.
- (b) On 13 December 2018, Kwung's HK entered into an equity transfer agreement with each of the original shareholders of Ningbo Kwung's to acquire the entire shareholdings of Ningbo Kwung's from each of its shareholders respectively at a total consideration payable of approximately RMB163,681,000. The consideration was paid in April 2019.

27 TRADE AND OTHER PAYABLES

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables due to:	21,331	28,767	40,906	31,656
– related parties (<i>Note 34</i>)	1,291	–	–	–
– third parties	20,040	28,767	40,906	31,656
Other payables due to:	1,930	2,703	165,562	13,136
– related parties (<i>Note 26(b) and 34(d)</i>)	114	–	163,681	7,021
– third parties	1,816	2,703	1,881	6,115
Staff salaries and welfare payables	14,109	13,164	12,181	6,413
Accrued taxes other than income tax	936	1,299	3,510	516
	<u>38,306</u>	<u>45,933</u>	<u>222,159</u>	<u>51,721</u>

- (a) As at 31 December 2016, 2017, 2018 and 30 June 2019, all trade and other payables of the Group were non-interest bearing.
- (b) During the Track Record Period, all of the Group's trade and other payables are denominated in RMB.
- (c) Ageing analysis of trade payables to third parties and related parties at the respective year end dates is as follows:

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	20,668	27,547	39,049	30,195
Over one year and within two years	597	1,057	1,183	714
Over two years	66	163	674	747
	<u>21,331</u>	<u>28,767</u>	<u>40,906</u>	<u>31,656</u>

28 LEASE LIABILITIES

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Minimum lease payments due				
– Within 1 year	1,426	–	2,086	2,428
– Between 1 and 2 years	–	–	2,086	2,086
– Between 2 and 5 years	–	–	1,621	576
	<u>1,426</u>	<u>–</u>	<u>5,793</u>	<u>5,090</u>
Less: future finance charges	<u>(36)</u>	<u>–</u>	<u>(377)</u>	<u>(257)</u>
Present value of lease liabilities	<u><u>1,390</u></u>	<u><u>–</u></u>	<u><u>5,416</u></u>	<u><u>4,833</u></u>
Minimum lease payments due				
– Within 1 year	1,390	–	1,870	2,256
– Between 1 and 2 years	–	–	1,960	2,007
– Between 2 and 5 years	–	–	1,586	570
	<u>1,390</u>	<u>–</u>	<u>5,416</u>	<u>4,833</u>
Present value of lease liabilities	<u><u>1,390</u></u>	<u><u>–</u></u>	<u><u>5,416</u></u>	<u><u>4,833</u></u>

The Group leases offices and warehouses and these lease liabilities were measured at net present value of the lease payments to be paid during the lease terms. All the lease liabilities were payable to related parties (Note 34(d)).

Extension options, at the Group's discretion, are included in a number of property leases across the Group.

Lease liabilities were discounted at incremental borrowing rate. The weighted average lessee's incremental borrowing rate applied to the lease liabilities was 4.75%.

For the total cash outflows for leases including payments of lease liabilities and payments of interest expenses on leases are disclosed in Note 18.

29 DEFERRED INCOME TAX

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets:				
– Deferred tax asset to be recovered after more than 12 months	–	–	–	–
– Deferred tax asset to be recovered within 12 months	708	587	1,138	3,333
	<u>708</u>	<u>587</u>	<u>1,138</u>	<u>3,333</u>
	<u><u>708</u></u>	<u><u>587</u></u>	<u><u>1,138</u></u>	<u><u>3,333</u></u>

The movement in deferred income tax assets and liabilities during the Track Record Period, taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Allowance on doubtful debts RMB'000	Accrued payroll RMB'000	Financial assets and liabilities at FVPL RMB'000	Accrued expenses RMB'000	Right-of- use assets RMB'000	Lease liabilities RMB'000	Tax losses RMB'000	Total RMB'000
As at 1 January 2016	<u>412</u>	<u>434</u>	<u>558</u>	<u>13</u>	<u>–</u>	<u>–</u>	<u>282</u>	<u>1,699</u>
(Charged)/credited to the consolidated statements of comprehensive income	<u>(248)</u>	<u>(22)</u>	<u>(558)</u>	<u>22</u>	<u>(204)</u>	<u>208</u>	<u>(189)</u>	<u>(991)</u>
At 31 December 2016	<u>164</u>	<u>412</u>	<u>–</u>	<u>35</u>	<u>(204)</u>	<u>208</u>	<u>93</u>	<u>708</u>
(Charged)/credited to the consolidated statements of comprehensive income	<u>(91)</u>	<u>21</u>	<u>–</u>	<u>(8)</u>	<u>204</u>	<u>(208)</u>	<u>(39)</u>	<u>(121)</u>
At 31 December 2017	<u>73</u>	<u>433</u>	<u>–</u>	<u>27</u>	<u>–</u>	<u>–</u>	<u>54</u>	<u>587</u>
(Charged)/credited to the consolidated statements of comprehensive income	<u>56</u>	<u>(46)</u>	<u>231</u>	<u>332</u>	<u>(1,131)</u>	<u>1,163</u>	<u>(54)</u>	<u>551</u>
At 31 December 2018	<u>129</u>	<u>387</u>	<u>231</u>	<u>359</u>	<u>(1,131)</u>	<u>1,163</u>	<u>–</u>	<u>1,138</u>
(Unaudited)								
As at 1 January 2018	<u>73</u>	<u>433</u>	<u>–</u>	<u>27</u>	<u>–</u>	<u>–</u>	<u>54</u>	<u>587</u>
(Charged)/credited to the consolidated statements of comprehensive income	<u>(8)</u>	<u>(155)</u>	<u>937</u>	<u>121</u>	<u>(304)</u>	<u>317</u>	<u>(54)</u>	<u>854</u>
At 30 June 2018	<u>65</u>	<u>278</u>	<u>937</u>	<u>148</u>	<u>(304)</u>	<u>317</u>	<u>–</u>	<u>1,441</u>
As at 1 January 2019	<u>129</u>	<u>387</u>	<u>231</u>	<u>359</u>	<u>(1,131)</u>	<u>1,163</u>	<u>–</u>	<u>1,138</u>
(Charged)/credited to the consolidated statements of comprehensive income	<u>145</u>	<u>(60)</u>	<u>2,020</u>	<u>(77)</u>	<u>207</u>	<u>(201)</u>	<u>161</u>	<u>2,195</u>
At 30 June 2019	<u>274</u>	<u>327</u>	<u>2,251</u>	<u>282</u>	<u>(924)</u>	<u>962</u>	<u>161</u>	<u>3,333</u>

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefits through future taxable profit is probable. Tax losses of Group companies operated in the PRC could be carried forward for a maximum of five years. For the years ended 31 December 2016 and 2017, the Group did not recognise deferred income tax assets in respect of tax losses amounting to RMB1,026,000 and RMB1,391,000 respectively that can be carried forward against future taxable income. Upon the disposal of loss carrying subsidiaries, there was no tax losses carried forward against future taxable income as at 31 December 2018. For the six months ended 30 June 2019, the Group did not recognise deferred income tax assets in respect of losses amounting to RMB10,365,000.

As at 31 December 2018, deferred income tax liabilities of RMB2,311,000 have not been recognised for the withholding tax (tax rate of 5%) and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts will be permanently reinvested. Unremitted earnings totalled approximately RMB46,226,000 at 31 December 2018.

As at 30 June 2019, deferred income tax liabilities of RMB3,159,000 have not been recognised for the withholding tax (tax rate of 5%) and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts will be permanently reinvested. Unremitted earnings totalled approximately RMB63,187,000 at 30 June 2019.

30 DIVIDENDS

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Dividends	7,000	15,050	105,000	—	—

During the years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019, Ningbo Kwung's declared dividends of RMB7,000,000, RMB15,050,000, RMB105,000,000 and zero to its then shareholders.

No dividends had been paid by the Company during the Track Record Period.

31 CASH FLOW INFORMATION

(a) Cash generated from/(used in) operations

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Profit before income tax	52,861	43,491	88,808	7,236	9,454
Adjustments for:					
– Amortization of intangible assets (<i>Note 17</i>)	208	316	362	167	194
– Depreciation of property, plant and equipment (<i>Note 15</i>)	2,576	2,764	3,244	1,689	1,560
– Amortisation and depreciation of right-of-use asset (<i>Note 18</i>)	1,859	1,859	1,452	541	1,066
– Depreciation of investment properties (<i>Note 16</i>)	1,520	1,602	1,199	800	–
– Net impairment loss/(reversal) on financial assets (<i>Note 21, 22</i>)	(1,321)	(642)	228	(58)	804
– Net losses on disposal of property, plant and equipment (<i>Note 10</i>)	5	47	107	105	33
– Finance costs/(income)	120	(59)	(88)	(26)	218
– Interest on lease liabilities	101	36	161	53	120
– Net exchange differences	(6,729)	7,701	(4,818)	(570)	(1,622)
– Fair value (gains)/losses on financial assets and liabilities at fair value through profit or loss	(1,326)	(40)	15,520	7,415	16,950
– Net impairment loss on prepayments	665	–	–	–	–
– Provision for impairment of inventories	–	182	–	–	–
– Net gain on sale of a subsidiary	–	(614)	(42,491)	–	–
Changes in working capital:					
– Inventories	(2,647)	(8,558)	(2,807)	(6,987)	(8,440)
– Trade receivables	(16,236)	9,610	(36,776)	(497)	5,749
– Prepayments, deposits and other receivables	(3,397)	3,615	(15,254)	(8,833)	(10,066)
– Contract liabilities	(573)	1,140	599	179	1,401
– Trade and other payables	(1,319)	9,145	16,800	(15,828)	(20,499)
Cash generated from/(used in) operations	26,367	71,595	26,246	(14,614)	(3,078)

(b) Consideration from disposal of subsidiaries – cash inflow

Year ended
31 December 2018
RMB'000

Inflow of cash in the disposal of subsidiary Shaoxing Jingming, net of cash disposed of (Note 12)	
Cash consideration received	76,101
Less: Cash disposed of	(16,556)
	<hr/>
Net inflow of cash – investing activities	59,545
	<hr/> <hr/>

Year ended
31 December 2017
RMB'000

Inflow of cash in the disposal of subsidiaries Ningbo Roadon and Ningbo Sotex, net of cash disposed of (Note 12)	
Cash consideration received	1,483
Ningbo Sotex	1,100
Ningbo Roadon	383
Less: Cash disposed of	(297)
Ningbo Sotex	(215)
Ningbo Roadon	(82)
	<hr/>
Net inflow of cash – investing activities	1,186
	<hr/> <hr/>

(c) In the statement of cash flows, proceeds from sale of property, plant and equipment comprise:

	Year ended 31 December			Six months ended 30 June	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (Unaudited)	2019 RMB'000
Net book amount (Note 15)	6	50	117	114	42
Losses on disposal of property, plant and equipment (Note 10)	(5)	(47)	(107)	(105)	(33)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	1	3	10	9	9
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

(d) Net debt reconciliation

	Lease liabilities – due within one year RMB'000	Lease liabilities – due after one year RMB'000	Borrowings – repayable within one year RMB'000	Total RMB'000
Net debt as at 1 January 2016	(1,325)	(1,390)	(5,000)	(7,715)
Cash flows	1,325	–	5,000	6,325
Reclassification	(1,390)	1,390	–	–
Net debt as at 31 December 2016	(1,390)	–	–	(1,390)
Net debt as at 1 January 2017	(1,390)	–	–	(1,390)
Cash flows	1,390	–	–	1,390
Net debt as at 31 December 2017	–	–	–	–
Net debt as at 1 January 2018	–	–	–	–
Addition	(819)	(5,416)	–	(6,235)
Cash flows	819	–	–	819
Reclassification	(1,870)	1,870	–	–
Net debt as at 31 December 2018	(1,870)	(3,546)	–	(5,416)
Net debt as at 1 January 2019	(1,870)	(3,546)	–	(5,416)
Cash flows	583	–	–	583
Reclassification	(969)	969	–	–
Net debt as at 30 June 2019	(2,256)	(2,577)	–	(4,833)

32 COMMITMENTS

(a) Operating lease commitments – as lessee

The Group leases warehouse and factory workshop under non-cancellable operating lease agreements within 1 year contract periods. Majority of the lease agreements are signed with related parties at market price.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	46	–	108	183

(b) Operating lease commitments – as lessor

The Group rents out factory workshop under non-cancellable operating lease agreements. The lease terms are between 1 year to 3 years, and the majority of lease agreements are signed with third parties.

The future aggregate minimum lease receivables under non-cancellable operating leases are as follows. The Group has no investment properties after the disposal of Shaoxing Jingming.

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	722	1,266	–	–
Over one year and within two years	1,266	1,152	–	–
Over two years and within three years	1,152	426	–	–
Over three years	426	–	–	–
	<u>3,566</u>	<u>2,844</u>	<u>–</u>	<u>–</u>

33 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

In March 2016, Ningbo Kwung's acquires additional 30% equity interests of Ningbo Aromage Homeware Co., Ltd. at a consideration of RMB200,000. After the transaction, Ningbo Aromage Homeware Co., Ltd. became a wholly owned subsidiary of Ningbo Kwung's.

	7 March 2016
	RMB'000
Consideration to the non-controlling interests	200
Carrying amount of non-controlling interests	<u>(113)</u>
Difference between consideration and carrying value of non-controlling interests charged to reserve	<u>313</u>

34 RELATED PARTY TRANSACTIONS**(a) Names and relationship with related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019, and balances arising from related party transactions as at 31 December 2016, 2017, 2018 and 30 June 2019.

Name of related party	Nature of relationship
Mr. Jin	Ultimate Controlling Shareholder
Bode Investment	Shareholder of Ningbo Kwung's
Ningbo Investment	Entity controlled by Ultimate Controlling Shareholder
Kwung's Wisdom Co., Limited	Entity controlled by Ultimate Controlling Shareholder
Big Spud Australia Pty Ltd	Entity subject to common control of Ultimate Controlling Shareholder

Name of related party	Nature of relationship
Ningbo Shun Yuan Food Co., Ltd.	Entity controlled by Ultimate Controlling Shareholder
Ningbo Kwung's Huibang Home Furniture Industrial Development Co., Ltd.	Entity controlled by Ultimate Controlling Shareholder
Ningbo Oneness Life E-Commerce Co., Ltd.	Entity controlled by Ultimate Controlling Shareholder
Shaoxing Jingming	Entity controlled by Ultimate Controlling Shareholder
Shaoxing Tianheng Packing Product Co., Ltd. (Note)	Entity owned by the relatives of Ultimate Controlling Shareholder

Note: The relatives of Ultimate Controlling Shareholder disposed of the equity interests of Shaoxing Tianheng Packing Product Co., Ltd. in 2017, thus this entity was no longer related party of the Group thereafter.

(b) Transactions with related parties

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
<i>Loans borrowed from related party</i>					
– Bode Investment	8,000	–	–	–	–
– Mr. Jin	–	–	–	–	6,681
	<u>8,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>6,681</u>
<i>Loans repaid to related party</i>					
– Bode Investment	8,000	–	–	–	–
	<u>8,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
<i>Interest expenses on loans from related party</i>					
– Bode Investment	68	–	–	–	–
	<u>68</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
<i>Services received from related parties</i>					
– Ningbo Oneness Life E-Commerce Co., Ltd. (Note i)	1,580	–	–	–	–
– Ningbo Shun Yuan Food Co., Ltd.	46	–	–	–	–
	<u>1,626</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

Note i: Ningbo Oneness Life E-Commerce Co., Ltd. had been appointed by Ningbo Kwung's to provide the services of design and development software. The terms of the service agreement were negotiated on an arm's length basis with reference to the market price. The service fee was paid by the Group in three instalments pursuant to the terms of the agreement.

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
<i>Disposal of subsidiaries to related parties</i>					
– Ningbo Investment (Note 12)	–	–	102,970	–	–
– Mr. Jin (Note 12)	–	–	2,101	–	–
– Ningbo Kwung's Huibang Home Furniture Industrial Development Co., Ltd.	–	1,483	–	–	–
	–	1,483	105,071	–	–
<i>Rental fee charged by related parties</i>					
– Ningbo Investment	1,472	1,326	466	233	311
– Shaoxing Jingming	–	–	334	–	668
	1,472	1,326	800	233	979
<i>Purchase of inventories from related parties</i>					
– Shaoxing Tianheng Packing Product Co., Ltd.	310	–	–	–	–
<i>Sales of products to related parties</i>					
– Big Spud Australia Pty Ltd.	4,205	–	–	–	–
<i>Purchase of property, plant and equipment from related parties</i>					
– Big Spud Australia Pty Ltd.	–	76	–	–	–
<i>Transfer of trademark</i>					
– Ningbo Investment (Note ii)	–	–	–	–	–

Note ii: In 2017, Ningbo Investment transferred its trademark “Fumare” in Australia to Neobee Australia Pty Limited, a subsidiary of the Group, free of charge.

(c) Key management compensation

Key management includes directors and senior management. Other than those for directors as disclosed in Note 35, no compensations were paid or payable to senior management during the Track Record Period.

(d) Balances with related parties

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Amounts due from related parties</i>				
<i>Trade:</i>				
– Big Spud Australia Pty Ltd	6,011	–	–	–
<i>Non-trade:</i>				
– Shareholders of the Company	–	–	114,632	–
– Ningbo Investment	–	–	28,970	–
– Shaoxing Jingming	–	–	50	50
	–	–	143,652	50
	6,011	–	143,652	50

Note iii: See Note 12, Ningbo Kwung's entered into two equity transfer agreements with Ningbo Investment and Mr. Jin, respectively to transfer its equity interest in Shaoxing Jingming at a total consideration of RMB103 million and RMB2.1 million respectively. As at 31 December 2018, RMB76 million of consideration had been received, see Note 31(b), and the remaining RMB29 million was received in April 2019.

The amounts due from related parties are unsecured, interest-free, repayable on demand.

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Amounts due to related parties</i>				
<i>Trade:</i>				
– Ningbo Oneness Life E-Commerce Co., Ltd.	1,291	–	–	–
<i>Lease liabilities:</i>				
– Shaoxing Jingming	–	–	3,508	3,536
– Ningbo Investment	1,390	–	1,908	1,297
	2,681	–	5,416	4,833
<i>Non-trade:</i>				
– Mr. Jin	–	–	–	6,861
– Shaoxing Jingming	–	–	–	160
– The shareholders of Ningbo Kwung's	–	–	163,681	–
– Bode Investment	68	–	–	–
– Ningbo Shun Yuan Food Co., Ltd.	46	–	–	–
	114	–	163,681	7,021
	2,795	–	169,097	11,854

The trade amount and lease liabilities due to related parties are unsecured, interest-free and repayable on mutually agreed contract terms.

The non-trade amounts due to and due from related parties as at 30 June 2019 will be settled before the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

35 DIRECTORS' BENEFITS AND INTERESTS

As of the date of this report, the directors of the Company are as follows:

Executive directors

Mr. Jin
Mr. Ru Limin
Mr. Tian Dong

Non-executive directors

Mr. Patrick Shao

Independent non-executive directors

Mr. Zhou Kai
Mr. Yang Herong
Mr. Lai Chun Yu

(a) Directors' emoluments

The directors received emoluments from the Group (in their role as senior management and employee before their appointment as directors respectively) for the six months ended 30 June 2019 as follows:

Name	Fees RMB'000	Salaries RMB'000	Bonus RMB'000	Housing allowances and contributions to a retirement scheme RMB'000	Total RMB'000
Executive directors					
Mr. Jin	—	—	—	—	—
Mr. Tian Dong	—	113	—	—	113
Mr. Ru Limin	—	108	—	—	108
Non-executive directors					
Mr. Patrick Shao	—	—	—	—	—
Independent non-executive directors					
Mr. Zhou Kai	—	—	—	—	—
Mr. Yang Herong	—	—	—	—	—
Mr. Lai Chun Yu	—	—	—	—	—
	—	221	—	—	221

The directors received emoluments from the Group (in their role as senior management and employee before their appointment as directors respectively) for the year ended 31 December 2018 as follows:

Name	Fees <i>RMB'000</i>	Salaries <i>RMB'000</i>	Bonus <i>RMB'000</i>	Housing allowances and contributions to a retirement scheme <i>RMB'000</i>	Total <i>RMB'000</i>
Executive directors					
Mr. Jin	–	–	–	–	–
Mr. Tian Dong	–	226	–	–	226
Mr. Ru Limin	–	226	–	–	226
Non-executive directors					
Mr. Patrick Shao	–	–	–	–	–
Independent non-executive directors					
Mr. Zhou Kai	–	–	–	–	–
Mr. Yang Herong	–	–	–	–	–
Mr. Lai Chun Yu	–	–	–	–	–
	–	452	–	–	452

The directors received emoluments from the Group (in their role as senior management and employee before their appointment as directors respectively) for the year ended 31 December 2017 as follows:

Name	Fees <i>RMB'000</i>	Salaries <i>RMB'000</i>	Bonus <i>RMB'000</i>	Housing allowances and contributions to a retirement scheme <i>RMB'000</i>	Total <i>RMB'000</i>
Executive directors					
Mr. Jin	–	–	–	–	–
Mr. Tian Dong	–	217	–	–	217
Mr. Ru Limin	–	227	–	–	227
Non-executive directors					
Mr. Patrick Shao	–	–	–	–	–
Independent non-executive directors					
Mr. Zhou Kai	–	–	–	–	–
Mr. Yang Herong	–	–	–	–	–
Mr. Lai Chun Yu	–	–	–	–	–
	–	444	–	–	444

The directors received emoluments from the Group (in their role as senior management and employee before their appointment as directors respectively) for the year ended 31 December 2016 as follows:

Name	Fees RMB'000	Salaries RMB'000	Bonus RMB'000	Housing allowances and contributions to a retirement scheme RMB'000	Total RMB'000
Executive directors					
Mr. Jin	—	—	—	—	—
Mr. Tian Dong	—	161	—	—	161
Mr. Ru Limin	—	170	—	—	170
Non-executive directors					
Mr. Patrick Shao	—	—	—	—	—
Independent non-executive directors					
Mr. Zhou Kai	—	—	—	—	—
Mr. Yang Herong	—	—	—	—	—
Mr. Lai Chun Yu	—	—	—	—	—
	—	331	—	—	331

(b) Retirement benefits of directors

During the years ended 31 December 2016, 2017, and 2018 and for the six months ended 30 June 2019, there were no additional retirement benefit received by the directors except for the attribution to a retirement benefit scheme in accordance with the rules and regulations in the PRC.

(c) Termination benefits of directors

During the years ended 31 December 2016, 2017, and 2018 and for the six months ended 30 June 2019, there were no termination benefits received by the directors.

(d) Consideration provided to third parties for making available the services of directors

During the years ended 31 December 2016, 2017, and 2018 and for the six months ended 30 June 2019, no consideration was paid for making available the services of the directors or senior management of the Company.

(e) Information about loans, quasi-loans and other dealings in favour of directors, bodies corporate controlled by and entities connected with such directors

During the years ended 31 December 2016, 2017, and 2018, there were no loans, quasi-loans and other dealings entered into by the Company or subsidiaries of the Company, where applicable, in favour of directors. And for the six months ended 30 June 2019, The Company and Kwung's HK borrowed RMB5,077,000 and RMB1,784,000 respectively from Mr Jin.

Except for mentioned above and disclosed elsewhere in this report, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had interests, whether directly or indirectly, subsisted at the end of the Track Record Period or at any time during the Track Record Period.

36 CONTINGENCIES

As at 31 December 2016, 2017, 2018 and 30 June 2019, the Group did not have any significant contingent liabilities or outstanding guarantees in respect of payment obligations to third parties.

37 EVENTS AFTER THE BALANCE SHEET DATE

Save as disclosed elsewhere in this report, the following significant events took place subsequent to 30 June 2019:

Pursuant to the written resolutions dated 16 December 2019 passed by the shareholders of the Company, conditional upon the share premium account of the Company having sufficient balance, or otherwise being credited as a result of the issue of the offer shares by the Company pursuant to the global offering as described in the Company's prospectus dated 30 December 2019, the directors of the Company were authorised to allot and issue a total of 299,930,000 shares credited as fully paid at par to the persons whose names appear on the register of members of the Company as at the date of the passing of such resolutions in proportion (as nearly as possible without involving fractions) to their then shareholdings in the Company by way of capitalisation of such sum standing to the credit of the share premium account of the Company, and the shares to be allotted and issued shall rank *pari passu* in all respects with the existing issued shares.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to 30 June 2019 and up to the date of this report.

No dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2019.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set out in this Appendix does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set out in Appendix I to this prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountant's Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules are set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets of the Group attributable to the owners of the Company as of 30 June 2019 as if the Global Offering had taken place on that date.

The unaudited pro forma adjusted net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group had the Global Offering been completed as at 30 June 2019 or at any future dates.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2019 (Note 1) RMB'000	Estimated net proceeds from the Global Offering (Note 2) RMB'000	Unaudited pro forma adjusted net tangible assets of the Group attributable to owners of the Company RMB'000	Unaudited pro forma adjusted net tangible assets per Share (Note 3) RMB HK\$	
Based on an Offer Price of HK\$1.60 per Share	<u>175,483</u>	<u>122,596</u>	<u>298,079</u>	<u>0.75</u>	<u>0.83</u>
Based on an Offer Price of HK\$1.28 per Share	<u>175,483</u>	<u>95,092</u>	<u>270,575</u>	<u>0.68</u>	<u>0.75</u>

Notes:

- (1) The audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2019 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to the owners of the Company as at 30 June 2019 of RMB177,885,000 with adjustments for the intangible assets as at 30 June 2019 of RMB2,402,000.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$1.60 and HK\$1.28 per Share, respectively, after deduction of the underwriting fees and other related expenses (excluding listing expenses of approximately RMB12,717,000 which have been accounted for in the consolidated statement of comprehensive income for the Track Record Period) payable by the Company and takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option and the options granted under the Share Option Scheme or any Shares which may be granted and issued or repurchased by the Company pursuant to the General Mandate and the Repurchase Mandate.
- (3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 400,000,000 Shares were in issue assuming that the Global Offering and Capitalization Issue have been completed on 30 June 2019 but takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option and the options granted under the Share Option Scheme or any Shares which may be granted and issued or repurchased by the Company pursuant to the General Mandate and the Repurchase Mandate.
- (4) Except as disclosed above, no adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2019.
- (5) For the purpose of this unaudited pro forma adjusted net tangible assets, the amounts stated in Renminbi are converted into Hong Kong dollars at the rate of RMB1.00 to HK\$1.1111.

B. REPORT FROM THE REPORTING ACCOUNTANT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**羅兵咸永道****INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION****To the Directors of Kwung's Holdings Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Kwung's Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 30 June 2019, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 of the Company's prospectus dated 30 December 2019, in connection with the proposed initial public offering of the shares of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at 30 June 2019 as if the proposed initial public offering had taken place at 30 June 2019. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial information for the six months ended 30 June 2019, on which an accountant's report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at 30 June 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgement, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 December 2019

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 14 November 2018 under the Companies Law. The Company's constitutional documents consist of its Memorandum of Association and its Articles of Association.

1 MEMORANDUM OF ASSOCIATION

- 1.1 The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- 1.2 The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2 ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 16 December 2019 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

2.1 Shares

- *Classes of shares*

The share capital of the Company consists of ordinary shares.

- *Variation of rights of existing shares or classes of shares*

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

- ***Alteration of capital***

The Company may by ordinary resolution of its members:

- increase its share capital by the creation of new shares;
- consolidate all or any of its capital into shares of larger amount than its existing shares;
- divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

- ***Transfer of shares***

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Stock Exchange or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares. The register of members in respect of its listed shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Companies Law in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

- ***Power of the Company to purchase its own shares***

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

The board may accept the surrender for no consideration of any fully paid share.

- ***Power of any subsidiary of the Company to own shares in the Company***

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

- *Calls on shares and forfeiture of shares*

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent (20%) per annum as the board determines.

2.2 Directors

- *Appointment, retirement and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

- ***Power to allot and issue shares and warrants***

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount to their nominal value.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

- ***Power to dispose of the assets of the Company or any of its subsidiaries***

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

- ***Borrowing powers***

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

- *Remuneration*

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependants or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependants are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

The board may resolve to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted to (i) employees (including directors) of the Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than the Company) that directly, or indirectly through one or more intermediaries, controls,

is controlled by or is under common control with, the Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting, or (ii) any trustee of any trust to whom shares are to be allotted and issued by the Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

- ***Compensation or payments for loss of office***

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

- ***Loans and provision of security for loans to Directors***

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

- ***Disclosure of interests in contracts with the Company or any of its subsidiaries***

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract

or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(a) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(b) Alterations to constitutional documents and the Company's name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Meetings of members

- *Special and ordinary resolutions*

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

- *Voting rights and right to demand a poll*

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

- *Annual general meetings and extraordinary general meeting*

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

Extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by the Company.

- *Notices of meetings and business to be conducted*

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
 - (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
 - (cc) the election of directors in place of those retiring;
 - (dd) the appointment of auditors and other officers; and
 - (ee) the fixing of the remuneration of the directors and of the auditors.
- *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

- *Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual

and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(d) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditors at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(e) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one

of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(f) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(g) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(h) 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:

- if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and

- if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(i) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3 CAYMAN ISLANDS COMPANIES LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman Islands Company Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman Islands Company Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

3.1 Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

3.2 Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on

those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

3.3 Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

3.4 Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless

immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

3.5 Dividends and distributions

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

3.6 Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

3.7 Disposal of assets

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

3.8 Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

3.9 Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

3.10 Taxation

Pursuant to the Tax Concessions Law of the Cayman Islands, the Company has obtained an undertaking:

- (i) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (ii) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 10 January 2019.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

3.11 Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

3.12 Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

3.13 Inspection of corporate records

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

3.14 Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

3.15 Register of Directors and Officers

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within sixty (60) days of any change in such directors or officers.

3.16 Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands.

Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

3.17 Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to

pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

3.18 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

3.19 Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

3.20 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

3.21 Economic Substance Requirements

Pursuant to the International Tax Cooperation (Economic Substance) Law, 2018 of the Cayman Islands (the “**Cayman Economic Substance Law**”) that came into force on 1 January 2019, a “relevant entity” is required to satisfy the economic substance test set out in the Cayman Economic Substance 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 a tax resident outside the Cayman Islands. Therefore, as long as the Company is a tax resident outside the Cayman Islands, including Hong Kong and the PRC, it is not required to satisfy the economic substance test set out in the Cayman Economic Substance Law.

4 GENERAL

Ogier, the Company's legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands companies law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed “Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection – Documents available for inspection” in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands companies law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES**1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law on 13 November 2018. Our Company's registered office is located at Ogier Global (Cayman) Limited, 89 Nexus Way, Camana Bay, Grand Cayman, KY1-9009, Cayman Islands. We have established our principal place of business in Hong Kong at Unit 629A, 6/F, Star House, No. 3 Salisbury Road, Tsim Sha Tsui, Kowloon, Hong Kong and was registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 28 March 2019. Mr. Lau has been appointed as the authorised representative of our Company for acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, its operations are subject to the Companies Law and our Memorandum and Articles. A summary of the relevant aspects of the Companies Law and certain provisions of our Memorandum and Articles are set out in the section headed "Appendix III – Summary of the Constitution of Our Company and Cayman Islands Company Law" in this prospectus.

2. Changes in share capital of our Company

- (a) Our Company was incorporated in the Cayman Islands on 13 November 2018 with an authorised share capital of HK\$380,000 divided into 380,000,000 shares of HK\$0.001 each.
- (b) On 13 November 2018, one nil-paid share of HK\$0.001 was allotted and issued to Ogier Global Subscriber (Cayman) Limited, an Independent Third Party, which was transferred to King Harmony Limited on 20 November 2018 at a consideration of HK\$0.001.
- (c) On 19 December 2018, 50,525 nil-paid Shares, 12,624 nil-paid Shares, 5,450 nil-paid Shares and 1,400 nil-paid Shares were allotted and issued to King Harmony, DMA, Unione and Well Happiness, respectively.
- (d) On 6 May 2019, all the existing issued Shares are fully paid up by their respective shareholders.
- (e) Pursuant to the written resolutions of our Shareholders passed on 16 December 2019, the authorised share capital of our Company was increased from HK\$380,000 divided into 380,000,000 Shares to HK\$10,000,000, divided into 10,000,000,000 Shares by the creation of a further 9,620,000,000 Shares.
- (f) A total of 100,000,000 new Shares of our Company will be initially offered to the public by way of Global Offering.
- (g) Conditional on the share premium account of the Company being credited with the proceeds from the Global Offering, HK\$299,930 will be capitalised from the share premium account of our Company and applied in paying up in full 299,930,000

Shares for the allotment and issuance to the existing Shareholders, being King Harmony as to 216,489,474 Shares, DMA as to 54,090,233 Shares, Unione as to 23,351,693 Shares, and Well Happiness as to 5,998,600 Shares, on or before Listing.

- (h) Immediately following completion of the Capitalisation Issue and the Global Offering (not including Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme), the issued share capital of our Company will be HK\$400,000 divided into 400,000,000 Shares fully paid or credited as fully paid and 9,600,000,000 Shares will remain unissued. Other than pursuant to the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme, our Directors do not have any present intention to issue any part of our authorised but unissued share capital and, without prior approval of the Shareholders at general meeting, no issue of shares will be made which would effectively alter the control of our Company.
- (i) Save as aforesaid and in the section headed “History, Development and Reorganisation” in this prospectus, there has been no alteration in the share capital of our Company since its incorporation.

3. Written resolutions of our Shareholders passed on 16 December 2019

Pursuant to the written resolutions of our Shareholders passed on 16 December 2019:

- (a) the authorised share capital of our Company was increased from HK\$380,000 divided into 380,000,000 Shares to HK\$10,000,000 divided into 10,000,000,000 Shares by the creation of a further 9,620,000,000 Shares;
- (b) our Memorandum and Articles were conditionally approved and adopted to take effect on Listing Date; and
- (c) conditional on the conditions as set out in the paragraph headed “Structure of the Global Offering – Conditions of the Global Offering” in this prospectus:
 - (i) the Global Offering and the Over-allotment Option were approved and our Directors were authorised to allot and issue the Offer Shares and Shares which may be required to be allotted and issued upon the exercise of the Over-allotment Option;
 - (ii) conditional on the share premium account of our Company being credited as a result of the Global Offering or otherwise having sufficient balance, our Directors were authorised to capitalise HK\$299,930 standing to the credit of the share premium account of our Company applying such sum in paying up in full at par a total of 299,930,000 Shares for allotment and issue to the Shareholder(s) whose name(s) appear(s) on the register of members of our Company as at the date of the passing of such resolutions in proportion (as nearly as possible without involving fractions) to their then existing shareholdings in our Company and so that the Shares to be allotted and issued shall carry the same rights in all respects with the then existing issued Shares and our Directors were authorised to give effect to such capitalisation;

- (iii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “Statutory and General Information – E. Share Option Scheme” below in this appendix, were approved and adopted and our Directors were authorised to approve any amendments to the rules of the Share Option Scheme, implement the same, to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant thereto;
- (iv) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with Shares and to make or grant offers, agreements or options (including warrants, bonds or otherwise) which might require such Shares to be allotted and issued or dealt with subject to the requirement that the aggregate number of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued (otherwise than pursuant to a rights issue, or scrip dividend scheme or similar arrangements, or the exercise of any option which may be granted under the Share Option Scheme, or a specific authority granted by the Shareholders) shall not exceed the aggregate of (1) 20% of the total number of our Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering (not including Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme); and (2) the total number of our Shares repurchased under the repurchase mandate as mentioned in paragraph (v) below. Such mandate shall remain in effect until whichever is the earliest of:
 - (A) the conclusion of our Company’s next annual general meeting;
 - (B) the expiration of the period within which our Company’s next annual general meeting is required to be held by the Articles or any other applicable laws of the Cayman Islands; and
 - (C) the passing of an ordinary resolution of our shareholders in a general meeting revoking, varying or renewing such mandate;
- (v) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to purchase the Shares on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the number of our Shares in issue immediately following completion of the Capitalisation Issue and the Global Offering (not including Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme) and the Repurchase Mandate will remain in effect until the earliest of:
 - (A) the conclusion of our Company’s next annual general meeting;
 - (B) the expiration of the period within which our Company’s annual general meeting is required to be held by the Articles or any applicable laws of the Cayman Islands; and

(C) the passing of an ordinary resolution of our Shareholders in a general meeting revoking, varying or renewing the Repurchase Mandate; and

(vi) the general mandate mentioned in paragraph (iv) above be extended by the addition of an amount representing the aggregate number of Shares repurchased by our Company pursuant to the Repurchase Mandate provided such extended amount shall not exceed 10% of the number of the Shares in issue immediately following completion of the Capitalisation Issue and the Global Offering (not including Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme).

4. Corporate reorganisation

In preparation of the Global Offering, we underwent the Reorganisation, details of which are set out in the paragraph headed “History, Development and Reorganisation – Reorganisation” in this prospectus. Following completion of the Reorganisation, our Company became the holding company of our Group.

5. Further information about our subsidiaries

The list of our principal subsidiaries (as defined under the Listing Rules) is set out in “Accountant’s Report” in Appendix I to this prospectus. Save as disclosed in the section headed “History, Development and Reorganisation” in this prospectus, there has been no alteration in the share capital of any of our principal subsidiaries within the two years immediately preceding the date of this prospectus.

6. Repurchase by our Company of our own securities

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, details of which are summarised below:

(a) Provisions of the Listing Rules

(i) Shareholders’ approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in a general meeting, either by way of general mandate or by specific approval of a particular transaction.

(ii) Source of funds

Any repurchases must be financed out of funds legally available for such purpose in accordance with the articles of association of the company, the Listing Rules and any applicable laws and regulations from time to time in force in the Cayman Islands.

(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. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities 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

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: (1) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (2) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or 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.

(v) 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 purchase, where relevant, and the aggregate prices paid.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have general authority from our Shareholders to enable our Company to execute repurchases of the Shares in the market. Repurchases of Shares will only be made when our Directors believe that such a repurchases will benefit our Company and our Shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value and/or earnings per Share.

(c) Funding of repurchases

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles and the applicable laws and regulations of the Cayman Islands. A listed company is prohibited from repurchasing its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Under the Cayman Islands law, any repurchases by our Company may be made out of profits or share premium account of our Company or out of the proceeds of a fresh issue of share made for the purpose of the repurchase or, if authorised by the Articles and subject to the Companies Law, out of capital and, in case of any premium payable on the repurchase, out of profits of our Company or from sums standing to the credit of the share premium accounts of our Company, or if authorised by the Articles and subject to the Companies Law, out of capital.

The exercise in full of the repurchase mandate, on the basis of 400,000,000 Shares in issue immediately following the completion of the Capitalisation Issue and Global Offering (not including Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme), could accordingly result in up to approximately 40,000,000 Shares being repurchased by our Company during the period until the earliest of:

- (1) the conclusion of our Company's next annual general meeting;
- (2) the expiration of the period within which our Company's next annual general meeting is required to be held by any applicable laws of the Cayman Islands or the Articles; and
- (3) the passing of an ordinary resolution of our Shareholders in general meeting revoking, varying or renewing such mandate.

(d) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates (as defined in the Listing Rules), have any present intention, if the Repurchase Mandate is exercised, to sell any Share to our Company or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, our Articles and the applicable laws and regulations from time to time in force in the Cayman Islands.

No core connected person of our Company has notified our Company of intention to sell Shares to our Company, or such persons have undertaken not to do so, in the event that the Repurchase Mandate is exercised.

If as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. As a result, a Shareholder, or a group of Shareholders acting in concert (as defined in the Takeovers Code), depending on the level of increase in the Shareholder's interest, could obtain or consolidate control of our Company and become(s) obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequence which would arise under the Takeovers Code due to any repurchase of Shares made pursuant to the Repurchase Mandate immediately after Listing.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

1. Summary of material contracts

We had entered into the following contracts (not being contracts entered into in the ordinary course of business) within three years preceding the date of this prospectus which are or may be material and a copy of each has been delivered to the Registrar of Companies in Hong Kong for registration:

- (a) the business and assets transfer agreement dated 12 October 2018 entered into between Shaoxing Jingming and Shaoxing Keyuan, pursuant to which Shaoxing Keyuan acquired from Shaoxing Jingming certain business and related assets and liabilities, contractual rights and obligations and employees etc., at a consideration of RMB14,645,844.85;
- (b) the equity transfer agreement dated 19 October 2018 entered into between Ningbo Kwung's and Ningbo Investment, pursuant to which Ningbo Kwung's sold and Ningbo Investment purchased RMB64,758,400 in the registered capital of Shaoxing Jingming, representing 98% of its registered capital, at a consideration of RMB102,970,241;
- (c) the equity transfer agreement dated 19 October 2018 entered into between Ningbo Kwung's and Mr. Jin, pursuant to which Ningbo Kwung's sold and Mr. Jin purchased RMB1,321,600 in the registered capital of Shaoxing Jingming, representing 2% of its registered capital, at a consideration of RMB2,101,433;
- (d) the equity transfer agreement dated 13 December 2018 entered into between Ningbo Investment and Kwung's HK, pursuant to which Ningbo Investment sold and Kwung's HK purchased RMB50,526,000 in the registered capital of Ningbo Kwung's, representing 72.18% of its registered capital, at a consideration of RMB118,144,610.81;

- (e) the equity transfer agreement dated 13 December 2018 entered into between Bode Investment and Kwung's HK, pursuant to which Bode Investment sold and Kwung's HK purchased RMB8,224,000 in the registered capital of Ningbo Kwung's, representing 11.7486% of its registered capital, at a consideration of RMB19,230,125;
- (f) the Deed of Indemnity; and
- (g) the Hong Kong Public Offer Underwriting Agreement.

2. Intellectual property rights

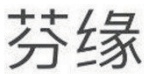




As at the Latest Practicable Date, we had registered or had applied for the following intellectual property rights which are material in relation to our Company's business:

(a) Trademarks

As at the Latest Practicable Date, we had registered for the following trademarks which we considered to be material in relation to our business:

No.	Trademark	Registered Owner	Place of Registration	Registered Number	Class	Registration Date	Expiry Date
1	FUMARE	Ningbo Kwung's	Mainland China	8342929	3	7 June 2011	6 June 2021
2	FUMARE	Ningbo Kwung's	Mainland China	8342936	4	7 June 2011	6 June 2021
3	FUMARE	Ningbo Kwung's	Mainland China	8342950	6	7 June 2011	6 June 2021
4	FUMARE	Ningbo Kwung's	Mainland China	8342960	8	7 July 2011	6 July 2021
5	FUMARE	Ningbo Kwung's	Mainland China	8342972	14	7 June 2011	6 June 2021
6	FUMARE	Ningbo Kwung's	Mainland China	8342985	16	7 June 2011	6 June 2021
7	FUMARE	Ningbo Kwung's	Mainland China	8348748	18	7 June 2011	6 June 2021
8	FUMARE	Ningbo Kwung's	Mainland China	8348768	20	21 June 2011	20 June 2021
9	FUMARE	Ningbo Kwung's	Mainland China	8342998	21	7 June 2011	6 June 2021

No.	Trademark	Registered Owner	Place of Registration	Registered Number	Class	Registration Date	Expiry Date
10	FUMARE	Ningbo Kwung's	Mainland China	8348784	24	7 June 2011	6 June 2021
11	FUMARE	Ningbo Kwung's	Mainland China	8348800	26	7 June 2011	6 June 2021
12	FUMARE	Ningbo Kwung's	United States	3992388	3	12 July 2011	12 July 2021
13	FUMARE	Ningbo Kwung's	United States	3992389	4	12 July 2011	12 July 2021
14	FUMARE	Ningbo Kwung's	United States	3992390	21	12 July 2011	12 July 2021
15	FUMARE	Neobee	Australia	1369689	3, 4, 21	28 June 2010	28 June 2020
16	FUMARE	Ningbo Kwung's	EU	009225351	3, 4, 21	6 July 2010	6 July 2020
17	<i>FumaRe</i>	Ningbo Kwung's	Mainland China	25758541	3	21 August 2018	20 August 2028
18	<i>FumaRe</i>	Ningbo Kwung's	Mainland China	25571788	4	14 August 2018	13 August 2028
19	<i>FumaRe</i>	Ningbo Kwung's	Hong Kong	304894219	3, 4	16 April 2019	15 April 2029
20	芬缘	Ningbo Kwung's	Mainland China	10814302	3	14 July 2013	13 July 2023
21	芬缘	Ningbo Kwung's	Mainland China	10814273	4	14 July 2013	13 July 2023
22	芬缘	Ningbo Kwung's	Mainland China	31117600	3	28 February 2019	27 February 2029
23	芬缘	Ningbo Kwung's	Mainland China	31123959	4	28 February 2019	27 February 2029
24	芬缘	Ningbo Kwung's	Mainland China	31113883	11	28 February 2019	27 February 2029

No.	Trademark	Registered Owner	Place of Registration	Registered Number	Class	Registration Date	Expiry Date
25		Ningbo Kwung's	Mainland China	31108929	21	28 February 2019	27 February 2029
26		Ningbo Kwung's	Mainland China	3340918	4	14 May 2004	13 May 2024
27		Ningbo Kwung's	Mainland China	3373844	6	14 March 2004	13 March 2024
28		Ningbo Kwung's	Mainland China	3373843	20	28 August 2004	27 August 2024
29		Ningbo Kwung's	Mainland China	3340919	21	7 November 2004	6 November 2024
30	AROMAGE	Ningbo Kwung's	Mainland China	12697435	3	7 April 2015	6 April 2025
31	AROMAGE	Ningbo Kwung's	Mainland China	12697441	4	7 April 2015	6 April 2025
32	AROMAGE	Ningbo Kwung's	Mainland China	12697456	11	7 April 2015	6 April 2025
33	AROMAGE	Ningbo Kwung's	Mainland China	12697468	21	21 October 2014	20 October 2024
34	AROMAGE	Ningbo Kwung's	Mainland China	25578300	3	21 October 2018	20 October 2028
35	AROMAGE	Ningbo Kwung's	Mainland China	25068162	4	7 July 2018	6 July 2028
36	AROMAGE	Ningbo Kwung's	EU	012416269	3, 4, 11, 21	11 December 2013	11 December 2023
37	AROMAGE	Ningbo Kwung's	Australia	1602078	3, 4, 11, 21	22 January 2014	22 January 2024

No.	Trademark	Registered Owner	Place of Registration	Registered Number	Class	Registration Date	Expiry Date
38	AROMART	Neobee	Australia	1892881	3, 4, 21	7 December 2017	7 December 2027
39	无量元素	Ningbo Kwung's	Mainland China	8315531	4	28 May 2011	27 May 2021
40	阿羅曼紀	Ningbo Kwung's	Mainland China	25744490	4	21 August 2018	20 August 2028
41	 旷 世 智 源	Ningbo Kwung's	Hong Kong	304894237	3, 4	16 April 2019	15 April 2029
42	 KWUNG'S	Ningbo Kwung's	Hong Kong	304894228	3, 4	16 April 2019	15 April 2029

(b) Domain name

As at the Latest Practicable Date, we had registered the following domain name which we considered to be material in relation to our business:

Domain name	Registrant	Registration Date
Kwungs.com	Ningbo Kwung's	23 December 1999

(c) Patents

As at the Latest Practicable Date, we had registered the following patents which we considered to be material in relation to our business:

No.	Patent	Patentee	Place of Registration	Patent Number	Application Date	Registration Date	Expiry Date
1	Candle fire extinguisher 蠟燭滅火器	Ningbo Kwung's	Mainland China	200810063626.1	20 June 2008	9 June 2010	20 June 2028
2	Candle extinguishing device 火燭熄滅器	Ningbo Kwung's	Mainland China	200810063652.4	20 June 2008	2 June 2010	20 June 2028

No.	Patent	Patentee	Place of Registration	Patent Number	Application Date	Registration Date	Expiry Date
3	Aromatic therapy wax for massage with skin protection function 一種具有護膚作用的按 摩用芳療蠟	Ningbo Kwung's	Mainland China	201210338354.8	13 September 2012	28 January 2015	13 September 2032
4	Congeaed fat wax and preparation method thereof 一種凝脂蠟及 其製備方法	Ningbo Kwung's	Mainland China	201110443837.X	27 December 2011	4 June 2014	27 December 2031
5	Snowflake candle and preparation method thereof 一種雪花蠟燭及 其製備方法	Ningbo Kwung's	Mainland China	201510052918.5	2 February 2015	30 October 2018	2 February 2035
6	Crystalline wax candle 一種結晶蠟燭	Ningbo Kwung's	Mainland China	201510054921.0	3 February 2015	27 July 2018	3 February 2035

Save as aforesaid, there are no other trade or service marks, patents, copyrights, other intellectual or industrial property rights which, in the opinion of our Directors, are material to our Group's business.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS

1. Particulars of Directors' service contracts and letters of appointment

Each of our executive Directors had entered into a service contract with our Company on 16 December 2019 for an initial fixed term of three years commencing from the Listing Date, renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term of appointment, unless terminated by not less than three months' notice in writing served by either party on the other expiring at the end of the initial term or any time thereafter. In addition, the executive Directors are subject to retirement at the annual general meeting of our Company at least once every three years pursuant to our Articles and the Listing Rules. Commencing from the Listing Date, each of our executive Directors is entitled to an initial annual salary set out below, such salary to be reviewed annually by our Board and the Remuneration Committee. In addition, each of our executive Directors is entitled to such discretionary bonus as our Board and the Remuneration Committee may approve, provided that the relevant executive Director shall abstain from voting and not be counted in the quorum in respect of any resolution of our Board approving the amount of annual salary, management bonus and other benefits payable to him. According to the terms of the service contracts entered into between our Company and our executive Directors, the current basic

annual remuneration (excluding contribution to pension scheme, discretionary bonus and commission) of our executive Directors are as follows:

Name	Amount RMB
Mr. Jin	228,000
Mr. Ru	228,000
Mr. Tian	228,000

Mr. Shao, being our non-executive Director, has entered into a letter of appointment with our Company, which takes effect from the date of the letter of appointment, and shall continue for an initial fixed term of three years from the Listing, and provided that either party can at any time terminate the appointment by giving to the other party not less than three months' prior notice in writing. Commencing from the Listing, Mr. Shao is entitled to an annual director's fee of RMB80,000.

Each of our independent non-executive Directors had entered into a letter of appointment with our Company on 16 December 2019 for an initial term commencing on the date of the letter of appointment and ending on 31 December 2020 renewable automatically for successive terms of one year each commencing from the day after the expiry of the then current term of appointment subject to retirement by rotation and re-election at an annual general meeting of our Company at least once every three years and until terminated by not less than three months' notice in writing second by either party on the other. Commencing on the Listing Date, Mr. Lai is entitled to an annual director's fee of HK\$180,000, and each of other two independent non-executive Directors, Mr. Yang and Mr. Zhou, is entitled to RMB80,000.

Save as disclosed in this subsection, none of our Directors has or is proposed to enter into a service contract or letter of appointment with our Company or any of our subsidiaries (other than contracts expiring or determinable by our Group within one year without the payment of compensation (other than statutory compensation)).

2. Remuneration of Directors

The aggregate remuneration, including directors' fee, basic salaries, allowances and retirement benefit contribution, paid or payable by us to our Directors for FY2016, FY2017, FY2018 and 6M2019 was approximately RMB0.3 million, RMB0.4 million, RMB0.5 million and RMB0.2 million, respectively.

Under the arrangements in force at the date of this prospectus, our Directors (including independent non-executive Directors) will be entitled to receive remuneration and benefits in kind which, for the year ending 31 December 2019, is expected to be approximately RMB682,010.

There is no arrangement under which any of our Directors has waived or agreed to waive any remuneration or benefits in kind for FY2016, FY2017, FY2018 and 6M2019.

D. DISCLOSURE OF INTERESTS**1. Disclosure of interests of our Directors**

Immediately following the completion of the Capitalisation Issue and the Global Offering (without taking into account the Shares which may be issued pursuant to the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme), so far as our Directors are aware, the interest and/or short position of our Directors in the Shares, underlying Shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short position which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein will be as follows:

(i) Interest in the Shares*Long position*

Name of Directors	Nature of interest	Number and class of securities	Approximate percentage of shareholding (%)
Mr. Jin	Interest in controlled corporation	216,540,000 Shares (Note 1)	54.14
Mr. Ru	Interest in controlled corporation	54,102,857 Shares (Note 2)	13.52

Notes:

- (1) King Harmony is wholly-owned by Mr. Jin, and Mr. Jin is deemed to be interested in the 216,540,000 Shares owned by King Harmony under the SFO.
- (2) DMA is owned as to 80.70% by Mr. Ru and Mr. Ru is deemed to be interested in the 54,102,857 Shares owned by DMA under the SFO.

(ii) Interest in the shares of associated corporations*Long position*

Name of Director	Name of associated corporation	Nature of interest	Number and class of securities	Approximate percentage of shareholding (%)
Mr. Jin	King Harmony	Beneficial owner	One ordinary share of US\$1.00	100%

(iii) Directors' Competing Interests

None of our Directors are interested in any business apart from our Group's business which competes or is likely to compete, directly or indirectly, with the business of our Group.

2. Disclosure of interests of Substantial Shareholders

Save as disclosed in the section headed "Substantial Shareholders" in this prospectus, immediately following the completion of the Capitalisation Issue and the Global Offering (without taking into account the Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme), our Directors are not aware of any other person (not being a Director) who will have an interest or short position in the Shares or the underlying Shares which will be required to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or who is, directly or indirectly, interested in 5% or more of the number of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company and are therefore regarded as substantial shareholders under the Listing Rules.

3. Agency fees or commissions received

Information on the agency fees or commissions payable to the Underwriters is set out in the section headed "Underwriting" in this prospectus.

Save as disclosed in the section headed "Directors, Senior Management and Staff" in this prospectus, Appendix I to this prospectus and this appendix, none of our Directors or experts (as named in the paragraph headed "F. Other Information – 8. Qualifications of experts" in this appendix) received or will be entitled to receive any commission, discount, brokerages, or other special terms in connection with the issue of any Share within three years immediately preceding the date of this prospectus.

4. Related party transactions

Save as disclosed in note 33 in Appendix I to this prospectus, during the three years immediately preceding the date of this prospectus, our Group has not entered into any other material related party transactions.

5. Disclaimers

- (i) Taking no account of any Share which may be taken up or acquired under the Global Offering or any Shares which 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, our Directors are not aware of any person who, immediately following completion of the Capitalisation Issue and the Global Offering, will have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests and/or short positions which they are deemed to have under such provisions of the SFO) or who will, either directly or indirectly, be expected to be

interested in 10% or more of the number of any class of share capital carrying rights to vote in all circumstances at the general meetings of our Company or any other members of our Group;

- (ii) none of our Directors has for the purposes of Divisions 7 and 8 of Part XV of the SFO or the Listing Rules, nor is any of them taken to or deemed to have under Divisions 7 and 8 of Part XV of the SFO, an interest or short position in the shares, underlying shares and debentures of our Company or any associated corporations (within the meaning of the SFO) or any interests which will have to be entered in the register to be kept by our Company pursuant to section 352 of the SFO or which will be required to be notified to our Company and the Stock Exchange pursuant to Appendix 10 to the Listing Rules once the Shares are listed on the Stock Exchange;
- (iii) none of our Directors nor the experts named in the section headed “F. Other Information – 8. Qualifications of experts” below in this appendix has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (iv) none of our Directors nor any of the persons whose names are listed in the paragraph headed “F. Other Information – 8. Qualifications of experts” below in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which was significant in relation to the business of our Group;
- (v) none of the experts named in the paragraph headed “F. Other Information – 8. Qualifications of experts” below in this appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and
- (vi) none of our Directors, their respective close associates or Shareholders who are interested in more than 5% of the issued share capital of our Company had any interests in the five largest customers or suppliers of our Group.

E. SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme conditionally approved by our Shareholders on 16 December 2019.

For the purpose of this paragraph, unless the context otherwise requires:

“Board” means our board of Directors from time to time or a duly authorised committee thereof;

“Eligible Person” means any full-time or part-time employee of our Company or any member of our Group, including any executive director, non-executive director and independent non-executive director, adviser and consultant of our Group or any our subsidiaries;

“Further Grant”	has the meaning ascribed to it in sub-paragraph (d) below;
“Offer Date”	means the date on which an Option is offered to an Eligible Person;
“Option”	means an option to subscribe for Shares granted pursuant to the Share Option Scheme;
“Option Period”	means in respect of any particular Option, the period to be determined and notified by our Board to each Participant;
“Other Schemes”	means any other share option schemes adopted by our Group from time to time pursuant to which options to subscribe for Shares may be granted;
“Participant”	means any Eligible Person who accepts or is deemed to have accepted the offer of any Option in accordance with the terms of the Share Option Scheme or (where the context so permits) a person entitled to any such Option in consequence of the death of the original Participant;
“Scheme Mandate Limit”	has the meaning ascribed to it in sub-paragraph (f) below;
“Shareholders”	means shareholders of our Company from time to time;
“Subsidiary”	means a company which is for the time being and from time to time a subsidiary (within the meaning of section 15 of the Companies Ordinance) of our Company, whether incorporated in Hong Kong or elsewhere; and
“Trading Day”	means a day on which trading of Shares take place on the Stock Exchange.

(a) Purpose of the Share Option Scheme

The Share Option Scheme enables our Company to grant Options to the Eligible Persons as incentives or rewards for their contributions to our Group.

(b) Who may join

Our Board may, at its absolute discretion, invite any Eligible Persons to take up Options at a price calculated in accordance with sub-paragraph (e) below. Upon acceptance of the Option, the Eligible Person shall pay HK\$1.00 to our Company by way of consideration for the grant. The Option will be offered for acceptance for a period of 28 days from the date on which the Option is granted.

(c) Grant of Option

Our Company may not grant any Option after inside information has come to our knowledge until such inside information has been announced in accordance with the requirements of the Listing Rules. In particular, our Company may not grant any option during the period commencing one month immediately preceding the earlier of:

- (a) the date of our Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarter-year period or any other interim period (whether or not required under the Listing Rules); and
- (b) the deadline for our Company to publish an announcement of its results for any year, half-year, quarter-year period or any interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement. The period during which no Option may be granted will cover any period of delay in the publication of results announcement. Our Board may not grant any Option to an Eligible Person who is a Director during the periods or times in which directors of the listed issuer are prohibited from dealing in shares pursuant to Appendix 10 to the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

(d) Maximum number of Options to any one individual

The total number of Shares issued and to be issued upon exercise of the Options granted to a Participant under the Share Option Scheme and Other Schemes (including both exercised and outstanding Options) in any 12-month period must not exceed 1% of the Shares in issue from time to time. Where any further grant of Options to a Participant (the **"Further Grant"**) would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted under the Share Option Scheme and Other Schemes to such Participant (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of the Further Grant representing in aggregate over 1% of the Shares in issue from time to time, the Further Grant must be separately approved by the Shareholders in general meeting with such Participant and his close associates (or his associates if the Participant is a connected person) abstaining from voting.

In relation to the Further Grant, our Company must send a circular to the Shareholders and the circular must disclose the identity of the relevant Participant, the number and the terms of the Options to be granted (and Options previously granted to such Participant) and the information required under the Listing Rules. The number and terms (including the exercise price) of Options to be granted to such participant must be fixed before Shareholders' approval and the date of meeting of our Board for proposing the Further Grant should be taken as the Offer Date for the purpose of calculating the exercise price.

(e) Price of Shares

The exercise price for the Shares subject to Options will be a price determined by our Board and notified to each Participant and must be at least the higher of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the

Options, which must be a Trading Day; and (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five Trading Days immediately preceding the date of grant of the Options.

(f) Maximum number of Shares

- (i) The total number of Shares which may be issued upon the exercise of all Options to be granted under the Share Option Scheme and Other Schemes must not, in aggregate, exceed 10% of the Shares in issue as at the Listing Date (the “**Scheme Mandate Limit**”). Option lapsed in accordance with the terms of the Shares Option Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit. On the basis of 400,000,000 Shares in issue on the Listing Date, the Scheme Mandate Limit will be equivalent to 40,000,000 Shares, representing 10% of the Shares in issue as at the Listing Date.
- (ii) Subject to the approval of Shareholders in general meeting, our Company may “refresh” the Scheme Mandate Limit to the extent that the total number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and Other Schemes under the Scheme Mandate Limit as “refreshed” must not exceed 10% of the Shares in issue as at the date of such Shareholders’ approval. Options previously granted under the Share Option Scheme and Other Schemes (including those outstanding, cancelled, lapsed in accordance with the terms thereof or exercised Options) will not be counted for the purpose of calculating the Scheme Mandate Limit as “refreshed”. In relation to the Shareholders’ approval referred to in this paragraph (ii), our Company must send a circular to the Shareholders containing the information required by the Listing Rules.
- (iii) Subject to the approval of Shareholders in general meeting, our Company may also grant Options beyond the Scheme Mandate Limit provided that Options in excess of the Scheme Mandate Limit are granted only to Eligible Persons specifically identified by our Company before such Shareholders’ approval is sought. In relation to the Shareholders’ approval referred to in this paragraph (iii), our Company must send a circular to its Shareholders containing a generic description of the specified Eligible Persons, the number and terms of the Options to be granted, the purpose of granting Options to the specified Eligible Persons with an explanation as to how the terms of the Options serve such purpose and such other information required by the Listing Rules.
- (iv) Notwithstanding the foregoing, our Company may not grant any Options if the number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and Other Schemes exceeds 30% of the Shares in issue from time to time.

(g) Time of exercise of Option and performance target

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Board to each Participant provided that the period within which the Option must be exercised shall not be more than ten years from the date of the grant of Option. The exercise of an Option may be subject to the

achievement of performance target and/or any other conditions to be notified by the Board to each Participant, which the Board may in its absolute discretion determine.

(h) Rights are personal to grantee

An Option shall be personal to the Participant and shall not be assignable or transferable and no Participant shall in any way sell, transfer, charge, mortgage, encumber or create any interest whether legal or beneficial in favour of any third party over or in relation to any Option. Any breach of the foregoing by the Participant shall entitle our Company to cancel any Option or any part thereof granted to such Participant (to the extent not already exercised) without incurring any liability on our Company.

(i) Rights on death, retirement and cessation of employment

If a Participant dies before exercising the Options in full, his or her personal representative(s) may exercise the Options in full (to the extent that it has become exercisable on the date of death and not already exercised) within a period of 12 months from the date of death, failing which such Options will lapse.

In the event that a Participant retires in accordance with his or her contract of employment or upon expiration of his or her contract of employment or term of directorship before exercising his or her options in full, such Options will lapse on the date he or she retires or the date of expiration of his or her contract of employment or term of directorship.

(j) Changes in capital structure

In the event of any alteration in the capital structure of our Company while an Option remains exercisable, and such event arises from a capitalisation of profits or reserves, rights issue, consolidation, reclassification, subdivision or reduction of the share capital of our Company, such corresponding alterations (if any) shall be made in the number of Shares (without fractional entitlements) subject to the Options so far as unexercised, and/or the exercise price, and/or the method of the Options, and/or the maximum number of Shares subject to the Share Option Scheme.

Any adjustments required under this paragraph must give a Participant the same proportion of the equity capital as that to which that Participant was previously entitled and shall be made on the basis that the aggregate exercise price payable by a Participant on the full exercise of any Option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event, unless with the prior approval of the Shareholders in general meeting, no such adjustments may be made to the advantage of the Participant. For the avoidance of doubt, the issue of securities as consideration in a transaction may not be regarded as a circumstance requiring adjustment. In respect of any such adjustments, other than any made on a capitalisation issue, the independent financial adviser of our Company or the auditors of our Company must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provisions of the Listing Rules and the supplementary guidance set out in the letter issued by the Stock Exchange dated 5 September 2005 and any further guidance/interpretation of the Listing Rules issued by the Stock Exchange from time to time.

(k) Rights on take-over

If a general offer has been made to all the Shareholders (other than the offeror and/or any persons acting in concert with the offeror), to acquire all or part of the issued Shares, and such offer, having been approved in accordance with applicable laws and regulatory requirements becomes or is declared unconditional, the Participant shall be entitled to exercise his or her outstanding Option in full or any part thereof within 14 days after the date on which such offer becomes or is declared unconditional. For the purposes of this sub-paragraph, “acting in concert” shall have the meaning ascribed to it under the Takeovers Code as amended from time to time.

(l) Rights on a compromise or arrangement

If an application is made to the court (otherwise than where our Company is being voluntarily wound up) in connection with a proposed compromise or arrangement between our Company and our creditors (or any class of them) or between our Company and our Shareholders (or any class of them), a Participant may by notice in writing to our Company, within a period of 21 days after the date of such application, exercise his or her outstanding Option in full or any part thereof specified in such note. Upon the compromise or arrangement becoming effective, all Options shall lapse except insofar as exercised. Notice of the application referred to herein and the effect thereof shall be given by our Company to all Participants as soon as practicable.

(m) Rights on winding-up

In the event of a notice being given by our Company to our Shareholders to convene a general meeting for the purpose of approving a resolution to voluntarily wind up our Company when our Company is solvent, our Company shall on the day of such notice to each Shareholder or as soon as practicable, give notice thereof to all Participants. Thereupon each Participant shall be entitled to exercise all or any of his or her outstanding Options at any time no later than two Business Days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, whereupon our Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot and issue the relevant Shares to the Participant credited as fully paid.

(n) Lapse of Option

An Option shall lapse forthwith and not exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the Option as may be determined by the Board;
- (ii) subject to sub-paragraphs (f) and (p), the expiry of the Option Period;
- (iii) the first anniversary of the death of the Participant;

- (iv) in the event that the Participant was an employee or director of any member of our Group on the date of grant of Option to him or her, the date on which such member of our Group terminates the Participant's employment or removes the Participant from his or her office on the ground that the Participant has been guilty of misconduct, has committed an act of bankruptcy or has become insolvent or has made any arrangements or composition with his or her creditors generally, or has been convicted of any criminal offense involving his or her integrity or honesty. A resolution of our Board or the board of directors of the relevant member of our Group to the effect that such employment or office has or has not been terminated or removed on one or more grounds specified in this sub-paragraph shall be conclusive;
- (v) in the event that the Participant was an employee or director of any member of our Group on the date of grant of Option to him or her, the date of the Participant ceasing to be an employee or director of such member of our Group by reason of:
 - (1) his or her retirement on or after attaining normal retirement age or, with the express consent of the Board in writing for the purpose of this sub-paragraph, at a younger age;
 - (2) ill health or disability recognised as such expressly by our Board in writing for the purpose of this sub-paragraph;
 - (3) the company by which he or she is employed and/or of which he or she is a director (if not our Company) ceasing to be a subsidiary of our Company;
 - (4) expiry of his or her employment contract or vacation of his or her office with such member of our Group such contract or office is not immediately extended or renewed; or
 - (5) at the discretion of our Board, any reason other than death or the reasons described in sub-paragraph (iv) or (v)(1) to (4);
- (vi) the expiry of any period referred to in sub-paragraphs (k) and (l) above, provided that in the case of sub-paragraph (k), all Options granted shall lapse upon the proposed compromise or arrangement becoming effective; and
- (vii) the date the Participant commits any breach of the provisions of paragraph (h).

(o) Ranking of Shares

Shares allotted and issued upon the exercise of an Option will be subject to our Articles and will rank *pari passu* in all respects with the fully paid or credited as fully paid Shares in issue on the date of such allotment or issue and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment and issue other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of allotment or issue.

(p) Cancellation of Options granted

Any cancellation of Options granted in accordance with the Share Option Scheme but not exercised must be approved by the grantee concerned in writing. In the event that our Board elects to cancel any Options and issue new ones to the same grantee, the issue of such new Options may only be made with available unissued Options (excluding the cancelled Options) within the Scheme Mandate Limit.

(q) Period of Share Option Scheme

The Share Option Scheme will be valid and effective for a period of ten years commencing on the Listing Date, after which period no further Options may be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects and Options granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

(r) Alteration to and termination of Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of our Board, except that (i) any alteration to the advantage of the Participants or the Eligible Persons (as the case may be) relating to matters contained in Chapter 17 of the Listing Rules; (ii) any alteration to the terms and conditions of the Share Option Scheme which is of a material nature or any change to the terms of Options granted, except where the alterations take effect automatically under the existing terms of the Share Option Scheme; and (iii) any change to the authority of the Directors or scheme administration in relation of any alteration to the terms of the Share Option Scheme must first be approved by the Shareholders in general meeting (with the Eligible Persons, the Participants and their Associates abstaining from voting) provided that the amended terms of the Share Option Scheme or Options granted must still comply with the requirements of Chapter 17 of the Listing Rules.

Any alterations to the terms and conditions of Share Option Scheme, which are of a material nature shall first be approved by the Stock Exchange, except where such alterations take effect automatically under the existing terms of the Share Option Scheme.

Our Company may, by ordinary resolution in general meeting, at any time terminate the operation of the Share Option Scheme before the end of its life and in such event no further Options will be offered but the provisions of the Share Option Scheme shall remain in all other respects in full force and effect in respect of Options granted prior thereto but not yet exercised at the time of termination, which shall continue to be exercisable in accordance with their terms of grant. Details of the Options granted, including Options exercised or outstanding, under the Share Option Scheme, and (if applicable) Options that become void or non-exercisable as a result of termination must be disclosed in the circular to the Shareholders seeking approval for the first new scheme to be established after such termination.

(s) Granting of Options to a Director, chief executive or substantial shareholder of our Company or any of their associates

Where Options are proposed to be granted to a Director, chief executive of our Company or substantial Shareholder or any of their respective associates, the proposed grant must be

approved by all independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Options).

If a grant of Options to a substantial Shareholder or an independent non-executive Director, or any of their respective associates will result in the total number of the Shares issued and to be issued upon exercise of the Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person under the Share Option Scheme or Other Schemes in any 12-month period up to and including the date of the grant (i) representing in aggregate 0.1% (or such other percentage as may from time to time specified by the Stock Exchange) of the Shares in issue from time to time, and (ii) having an aggregate value, based on the closing price of the Shares at the date of the grant, in excess of HK\$5 million, then the proposed grant of Options must be approved by the Shareholders. Our Company must send a circular to the Shareholders which must contain the information required under the Listing Rules. The grantee, his associates and all core connected persons of our Company must abstain from voting at such general meeting.

In addition, Shareholders' approval as described above will also be required for any change in terms of the Options granted to an Eligible Person who is a substantial Shareholder, an independent non-executive Director or their respective associates.

The circular must contain the following:

- (i) details of the number and terms (including the exercise price) of the Options to be granted to each Eligible Person, which must be fixed before the relevant Shareholders' meeting, and the date of Board meeting for proposing such further grant is to be taken as the date of grant for the purpose of calculating the exercise price;
- (ii) a recommendation from our independent non-executive Directors (excluding any independent non-executive Director who is a proposed grantee of the Options in question) to independent Shareholders, as to voting;
- (iii) the information required under Rules 17.02(2)(c) and (d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
- (iv) all other information as required by the Listing Rules (including Rule 2.17 of the Listing Rules).

For the avoidance of doubt, the requirements for the granting of Options to a Director or chief executive (as defined in the Listing Rules) set out in this paragraph (s) do not apply where the Eligible Person is only a proposed Director or chief executive.

(t) Conditions of Share Option Scheme

The Share Option Scheme is conditional on (i) the passing of a resolution to adopt the Share Option Scheme by our Shareholders in general meeting; and (ii) the Stock Exchange granting approval for the listing of and permission to deal in the Shares which may be issued pursuant to the exercise of Options.

Application has been made to the Stock Exchange for the listing of and permission to deal in the Shares which fall to be issued pursuant to the exercise of Options granted under Share Option Scheme.

(u) Administration of Share Option Scheme

The Share Option Scheme will be administered by our Board whose decision (save as otherwise provided therein) shall be final and binding on all parties.

(v) Present status of the Share Option Scheme

As at the Latest Practicable Date, no Option had been granted or agreed to be granted under the Share Option Scheme.

(w) Disclosure in annual and interim report

Our Company will disclose all information in relation to the Share Option Scheme in our annual and interim reports in accordance with the Listing Rules.

F. OTHER INFORMATION

1. Tax and other indemnities

Each of our Controlling Shareholders (collectively, the “**Indemnifiers**”) has entered into the Deed of Indemnity with and in favour of our Company (for itself and as trustee for each of our present subsidiaries) (being one of the material contracts referred in the paragraph headed “B. Further Information about the Business of Our Group – 1. Summary of material contracts” above in this appendix to provide indemnities on a joint and several basis in respect of, among other matters:

- (a) taxation falling on any member of our Group resulting from or by reference to any revenue, income, profits or gains granted, earned, accrued or received or made (or deemed to be so granted, earned, accrued, received or made) on or before the date on which the Global Offering becomes unconditional and dealings in Shares first commence on the Stock Exchange (the “**Effective Date**”) or any transaction, matters, things, event, act or omission occurring or deemed to occur on or before such date, whether alone or in conjunction with any other transaction, matter, thing, event, act, omission or circumstance whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company; and
- (b) all costs (including all legal costs), expenses, interests, penalties, fines, charges or other liabilities which any member of our Group may reasonably incur in connection with:
 - (i) the investigation, assessment, the contesting of any claim under sub-paragraph (a) above;
 - (ii) the settlement of any claim under sub-paragraph (a) above;

- (iii) any legal proceedings in which any member of our Group claims under or in respect of sub-paragraph (a) above, and in which judgment is given for any member of our Group; or
- (iv) the enforcement of any such settlement or judgments.

The Indemnifiers have also, under the Deed of Indemnity, agreed and undertaken to each of the members of our Group and at all times keep the same indemnified on demand from and against any losses, damages, claims or penalties that our Group may suffer or incur, as a result of our Group's outstanding litigations, claims and non-compliance matters, which subsist prior to the Listing Date, whether or not such non-compliance has been disclosed in this prospectus.

The Indemnifiers will, however, not be liable under the Deed of Indemnity for taxation:

- (a) to the extent that provision has been made for such taxation in the consolidated audited accounts of our Company or the audited accounts of the relevant members of our Group up to 30 June 2019;
- (b) to the extent that such taxation arises or is incurred as a result of any change in the law, having retrospective effect coming into force after the date on which Global Offering becomes unconditional or to the extent that such taxation arises or is incurred as a result of an increase in rates of taxation after the date on which Global Offering becomes unconditional with retrospective effect (except the imposition of or an increase in the rate of Hong Kong profits tax or any tax of anywhere else in the world on the profits of companies for the current or any earlier financial period);
- (c) which would not have arisen but for any act or omission of, or transaction by any member of the Group voluntarily effected (other than pursuant to a legally binding commitment created on or before the date on which the Global Offering becomes unconditional) without prior written consent or agreement of the Indemnifiers; or
- (d) to the extent of any provision or reserve made for such taxation in the consolidated audited accounts referred to in sub-paragraph (a) above is established to be an over-provision or an excessive reserve.

Pursuant to The Revenue (Abolition of Estate Duty) Ordinance 2005 which came into effect on 11 February 2006 in Hong Kong, estate duty ceased to be chargeable in Hong Kong in respect of the estates of persons dying on or after that date. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of Shares whose death occurs on or after 11 February 2006.

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of its subsidiaries in the Cayman Islands or BVI, being jurisdictions in which one or more of the companies comprising our Group were incorporated. There are currently no taxes in the form of estate duties under Cayman Islands law, and no estate tax is currently payable by persons who are not resident in BVI with respect of any shares, debt obligations or other securities of a BVI company.

2. Registrars of members and taxation concerning the Shareholders

The principal register of members of our Company in the Cayman Islands will be maintained by Ogier Global (Cayman) Limited, and a branch register of members of our Company in Hong Kong will be maintained by Computershare Hong Kong Investor Services Limited. Save when our Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, our Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted into CCASS as eligible securities.

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to stamp duty. The current rate charged on each of the purchaser and seller is 0.1% of the consideration of, or if higher, of fair value of our Shares being sold or transferred. Profits from dealings in Shares arising in or derived from Hong Kong may also be subject to the profits tax in Hong Kong. Under the present Cayman Islands law, there is no stamp duty payable in the Cayman Islands on transfer of shares of companies incorporated in the Cayman Islands, except those companies which hold interests in land in the Cayman Islands. No stamp duties or similar documentary taxes imposed by or in BVI are payable by our Company and our Company will not be required by any laws of BVI to make any deduction or withholding from any payment it may make. Notwithstanding any provision of the Income Tax Ordinance of BVI, (a) our Company; (b) all dividends, interest, rents, royalties, compensations and other amounts paid by our Company; and (c) capital gains realised with respect to any shares, debt obligations or other securities of our Company, are exempt from all provisions of the Income Tax Ordinance of BVI. BVI currently levies no estate, inheritance, succession or gift tax with respect to any shares, debt obligations or other securities of our Company.

Intending holders of the Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. None of our Company, our Directors or parties involved in the Global Offering accepts responsibility for any tax effect on, or liabilities of holders of Shares resulting from their subscription for, purchase, holding or disposal or dealing in Shares.

3. Litigation

As of the Latest Practicable Date, neither our Company nor any of our subsidiaries was engaged in any litigation or claims or arbitration of material importance and no litigation or claims of material importance is known to our Directors to be pending or threatened against our Company or any of our subsidiaries.

4. Sponsor

The Sole Sponsor has made an application for and on behalf of our Company to the Listing Department for the listing of, and permission to deal in, all the Shares in issue and to be issued as mentioned in this prospectus, including the Offer Shares and any Shares which may fall to be allotted and issued pursuant to the Capitalisation Issue, the exercise of the Over-allotment Option and the exercise of any option which may be granted under the Share Option Scheme.

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

The Sole Sponsor will receive a fee of HK\$6,800,000 to act as the sole sponsor to our Company in connection with the Global Offering.

5. Compliance adviser

In accordance with the requirements of the Listing Rules, our Company will appoint China Industrial Securities as its compliance adviser 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 its financial results for the first full year commencing after the Listing Date or until the agreement is terminated, whichever is earlier.

6. Preliminary expenses

The preliminary expenses incurred and paid by our Company were approximately HK\$23,392 and are payable by our Company.

7. Promoters

Our Company has no promoter for the purposes of the Listing Rules.

8. Qualifications of experts

The qualifications of the experts who have given reports, letter or opinions (as the case may be) in this prospectus are as follows:

Name	Qualification
China Industrial Securities International Capital Limited	A corporation licenced to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Ogier	Legal advisers to our Company as to Cayman Islands law
PricewaterhouseCoopers	Certified Public Accountants
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant
DeHeng Law Offices	Legal advisers to the Company as to PRC law
Ironcore Legal Pty Ltd	Legal advisers to our Company as to Australian law
Dentons Europe LLP	Legal advisers to our Company as to French law, German law, Dutch law and UK law

9. Consents of experts

Each of the experts named in the paragraph headed “F. Other Information – 8. Qualifications of experts” above in this appendix has given and has not withdrawn its respective written consent to the issue of this prospectus with the inclusion of its reports, letters, opinions or summaries of opinions (as the case may be) and the references to its name included in this prospectus in the form and context in which it is respectively included.

10. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penalty provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

11. No material adverse change

Our Directors confirmed that, up to the Latest Practicable Date, there had been no material adverse change in financial or trading position or prospects of our Group since 30 June 2019, being the date on which the latest financial information of our Group was reported in the Accountant’s Report set out in Appendix I to this prospectus.

12. Miscellaneous

- (a) Within the two years preceding the date of this prospectus:
 - (i) save as disclosed in the section headed “History, Development and Reorganisation” in this prospectus, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) save as disclosed in the section headed “Underwriting” in this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of our Company or any of our subsidiaries; and
 - (iv) save as disclosed in the section headed “Underwriting” in this prospectus, no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription for any shares in our Company or any of our subsidiaries.
- (b) No founder, management or deferred shares nor any debentures in our Company or any of our subsidiaries have been issued or agreed to be issued.
- (c) There has not been any interruption in the business of our Group which may have or has had a material adverse effect on the financial position of our Group in the 12 months preceding the date of this prospectus.

- (d) None of the persons named in the paragraph headed “F. Other Information – 8. Qualifications of experts” above in this prospectus:
 - (i) is interested beneficially or non-beneficially in any shares in any member of our Group; or
 - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of our Group.
- (e) No company within our Group is presently listed on any stock exchange or traded on any trading system.
- (f) Our Company had no outstanding convertible debt securities as at the Latest Practicable Date.
- (g) The principal register of members of our Company will be maintained in the Cayman Islands by Ogier Global (Cayman) Limited and a branch register of members of our Company will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Company’s share registrar in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.
- (h) Our Directors have been advised that, under the laws of Cayman Islands, the use of a Chinese name pre-approved by the Registrar of Companies of the Cayman Islands by our Company in conjunction with the English name, does not contravene the laws of Cayman Islands.
- (i) There are no arrangements in existence under which future dividends are to be or agreed to be waived.

13. Bilingual prospectus

Pursuant to the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), the English language and Chinese language versions of this prospectus are being published separately. In case of any discrepancies between the English language version and Chinese language version, the English language version shall prevail.

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of each of the **WHITE, YELLOW and GREEN** Application Forms;
- (b) copies of the material contracts referred to in the paragraph headed “Statutory and General Information – B. Further Information about the business of our Group – 1. Summary of material contracts” in Appendix IV to this prospectus; and
- (c) the written consents referred to in the paragraph headed “Statutory and General Information – F. Other Information – 9. Consents of experts” in Appendix IV to this prospectus.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Stevenson, Wong & Co., at 39/F, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) our Memorandum and Articles;
- (b) the Accountant’s Report of our Group from PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus;
- (c) the report from PricewaterhouseCoopers in respect of the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (d) the audited consolidated financial statements of our Group for the year ended 31 December 2016, 2017 and 2018, and the six months ended 30 June 2019;
- (e) the letter of advice prepared by Ogier, our Cayman Islands legal advisers, summarising certain aspects of the Cayman Islands Companies Law referred to in Appendix III to this prospectus;
- (f) the Companies Law;
- (g) the PRC legal opinion prepared by DeHeng Law Offices;
- (h) the Australian legal opinion prepared by Ironcore Legal Pty Ltd;
- (i) the French legal opinion prepared by Dentons Europe LLP;
- (j) the German legal opinion prepared by Dentons Europe LLP;
- (k) the Dutch legal opinion prepared by Dentons Europe LLP;
- (l) the UK legal opinion prepared by Dentons Europe LLP;

- (m) the industry report prepared by Frost & Sullivan;
- (n) the material contracts referred to in the paragraph headed “Statutory and General Information – B. Further Information about the Business of Our Group – 1. Summary of material contracts” in Appendix IV to this prospectus;
- (o) the written consents referred to in the paragraph headed “Statutory and General Information – F. Other Information – 9. Consents of experts” in Appendix IV to this prospectus;
- (p) the service contracts and letters of appointment with each of our Directors referred to in the paragraph headed “Statutory and General Information – C. Further Information about Our Directors – 1. Particulars of Directors’ service contracts and letters of appointment” in Appendix IV to this prospectus; and
- (q) the rules of the Share Option Scheme.

KWUNG'S HOLDINGS LIMITED
曠世控股有限公司