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OUR MISSION

Our mission is to provide consumers with cleaning solutions comprising of quality products, good services and professional insights.

OUR VISION

Our vision is to allow every family to enjoy a clean, healthy, comfortable, respectable and delightful “Blue Moon (藍月亮)” lifestyle.

OUR VALUES

For consumers we excel (為用戶，更卓越).

OVERVIEW

We are a leading consumer-centric household care company in China. We develop, manufacture and market a wide selection of products under three categories: fabric care, personal hygiene and home care. Our liquid laundry detergent, liquid soap and concentrated liquid laundry detergent products had the largest market shares in their respective markets in each of 2017, 2018 and 2019, according to the Frost & Sullivan Report. Our reputation is decades in the making and is rooted in our commitment to customer satisfaction, our ability to understand and set consumer trends, and our focus on successful execution.

Since our inception, we have focused on the markets with high growth potential and have built a strong brand. We have developed popular products such as Blue Moon Liquid Soap and Blue Moon Deep Clean Care Liquid Laundry Detergent, and we continue to upgrade our products. We have developed a knowledge-based marketing strategy by not only promoting our products or brand, but also delivering household care-related knowledge and insights to consumers based on our research and production experience, thereby enhancing brand loyalty. We are an early mover and a leader in utilising e-commerce in China’s household care industry and have built a powerful omni-channel sales and distribution network. Since 2008, we have launched technology advancement programmes to digitalise our operation process, including procurement, manufacturing, and sales to make our business operations more efficient and scalable.

We believe the market environment and consumer trends are in our favour. According to the Frost & Sullivan Report:

- China has one of the world’s largest household care markets with the highest growth potential among the major economies. The market size of China’s household care market as measured by retail sales value is expected to grow from RMB110.8 billion in 2019 to RMB167.7 billion in 2024, accounting for over one third of the growth in the global household care industry from 2019 to 2024. In particular, as measured by retail sales value, the fabric care market is the largest market in the household care industry in China, accounting for 61.2% of China’s total household care market in 2019;
- Chinese consumers are increasing their spending on high-quality products such as liquid laundry detergents and concentrated liquid laundry detergents. While these products are prevalent in developed markets such as the U.S. and Japan, their penetration rates have been growing rapidly in

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China. According to the Frost & Sullivan Report, the market penetration of liquid laundry detergents in China rose from 32.0% in 2015 to 44.0% in 2019 and is projected to further increase to 58.6% in 2024. In 2019, penetration rates of concentrated liquid laundry detergents in Japan and the U.S. reached 100%, while the penetration rate of concentrated liquid laundry detergents in China was 8.2% in the same year, showing significant potential for growth in China; and

- e-commerce is an important and fast growing retail channel in China. Sales of household care products through e-commerce is expected to grow at a CAGR of 16.2% from 2019 to 2024 and account for 31.9% of China's overall household care market by 2024.

We identified these market trends early and have positioned our business to benefit from these trends. We have become a leader in the liquid laundry detergents, concentrated liquid laundry detergents and liquid soap markets in China. Our effective knowledge-based marketing has not only enhanced consumer loyalty to our brands, but has also reinforced the adoption of liquid and concentrated products by consumers. In 2019, although China's online penetration for household care industry was only 22.8%, we generated 47.2% of our total revenue from online sales channels and built leading market shares in all the major e-commerce platforms.

The "Blue Moon (藍月亮)" brand was founded by our chief executive officer, Mr. Luo, 28 years ago. He has inspired and assembled an experienced management team who draws on an average of more than 20 years' industry experience. In addition, our chairman, Ms. Pan, has also been instrumental in formulating our corporate strategies, which has led to the successful expansion of our business. We believe our success is a result of their focus on the household care industry and dedication to consumer satisfaction.

Our revenue grew at a CAGR of 11.9% from 2017 to 2019. In 2019, our revenue was HK\$7,049.9 million while our net profit was HK\$1,079.6 million. For the six months ended 30 June 2020, our revenue was HK\$2,435.9 million while our net profit was HK\$302.2 million.

COMPETITIVE STRENGTHS

We believe the following competitive strengths are central to our success:

We are a leader and an early mover in China's household care market and are well-positioned to capture significant growth opportunities

We are a leader in the PRC household care industry. We had the largest market share in China's liquid laundry detergent market for 11 consecutive years from 2009 to 2019 and we also had the largest market share in China's liquid soap market for eight consecutive years from 2012 to 2019, according to the Frost & Sullivan Report. In 2019, we ranked first in China's liquid laundry detergent market, concentrated liquid laundry detergent market and liquid soap market in terms of retail sales value, with a market share of 24.4%, 27.9% and 17.4%, respectively.

We are committed to delivering well-designed, high quality products that reinforce our reputation as an expert in the industry. Our "Blue Moon (藍月亮)" brand is one of the most recognisable household care brands in China.

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We are one of the fastest growing companies in China's household care industry. According to the Frost & Sullivan Report, the retail sales value of China's household care industry increased at a CAGR of 4.9% from 2017 to 2019. Over the same period, our revenue increased at a CAGR of 11.9%. In 2019, our revenue was HK\$7,049.9 million and our net profit was HK\$1,079.6 million.

We are well-positioned to capture the opportunities from China's household care market, which has the highest growth potential among the household care markets of the major economies. According to the Frost & Sullivan Report, in 2019, the total retail sales value of China's household care industry was RMB110.8 billion, and is expected to grow at a CAGR of 8.7% from 2019 to 2024, representing the highest growth potential for the household care industry among the major economies. The fabric care market, which we focus on, is the largest segment of China's fast-growing household care industry, accounting for over 60% of the total retail sales value of China's household care industry in 2019. The liquid laundry detergent market is expected to be a major growth driver of the fabric care industry, growing at a CAGR of 13.6% from 2019 to 2024 and reaching RMB51.5 billion in 2024 in terms of retail sales value. Our strong brand awareness and proven track record enable us to reinforce our leading position and capture market opportunities.

We have a diverse product portfolio and a proven track record of product development which contributes to the upgrade of China's household care industry

Our product portfolio consists of a wide range of household care products in fabric care, personal hygiene and home care. Our diversified product offerings and our promotion of scientific cleaning knowledge through customer services form a holistic household cleaning solution. Our core products include liquid laundry detergents, liquid soap, laundry aids, dishwash products and bathroom cleaners. We continue to develop and launch products to cater to different consumer groups, functional requirements and cleaning scenarios. For example, we have developed products tailored for babies, specialised laundry detergent products for silk and delicate fabrics and products tailored for hand-wash. Besides our flagship "Blue Moon (藍月亮)" brand, we also introduced other brands, such as "Supreme (至尊)" and "Volo (衛諾)".

We have a proven track record of successfully launching new products. We are among the first movers in several emerging household care product categories, and we strategically launched our liquid soap, liquid laundry detergent and concentrated liquid laundry detergent products in 2000, 2008 and 2015, respectively. Each of our Blue Moon Deep Clean Care Liquid Laundry Detergent, Blue Moon Deep Clean Liquid Laundry (Whitening) Detergent, Hand-wash Laundry Detergent, and Blue Moon Machine Wash Supreme Concentrated Plus Laundry Detergent quickly achieved an annual retail sales value of over RMB500 million within five years of launch. We believe that we contributed significantly to the evolution of consumer preferences in favour of these emerging product categories. After the successful launch of our products, our continuous optimisation of products maintained many of our products' popularity for more than ten years. In particular, revenue from our Blue Moon Deep Clean Liquid Laundry (Whitening) Detergent, Blue Moon Deep Clean Care Liquid Laundry Detergent, Fabric Softener, and Antibacterial Liquid Soap increased at a CAGR of over 10% from 2017 to 2019.

The success of our product development is made possible by our insight into consumer needs and market trends, our strong research and development capabilities and our dedication to craftsmanship. For example, in developing concentrated liquid laundry detergent products under the "Supreme (至尊)" brand, we carried out extensive tests and experiments and developed a product series by utilising biological compound enzyme technology. We also developed a pump dispenser capable of dispensing a precise amount of detergent suitable

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for daily laundry tasks of Chinese consumers. Moreover, to optimise user experience, we launched laundry detergent products with different aromas. We are deeply committed to further expanding our comprehensive product offerings and, as at the Latest Practicable Date, we had obtained 152 patents in China, nearly half of which were applicable to products other than laundry detergent.

China's household care industry is undergoing structural change. From 2015 to 2019, the penetration of liquid laundry detergent products in the laundry detergent market grew from 32.0% to 44.0% and is expected to increase to 58.6% in 2024; meanwhile, the penetration of powder laundry detergent products decreased from 58.0% to 47.6% from 2015 to 2019, and is expected to further decrease to 35.2% in 2024, according to the Frost & Sullivan Report. We believe that the trend of liquid laundry detergent products replacing powder laundry detergent products will continue in the foreseeable future. Additionally, with the rise of disposable income and consumers' pursuit of better quality of life, more consumers in China have started to prefer higher quality, convenient, environmentally friendly and compact products. With our leading position in the liquid laundry detergent market, our product development capabilities, and our strategic focus on increasingly popular products since our inception, we believe that we are well-positioned to benefit from the structural reform in China's growing household care market.

We have built a powerful and nationwide omni-channel distribution network

We have built an omni-channel sales and distribution network across China that caters to the purchase preferences of a broad consumer base.

Online

Our first mover advantage in utilising the online sales and distribution channels in China's household care industry, as well as our expansion into new online sales channels, have allowed us to achieve rapid growth in online sales.

According to the Frost & Sullivan Report, the online sales penetration rate of household care products in China increased from 18.8% to 22.8% from 2015 to 2019, and is expected to further increase to 31.9% in 2024, reflecting an accelerating increase in online sales penetration. Leveraging our insight of consumer preference and the rise of e-commerce, we became an early mover and leader in China's household care industry to utilise e-commerce and have built a powerful omni-channel distribution infrastructure. Having partnered with major e-commerce platforms in China for approximately ten years, we are a key business partner of major e-commerce platforms in China. According to the Frost & Sullivan Report, our liquid laundry detergents ranked first in the online liquid laundry detergent market in terms of retail sales value in 2019, with a market share of 33.6%, which was more than two times the market share of the second-ranked Chinese liquid laundry detergent company. In 2019, our brand ranked first in terms of transaction value during the 618 Shopping Festival and Singles' Day events on JD.com and Tmall, respectively.

Building on our extensive experience of working with established e-commerce platforms, we have expanded into new online sales channels. We work with a number of emerging e-commerce platforms such as social e-commerce platforms, fresh foods e-commerce platforms, and the online procurement systems of corporations to appeal to a broader consumer base. Our efforts have further increased our online penetration, and extended our coverage to various consumer groups. From 2017 to 2019, the retail sales value of China's

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household care industry from online sales channel grew at a CAGR of 8.5%, according to the Frost & Sullivan Report. Over the same period, our revenue from online channels increased at a CAGR of 33.5%. For the year ended 31 December 2019, our revenue generated through online sales channels amounted to HK\$3.3 billion, accounted for 47.2% of our total revenue. For the six months ended 30 June 2020, our revenue generated through online sales channels amounted to HK\$1.4 billion, accounted for 58.8% of our total revenue.

Offline

We have an extensive offline sales and distribution network across China, including direct sales KAs such as hypermarkets and supermarkets, and offline distributors which resell to hypermarkets, supermarkets, standalone supermarkets, convenience stores, grocery stores and gas stations. According to the Frost & Sullivan Report, the “Blue Moon (藍月亮)” brand ranked first in China’s offline liquid laundry detergent market in terms of retail sales value from 2017 to 2019.

Our nationwide distribution network allowed us to penetrate emerging markets in lower-tier cities as consumption in these cities continued to grow. According to the Frost & Sullivan Report, the retail sales value of the household care markets in tier-three and lower-tier cities is expected to increase at a CAGR of 9.2% from 2019 to 2024. In particular, the retail sales values of liquid laundry detergent and liquid soap in tier-three and lower-tier cities are expected to increase at a CAGR of 15.1% and 28.3% for the same period, respectively. Such emerging markets have become a major growth driver of China’s household care industry. Our ability to cover and service multiple retail formats in offline channels, together with our strong brand reputation and our diverse product portfolio, enabled us to further develop our business and increase penetration in lower-tier cities. As at 30 June 2020, aside from national and regional supermarkets, nearly 70% of our offline distributors were located in tier-three and lower-tier cities, covering retail points of sale in more than 2,600 districts and counties across China. We continue to expand and optimise our offline distributor network by closely working with our offline distributors to penetrate local retail markets, increasing product exposure and improving sales performance.

We have built a strong brand with long-term value through knowledge-based marketing and superior customer services

We have built a strong brand with long-term value. We have adopted a consumer-centric knowledge-based marketing philosophy by sharing professional cleaning methods and scientific cleaning knowledge to create value for consumers. Through knowledge-based marketing, we built a trusted brand and reinforced consumer preference for upgraded products, thereby increasing brand awareness and recognition. In addition, we provide customer services to foster consumer connection and to better understand their preferences, which in turn further enhances our brand loyalty.

We have continuously strengthened our brand recognition and engaged with consumers through a variety of knowledge-based marketing efforts:

- We deliver household care knowledge, answer inquiries from consumers, and collect feedback through our cleaning consultants and customer support service. These interactions allow us to solve consumers’ cleaning related problems, better understand their needs and build stronger consumer relationships;

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- We organised special events such as “Laundry Master (洗衣大師)” and “Scientific Laundry Across China (科學洗衣中國行)” to further deliver household care- and cleaning-related knowledge to the general public, engaging consumers as part of the marketing process to increase brand awareness;
- We organised the “Blue Moon Festival (藍月亮節)” which included our sponsorship to nationally televised programmes on CCTV and Hunan TV for seven consecutive years from 2013 to 2019 to enhance our brand recognition; and
- We engaged and communicated with young consumers through online live streaming, celebrity endorsements and short films to highlight the youth and vitality value of our brand.

As consumers become increasingly aware and value corporate social responsibility, we have been adhering to low-carbon and sustainable development principles, and utilising environmentally-friendly ingredients for our formulae. We believe that our social and environmental responsibilities efforts are well-recognised by our consumers and will be an important contribution to the long-term value of the “Blue Moon (藍月亮)” brand.

Our tech-enabled operations enhance our efficiency, adaptability and scalability

Since 2008, we have executed our strategy to build advanced IT systems for our business operations. We have developed highly integrated proprietary IT systems based on mobile internet and big data technology to manage our operations. Our IT systems and higher level of automation contributed to the continuous improvement of our operational efficiency. We believe that our advanced and integrated IT systems can also help us seize future opportunities and further expand our business.

We deployed our IT systems throughout key aspects of our business operations:

- **Procurement:** We have developed a flexible and adaptable procurement management system in-house. It can interface with the IT systems of different suppliers located in different geographic areas and can process the procurement of various items, including raw materials and fixed assets, significantly increasing our procurement efficiency;
- **Manufacturing:** Our production facilities are highly automated. As a result, we have significantly reduced the labour hours per unit product required by approximately 10% from 2017 to 2019. Additionally, we are in the process of implementing intelligent controls to our manufacturing process in accordance with the industrial development trends; and
- **Sales:** We developed a proprietary CRM system. In terms of offline sales, our CRM system can capture distributors’ shipment and inventory data, as well as sales data from our direct sales KAs and offline distributors, allowing us to manage our sales channels more effectively. In terms of online sales, our CRM system is connected to most of our online proprietary stores, enabling us to develop big data analytics and to forecast online sales using the data obtained. The increasing accuracy of forecasts supported by big data analytics enabled us to improve production planning and inventory management based on expected sales.

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Our advanced IT systems have made our business highly scalable and facilitated our expansion. Leveraging our advanced IT infrastructure, as at the Latest Practicable Date, we established 10 front-tier warehouses in 10 provinces in China, enabling us to make prompt and flexible logistics arrangements and inventory adjustments if necessary. As a result of our strategic national layout and improved operations efficiency through the establishment of our front-tier warehouses that are adjacent to our customers, we were able to increase the three-day delivery completion rate of our online flagship stores by approximately 30% from 2018 to 2019. In addition, we have decreased the average logistics cost per unit of products sold online in our proprietary stores by approximately 19% from 2017 to 2019 due to a number of improvements we made to our overall logistics management including switching to a cheaper supplier.

Our founder and management team are experienced, committed and visionary

Our founder and chief executive officer, Mr. Luo, and our chairman, Ms. Pan, are well-known entrepreneurs in China's household care industry. Their strategic vision led us to facilitate the development of China's household care industry. Through Mr. Luo and Ms. Pan's leadership and commitment to providing quality household care products in China, we have built a well-recognised brand that has had a significant impact on consumer habits, as well as the development of the household care industry in China.

Our senior management team has, on average, more than 20 years of industry experience and has worked at our Group for over 14 years. They have acquired significant insight of the market through their extensive experience and are highly committed to our corporate values, namely, "for consumers we excel (為用戶，更卓越)". We believe that they have been crucial in formulating business strategies, developing new products and capturing opportunities in the industry, and that they will be instrumental to the achievement of our goals and the execution of our business plans.

BUSINESS STRATEGIES

Consumer satisfaction is our top priority. Empowered by our technological capabilities, we plan to continue our development in products, channel, marketing and manufacturing to better serve our customers, strengthen our reputation as the expert in household care, and grow our business sustainably.

Expand and upgrade our product offerings to solidify our leading market position

Our deep insight into consumer behaviour and strong research and development capabilities will allow us to build a diverse household care product portfolio that consistently satisfies consumers' everyday cleaning needs.

- ***Upgrade of existing products:*** We aim to continue to upgrade the formulae and packaging of our existing products by launching well-designed and high-quality products which cater to different consumption scenarios, distribution channels, and consumer segments. Additionally, we also aim to increase our usage of compact packaging that are more environmentally friendly;
- ***Expansion of product categories:*** Consumers expect higher standards of cleaning, anytime and anywhere, particularly after the COVID-19 outbreak. We will satisfy their expectations by expanding our product matrix to cover more product categories. For example, we are developing professional disinfection products to safeguard consumers' personal health; and

- ***Strengthening premium product offerings:*** We plan to launch more concentrated products and further solidify the leading position of our “Supreme (至尊)” brand in the concentrated liquid laundry detergent market. We are developing cleaning tools in-house that can complement our cleaning products, and we collaborate with home appliance manufacturers to launch compatible products. We believe that these product offerings will redefine household cleaning experience and appeal to younger generations and consumers with higher purchasing powers.

Further strengthen our omni-channel distribution network and increase product penetration

We are an early mover in e-commerce and have built an extensive omni-channel sales and distribution network. We will optimise our sales and distribution network to increase our product penetration through the following measures:

- ***Solidifying our leadership in online channels:*** We aim to strengthen our partnership with major e-commerce platforms and explore opportunities from emerging e-commerce platforms such as social e-commerce, fresh foods e-commerce, and the online procurement systems of corporations. We plan to take advantage of e-commerce platforms’ strategic initiative to penetrate into lower-tier cities and optimise our product offerings by tailoring to the preferences of users in different platforms to reach a broader consumer base;
- ***Strengthening our cooperation with national and regional retailers and continuously developing our distribution model:*** On-demand delivery service is an increasingly popular retail format in China. We intend to leverage the extensive offline network of our retailer partners to better serve consumers in local communities. Moreover, we aim to continue to improve our support to retailers through better management of procurement, inventory, and product display. We believe that our customised services will allow them to improve sales performance and in turn drive the sales growth of our products; and
- ***Broadening and deepening our offline distribution network to capture opportunities across different tier of cities:*** We plan to optimise and expand our distributor network based on their capability to serve specific sales channels to deepen penetration from urban downtown areas of the larger cities to counties, townships and villages across all provinces in China. We plan to proactively expand our points of sale and broaden coverage of retail formats, including pharmacies, cosmetics stores, maternity stores, and gas stations. We will leverage the high brand recognition of our flagship liquid laundry detergent products to increase the market penetration of products of different categories, including home cleaning and personal hygiene. We believe that our knowledge on points of sale procurement, inventory and product display, as well as our dedicated sales team support will help our offline distributors improve productivity and execute this strategy more effectively.

Continue to win consumers’ trust through promotion of scientific cleaning knowledge

We differentiate ourselves by consistently delivering scientific household care knowledge to our consumers. We are committed to building a trustworthy brand underpinned by science and professionalism. We believe that, as our consumers gain more household care related knowledge, they will increasingly rely on us to deliver the lifestyle they deserve.

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We engage consumers both through in-house resources and external partners of our omni-channel sales and distribution network. For online channels, we intend to continue to adapt to the changes in consumer preferences to improve two-way communications and to cultivate consumption habits. For offline channels, our cleaning consultants will continue to directly interact with consumers in schools, communities and work places.

As the internet continues to redefine the way people communicate, we plan to refine and customise our marketing strategies for different consumer groups to strengthen our brand image as the most professional expert in household care.

Improve consumer experience by enriching our services

We intend to deliver to consumers a carefree “Blue Moon (藍月亮)” lifestyle by providing a full suite of products and services. Our laundry services help consumers clean stains that are difficult to remove, our cleaning consultants provide consumers with professional advice and our customer service staff offer product support. By strengthening interactions with consumers, we obtain a better understanding of their consumption needs which enables us to develop better products and increase customer loyalty.

- We plan to continue to develop the skills of our cleaning consultants and customer service staff to improve after-sales service efficiency and quality;
- We intend to expand our laundry service offerings. We plan to establish laundry centres to help more consumers clean clothes with stains that are difficult to remove. Our goal is to become the go-to laundry expert for consumers and improve customer experience. Please refer to the section headed “Future Plans and Use of Proceeds – Use of Proceeds” for details; and
- We plan to continue to implement a membership programme. Such membership programme will allow us to better understand consumer preferences, provide more personalised services, and launch more accurate promotions based on purchase and inquiry history, which we believe will increase our purchase conversion rate.

Accelerate digitalisation and upgrade manufacturing network to further improve operational efficiency

We intend to continue to invest in technology infrastructure to enhance digitalisation of our systems and improve operational efficiency:

- In sales and distribution, we plan to strengthen our capabilities in consumer data analysis across different channels and markets. A better understanding of consumer preferences gained through the data analytics will allow us to improve product selection and marketing effectiveness;
- In supply chain and inventory management, we plan to further invest in big data analytics and artificial intelligence to improve the accuracy of our forecasts of production, sales and costs, and to achieve higher efficiency in our supply chain management. In manufacturing, we plan to upgrade our production capacities across our production bases to meet the increasing market demands. We plan to further automate our production processes, such as automatic feeding and labelling, to increase our manufacturing efficiency. We also intend to invest in new manufacturing plants, production lines, and warehousing facilities in accordance with our mid to long-term growth

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strategy. Particularly, we plan to expand the capacity of our production bases in Guangzhou, Tianjin, Kunshan and Chongqing, as well as establish a new factory in China. As at the Latest Practicable Date, we did not have a definitive plan for such new factory. Please refer to the section headed “Future Plans and Use of Proceeds – Use of Proceeds” for details; and

- In logistics management, we plan to improve the efficiency of our infrastructure to expedite delivery and lower logistics expenses. We plan to collaborate with logistics companies and leverage our data analytics capabilities to design more efficient transportation routes. We also intend to establish e-commerce warehouses adjacent to our manufacturing bases and partner with professional logistics service providers to enhance our warehousing capabilities.

Retain and recruit high-quality employees

We believe that our experienced, dedicated and well-trained employees at all levels are key to our success. They are the bedrock of our quality products and excellent consumer experience. We aim to continue to attract, train, retain and motivate high calibre employees and talents. We offer them a platform to achieve career aspirations so that we and our employees can both succeed. We also intend to attract talents with expertise in specialised areas to support the growth of our business. Further, we plan to adopt various cooperation models with external experts to help us implement best practises and improve our technical capabilities.

We believe that visionary, passionate and young talents are the foundation of our sustainable growth. We are committed to the retention and promotion of young talents by offering them on-the-job training and preparing them for management positions. We also recruit through fresh graduate programmes to build a reserve of high-quality staff. In addition, we plan to continue to optimise our human resources management mechanisms to help individual employees realise their potentials, as result of which we can thrive as an organisation in the long term.

OUR BUSINESS PHILOSOPHY

Our Consumer-centric Cleaning Solutions

We are a leading consumer household care company in China. With consumer satisfaction as our overarching priority, we deliver high-quality products, scientific cleaning methods, and comprehensive customer services. In addition, our knowledge-based marketing philosophy, omni-channel sales and distribution network, two-tier warehousing system, and advanced technologies enable us to deliver high-quality cleaning solutions. The following diagram illustrates the main elements of our business:



Products:

We deliver products for a multitude of cleaning scenarios, including fabric care, personal hygiene, and home care. During the Track Record Period, we sold our products in all provinces in China through our omni-channel distribution network.

Methods:

We develop and share with consumers scientific and practical cleaning methods based on our strong research and development capability and deep understanding of consumer needs. Our engineers have conducted research on numerous pieces of clothing made of different materials with different stains in order to study the most efficient methods for cleaning. We have deployed online and offline knowledge-based marketing campaigns and organised a series of special events to cultivate consumer habits. Please refer to the subsection headed “Knowledge-based Marketing” for details.

Services:

We aim to provide comprehensive services to meet the needs of consumers in different scenarios. Our comprehensive service package includes customer support services responding to consumer inquiries about various laundry problems and laundry services for consumers who do not have time to do laundry or find it difficult to clean certain pieces of clothing. Please refer to the subsection headed “Customer Services” for details.

OUR PRODUCTS

Product Portfolio Overview

We have built a diverse portfolio of market-leading products under three categories: fabric care, personal hygiene, home care. Our products are well-recognised among consumers in China. The breadth and depth of our product portfolio enable us to offer consumers various product options and a wide range of solutions to meet their household cleaning needs. According to the Frost & Sullivan Report, our liquid laundry detergent products ranked first in terms of retail sales value in China with a market share of 24.4% of the liquid laundry detergent market in 2019; and our liquid soap products ranked first in terms of retail sales value in China with a market share of 17.4% of the liquid soap market in 2019.

From 2017 to 2019, our main brand “Blue Moon (藍月亮)” ranked first in both the liquid laundry detergent market and the liquid soap market, each in terms of market size by retail sales value in China, according to the Frost & Sullivan Report. In 2019, according to the same report, “Blue Moon (藍月亮)” ranked fourth in both the fabric care market and the personal hygiene market and ranked fifth in the home care market, all in terms of market size by retail sales value in China. Please refer to the section headed “Industry Overview – Competitive Landscape” for details of the leading position of our products in the industry. We also strive to develop more products under different brands to cater to our customers’ diverse cleaning needs. From 2013 to 2019, we rolled out bathroom cleaning products under our “Volo (衛諾)” brand, concentrated liquid laundry detergent products under our “Supreme (至尊)” brand, premium liquid soap products under our “Jingxiang (淨享)” brand, and utensil, fruit and vegetable cleaning products with a mild and gentle formula under our “Tianlu (天露)” brand in response to our customers’ new and evolving household cleaning needs. Our product portfolio expansion has further solidified our brand image as a provider of scientific and professional household care products.

The following illustration demonstrates the coverage of our product portfolio:

Blue Moon Full-suite Cleaning Solutions



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During the Track Record Period, we generated revenue from three product categories: fabric care products, personal hygiene products and home care products. The following table sets forth the revenue contribution and the percentage of our total revenue contributed by each of the product categories for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	% of Total Revenue of the Revenue Year		% of Total Revenue of the Revenue Year		% of Total Revenue of the Revenue Year		% of Total Revenue of the Revenue Period		% of Total Revenue of the Revenue Period	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Fabric Care Products	4,922,459	87.4	5,917,277	87.4	6,177,613	87.6	2,364,351	86.9	1,681,407	69.0
Personal Hygiene Products	328,021	5.8	410,616	6.1	418,545	5.9	180,051	6.6	465,602	19.1
Home Care Products	381,553	6.8	440,052	6.5	453,747	6.5	175,948	6.5	288,859	11.9
Total	5,632,033	100.0	6,767,945	100.0	7,049,905	100.0	2,720,350	100.0	2,435,868	100.0

Product Development Milestones

We have introduced new categories of products into the Chinese market multiple times in our history. We believe that we are able to provide products that have influenced Chinese consumers' cleaning habits and promoted more efficient cleaning methods. The following table sets forth descriptions of our key milestone products:

Year of Launch	Product	Milestone	Product Achievements and Recognitions	Year in Which Retail Sales Value First Exceeded RMB500 Million
2008	Blue Moon Deep Clean Care Liquid Laundry Detergent (藍月亮深層潔淨護理洗衣液)	One of the first liquid laundry detergent products developed by a Chinese company.	“Guangdong Provincial High-Tech Product” from 2010 to 2022 by Guangdong Hi-tech Enterprise Association.	2012
2010	Blue Moon Deep Clean Care Liquid Laundry (Whitening) Detergent (藍月亮深層潔淨護理洗衣液(亮白增艷))	Our first laundry detergent with a clothing whitening formula.	China Environmental Labelling Product Certificate (中國環境標誌產品認證) from 2019 to 2022 by the Ministry of Ecology and Environment of China.	2012
2011	Blue Moon Hand-wash Laundry Detergent (藍月亮手洗專用洗衣液)	One of the first laundry detergent designed for hand-wash method in China.	“National Water Saving Product” from 2013 to 2020 by China Quality Certification Centre.	2013

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Year of Launch	Product	Milestone	Product Achievements and Recognitions	Year in Which Retail Sales Value First Exceeded RMB500 Million
2015	Blue Moon Machine Wash Supreme Concentrated Plus Laundry Detergent (藍月亮機洗至尊濃縮+洗衣液)	One of the first liquid laundry detergent with concentrated technology in China.	“National Water Saving Product” from 2018 to 2021 by China Quality Certification Centre.	2017

Fabric Care Products

Our fabric care products primarily include a variety of liquid laundry detergents with different unique functions as well as laundry aids such as fabric softeners and collar cleaners. Our liquid laundry detergent products ranked first for 11 consecutive years from 2009 to 2019 in terms of market share, according to the Frost & Sullivan Report. For the years ended 31 December 2017, 2018 and 2019, and the six months ended 30 June 2019 and 2020 revenue from our fabric care products was HK\$4,922.5 million, HK\$5,917.3 million, HK\$6,177.6 million, HK\$2,364.4 million and HK\$1,681.4 million, respectively, which accounted for 87.4%, 87.4%, 87.6%, 86.9% and 69.0% of our total revenue, respectively.

We believe that our fabric care products contributed to the product upgrades of the laundry detergent market in China, from powder laundry detergent to liquid laundry detergent, and later to concentrated liquid laundry detergent. According to the Frost & Sullivan Report, in 2008, we introduced liquid laundry detergent products in China, through products such as our Blue Moon Deep Clean Care Liquid Laundry Detergent. Subsequently in 2010, we launched Blue Moon Liquid Laundry Deep Clean Care (Whitening) Detergent, which was an upgrade to our Blue Moon Deep Clean Care Liquid Laundry Detergent and provides additional functions such as fabric whitening and treatment. Most of our laundry detergent products have remained competitive and popular amongst consumers in China for more than ten years since their launches. After establishing ourselves as one of the leaders in the liquid laundry detergents market, we recognised that laundry detergent should be developed to fit different scenarios for different consumers in their daily lives. For example, babies and young children require different laundry detergent formulae. In addition, many consumers in China still hand wash their laundry or hand wash particular pieces or parts of clothing with stains that are difficult to remove. In order to cater to different demographics and cleaning scenarios, starting in 2011, we developed and launched a number of new series of specialised laundry detergent products, including Liquid Laundry Detergent for Babies and Pre-wash and Hand-wash Liquid Laundry Detergent. In 2015, we began to apply the more efficient and environmentally-friendly concentration technology to our laundry detergent products. Subsequently in 2015, we launched laundry detergents under our “Supreme (至尊)” brand which combined advanced cleaning technology with user-friendly design.

The table below sets forth certain details of our key fabric care products:

Key Products	Year of Launch	Product Unit Size	Recommended Retail Price Range (RMB)	Sample Product Picture
Supreme Biotechnology Liquid Laundry Detergent (至尊生物科技洗衣液)	2018	660g	69	

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Key Products	Year of Launch	Product Unit Size	Recommended Retail Price Range (RMB)	Sample Product Picture
Pre-wash and Hand-wash Liquid Laundry Detergent (預塗·手洗雙用型洗衣液)	2017	500g	12.8	
Blue Moon Machine Wash Supreme Concentrated Plus Laundry Detergent (藍月亮機洗至尊濃縮+洗衣液)	2015	660g	59	
Liquid Laundry Detergent for Babies (寶寶專用洗衣液)	2013	80 to 1,000g	4.8 to 33.8	
Blue Moonlight Bleach (藍色月光衣物色漬淨)	2013	250 to 3,000g	5.3 to 28.3	
Blue Moon Liquid Laundry Deep Clean Care (Whitening) Detergent (藍月亮深層潔淨護理洗衣液(亮白增艷))	2010	500 to 3,000g	8.9 to 56.8	
Volo Disinfectant Sanitiser (衛諾衣物消毒液)	2009	1,000 to 3,000g	23.9 to 58.9	
Blue Moon Deep Clean Care Liquid Laundry Detergent (藍月亮深層潔淨護理洗衣液)	2008	500 to 3,000g	8.9 to 51.8	
Green Fabric Softener (綠色柔順劑)	2004	500 to 3,000g	6.3 to 26.9	
Delicate Fabric Laundry Detergent (絲毛淨)	1994	500g	17.3	
Stain Remover (衣領淨)	1993	250 to 550g	11.6 to 28.3	

Structural upgrade of the market: from powder to liquid

Leveraging our strong research and development capabilities, we have introduced new products that helped shape consumer habits in the development of China’s laundry detergent market. In an attempt to improve the then existing laundry detergent products, we conducted extensive research and experiments for over five years beginning in 2000. We launched our first liquid laundry detergent product in 2003. Subsequently, in 2008, we launched our flagship liquid laundry detergent, Blue Moon Deep Clean Care Liquid Laundry Detergent, which was well-received by the market. The following table sets forth the areas of improvement and the technologies we developed and applied in our liquid laundry detergents:

<u>Areas of Improvement</u>	<u>Technologies of our Blue Moon Deep Clean Care Liquid Laundry Detergent</u>
<ul style="list-style-type: none"> • Cleaning performance 	<ul style="list-style-type: none"> • To enhance cleaning performance, we improve the formula of our liquid laundry detergent to lift dirt to ensure cleanliness of the fabrics.
<ul style="list-style-type: none"> • After-wash effect 	<ul style="list-style-type: none"> • Our proprietary liquefaction technology addressed the after-wash issues caused by powder laundry detergents, including laundry detergent residue on clothes, clogging of the washing machine and skin allergies.
<ul style="list-style-type: none"> • Water usage for rinsing 	<ul style="list-style-type: none"> • Our Blue Moon Deep Clean Care Liquid Laundry Detergent can be rinsed off easily due to its low viscosity and low foam technology, thereby conserving water.

We believe that our Blue Moon Deep Clean Care Liquid Laundry Detergent was able to successfully make improvements as mentioned above and allowed us to facilitate an upgrade in China’s laundry detergent market from powder to liquid.



Personal Hygiene Products

Our personal hygiene products comprise our classic liquid soap series which include a number of specialised liquid soap with different features, our children’s liquid soap, and our newly introduced Jingxiang Amino Acid Moisturising Liquid Soap. We have a number of industry-leading personal hygiene products, including our liquid soap which was ranked first for eight consecutive years from 2012 to 2019 in terms of market share, according to the Frost & Sullivan Report. For the years ended 31 December 2017, 2018 and 2019, and the six months ended 30 June 2019 and 2020 revenue from our personal hygiene products was HK\$328.0 million, HK\$410.6 million, HK\$418.5 million, HK\$180.1 million and HK\$465.6 million, respectively, which accounted for 5.8%, 6.1%, 5.9%, 6.6% and 19.1% of our total revenue, respectively.

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We launched our first generation liquid soap product in 2000, which was upgraded in 2001 and 2004 to lessen irritation to sensitive skin. In 2002, to address specific needs of consumers, we launched the first-generation liquid soap for children, which was upgraded in 2008. As a result of extensive research, in 2019 we upgraded our classic antibacterial liquid soap formula and introduced our premium Jingxiang Amino Acid Moisturising Liquid Soap. Our Jingxiang Amino Acid Moisturising Liquid Soap not only maintains the cleaning standards of our classic liquid soap, but also has an upgraded formula with amino acid ingredient and an award-winning packaging design to attract younger consumers.

The table below sets forth certain details of our key personal hygiene products:

Key Products	Year Launched	Product Unit Size	Recommended Retail Price Range (RMB)	Sample Product Picture
Jingxiang Amino Acid Moisturising Liquid Soap (淨享微米泡沫氨基酸洗手露)	2019	150ml	188	
Children's Liquid Soap (including Children's Liquid Soap (兒童洗手液) and Fruity Bubble Children's Liquid Soap (果泡多多兒童洗手液))	2002, 2008	225g 300g	10.9 to 16.8	
Liquid Soap Series (including Antibacterial Liquid Soap (抑菌洗手液), Vitamin E Liquid Soap (維生素E洗手液), Wild Chrysanthemum Liquid Soap (野菊花洗手液), and Healthy Liquid Soap (健康洗手液))	2000, 2001, 2001, 2004	500g 5kg	8.9 to 52.9	

Home Care Products








We developed a diversified home care product portfolio to address the home care needs in different consumption scenarios. We offered home care product variants under five categories, including kitchen cleaners, dish detergents, toilet and bathroom cleaners, multi-surface cleaners, and disinfectant liquid series. For the years ended 31 December 2017, 2018 and 2019, and the six months ended 30 June 2019 and 2020, revenue from our home care products was HK\$381.6 million, HK\$440.1 million, HK\$453.7 million, HK\$175.9 million and HK\$288.9 million, respectively, which accounted for 6.8%, 6.5%, 6.5%, 6.5% and 11.9% of our total revenue, respectively.

We launched Enhanced Kitchen Cleaner in 1992. Since then, we gradually developed and introduced new home care products to diversify our portfolio. In 2000, we began to produce disinfectant liquid products and dish, fruit and vegetable wash. In 2013, we introduced our Volo bathroom products. Mostly recently in 2019, we developed our Tianlu Utensil, Fruit and Vegetable Wash with a mild and gentle formula, which can effectively

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remove chemicals, and introduced Skin Friendly Kitchen Cleaner and Foam Kitchen Cleaner, which were upgraded products of our Enhanced Kitchen Cleaner.

The table below sets forth certain details of our key home care products:

Key Products	Year Launched	Product Unit Size	Recommended Retail Price Range (RMB)	Sample Product Picture
Bathroom Cleaner Series (including Q Toilet Cleaner (Q廁寶), Volo Toilet Cleaner Liquid (衛諾潔廁液), Volo Toilet Cleaner Pills (衛諾潔廁寶), Volo Anti-mould Cleaner (衛諾除黴去漬劑))	2002, 2013, 2013, 2019	50g 500g	10.8 to 48	  
Dishwash, Fruit and Vegetable Wash Series (including Fruit and Vegetable Wash (果蔬淨), Natural Tea Concentrated Dishwash (茶清天然綠茶洗潔精), and Tianlu Utensil, Fruit and Vegetable Wash (天露餐具果蔬潔淨精華))	2001, 2005, 2019	100 to 1,000g	9.8 to 48	
Disinfectant Liquid Series (消毒液系列)	2000	600g 1.2kg	7.8 to 380	
Home Cleaner Series (全屋清潔系列)	1993, 1994, 1999, 2004	500g 600g 1.2kg 2kg	11.9 to 28.8	
Kitchen Cleaner Series (including Enhanced Kitchen Cleaner (強力型油污剋星), Skin Friendly Kitchen Cleaner (保護型油污剋星), Foam Kitchen Cleaner (油污剋星泡沫型))	1992, 2003, 2019	500g	14.9 to 63.8	

RESEARCH AND DEVELOPMENT

Research and Development Philosophy

Scientific research and development has been part of our corporate DNA since the early days of our operation, due to our founders' strong background in chemistry. We have a two-pronged research and development focus:

Products: Introducing new products to meet evolving consumer preferences and to upgrade user experience; and

Methods: Developing and sharing scientific and practical cleaning methods with consumers.

We believe that commitment to research and development is crucial and enables us to differentiate our products and maintain our market position. Our main goal in research and development is to provide consumers with attractive and desirable products and hassle-free user experiences. We believe that “simplicity is the ultimate sophistication (至繁·至簡)”. This means that we have a relentless focus on details and a persistent drive for excellence in our research and development efforts, so as to deliver simple, elegant and user-friendly products. As a result of our efforts in research and development, as at the Latest Practicable Date, we had obtained a total of 673 registered trademarks, 152 patents and 159 copyrights in China. Please refer to the subsection headed “Intellectual Property” for details. In addition, we proactively identify rapidly changing consumer preferences and try to capture unmet consumer demands by developing new and differentiated products.

Research and Development Process

We adopt an advanced integrated product development management theory in our research and development process. Such process generally has five main steps:

- our Research and Development Technology Centre (研發技術中心) and marketing team work together to identify potential business opportunities by conducting market research, analysing market trends, technical bottlenecks, and/or other factors, taking into consideration the information accumulated from our own big data analytics and interactions between our customer service staff and consumers;
- after an opportunity is identified, our Research and Development Technology Centre conducts research on key technical issues and builds technology platforms as the foundation for the further exploration of the potential opportunity;
- after the applicable technical issue is resolved and the relevant technology platform becomes available, our Research and Development Technology Centre proposes new initiatives and conducts feasibility studies to determine whether and how to pursue such initiatives;
- once the decision to pursue the initiative is made by our management team, our Research and Development Technology Centre takes the lead to develop a new product or solution; and
- prior to the introduction of the new product or solution to consumers, our marketing department is responsible for projecting market reaction and planning accordingly together with the relevant

departments (such as procurement and production). Our marketing department is also responsible for preparing the marketing strategies for the new product or solution.

Research and Development Infrastructure

As at 30 June 2020, our research and development team consisted of 157 staff members. Our core research and development team has on average approximately nine years of relevant experience in the household care industry.

For the years ended 31 December 2017, 2018 and 2019, and the six months ended 30 June 2020, our research and development expenses were HK\$58.1 million, HK\$55.7 million, HK\$58.7 million and HK\$23.8 million.

We established our Research and Development Technology Centre over 28 years ago since the inception of our operation. As at 30 June 2020, our Research and Development Technology Centre had 115 staff members. Our Research and Development Technology Centre is primarily responsible for: (i) identifying the technology development trends in the relevant industry and determining the upgrade and development strategies for our products and methods, (ii) ingredients and formulae assessment and development for all categories of our products, including assessment of the efficiency, safety and environmental impact of different ingredients, and maintenance and upgrade of existing ingredient combinations, (iii) research and development of packaging materials and technologies, including industrial design, research on the quality and environmental impact of different packaging materials, and (iv) developing the assessment standards and the relevant quality control standards for our products, conducting the overall assessment of product quality, functionality and safety of all products.

Furthermore, we have a number of laboratories at our Research and Development Technology Centre equipped with facilities for different household cleaning scenarios for product development and testing. For example, the laboratory dedicated for laundry product development is equipped with over 100 washing machines of different models and made by different manufacturers that are popular in China. Such laboratory is dedicated to studying how our products can work with these washing machines to provide the most consistent cleaning result for consumers. We simulate different scenarios that are commonly encountered in a Chinese consumer's daily life, taking into consideration various factors such as functions of different models of washing machine, fabrics, water temperature, and water quality. Additionally, we procured advanced equipment such as full-wavelength colorimeters to facilitate our assessment of the cleaning result and the respective solutions for different types of stains.

In June 2015, we established the BM Laundry Academy in our headquarters in Guangzhou, dedicated to the development and assessment of laundry products and methods. As at 30 June 2020, our BM Laundry Academy employed 42 staff members. Our researchers and engineers at the BM Laundry Academy conduct research to find the most efficient solutions to consumers' household care-related inquiries. Our BM Laundry Academy is responsible for studying issues relating to laundry activities, developing solutions for such issues, and applying the information accumulated through our consumer interactions to improve our laundry products. For instance, engineers of our BM Laundry Academy have conducted technology research on numerous pieces of clothing and categorised commonly seen stains into three categories, namely, oil stains, colour stains, and invisible stains. Our engineers also developed corresponding laundry methods to remove such stains, including

pre-wash oil removal treatment for oil stains, colour stain soak method for colour stains, and milk stain soak method for invisible stains.

We have engaged certain third party research and development institutions, primarily colleges and universities, to provide additional support to our own research and development efforts. Generally, we enter into contracts with the third party institutions for specific research projects. Under the relevant contracts, we generally pay the third party institution fixed fees for the projects. Such fees are determined by both parties on a cost-plus basis and can only be used for the projects as agreed in the relevant contracts. On a case-by-case basis, the intellectual property rights of the research results and the profits therefrom may be owned solely by us or jointly owned by us and the third party institution as mutually agreed in the relevant contracts.

Case Study: Consumption Upgrade and the Relentless Focus on Details

With the growth of the PRC economy and the rise of purchasing power, consumers are increasingly focused on enhanced user experience and demanding higher cleaning standards. In 2015, we introduced the first concentrated liquid laundry detergent namely, Blue Moon Machine Wash Supreme Concentrated Plus Laundry Detergent. The development of products under the “Supreme (至尊)” brand is a testament to our research and development capabilities as well as our relentless focus on details. Such products have received a number of awards such as the Golden Pin Design Award by Taiwan Design Centre in 2017.

The laundry detergent

- *Identifying the pain points:* Through feedback from consumers, we noted consumers found that traditional laundry detergents lacked features such as (i) efficient cleaning performance and good user experience, (ii) environmentally-friendly ingredients and water and electricity conservation, and (iii) more fashionable designs and aromas.
- *Our further research and experiments:* Our research and development team conducted extensive tests and numerous experiments for over five years beginning in 2010. Additionally, we analysed consumer data accumulated from our operations to determine consumer preferences in terms of product designs and aromas.
- *Our conclusion:* Based on our extensive research and experiments, we created a concentrated liquid laundry detergent. Compared to traditional liquid laundry detergent products, it has enhanced cleaning performance, while reducing water usages and residual chemical on clothing. Additionally, to attract younger consumers, we launched concentrated liquid laundry detergents with seven different aromas. We produced seven different colours to match each aroma. According to the Frost & Sullivan Report, we were one of the first companies in China to build a portfolio of laundry detergent products with different colours and different aromas.

The pump bottle

To enhance user experiences, we strive to optimise every single aspect of our products, from the formula, to the aroma and the packaging. The self-developed pump dispenser of the products under our “Supreme (至尊)”

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brand demonstrates our focus on details in order to provide the best user experience possible. We developed such pump bottle through the following steps:

- *Identifying the pain points:* Based on our research and consumer interactions, we understood that consumers would prefer to address a number of issues of liquid laundry detergent containers: (i) difficulty in measuring the amount of liquid laundry detergent to be used, and (ii) difficulty in holding and pouring from a typical liquid laundry detergent bottle that could weigh as much as three kilogrammes. After our further research and experiments, we determined that the pump dispenser worked best for the concentrated liquid laundry detergents. However, a number of technical issues needed to be resolved, including, (i) the proper concentration percentage of the laundry detergent's formula, (ii) weak dispensability of the pump dispensers available, (iii) dripping liquid from the pump after use, and (iv) difficulty in dispensing the remaining liquid after the volume decreases to a certain amount;
- *Our further research and experiments:* We conducted research on (i) the average amount of liquid laundry detergent used for daily cleaning purposes of a Chinese household, (ii) how much pressure the fingers of an average laundry detergent user in China can exert, (iii) a practical design of a pump bottle to dispense laundry detergent with the least amount of liquid residue, and (iv) the optimal angle for the pump dispenser to efficiently dispense liquid laundry detergent while preventing dripping; and
- *Our conclusion:* As a result of our research and experiments, we developed and introduced a pump dispenser in August 2015. Such pump dispenser can consistently dispense the proper amount of liquid laundry detergent with one single press. This amount of concentrated liquid laundry detergent under the "Supreme (至尊)" brand is designed to wash approximately the average laundry load for a three-person family in China according to our own market research.

In addition, to prevent dripping from the pump after use, we designed the pump dispenser with a four-degree upward-slanting slope so that undispensed laundry detergent flows back into the bottle instead of dripping from the pump.

Furthermore, taking into consideration the shape of our laundry detergent container and the height of the laundry detergent drawer of a regular washing machine, we designed a straw with an inclination angle of 150 degrees. This allows users to use the pump dispenser even if the bottle is tilted by 90 degrees, effectively limiting the final residual amount of liquid in the bottle to less than eight grammes.

CUSTOMER SERVICES

As a consumer-centric organisation, our customer services enhance our direct interaction with consumers, and potentially increase customer stickiness. Additionally, through our customer services, we deliver to consumers cleaning-related knowledge we developed. We offer to consumers both online and offline services in a timely manner. Our plan is to gradually expand the scope of our services with a focus on enhancing consumer experience and build a larger customer base with strong customer loyalty. Please refer to the subsection headed "Improve consumer experience by enriching our services" for details.

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We primarily provide two main services through our online platforms and offline channels, namely our customer support services and our laundry services, to meet the needs of different consumers in different scenarios. Through our customer support services, we provide technical support and collect feedback and inquiries from consumers who would like to do cleaning work by themselves. Our laundry services provide an alternative for consumers who do not have time or are not able to perform difficult laundry tasks themselves.

Customer Support Services

We are fully committed to providing high-quality customer services, and we believe our comprehensive customer support services also form a part of the implementation of our knowledge-based marketing philosophy. As at 30 June 2020, we had a team of 2,278 full-time employees dedicated to providing customer services, including 133 customer support staff and 2,145 customer relationship management staff. The customer support staff provide customer support services via hotline, our proprietary online stores on various e-commerce platforms, our self-developed mobile apps such as Moon House (月亮小屋) app and Supreme Laundry (至尊洗衣) app and social media platforms, including WeChat and Weibo. Our customer support staff answer customer queries and try to address their concerns promptly. Our target is to address such queries within 30 seconds if we already have a solution based on our previous experiences. The staff will schedule a time with the customer for a return call with a potential solution formulated by our research and development team if it is a novel issue that cannot be addressed immediately. Please refer to the subsection headed “Research and Development” for details of our research and development effort. In addition, our staff also deliver cleaning methods and how to best utilise our products to consumers, through which we believe we have gained consumer trust. For the year ended 31 December 2019 and the six months ended 30 June 2020, we answered inquiries from approximately 140,000 and 70,000 consumers, respectively.

Laundry Services

We began providing laundry services in July 2012 at our Blue Moon Laundry Centre in Guangzhou. As we received positive feedback from our consumers, we upgraded our laundry services to cover personalised and more complicated laundry requests, including laundry difficulties that consumers encounter. In September 2016, we established our Supreme Laundry (至尊洗衣) app to provide a more convenient laundry solution to our consumers. Our consumers can order our services, including regular laundry, dry cleaning, wedding gown and suits laundry, home textile cleaning, and leather treatment, among others, on our Supreme Laundry (至尊洗衣) app. After the order is placed, we will pick up the clothing and bring it back to the local Blue Moon Laundry Centre for professional laundry and relevant treatment. After the task is completed, we will return the clothing to the customer.

In addition to our traditional laundry services for retail customers, in June 2017, we established partnerships with corporate partners to provide laundry services for their business operations. We provide more convenient pickup options to employees of our corporate partners, and we regularly collect dirty laundry from the designated location at our corporate partners’ site and return cleaned clothes to the same location. For certain corporate partners, we established onsite laundry shops staffed with our employees. During the Track Record Period, we provided such services to approximately 50 corporate partners, primarily including media companies, car dealerships, finance companies, law firms and hotels. For the years ended 31 December 2017, 2018 and 2019, and the six months ended 30 June 2019 and 2020, our revenue generated from providing laundry services were HK\$1.1 million, HK\$2.3 million, HK\$2.7 million, HK\$1.6 million and HK\$0.8 million.

KNOWLEDGE-BASED MARKETING

Marketing Philosophy: Knowledge-Based Marketing

Our marketing and promotion efforts have been a crucial component of our success. We have adopted a knowledge-based marketing philosophy. Our goal is not limited to the promotion of our products or brand, but also to seek to deliver household care-related knowledge and insight based on our research and production experience to consumers, thereby enhancing brand loyalty.

Marketing Team and Channels

Our marketing team and sales team are jointly responsible for the design and implementation of our marketing strategies and campaigns. As at 30 June 2020, our marketing team had a total of 181 staff members. As at the same date, our sales team consisted of a total of 4,582 full-time employees, 157 part-time employees and 458 contract workers.

We have implemented our knowledge-based marketing philosophy through various channels, including, (i) online marketing, including marketing events hosted on social media platforms and e-commerce platforms, (ii) offline marketing, primarily through our cleaning consultants at retail points of sale, (iii) special events, including our sponsorship of nationally televised programmes and offline themed events we organise from time to time, and (iv) commercial advertisements, including celebrity endorsement.

Online Marketing

We were one of the first companies in the household care industry in China to utilise online sales channels, and online marketing has always been one of our strategic priorities. We have a dedicated online marketing team focusing on the development of online marketing campaigns on various online platforms, including e-commerce platforms, social media platforms, and our mobile apps. We deploy advertising campaigns through social media platforms to deliver cleaning knowledge to consumers. Additionally, based on our insight into online consumer shopping habits, we actively promote multi-item combo packs as part of our marketing strategies.

We work with e-commerce platforms and participate in special sales events organised by these online platforms. For instance, we participate in the Singles' Day sales event on Tmall and JD.com's 618 Shopping Festival. We generally participate in the sales activities organised by the e-commerce platform and utilise online resources such as live streaming and recorded videos to illustrate our products and cleaning methods. Our brand ranked first in terms of transaction value of laundry products at prominent online sales events such as Singles' Day sales and JD.com's 618 Shopping Festival in 2019. Our online marketing activities on e-commerce platforms provide us with opportunities to effectively interact with consumers, enable us to collect sales data and allow us to promptly respond to changes in consumer demand. As at the Latest Practicable Date, our proprietary online stores on various e-commerce platforms had over 24 million followers.

Offline Marketing

We assign cleaning consultants (清潔顧問) to our retail points of sale, in particular at hypermarkets and supermarkets across China. They are different from traditional sales assistants as they are all well-equipped with

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household care knowledge and can provide pre-sale consultancy services to consumers. At the same time, being important facilitators in our implementation of knowledge-based marketing philosophy, our cleaning consultants answer consumer inquiries and interact with consumers on a regular basis.

Special Events

We sponsor nationally recognised television programmes and organise special events to promote brand awareness, differentiate our products from those offered by our competitors and deliver household care knowledge to the general public.

The below table sets forth the highlights of our recent marketing and promotional events.

<u>Event Name</u>	<u>Year(s)</u>	<u>Description & Highlights</u>
Laundry Master (洗衣大師)	2016	We trained volunteers to be “laundry masters” and produced promotional videos starring these volunteers.
Scientific Laundry Across China (科學洗衣中國行)	2015 to present, annually	We provided laundry-related knowledge and advice to consumers across China.
Blue Moon Festival (藍月亮節)	2013 to present, annually	At the time close to the Mid-Autumn Festival, we organise a series of online and offline events to promote our brand awareness.

Laundry Master (洗衣大師)

In December 2016, we launched a marketing campaign titled “Laundry Master” and collaborated with CCTV to reach a larger audience base. We intended to not only provide educational information relating to household care, but to also transform the participants of such event into KOLs for our products and services regardless of their respective geography and occupation. We trained volunteers on various topics related to our products and laundry knowledge, and produced promotional videos broadcasted on CCTV.

The success of the “Laundry Master” event is demonstrated by the large number of audiences, the diversity of the participants, as well as the awards it has received. In 2017, within one year of the “Laundry Master” event being held, 180 videos were broadcasted on CCTV. Participants came from a number of provinces in China. In 2018, at the 25th China International Advertising Festival organised by the China Advertising Association, the “Laundry Master” was awarded the gold prize in the brand building category. In the same year, at the ADMEN International Awards, our “Laundry Master” campaign won the gold award for practice case in the category of digital marketing.

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Scientific Laundry Across China (科學洗衣中國行)

In 2015, to help consumers understand the science behind daily laundry tasks and solve their laundry-related difficulties, we organised the “Scientific Laundry Across China” event. The main events and highlights of the event are as follows:

- The theme of our “Scientific Laundry Across China” was “saving a million pieces of clothing”. We cleaned clothing that were difficult to wash for the consumers and taught them our cleaning methods;
- We held cleaning knowledge lectures and consumer interactive sessions in a variety of locations, including marketplaces, communities, factories, office buildings and colleges; and
- We leveraged a number of our media partners to promote such event, including China National Radio and “Where Are We Going, Dad (爸爸去哪兒)”, a popular reality show on Hunan TV.

As at 30 June 2020, we had held lectures in over 800 enterprises and over 40 residential communities.

Blue Moon Festival (藍月亮節)

In August 2013, we launched the promotion event, the “Blue Moon Festival”, which we have held every year for seven consecutive years. The event has been held in the third quarter of each year close to the date of the Mid-Autumn Festival, also known as the moon festival, which is one of the most celebrated traditional Chinese festivals. As a highlight of the Blue Moon Festival, we sponsor the CCTV and Hunan TV Mid-Autumn Festival gala. In 2019, the CCTV Mid-Autumn Festival gala had approximately an audience of 192 million viewers via cable TV. In the same year, the Hunan TV Mid-Autumn Festival gala had an audience of over 54 million viewers on Mango TV and Tencent Video.

Commercial Advertisement

We use commercial advertisements on television channels, billboards, newspapers and magazines. We generally advertise our brand and products on the PRC state media, influential local television channels, and popular newspaper and magazines. In addition, we have a long history of successful partnerships with celebrities from different industries, particularly, celebrities in the fashion and entertainment industry to promote brand awareness of our “Supreme (至尊)” brand and attract consumers of the younger generation. For example, from August 2017 to present, international super model, Liu Wen, has been our brand ambassador.

SALES AND DISTRIBUTION NETWORK

We have an omni-channel sales and distribution network, which encompasses a number of online and offline sales channels, thereby allowing consumers to engage with us through multiple channels of their choice. According to the Frost & Sullivan Report, we were one of the first companies in the household care industry in China to utilise online sales channels, as we commenced selling products via e-commerce platforms in July 2012 and have subsequently secured our leading position in online sales and marketing in China’s household care industry. Over almost a decade of cooperation with major e-commerce platforms, we achieved success in our

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online sales and became key business partners with certain major e-commerce platforms in China. In addition, as at 30 June 2020, our offline sales and distribution network covers all provinces in China.

Our omni-channel sales and distribution network comprises the following:

- Online sales through the following channels:
 - (i) Sales to e-commerce platforms: this comprises our sales to major e-commerce platforms in China, including Tmall, JD.com, and Suning, and our sales to various emerging e-commerce platforms, including social e-commerce platforms, such as Pinduoduo, fresh foods e-commerce platforms, and the online procurement systems of corporations; and
 - (ii) Sales to consumers through online stores: this comprises (a) our sales to consumers through our online proprietary stores on various major e-commerce platforms, such as JD.com, Tmall, Taobao.com, Suning and Pinduoduo, social media platform, such as WeChat (through the WeChat mini-programme), and our self-developed mobile apps, and (b) our sales to consumers through third party online stores;
- Direct sales to key account clients: this comprises our direct sales to offline key account clients, including hypermarkets and supermarkets such as RT-Mart, Walmart, Carrefour, Vanguard and Century Lianhua; and
- Offline distributors: this comprises sales to offline distributors that resell our products to hypermarkets, supermarkets, standalone supermarkets, convenience stores, local grocery stores, gas stations, certain small vendors in the residential communities of smaller cities which has been our marketing focus in recent years and certain corporations that make procurement for resale or internal use.

We believe it is an industry norm to adopt an online and offline sales and distribution model and our utilisation of the omni-channel sales and distribution network provides operational efficiency and increases our sales. The table below sets forth a breakdown of revenue contribution by channel during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	<i>(unaudited)</i>									
Online Sales Channels	1,866,516	33.1	2,718,155	40.2	3,328,158	47.2	1,561,731	57.4	1,431,570	58.8
Direct Sales to Key Account Clients	703,245	12.5	820,191	12.1	996,582	14.1	302,299	11.1	187,707	7.7
Offline Distributors	3,062,272	54.4	3,229,599	47.7	2,725,165	38.7	856,320	31.5	816,591	33.5
Total	5,632,033	100.0	6,767,945	100.0	7,049,905	100.0	2,720,350	100.0	2,435,868	100.0

We select and regularly evaluate our sales and distribution partners in each region based on a number of factors, including their sales experience, reputation, breadth and quality of sales network, logistics and transport

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capabilities, and management of customer relationship. As at the Latest Practicable Date, none of our Directors, their associates or any other Shareholder which, to the knowledge of our Directors, owns more than 5% of our share capital had any interest in any of our sales and distribution partners.

Online Channels

Leveraging the rapid growth of e-commerce in China, we began utilising online sales channels to market and distribute products since as early as July 2012. We sell our products directly to certain e-commerce platforms. We also sell our products to consumers through our proprietary online stores on such e-commerce platforms and third party online stores. Building on our extensive experience in working with major e-commerce platforms, we explored and expanded into new online sales channels. We work with a number of emerging e-commerce platforms such as social e-commerce platforms, fresh foods e-commerce platforms, and the online procurement systems of corporations to further expand our presence in the online market and serve a broader consumer base. Furthermore, we began to sell our products through WeChat in August 2015, and developed and launched our proprietary Moon House (月亮小屋) app in August 2015 and Supreme Laundry (至尊洗衣) app in September 2016, both of which have built-in online shopping features.

During the Track Record Period, a significant portion of our revenue was generated through our online sales channels, which accounted for 33.1%, 40.2%, 47.2%, 57.4% and 58.8% of our total revenue for the years ended 31 December 2017, 2018 and 2019, and the six months ended 30 June 2019 and 2020, respectively. We believe that our sales through online channels not only appeal to consumers who are increasingly tech-savvy and have a strong preference for convenient shopping experiences, but also enable us to consistently increase our market share and expand our targeted consumer base.

The below table sets forth the breakdown of our revenue contributions per online sales channel during the Track Record Period:

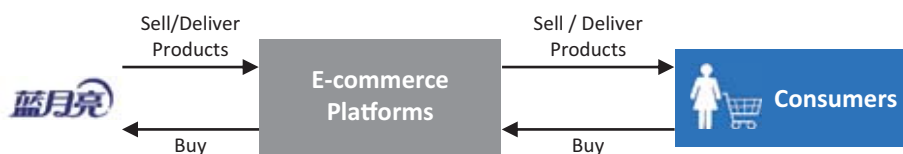
	Year ended 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	% of Total Revenue From Online Sales Revenue Channels	% of Total Revenue From Online Sales Revenue Channels	% of Total Revenue From Online Sales Revenue Channels	% of Total Revenue From Online Sales Revenue Channels	% of Total Revenue From Online Sales Revenue Channels	% of Total Revenue From Online Sales Revenue Channels	% of Total Revenue From Online Sales Revenue Channels	% of Total Revenue From Online Sales Revenue Channels	% of Total Revenue From Online Sales Revenue Channels	% of Total Revenue From Online Sales Revenue Channels
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Online Sales Channels										
Sales to E-commerce										
Platforms	1,479,292	79.3	1,924,890	70.8	2,166,462	65.1	1,097,896	70.3	904,279	63.2
Sales to Consumers through:										
Our proprietary online stores	310,425	16.6	634,177	23.3	888,765	26.7	359,241	23.0	378,449	26.4
Third party online stores	76,799	4.1	159,088	5.9	272,931	8.2	104,594	6.7	148,842	10.4
Total	1,866,516	100.0	2,718,155	100.0	3,328,158	100.0	1,561,731	100.0	1,431,570	100.0

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Sales to E-commerce Platforms

To reach more online consumers and promote our products in an efficient manner, since July 2012, we began to sell our products to e-commerce platforms, including major e-commerce platforms and emerging e-commerce platforms in China. As at the Latest Practicable Date, substantially all of these e-commerce platforms and their operators were primarily engaged in the e-commerce business in China. Since November 2016, we began working with certain e-commerce platforms that purchase products from us and distribute them to small offline vendors in lower-tier cities. These relationships are in line with our focus on lower-tier cities in which our products have a relatively lower penetration rate and higher growth potential. Since August 2019, we began working with fresh foods e-commerce platforms to increase our online coverage. As at 30 June 2020, we entered into a buyer and seller relationship with 79 e-commerce platforms. Revenue from these e-commerce platforms is recognised upon the transfer of control of the products. During the Track Record Period, all of these e-commerce platforms were Independent Third Parties and, to the best knowledge of our Directors, there was no past or present relationship, including employment, financing, family or otherwise, between the operators of these e-commerce platforms (including their directors, shareholders and senior management, and their respective associates) and us.

The following diagram illustrates our sales to e-commerce platforms:



The following table illustrates revenue contribution from major e-commerce platforms during the Track Record Period:

<u>No.</u>	<u>E-commerce platform</u>	<u>Year ended 31 December</u>	
		<u>2017</u>	
		<u>Revenue contribution</u>	<u>% of total revenue from online sales</u>
		<i>(HK\$'000)</i>	
1.	E-commerce platform A	806,140	43.2%
2.	E-commerce platform B	368,400	19.7%
3.	E-commerce platform C	81,600	4.4%
4.	E-commerce platform D	70,790	3.8%
5.	E-commerce platform E	58,460	3.1%

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		Year ended 31 December	
		2018	
No.	E-commerce platform	Revenue contribution	% of total revenue from online sales
		<i>(HK\$'000)</i>	
1.	E-commerce platform A	731,980	26.9%
2.	E-commerce platform B	492,490	18.1%
3.	E-commerce platform E	202,920	7.5%
4.	E-commerce platform F	168,130	6.2%
5.	E-commerce platform G	150,360	5.5%

		Year ended 31 December	
		2019	
No.	E-commerce platform	Revenue contribution	% of total revenue from online sales
		<i>(HK\$'000)</i>	
1.	E-commerce platform A	822,800	24.7%
2.	E-commerce platform B	645,400	19.4%
3.	E-commerce platform E	193,350	5.8%
4.	E-commerce platform F	191,300	5.7%
5.	E-commerce platform G	189,670	5.7%

		Six months ended 30 June	
		2020	
No.	E-commerce platform	Revenue contribution	% of total revenue from online sales
		<i>(HK\$'000)</i>	
1.	E-commerce platform A	458,100	32.0%
2.	E-commerce platform B	189,100	13.2%
3.	E-commerce platform E	96,780	6.8%
4.	E-commerce platform G	83,760	5.9%
5.	E-commerce platform H	7,190	0.5%

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The below table sets forth the total number of the e-commerce platforms we worked with and the movement (including addition and termination) of e-commerce platforms during the Track Record Period:

	Year ended 31 December			Six months ended 30 June
	2017	2018	2019	2020
Number of E-commerce Platforms at the Beginning of the Period	19	40	55	82
Number of New E-commerce Platforms	21	23	35	14
Number of Terminated E-commerce Platforms ⁽¹⁾	–	8	8	17 ⁽²⁾
Number of E-commerce Platforms at the End of the Period	40	55	82	79

Notes:

- (1) The termination was primarily because such e-commerce platforms did not meet our evaluation standards. We take various factors into consideration in evaluating e-commerce platforms, such as their sales performance, reputation, popularity and general working relationship with us. The termination decision is not solely dependent on one or a particular set of factors, but rather it is based on a comprehensive evaluation of the relevant facts and circumstances at the time. After the termination of such relationships, we settle accounts with the terminated e-commerce platform and generally do not allow return of unsold products from these terminated e-commerce platforms. There was no return of unsold products from the terminated e-commerce platforms during the Track Record Period.

We consider the arrangement with an e-commerce platform to be terminated when such e-commerce platform does not contribute any revenue in a given year. We did not terminate any e-commerce platform in the year ended 31 December 2017. The number of e-commerce platforms we terminated during the years ended 31 December 2018 and 2019 and the six months ended 30 June 2020 were eight, eight and 17, respectively. The aggregate revenue attributable to the terminated e-commerce platforms during the Track Record Period was HK\$91.0 million, HK\$11.9 million, HK\$3.7 million, and nil for the years ended 31 December 2017, 2018, 2019 and the six months ended 30 June 2020, respectively.

- (2) We assume these terminated e-commerce platforms will not contribute any revenue to us for the rest of the year ending 31 December 2020.

Key Terms of Agreements with E-commerce Platforms

We generally enter into short-term merchandise agreements with e-commerce platforms. These agreements specify a variety of terms, including the payment method, pricing policies and delivery arrangements. We use the standardised merchandise agreement of each e-commerce platforms. During the Track Record Period, there was no material breach of the merchandise agreements. The key terms of the merchandise agreement are summarised as follows:

- | | |
|--------------------------|--|
| Duration | : Generally one year subject to annual renewal. |
| Payment and credit terms | : E-commerce platforms are generally required to settle the outstanding payment within 30 to 60 days once the products |

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have been delivered to them. We may, from time to time, accommodate requests to extend the credit terms from certain major e-commerce platforms.

- Delivery of products : We assign Independent Third Party logistics companies to carry out the delivery. The relevant logistics costs are borne by us.
- Transfer of risks : The risks transfer to the e-commerce platforms after they complete inspection and confirm the receipt of our products.
- Product returns/exchanges : We generally do not allow product returns other than in the cases of product defects, packaging defects and other special circumstances.
- Sales target and volume discounts : We do not set a sales target. For certain e-commerce platforms, if the total purchase amount in a period exceeds a mutually agreed amount, we may provide them with a sales rebate, ranging from 0.5% to 6%, of the total net purchase amount (including the relevant taxes) as stipulated in the agreement.
- Minimum purchase requirements : We do not set any minimum purchase requirements.
- Pricing policy : We provide the recommended retail price to e-commerce platforms.

The price at which we sell the products on the e-commerce platforms is determined by both parties on a cost-plus basis with reference to a number of factors, including, but not limited to, the relevant production, logistics and packaging costs, the applicable taxes, and the profit that the e-commerce platform could earn.

- Termination : Each party may unilaterally terminate the contract by providing a 30-day notice, if such termination was not caused by the other party's breach.

E-commerce platforms may unilaterally terminate the agreement if we breach the agreement and do not rectify our breach in seven days or upon the occurrence of a number of stipulated events, including operation beyond our business scope, insolvency, or other circumstances rendering us unable to perform our contractual obligations.

Sales to Consumers through Online Stores

Our online sales to consumers are primarily conducted through (i) our proprietary online stores on various online channels including, e-commerce platforms, social media such as WeChat (through the WeChat mini-

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programme), and our Moon House (月亮小屋) app and Supreme Laundry (至尊洗衣) app, and (ii) third party online stores.

Sales to consumers through our proprietary online stores

In order to provide a seamless shopping experience for our consumers, further enhance brand awareness among younger generations, and engage directly with consumers, we launched our first proprietary online store on Tmall in July 2012. Over the years, we subsequently launched several proprietary online stores on various major and emerging e-commerce platforms in China, such as JD.com, Suning, Pinduoduo, Vipshop and Beidian. Furthermore, we began to sell our products through WeChat in August 2015, developed and launched our proprietary Moon House (月亮小屋) app in August 2015 and Supreme Laundry (至尊洗衣) app in September 2016, both of which have built-in online shopping features.

The following diagram illustrates our sales to consumers through our online proprietary stores:



According to the Administrative Measures on Internet-based Information Services (《互聯網信息服務管理辦法》), the “**Information Services Measures**”) and the Administrative Measures on Telecommunications Business Permits (《電信業務經營許可管理辦法》), the “**Telecommunication Business Permits Measures**” and together with the Information Services Measures, the “**Administrative Measures**”), telecommunications business licences may be required for commercial internet-based information services, which include the provision of information services for compensations, creation of web pages for online users and other services through the internet. Our online commercial activities constitute sales of products to consumers, rather than commercial internet-based information services. Additionally, the Guangdong Communication Administration, being the competent authority as advised by our PRC legal advisers, made an announcement on its official website on 4 December 2019 to further clarify that when an enterprise directly sells products or services provided by itself or other parties through its own website, and no third party sells products or services on such website on their own behalf, the business of such enterprise does not constitute a value-added telecommunications business, and as a result, such enterprise is not required to obtain a value-added telecommunications business licence. Furthermore, based on our consultation with the Guangdong Communication Administration on 20 April 2020, our sales to consumers through our proprietary online stores on various third party e-commerce platforms and self-developed mobile apps do not constitute commercial internet-based information services within the scope of the Administrative Measures. Therefore, our PRC legal advisers are of the view that telecommunications business licences are not required for our online sales activities for the following reasons: (i) when we sell products on third party e-commerce platforms, these third party platforms, rather than us, may need to obtain telecommunications business licenses, and (ii) when we sell products on our self-developed mobile apps, there is no third party sales of products or services (whether fee based or not) on our self-developed mobile apps. Furthermore, as advised by our PRC legal advisers, none of our operations is subject to foreign ownership

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restriction as stipulated in the Special Administrative Measures for Access of Foreign Investment (Negative List) (2020) (《外商投資准入特別管理措施(負面清單)》(2020年版)) in the PRC.

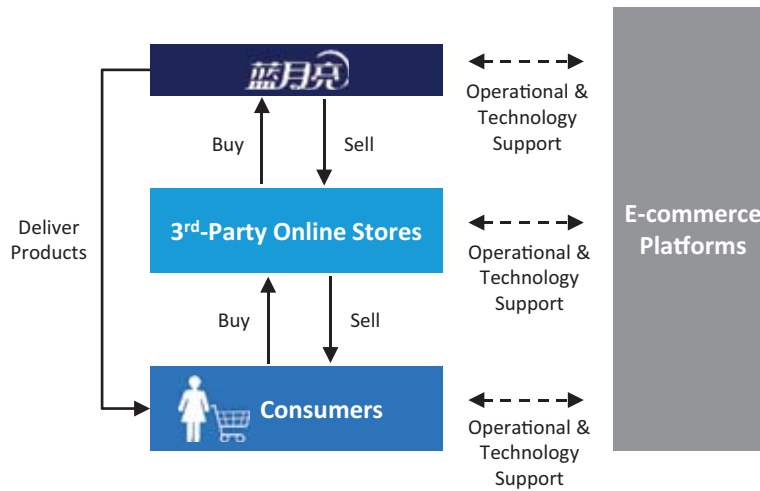
Sales to consumers through third party online stores

We began our sales through third party online stores by working with certain e-commerce platforms since August 2016. Such e-commerce platforms operate online marketplaces where brands like us sell products to consumers through third party online stores. Such online stores are generally operated by third party online vendors that engage in the online sales of consumer and other goods. We have a buyer and seller relationship with the third party online stores.

The online stores receive orders from consumers, then such e-commerce platform automatically places matching orders with us. Upon receiving the orders from the online stores, we deliver our products to the consumers directly according to the purchase orders they place through the online stores, while such online stores do not take inventories. We provide recommended retail prices to the online stores, and charge a mutually agreed price for our products at a discount to such recommended retail prices. Consumers make payments based on the final sales price set by the online stores directly to the e-commerce platforms. Upon receipt of a payment, the e-commerce platform allocates the aforementioned agreed price to us while allocating the difference between such agreed price and the final sales price to the online store. We recognise the amount of the fixed price allocated to us as revenue. For the years ended 31 December 2017, 2018 and 2019, and the six months ended 30 June 2019 and 2020, revenue from sales to consumers through third party online stores was HK\$76.8 million, HK\$159.1 million, HK\$272.9 million, HK\$104.6 million and HK\$148.8 million, respectively, which accounted for 1.4%, 2.4%, 3.9%, 3.8% and 6.1% of our total revenue for the same periods, respectively. During the Track Record Period, one of such third party online stores, Xumei Home Essentials Store (旭美居家日用品店), was owned by the sister-in-law of Mr. Luo. Its transaction amounts with us were RMB0.4 million, RMB3.7 million, RMB17.8 million, and RMB10.6 million for the years ended 31 December 2017, 2018 and 2019, and the six months ended 30 June 2020, respectively. We terminated our relationship with such third party online store in June 2020. To the best knowledge of our Directors, during the Track Record Period, other than the abovementioned third party online store, all of our third party online stores were Independent Third Parties and there was no past or present relationship, including employment, financing, family or otherwise, between the operators of these third party online stores (including their directors, shareholders and senior management, and their respective associates) and us.

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The following diagram illustrates our sales to consumers through third party online stores:



The following table sets forth the total number of the third party online stores we worked with and the movement (including addition and termination) of third party online stores during the Track Record Period:

	Year ended 31 December			Six months ended 30 June
	2017	2018	2019	2020
Number of Third Party Online Stores at the Beginning of the Period	238	329	379	448
Number of New Third Party Online Stores	217	252	218	135
Number of Inactive Third Party Online Stores	126	202	149	204 ⁽¹⁾
Number of Third Party Online Stores at the End of the Period	329	379	448	379

Note:

- (1) We consider the arrangement with a third party online store to be inactive when such third party online store does not conduct any transaction with us in a given year. We do not actively manage our network of third party online stores. There were more inactive third party online stores in the six months ended 30 June 2020 because such third party stores did not conduct any transaction with us during that six-month period. Such numbers in the above table are for illustrative purpose only and do not indicate that these inactive third party online store will not conduct any transactions with us in the rest of the year ending 31 December 2020.

Key rules with third party online stores

Under this transaction model, the third party online stores and we are subject to the rules and guidance set out by the e-commerce platforms. Key rules are set out as follows:

- Duration : Not specified.
- Payment term : The e-commerce platform allocates an agreed price to us while allocating the difference between such agreed price and the final sales price to the online stores.

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- Delivery of products : We assign logistics companies which are Independent Third Parties to deliver products to consumers as per the instructions from third party online stores. The logistics cost will either be borne by us or the relevant consumer depending on the commercial arrangement we have with the relevant third party online store.
- Transfer of risks : Not applicable. The third party online stores do not take any inventory.
- Product returns/exchanges : No product returns by the third party online stores since they do not take any inventory. According to the rules set out by the e-commerce platforms, we allow product returns by consumers within a certain period of time determined by the e-commerce platform.
- If a consumer makes a claim to return a product due to it being a defective or counterfeit product or due to a misrepresentation or a misleading product description and provides sufficient proof of such claim, the e-commerce platform will provide a refund to the relevant consumer. Such amount will be deducted from the payment made by such consumer to the e-commerce platform.
- Sales target and volume discounts : Not specified.
- Minimum purchase requirements : Not specified.
- Pricing term : We provide recommended retail prices to the online stores.
- Termination : Either party may voluntarily terminate the relationship with the counterparty based on negotiation.
- The e-commerce platform tracks overall performance of the third party online stores and us, including any non-compliance with the rules and guidance of the e-commerce platform, and has the right to terminate the relationship with any underperforming party.
- Dispute resolution : In general, either party can request for a conciliation by the e-commerce platform if any dispute arises from the transaction on the e-commerce platform.

Direct Sales to Key Account Clients

We engage a number of direct sales key account clients (the “**direct sales KAs**”) across China consisting of hypermarkets and supermarkets, such as RT-Mart, Auchan, Carrefour, Vanguard and Century Lianhua. As at 31 December 2017, 2018 and 2019, and 30 June 2020, we had a network of 11, 13, 14 and 15 direct sales KAs. For the years ended 31 December 2017, 2018 and 2019, and the six months ended 30 June 2019 and 2020, revenue generated from our direct sales KAs was HK\$703.2 million, HK\$820.2 million, HK\$996.6 million, HK\$302.3 million and HK\$187.7 million, respectively, accounting for 12.5%, 12.1%, 14.1%, 11.1% and 7.7% of our total revenue, respectively. Revenue from these direct sales KAs is recognised upon the transfer of control of

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the products. We have a seller-buyer relationship with our direct sales KAs and retain no ownership over the products that we sell to them.

During the Track Record Period, we have maintained good working relationships with our direct sales KAs and the total number of our direct sales KAs was relatively stable. We select and regularly evaluate our direct sales KAs in each region based on a number of factors, including their business scale, number of retail outlets, network coverage and their reputation. During the Track Record Period, all of our direct sales KAs were Independent Third Parties. As at the Latest Practicable Date, none of our Directors, their associates or any other Shareholder which, to the knowledge of our Directors, owns more than 5% of our share capital had any interest in any of our direct sales KAs.

Key Terms of Agreements with Direct Sales to Key Account Clients

We generally enter into annual or biennial merchandise agreements with our direct sales KAs. These agreements specify a variety of terms, including the payment method, pricing policies and delivery arrangements. During the Track Record Period, we did not experience any material breach by our direct sales KAs. The following table presents key terms of the merchandise agreement:

Duration	:	Generally between one to two years, subject to renewal.
Payment and credit terms	:	We issue an invoice to the direct sales KAs after the relevant products have been delivered to the direct sales KAs. Direct sales KAs are required to settle the outstanding payment within 30 to 60 days. We may, from time to time, accommodate requests to extend the credit terms from certain major direct sales KAs.
Delivery of products	:	Generally, we arrange delivery services with a third party logistics company and the relevant costs are borne by us.
Transfer of risks	:	The risks transfer to the direct sales KAs after they confirm receipt of such products.
Product returns/exchanges	:	During the Track Record Period, we allowed unconditional product returns for certain direct sales KAs other than goods that cannot be returned or exchanged, such as goods that are not in a resalable condition. Such direct sales KAs are multi-national hypermarket chains or China's leading hypermarket chains. As at the Latest Practicable Date, there was only one direct sales KA which was subject to the unconditional product return right according to the relevant agreement. We agreed to grant the unconditional product return clauses to the direct sales KAs due to commercial considerations, such as their leading positions and broad network, which allow us to reach a vast number and broader base of consumers. We may face risks associated with unconditional product return, please refer to the

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section headed “Risk Factors – Risks Relating to our Business and Industry – Our sales and distribution partners may accumulate excessive or obsolescent inventory and any excessive build-up of inventory could affect the volume of future orders from our distributors” for details.

For other direct sales KAs that are not entitled to unconditional product returns, they may return or exchange products under certain circumstances, such as when products are defective, poorly packaged, damaged, delivery specifications are not met, when the quantity delivered was inconsistent with the purchase order or slow-moving products. Such direct sales KAs also have an option to accept a purchase discount in lieu of product return or exchange.

- Sales target and volume discounts : We do not set a sales target for our direct sales KAs.
- During the Track Record Period, for certain direct sales KAs, if the total purchase amount in a period exceeds a mutually agreed amount, we may provide them with a sales rebate, ranging from 2% to 15% (the 15% rebate was only provided to one direct sales KA and the 12% rebate was only provided to another direct sales KA, and other relevant direct sales KAs enjoy a rebate ranging from 2% to 7.5%) of the total purchase amount as stipulated in the merchandise agreement accordingly.
- Minimum purchase requirements : We do not set any minimum purchase requirements for our direct sales KAs.
- Pricing policy : We provide recommended retail price to direct sales KAs. The price of our products is determined by both parties with reference to, among other things, production, logistics and packaging costs, the applicable taxes, and the profit that the direct sales KAs could earn.
- Termination : Each party may unilaterally terminate the agreement by providing 30 days’ notice, if such termination was not caused by the other party’s breach.

Each party may unilaterally terminate the agreement without notice in the event of: (i) the other party failing to perform its contractual obligations by reasons of force majeure for more than two months continuously, (ii) the other party becoming bankrupt, insolvent, or unable to repay its debts, or (iii) a government authority or agency decision or ruling rendering the agreement unenforceable.

Offline Distributors

We depend on effective sales networks to deliver products to consumers by engaging with offline distributors across all provinces in China. Our offline distributors resell our products to hypermarkets, supermarkets, convenience stores and gas stations such as Seven-Eleven, CNPC gas stations, Sinopec gas stations and certain small vendors in residential communities, particularly small vendors in lower-tier cities in China. As at the Latest Practicable Date, substantially all of our offline distributors were primarily engaged in the business of distributing consumer goods in China.

As at 30 June 2020, we sold our products to 1,403 offline distributors covering all provinces in China, which allowed us to increase our market share and launch new products to the market in a relatively short timeframe. We enter into buyer and seller relationships with all of our offline distributors. Our offline distributors are primarily engaged in the consumer goods distribution business. We consider a number of factors in selecting distributors, including their brand and reputation in the relevant industry, their overall business management and financial performance, their track record, and their warehousing and logistics capabilities, among others.

For the years ended 31 December 2017, 2018 and 2019, and the six months ended 30 June 2019 and 2020, revenue generated from our offline distributors was HK\$3,062.3 million, HK\$3,229.6 million, HK\$2,725.2 million, HK\$856.3 million and HK\$816.6 million, respectively, and accounted for 54.4%, 47.7%, 38.7%, 31.5% and 33.5% of our total revenue, respectively. Revenue from these offline distributors is recognised upon the transfer of control of the products. The following table illustrates details of our offline distributors and their respective revenue contribution by their operating scales during the Track Record Period:

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	Year ended 31 December				Period ended 30 June				
	2017		2018		2019		2020		
Registered capital ⁽¹⁾ (RMB)	Number of offline distributors	Revenue contribution (RMB'000)	% of total revenue	Number of offline distributors	Revenue contribution (RMB'000)	% of total revenue	Number of offline distributors	Revenue contribution (RMB'000)	% of total revenue
Over five million	91	580,909	11.9%	116	709,046	12.2%	113	601,431	9.6%
One to five million	332	913,781	18.7%	381	1,003,878	17.3%	388	858,860	13.8%
Less than one million ⁽²⁾	752	1,048,616	21.5%	809	950,830	16.4%	766	833,900	13.4%
Subtotal for offline distributors⁽⁵⁾	1,175⁽³⁾	2,543,306⁽⁴⁾	52.1%	1,306⁽³⁾	2,663,754⁽⁴⁾	45.9%	1,267⁽³⁾	2,294,191⁽⁴⁾	36.8%
								691,287⁽⁴⁾	31.3%

Notes:

- (1) The registered capital information was from public sources as at 30 June 2020.
- (2) This category also includes non-corporate entities which we could not ascertain their registered capital information from public sources as at 30 June 2020.
- (3) The number of offline distributors for the period (as set out in the table above) represents the number of offline distributors as at the end of such period, excluding those which had ceased to be offline distributors during such period (the "Terminated Distributors").
- (4) As the number of offline distributors for the period (as set out in the table above) does not include the Terminated Distributors, the total revenue contribution from offline distributors for such period (as set out in the table above) does not include any revenue contribution from any Terminated Distributor during such period. As our moon cabin business does not involve any offline distributor, the total revenue contribution from offline distributors for the period (as set out in the table above) also does not include any revenue contribution from our moon cabin business during such period. In contrast, the total revenue contribution from offline distributors for the same period (as set out in the breakdown of revenue contribution by channel during the Track Record Period in the section headed "Business – Sales and Distribution Network" (the "Breakdown of Revenue Contribution by Channel")) includes: (i) the revenue contribution from the Terminated Distributors during such period, and (ii) the revenue contribution from our moon cabin business during such period. On the basis of the foregoing, the total revenue contribution from offline distributors for the period as set out in the table above was less than the total revenue contribution from offline distributors for such period as set out in the Breakdown of Revenue Contribution by Channel. Our moon cabin business includes offline direct sales to corporations for their internal use, offline direct sales to consumers, promotion of household cleaning knowledge and offline promotional events (such as community group purchase). The revenue contribution from our moon cabin business during the Track Record Period was only 1.3%, 0.7%, 1.1% and 5.0% of our total revenue for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, respectively. The percentage of revenue contribution from our moon cabin business increased in the six months ended 30 June 2020 primarily because (i) we sold more personal hygiene and home care products to corporations for their internal use due to increasing hygiene awareness as a result of the COVID-19 outbreak, and (ii) there was a decrease in our total revenue as a result of the adverse impact of the COVID-19 outbreak. For the purpose of the Breakdown of Revenue Contribution by Channel, the revenue contribution from our moon cabin business during the Track Record Period is aggregated with the revenue contribution from our offline distributors during the Track Record Period.

(5) The following table illustrates a reconciliation of the subtotal revenue contribution for offline distributors and revenue contribution for the offline distribution channel.

	Year ended 31 December			Period ended
	2017	2018	2019	30 June 2020
Subtotal for offline distributors	2,543,306	2,663,754	2,294,191	691,287
Add:		<i>(RMB'000)</i>		
Revenue from the moon cabin business	62,506	40,501	67,830	110,450
Revenue from the terminated offline distributors	32,880	50,130	55,570	(1,230)
Other adjustments ⁽¹⁾	14,463	10,446	(3,377)	(61,912)
Exchange rate	2,653,155	2,764,831	2,414,214	738,595
	1,1542	1,1681	1,1288	1,1056
Total (HK\$'000)	3,062,272	3,229,599	2,725,165	816,591

Note:

(1) Other adjustments during the Track Record Period primarily represent provision or reversal of sales rebate and provision of product returns.

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The following table illustrates details of our offline distributors and their respective revenue contribution by their geographic area during the Track Record Period:

Geographic area ⁽¹⁾	Year ended 31 December				Period ended 30 June							
	2017		2018		2019		2020					
	Number of offline distributors	Revenue contribution (RMB'000)	% of total revenue	Number of offline distributors	Revenue contribution (RMB'000)	% of total revenue	Number of offline distributors	Revenue contribution (RMB'000)	% of total revenue			
North China	108	245,539	5.0%	126	260,284	4.5%	124	201,104	3.2%	140	56,748	2.5%
Northeast China	98	160,609	3.3%	94	164,473	2.9%	93	140,936	2.3%	102	40,249	1.7%
East China	357	806,183	16.5%	396	919,972	16.0%	358	812,441	13.0%	408	213,324	9.2%
Central China	238	346,041	7.0%	260	362,014	6.0%	266	345,463	5.5%	283	93,585	4.0%
South China	114	398,983	8.2%	128	382,682	6.6%	111	290,700	4.7%	124	112,128	4.8%
Southwest China	177	475,117	9.8%	209	451,046	7.8%	211	402,017	6.4%	233	136,422	7.4%
Northwest China	83	110,834	2.3%	93	123,283	2.1%	104	101,530	1.7%	113	38,831	1.7%
Subtotal for offline distributors⁽⁴⁾	1,175⁽²⁾	2,543,306⁽³⁾	52.1%	1,306⁽²⁾	2,663,754⁽³⁾	45.9%	1,267⁽²⁾	2,294,191⁽³⁾	36.8%	1,403⁽²⁾	691,287⁽³⁾	31.3%

Notes:

- (1) North China includes Beijing, Tianjin, Hebei, Shanxi and central Inner Mongolia (Hohhot, Baotou, and Uian Qab). Northeast China includes Heilongjiang, Jilin, Liaoning and east Inner Mongolia (Hulunbuir, Hinggan, Tongliao, Chifeng, Xilining). East China includes Shanghai, Jiangsu, Zhejiang, Anhui, Jiangxi, Shandong, Fujian, and Taiwan. Central China includes Henan, Hebei, and Hunan. South China includes Guangdong, Guangxi, Hainan, Hong Kong and Macau. Southwest China includes Chongqing, Sichuan, Guizhou, Yunnan, and Tibet. Northwest China includes Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang and east Inner Mongolia (Alxa, Bayanzall, Wuhai and Ordos).
- (2) The number of offline distributors for the period (as set out in the table above) represents the number of offline distributors as at the end of such period, excluding those which had ceased to be offline distributors during such period (the "Terminated Distributors").
- (3) As the number of offline distributors for the period (as set out in the table above) does not include the Terminated Distributors, the total revenue contribution from offline distributors for such period (as set out in the table above) does not include any revenue contribution from any Terminated Distributor during such period. As our moon cabin business does not involve any offline distributor, the total revenue contribution from offline distributors for the period (as set out in the table above) also does not include any revenue contribution from our moon cabin business during such period. In contrast, the total revenue contribution from offline distributors for the same period (as set out in the breakdown of revenue contribution by channel during the Track

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Record Period in the section headed “Business – Sales and Distribution Network” (the “Breakdown of Revenue Contribution by Channel”)) includes: (i) the revenue contribution from the Terminated Distributors during such period, and (ii) the revenue contribution from our moon cabin business during such period. On the basis of the foregoing, the total revenue contribution from offline distributors for the period as set out in the table above was less than the total revenue contribution from offline distributors for such period as set out in the Breakdown of Revenue Contribution by Channel. Our moon cabin business includes offline direct sales to consumers, promotion of household cleaning knowledge and offline promotional events (such as community group purchase). The revenue contribution from our moon cabin business during the Track Record Period was only 1.3%, 0.7%, 1.1% and 5.0% of our total revenue for the years ended 31 December 2017, 2018, and 2019 and the six months ended 30 June 2020, respectively. The percentage of revenue contribution from our moon cabin business increased in the six months ended 30 June 2020 primarily because (i) we sold more personal hygiene and home care products to corporations for their internal use due to increasing hygiene awareness as a result of the COVID-19 outbreak, and (ii) there was a decrease in our total revenue as a result of the adverse impact of the COVID-19 outbreak. For the purpose of the Breakdown of Revenue Contribution by Channel, the revenue contribution from our moon cabin business during the Track Record Period is aggregated with the revenue contribution from our offline distributors during the Track Record Period.

(4) The following table illustrates a reconciliation of the subtotal revenue contribution for offline distributors and revenue contribution for the offline distribution channel.

	Year ended 31 December			Period ended 30 June
	2017	2018	2019	2020
Subtotal for offline distributors	2,543,306	2,663,754	2,294,191	691,287
Add:		<i>(RMB'000)</i>		
Revenue from the moon cabin business	62,506	40,501	67,830	110,450
Revenue from the terminated offline distributors	32,880	50,130	55,570	(1,230)
Other adjustments ⁽¹⁾	14,463	10,446	(3,377)	(61,912)
Exchange rate	2,653,155	2,764,831	2,414,214	738,595
	1,1542	1,1681	1,1288	1,1056
Total (HK\$'000)	3,062,272	3,229,599	2,725,165	816,591

Note:

(1) Other adjustments during the Track Record Period primarily represented provision or reversal of sales rebate and provision of product returns.

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During the Track Record Period, we have maintained good business relationships with our key offline distributors. The below table sets forth the total number of our offline distributors and the movement (including addition and termination) of distributors during the Track Record Period:

	Year ended 31 December			Six months ended
				30 June
	2017	2018	2019	2020
Number of Offline Distributors at the Beginning of the Period	1,265	1,175	1,306	1,267
Number of New Offline Distributors	225	390	315	247
Number of Terminated Offline Distributors	315	259	354	111
Number of Offline Distributors at the End of the Period	1,175	1,306	1,267 ⁽¹⁾	1,403

Note:

- (1) The total number of offline distributors decreased in 2019 because the number of terminated offline distributors was larger than the number of newly engaged offline distributors in that year. Such practice was in line with our effort to optimise our offline distributor network by selectively engaging with new offline distributors and terminating underperforming offline distributors during the Track Record Period. We take various factors into consideration in evaluating our offline distributors, such as their sales performance, reputation, popularity and general working relationship with us. The termination decision is not solely dependent on one or a particular set of factors, but rather it is based on a comprehensive evaluation of the relevant facts and circumstances at the time.

During the Track Record Period, all of our offline distributors were Independent Third Parties and they did not use our brand for their business operations. To the best knowledge of our Directors, there was no employment, financing, family or other relationship between our offline distributors (including their directors, shareholders and senior management, and their respective associates) and us during the Track Record Period. We terminated distributor relationships with 315, 259, 354 and 111 offline distributors in 2017, 2018 and 2019, and the six months ended 30 June 2020, respectively, primarily on the basis of their sales performance. For the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, revenue attributable to the terminated offline distributors was HK\$38.0 million, HK\$59.6 million, HK\$60.0 million and HK\$0.5 million, respectively. The relatively small amount of revenue contribution from the terminated offline distributors for the six months ended 30 June 2020 was primarily due to the return of Supreme branded products as a result of the COVID-19 outbreak. Please refer to the section headed “Risk Factors – Our efforts in developing, launching and promoting new brands and products, diversifying our brand and product portfolio may not be successful” for details. After the termination of such relationships, we settle accounts with the terminated offline distributors and we generally do not allow return of unsold products from these terminated offline distributors. We engaged 225, 390, 315 and 247 new offline distributors in 2017, 2018 and 2019, and the six months ended 30 June 2020, respectively.

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During the Track Record Period, we sought to optimise our offline distributor network, primarily by terminating underperforming offline distributors and engaging new offline distributors. We intend to adopt the following measures to further optimise our offline distributor network:

- (i) we plan to extend our geographic coverage by engaging local offline distributors in cities and regions that we have not covered, particularly lower-tier cities, counties and districts;
- (ii) we intend to customise the products offerings that are suitable for the local population;
- (iii) we aim to manage our offline distributors according to their own specialties and better utilise their resources to increase sales performance and thereby achieve a mutually beneficial relationship;
- (iv) we intend to increase our collaboration with offline distributors specialising in working with regional supermarkets, pharmacies, grocery stores, gas stations and other retail formats; and
- (v) we plan to provide marketing support to offline distributors.

Key Terms of Agreements with Offline Distributors

We enter into a written standardised framework distribution agreement with certain offline distributors. Such agreement specifies a variety of terms, including the payment method, pricing policies and delivery arrangements. We have digitalised our sales processes and we use our proprietary online system where all offline distributors can directly place purchase orders and settle payments online. Generally, prior to providing access to such online system to an offline distributor, we inform them of the key terms set out in our standardised framework distribution agreement. After an offline distributor acknowledges and agrees with our key terms, we will provide an account number for such offline distributor and reserve the right to terminate their access. According to the Frost & Sullivan Report, this practice is not uncommon in the relevant PRC industry. The key terms of our standardised framework distribution agreement include:

- | | | |
|--------------------------|---|--|
| Duration | : | Generally one year, subject to annual renewal. |
| Payment and credit terms | : | Payment should be made in full by the offline distributor prior to the shipment arranged by us.

We generally do not extend credit to offline distributors. On a case-by-case basis, we may extend credit to certain creditworthy offline distributors for special occasions such as their year-end planning for the new year's sales events where the offline distributors engage in promotional activities with their customers to capture business opportunities arising from increased consumption demand due to the Chinese New Year. |
| Delivery of products | : | We arrange delivery services with Independent Third Party logistics companies and bear the relevant costs. |
| Transfer of risks | : | In the event a third party logistics company delivers the products, the risks transfer to the offline distributors after products are loaded onto the logistics company's vehicles. |

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- Product returns/exchanges : We generally only consider product return applications due to product defects or packaging defects. For slow-moving products, we do not allow product returns in principle. However, we may consider product return requests of slow-moving products on a case-by-case basis. This is generally only applicable to offline distributors who stock up on our products in anticipation of the coming new year's sales events where the offline distributors engage in promotional activities with their customers but later on fail to sell all of the products purchased at least over a quarter since the date of the original purchases. We only accept products that are in a resaleable condition to be returned. Additionally, even though we do not set a specific limit for product returns, we have full discretion regarding whether to accept such product return requests or not.
- Sales target and volume discounts : We generally do not set a sales target for our offline distributors.
- For certain offline distributors, if the total purchase amount in a period exceeds a mutually agreed amount, we may provide them with a sales rebate, ranging from 1% to 2% of the total purchase amount, as stipulated in the product sales agreement.
- Minimum purchase requirements : Generally, we do not set any minimum purchase requirements for our offline distributors.
- Pricing policy : We provide recommended retail price to our offline distributors.
- Termination : Each party may unilaterally terminate the agreement by providing a 30-day notice, if such termination was not caused by the other party's breach.
- Each party may unilaterally terminate the agreement if the other party breaches the agreement.
- We may terminate the agreement if the conditions agreed by the offline distributors are not met.

Sub-distributors

Certain of our offline distributors engage sub-distributors where such offline distributors are unable to directly cover particular geographical areas. To the best knowledge of our Directors, as at the Latest Practicable Date, substantially all the sub-distributors were primarily engaged in the business of distributing consumer goods in China. We generally do not have direct contractual relationships with sub-distributors except as disclosed below. Our offline distributors are generally entitled to choose their sub-distributors and negotiate the transaction terms directly with them. As at the Latest Practicable Date, to the best knowledge of our Directors, all of the sub-distributors were Independent Third Parties.

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Generally, our offline distributors are responsible for managing their sub-distributors, including to ensure that the operations of the sub-distributors are in line with our overall sales and distribution strategy. We also adopt certain measures to enhance the sub-distributor management, including arranging our sales and marketing personnel to visit the sub-distributors and points-of-sale from time to time, communicating with them, and collecting feedback and information from the sub-distributors. If we become aware of any non-compliance or misconduct of a sub-distributor, we will notify the relevant offline distributor and sub-distributor accordingly and request them to take rectification and improvement measures. If such non-compliance or misconduct is not timely rectified or improved, we may terminate the business relationship with the relevant offline distributor.

Since October 2019, we entered into short-term tripartite rebate agreements with certain offline distributors and sub-distributors as we sought to strengthen our management and monitoring of the sales and distribution network. We used our standardised tripartite rebate agreement for all such arrangements. Under such agreement, our offline distributor provides a rebate to the sub-distributor whose sales performance in a monthly and/or quarterly period exceeds an agreed amount as set out in the agreement. The amount of the rebate is calculated based on a fixed percentage of the purchase amount of the sub-distributor. The offline distributor periodically reports the purchase amount of the sub-distributor to us. In the month after the end of each quarter, we offset the amount of all rebates provided by the offline distributor to the sub-distributor in the prior quarter so that the relevant offline distributors receive the same amount of rebate for their purchases from us. During the Track Record Period, we had entered into tripartite rebate agreements with approximately 500 sub-distributors. According to the information reported by our offline distributors, the total revenue attributable to the sub-distributors reported by our offline distributors was immaterial in the year ended 31 December 2019 and the six months ended 30 June 2020. As a result, we decided to discontinue such arrangement from the third quarter of 2020 and focus our resources on managing our offline distributors.

Management of Our Sales and Distribution Network

Our extensive sales and distribution network is managed by our sales team. Please refer to the subsection headed “Marketing Team and Channels” for details of our sales team. To minimise the risk of cannibalisation, we have adopted the following measures regarding our sales and distribution network: (i) we provide recommended retail sales prices to e-commerce platforms, direct sales KAs, and offline distributors with an aim to ensure consistency across different channels, and (ii) when selecting our offline distributors, we take into account their respective geographic coverage in order to avoid potential competition among our distributors within a region. Particularly, for our sales to e-commerce platforms and our sales to consumers through our own proprietary stores, we have implemented a number of internal control measures and management measures to prevent cannibalisation as certain e-commerce platforms on which a number of our proprietary online stores operate are also our customers. Such measures include (i) applying the same recommended price for the same product, (ii) providing different multi-item combo packs to the e-commerce platforms and our proprietary online stores, (iii) setting a cooling-off period between promotional events on the e-commerce platforms and those on our proprietary online stores, and (iv) designing different themes for promotional events on the e-commerce platforms and promotional events on our proprietary online stores.

We have adopted several measures to prevent channel stuffing, which primarily include (i) our sales staff providing advice to our customers regarding product offerings that are suitable to their clients, with an aim to minimise unsaleable products, and (ii) us conducting inventory-taking periodically and reviewing the sales report submitted by our customers to gain a general understanding of their sales performance and provide marketing

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advice accordingly, and therefore help them avoid overstocking. We typically conduct inventory-taking and estimate the general unsold inventory levels for our customers every one, two or three months, depending on each customer's inventory management capability and the size of its inventory.

We constantly seek to optimise our sales strategy to adapt to changing market dynamics based on market intelligence collected by our sales and marketing team. Based on the sales strategy, we establish guidance for our sales and distribution network accordingly.

We collect and analyse data on the sales performance of our online channels and monitor the performance through reports that generated from our CRM system. These reports contain information such as level of inventory, sales volume, trends in the sales, and comparisons of sales with historical statistics. Our sales and marketing team analyses the information regularly to keep ourselves updated and adjusts our online sales and marketing strategies as necessary.

In addition, our sales personnel conducts regular inspections of our offline distributors and points of sale to monitor their sales, storage conditions, quality control and inventory levels. Through these activities, we monitor our offline distributors' compliance with the terms and conditions of their distribution agreements. If we discover non-compliant issues, we will notify the relevant offline distributors in writing and request the offline distributors to cease the non-compliant activities within a specified period of time. We have the option to terminate our relationship if the relevant offline distributors do not rectify the non-compliant activities as notified. Our offline distributors are also liable for breaches of their distribution agreements, and they are required to indemnify us for relevant breaches. We can terminate the appointment of our offline distributors if they breach provisions stipulated in the distribution agreements.

Pricing Policy

We price our products based on various factors, including the market positioning of the specific product, supply and demand, production cost and the prices of competing brands' products. We conduct thorough market research on a regular basis in order to compete more effectively with our competitors. We have a centralised price management system where our finance department and marketing department manage prices over different sales and distribution channels. We provide a similar recommended retail price for a particular product across all sales channels to facilitate the standardisation and stability of our sales network. Our sales staff regularly monitor our product prices sold at the retail points of sale to review and evaluate our pricing. We assess the information collected and engage in discussions with the parties involved in our sales and distribution network and update our pricing and sales policies as necessary.

Payment Terms and Credit Control

Please refer to subsections headed "Key Terms of Agreements with E-commerce Platforms", "Key Terms of Agreements with Direct Sales to Key Account Clients", and "Key Terms of Agreements with Offline Distributors" for details of the payment terms.

Our finance and sales departments carry out regular reconciliations of outstanding receivables balances and consider whether bad provisions are necessary. As at 31 December 2017, 2018 and 2019, and 30 June 2020, the amount of provision for impairment of trade receivables was HK\$16.1 million, HK\$9.9 million, HK\$11.8

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million and HK\$18.2 million, respectively. Please refer to the section headed “Financial Information – Description of Selected Balance Sheets Items” for details of the ageing analysis of our trade and bills receivables and inventory turnover days.

Sales Return Policy

We generally only permit defective products to be returned to us. For the years ended 31 December 2017, 2018 and 2019, and the six months ended 30 June 2020, the value of products returned (in terms of our cost of sales) represented 0.3%, 0.8%, 0.4% and 1.6% of our total revenue for the same periods, respectively. The majority of our product returns in the six months ended 30 June 2020 was related to the COVID-19 outbreak. Please refer to section headed “Risk Factors — Our efforts in developing, launching and promoting new brands and products, diversifying our brand and product portfolio may not be successful.” for details. We did not record any provision for product warranty during the Track Record Period. We may allow unsold products to be returned to us under certain circumstances. For example, certain e-commerce platforms are entitled to return or exchange the products when (i) the inventory turnover is higher than a certain period of time as specified in the contract, or the e-commerce platforms are not able to sell such products within 90 days, and the products are in a resalable condition, or (ii) the small offline vendors engaged by the e-commerce platforms cannot sell our products within a period of time as specified in the contract. We believe that our sales return policy is in line with the practice of the relevant industry in China. Additionally, we allow product returns for certain direct sales KAs. Please refer to subsections headed “Key Terms of Agreements with E-commerce Platforms” and “Key Terms of Agreements with Offline Distributors” for details.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material recalls of our products and we were not subject to: (i) any material fines, material negative findings, mandatory product recall orders, material product liability exposure or other penalties from government authorities or other regulatory bodies, (ii) any material product return requests from our consumers or material complaints from consumers in respect of the quality of our products, or (iii) any incidents of quality control system failure which had resulted in a material adverse impact on our business operations or our reputation. Our customer service centre handles consumer complaints in accordance with a relevant procedure. In addressing consumers’ complaints, we undertake to communicate and liaise with the consumers in a timely manner. During the Track Record Period, we did not receive any material complaints from consumers in connection with product quality.

In 2018 and 2019, we sent our sales personnel to offline hypermarkets to help consumers better understand our Supreme branded concentrated liquid laundry detergents. However, the COVID-19 outbreak significantly affected our ability to conduct such activities in the first quarter of 2020. As a result, sales of our Supreme branded concentrated liquid laundry detergents declined and, to the best of our knowledge, we incurred sales returns of approximately HK\$149.8 million related to our consolidated statements of comprehensive income during the six months ended 30 June 2020. Please refer to the section headed “Risk Factors — Risks relating to our Business and Industry — Our efforts in developing, launching and promoting new brands and products, diversifying our brand and product portfolio may not be successful.” for details.

Customers

Our customers generally are distributors and direct sales clients, including e-commerce platforms, our key account clients such as hypermarkets and supermarkets, and offline distributors. Please refer to the subsection headed “Sales and Distribution Network” for details in relation to our customers.

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Top Five Customers

For the years ended 31 December 2017, 2018 and 2019, and the six months ended 30 June 2020, the aggregate revenue generated from our top five customers amounted to HK\$1,841.1 million, HK\$2,176.8 million, HK\$2,550.6 million, and HK\$981.6 million, respectively, which accounted for 32.7%, 32.2%, 36.2% and 40.3% of our total revenue, respectively. For the same periods, revenue from the largest customer amounted to HK\$904.9 million, HK\$900.1 million, HK\$1,014.1 million, and HK\$554.9 million, respectively, which accounted for 16.1%, 13.3%, 14.4%, and 22.8%, respectively. As at the Latest Practicable Date, none of our Directors, their associates or any other Shareholder which, to the knowledge of our Directors, owns more than 5% of our share capital had any interest in any of our top five customers. The following tables set out details of our five largest customers during the Track Record Period:

Year ended 31 December 2017

No.	Customer	Background	Products sold	Amount of our revenue attributable to the customer	% of our total revenue	Year of commencement of business relationship with us
				<i>(HK\$'000)</i>		
1.	Customer A	An e-commerce company that operates a leading e-commerce platform in China, the securities of which are traded on the NASDAQ and the Stock Exchange.	Fabric care products, personal hygiene products, and home care products	904,884	16.1%	2012
2.	Customer B	An e-commerce company that operates a leading e-commerce platform in China, the securities of which are traded on the New York Stock Exchange and the Stock Exchange.	Fabric care products, personal hygiene products, and home care products	383,880	6.8%	2015
3.	Customer C	A multi-national retail company that operates a chain of hypermarkets, the securities of which are traded on the New York Stock Exchange.	Fabric care products, personal hygiene products, and home care products	307,190	5.5%	2009
4.	Customer D	A multi-national retail company that operates a chain of hypermarkets.	Fabric care products, personal hygiene products, and home care products	172,247	3.1%	2016
5.	Customer E	A retail company that operates a chain of hypermarkets in China.	Fabric care products, personal hygiene products, and home care products	72,888	1.2%	2013

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Year ended 31 December 2018

No.	Customer	Background	Products sold	Amount of our revenue attributable to the customer	% of our total revenue	Year of commencement of business relationship with us
				<i>(HK\$'000)</i>		
1.	Customer A	An e-commerce company that operates a leading e-commerce platform in China, the securities of which are traded on the NASDAQ and the Stock Exchange.	Fabric care products, personal hygiene products, and home care products	900,111	13.3%	2012
2.	Customer B	An e-commerce company that operates a leading e-commerce platform in China, the securities of which are traded on the New York Stock Exchange and the Stock Exchange.	Fabric care products, personal hygiene products, and home care products	642,857	9.5%	2015
3.	Customer D	A multi-national retail company that operates a chain of hypermarkets.	Fabric care products, personal hygiene products, and home care products	236,363	3.5%	2016
4.	Customer F	A retail company that operates a chain of stores and a leading e-commerce platform in China, the securities of which are traded on the Shenzhen Stock Exchange.	Fabric care products, personal hygiene products, and home care products	206,163	3.0%	2013
5.	Customer C	A multi-national retail company that operates a chain of hypermarkets, the securities of which are traded on the New York Stock Exchange.	Fabric care products, personal hygiene products, and home care products	191,343	2.9%	2009

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Year ended 31 December 2019

No.	Customer	Background	Products sold	Amount of our revenue attributable to the customer	% of our total revenue	Year of commencement of business relationship with us
				<i>(HK\$'000)</i>		
1.	Customer A	An e-commerce company that operates a leading e-commerce platform in China, the securities of which are traded on the NASDAQ and the Stock Exchange.	Fabric care products, personal hygiene products, and home care products	1,014,095	14.4%	2012
2.	Customer B	An e-commerce company that operates a leading e-commerce platform in China, the securities of which are traded on the New York Stock Exchange and the Stock Exchange.	Fabric care products, personal hygiene products, and home care products	961,014	13.6%	2015
3.	Customer F	A retail company that operates a chain of stores and a leading e-commerce platform in China, the securities of which are traded on the Shenzhen Stock Exchange.	Fabric care products, personal hygiene products, and home care products	196,827	2.8%	2013
4.	Customer C	A multi-national retail company that operates a chain of hypermarkets, the securities of which are traded on the New York Stock Exchange.	Fabric care products, personal hygiene products, and home care products	195,320	2.8%	2009
5.	Customer D	A multi-national retail company that operates a chain of hypermarkets.	Fabric care products, personal hygiene products, and home care products	183,346	2.6%	2016

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Period ended 30 June 2020

No.	Customer	Background	Products sold	Amount of our revenue attributable to the customer	% of our total revenue	Year of commencement of business relationship with us
				<i>(HK\$'000)</i>		
1.	Customer A	An e-commerce company that operates a leading e-commerce platform in China, the securities of which are traded on the NASDAQ and the Stock Exchange.	Fabric care products, personal hygiene products, and home care products	554,913	22.8%	2012
2.	Customer B	An e-commerce company that operates a leading e-commerce platform in China, the securities of which are traded on the New York Stock Exchange and the Stock Exchange.	Fabric care products, personal hygiene products, and home care products	315,435	12.9%	2015
3.	Customer E	A retail company that operates a chain of hypermarkets in China.	Fabric care products, personal hygiene products, and home care products	42,303	1.8%	2013
4.	Customer C	A multi-national retail company that operates a chain of hypermarkets, the securities of which are traded on the New York Stock Exchange.	Fabric care products, personal hygiene products, and home care products	35,209	1.4%	2009
5.	Customer D	A multi-national retail company that operates a chain of hypermarkets.	Fabric care products, personal hygiene products, and home care products	33,740	1.4%	2016

Key Terms of Agreements with Customer

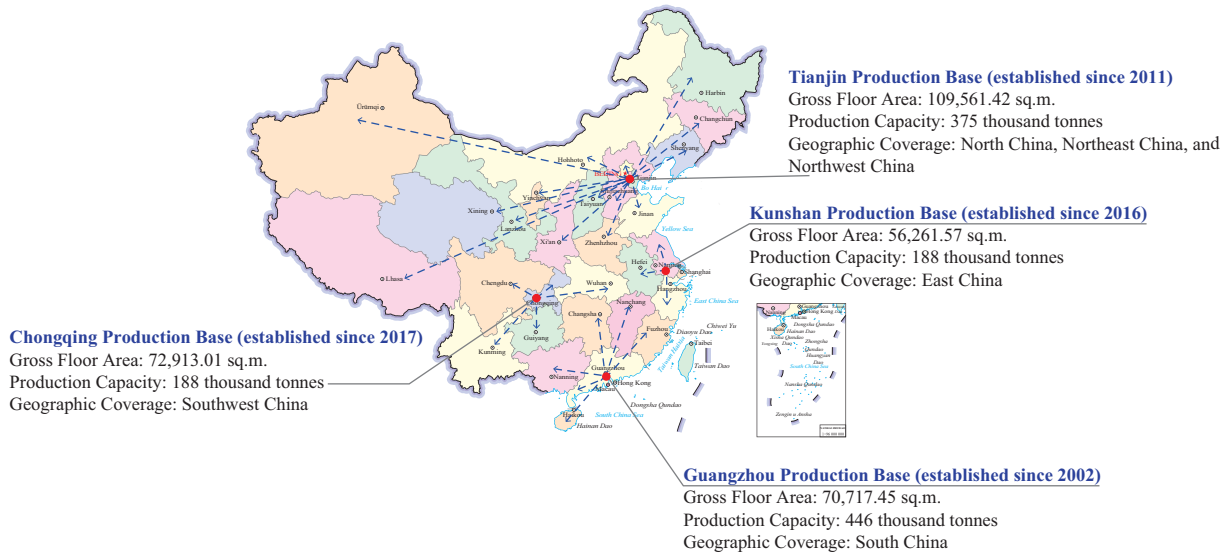
Please refer to subsections headed “Key Terms of Agreements with E-commerce Platforms”, “Key Terms of Agreements with Direct Sales to Key Account Clients” and “Key Terms of Agreements with Offline Distributors” for details.

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OUR PRODUCTION OPERATIONS

Production Bases

As at the Latest Practicable Date, we had four production bases located in Guangzhou, Tianjin, Kunshan, and Chongqing. The following map illustrates the geographic coverage of our production bases as at the Latest Practicable Date.



Production Planning

Our production is planned regularly subject to adjustments based on market conditions and seasonality. Our production planning department is responsible for preparing the production plans. The production planning department works closely with our sales department, marketing department and procurement department to monitor the market conditions and adjust our production plans when necessary. We use big data analytics to improve production planning based on expected sales. Please refer to the subsection headed “Information Technology Systems” for details.

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Our production capacity has generally been increasing during the Track Record Period. The table below sets forth our production capacity during the Track Record Period:

<u>Type of Products</u>	<u>Year/ Period</u>	<u>Number of Production Lines⁽¹⁾</u>	<u>Production during the Year/Period (tonne'000)⁽²⁾</u>	<u>Production Capacity of the Year/ Period (tonne'000)⁽³⁾</u>	<u>Utilisation Rate⁽⁴⁾</u>
Fabric Care Products	2017	40	386	798	48.4%
	2018	47	486	875	55.6%
	2019	44	496	900 ⁽¹⁾	55.1%
	2020 ⁽⁶⁾	44	172	450	38.3%
Personal Hygiene Products	2017	7	25	52	48.1%
	2018	9	30	73	41.1%
	2019	14	32	104	30.8% ⁽⁵⁾
	2020 ⁽⁶⁾	14	37 ⁽⁷⁾	52	70.6% ⁽⁷⁾
Home Care Products	2017	21	26	171	15.2%
	2018	19	31	170 ⁽¹⁾	18.2%
	2019	20	32	192	16.7%
	2020 ⁽⁶⁾	20	26	96	27.1%

Notes:

- (1) The decreases in the number of production lines for fabric care products from 2018 to 2019 and for home care products from 2017 to 2018 were because such production lines became obsolete and were not in use any more. In 2018, we were able to maintain the production capacity for our home care products, notwithstanding that we had disposed of two obsolete production lines, because those obsolete production lines did not have a significant contribution to the overall production capacity for home care products previously. In 2019, even though we disposed of three obsolete production lines for our fabric care products, we were still able to achieve an increased total actual production and an increased production capacity for our fabric care products through our efforts to improve and upgrade the equipment of certain remaining production lines, thereby improving the production capacity of such production lines.
- (2) The production during the year is the total net weight of the products manufactured during that year.
- (3) The production capacity of the year is estimated based on the following scenarios: (i) all product lines are functioning in its full capacity, (ii) 10 hours a shift (a day in the peak season has two shifts, a day in the off season has one shift), (iii) 250 working days (being 365 calendar days minus 104 weekends of a year (two days every week, 52 weeks in a year) and 11 public holidays announced by the relevant authorities in China) a year with 125 days counted as the peak season and the other 125 days are counted as the off season, and (iv) the Chongqing production base was in its trial operation in 2017 and was not included in the production capacity estimation for 2017. According to the Frost & Sullivan Report, our capacity calculation method, including the assumptions used therein, are reasonably in line with the standard of the relevant industry in China.
- (4) Utilisation rate is calculated by dividing the production during the year by production capacity of the year. According to the Frost & Sullivan Report, the average utilisation rate of the fabric care industry, personal hygiene industry, and home care industry was approximately 40.0%, 20.0% and 10.0%, respectively, in 2019.

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- (5) The utilisation rate decreased primarily because of the increase in production capacity of the personal hygiene product line of that year.
- (6) Only includes information for the six months ended 30 June 2020.
- (7) The increase in our production and the utilisation rate of our personal hygiene products in the six months ended 30 June 2020 was because of the COVID-19 outbreak and the resultant increase in demand of personal hygiene products.

Capacity Expansion

During the Track Record Period, the utilisation rates of all of our production lines exceeded the industry average utilisation rates and limited our production capacity. In the peak season of our production, the utilisation rates of our production lines are much higher than the industry average utilisation rates according to the Frost & Sullivan Report. We expect the utilisation rates of our product lines to increase along with the growth of our business. Other than our utilisation rate, we take a number of factors into consideration in planning our future development based on our past experience and market research. Our capacity expansion plan is based on a comprehensive evaluation of our current business development plans and the expected business growth in the future. Additionally, our production capacity expansion plan is intended to sustain our business operations in the long-term rather than the short-term. We decided to expand our production capacity in anticipation of our business needs for the next ten years or beyond, and not only to meet the immediate demand in the current year or the coming year. Our main reasons for capacity expansion are as follows:

- (i) our business (in terms of CAGR of retail sales value) has historically grown at a higher rate compared to the respective industry average during the Track Record Period (the “**Historical Growth Premiums**”). In view of our track record as well as our competitive strengths, we aim to implement our expansion plans and grow at a target CAGR calculated based on growth premiums (the “**Target Growth Premiums**”) above the projected growth rates of the relevant industries, according to the Frost & Sullivan Report. If the Target Growth Premiums are substantially in line with the Historical Growth Premiums, our existing production lines may become more than fully utilised in the next few years without capacity expansion. This would be detrimental to the sustainability and long-term growth of our business, and hinder our flexibility to adjust our production schedules and respond to fluctuations in customer demand particularly during the peak season. Based on our historical experience of the time it takes to expand capacity and build new factories, we have to plan for capacity expansion in advance as we gradually ramp up production capacity over the next few years in anticipation of increased sales in order to sustain the long-term growth of our business;
- (ii) as we launch more new products in the future, we will need additional customised production lines for the manufacturing of those new products. A significant portion of our new products currently under development require customised production lines due to different ingredients, technologies, industry standards and licensing requirements. Please refer to Appendix III to this prospectus for details of the relevant regulatory requirements. Moreover, we plan to continue developing new products in the future and would need to establish new production lines in anticipation of such products to be developed. Existing production lines of a particular product category cannot be readily used to manufacture products of a different category. Furthermore, even though some of our existing production lines can be modified to manufacture new products and we can apply for

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licenses to produce such products after the modification is completed, such modifications alone would not help us overcome our capacity constraint in the future particularly as we do not plan to replace or reduce production capacity for our existing products and lose out on potential sales. In addition, production line modification is a complicated process which may involve adjustment of equipment, changing or modifying the components, devices and conveyor systems, as well as potential modifications of the spatial arrangement of production lines, ventilations, infrastructure and ancillary facilities. The process of modification may cause interruptions or suspension of production. The current expansion plan would alleviate us from potential capacity constraints in the longer term and we would not need to incur unnecessary costs to modify existing production lines or sacrifice capacity for our existing products. Currently, we estimate that a substantial majority of the total increase in production capacity for existing products may be allocated to produce fabric care products, and the increase in production capacity for new products may be predominantly allocated to fabric care and personal hygiene products. Such estimates are based on potential market demand and growth, as the fabric care industry and in particular, the liquid laundry detergents segment, which contributed a substantial majority of our revenue, are projected to grow at a faster rate compared to the growth rate during the Track Record Period according to the Frost & Sullivan Report. Meanwhile, as a result of the COVID-19 outbreak and the increasing awareness of personal hygiene, we also aim to further grow our personal hygiene segment and may allocate additional capacity to such product segment accordingly.

The following table sets forth our new products currently under development by product category:

<u>Product category</u>	<u>Number of new products under development</u>	<u>Functions</u>	<u>Expected launch time⁽²⁾</u>	<u>Reasons for new production lines</u>
Fabric care	20	Laundry and other stain removal	By 2021	<p>New packaging designs and specifications and production technologies are expected to be applied to five of such new products and therefore require new production lines.</p> <p>New licenses may be required for the production of certain products currently under development.⁽¹⁾</p>
Personal hygiene	9	Hand wash and body cleaning	By 2021	<p>New packaging designs and specifications and production technologies are expected to be applied to three of such new products and therefore require new production lines.</p> <p>New licenses may be required for the production of certain products currently under development.⁽¹⁾</p>

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Product category	Number of new products under development	Functions	Expected launch time⁽²⁾	Reasons for new production lines
Home care	25	Hard surface cleaning, odour removal, and home disinfectant	By 2022	<p>New packaging designs and specifications and production technologies are expected to be applied to six of such new products and therefore require new production lines.</p> <p>New licenses may be required for the production of certain products currently under development.⁽¹⁾</p>

Notes:

- (1) The government authorities that are responsible for issuing the relevant production licenses consider a number of factors and then issue the relevant production licenses to cover a particular set of parameters, including the location of the production facility, products to be manufactured, production technologies, and inspection procedures. Any licenses granted do not cover the production of products when any of the abovementioned parameters changes. As advised by our PRC legal advisers, if any of the above parameters changes after the issuance of the license, we will need to apply for a new license as per the relevant regulatory requirements.
- (2) The expected timeframe is based on our current plan and is subject to change. We may adjust our product development plan in accordance with the development progress of each product and take into consideration other factors such as market conditions at the relevant time.

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We believe there will be sufficient demand for our products currently under development. Revenue of our products generally grew steadily from 2017 to 2019. Revenue generated from our fabric care products for the six months ended 30 June 2020 declined as compared to revenue generated from our fabric care products for the six months ended 30 June 2019 as a result of the COVID-19 outbreak. Please refer to the subsection headed “Impact of the COVID-19 Outbreak on our Business — Impact of the COVID-19 Outbreak on our Operational Performance” for details. Revenue generated from our personal hygiene and home care products for the six months ended 30 June 2020 increased as compared to revenue generated from our personal hygiene and home care products for the six months ended 30 June 2019, primarily due to consumers’ increasing awareness of personal hygiene as a result of the COVID-19 outbreak. Please refer to the section headed “Financial Information — Results of Operations” for details. The following table sets forth a breakdown of our revenue by product category during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	% of Total Revenue	Revenue	% of Total Revenue	Revenue	% of Total Revenue	Revenue	% of Total Revenue	Revenue	% of Total Revenue	
	<i>HK\$'000</i>	<i>(%)</i>	<i>HK\$'000</i>	<i>(%)</i>	<i>HK\$'000</i>	<i>(%)</i>	<i>HK\$'000</i>	<i>(%)</i>	<i>HK\$'000</i>	<i>(%)</i>
	<i>(unaudited)</i>									
Fabric care products	4,922,459	87.4	5,917,277	87.4	6,177,613	87.6	2,364,351	86.9	1,681,407	69.0
Personal hygiene products	328,021	5.8	410,616	6.1	418,545	5.9	180,051	6.6	465,602	19.1
Home care products	381,553	6.8	440,052	6.5	453,747	6.5	175,948	6.5	288,859	11.9
Total	5,632,033	100.0	6,767,945	100.0	7,049,905	100.0	2,720,350	100.0	2,435,868	100.0

The following table illustrates a comparison of our historical growth and the growth of the relevant markets in China during the Track Record Period:

	Our historical growth	Industry historical growth ⁽¹⁾		Industry expected growth ⁽¹⁾		
	CAGR of retail sales value	CAGR of market size growth in terms of retail sales value	Our historical growth premiums ⁽⁴⁾	CAGR of market size growth in terms of retail sales value	Market size in terms of retail sales value	
	%	%	%	%	2019	2024 ⁽²⁾
	2017 to 2019	2017 to 2019	2017 to 2019	2019 to 2024	<i>(RMB in billions)</i>	
Fabric care	11.3	4.2	7.1	7.4	67.8	97.1
Liquid laundry detergent ⁽³⁾	12.7	10.0	2.7	13.6	27.2	51.5
Personal hygiene	15.1	2.6	12.5	9.8	9.5	15.1
Liquid soap ⁽³⁾	15.1	10.8	4.3	25.3	2.7	8.4
Home care	9.9	6.9	3.0	10.6	33.5	55.5

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Notes:

- (1) Industry information is from the Frost & Sullivan Report.
- (2) Expected market size in terms of retail sales value.
- (3) In 2019, retail sales value from our liquid laundry detergent accounted for approximately 93.0% of our retail sales value from our fabric care products. In the same year, retail sales value from our liquid soap products accounted for approximately 100.0% of our retail sales value from our personal hygiene products.
- (4) Differences between our historical growth rates and the relevant industry historical growth rates.

According to the Frost & Sullivan Report, in 2019, we ranked fourth with a 10.4% market share in China's fabric care market, ranked fourth with a 5.0% market share in China's personal hygiene market, and ranked fifth with a 1.7% market share in China's home care market, all in terms of retail sales value. We believe there will be significant demand for our products and opportunities for us to substantially grow our business and increase our market share in China's fabric care, personal hygiene and home care markets.

During the Track Record Period, we have substantially outperformed the market and grown our business at a CAGR of 11.3% in terms of retail sales value from 2017 to 2019, as compared to a CAGR of 4.2% in terms of retail sales value of China's fabric care market over the same period. In addition, we have a successful track record of launching products that are popular for over ten years. We also focus on product segments with high growth potentials such as the liquid laundry detergent segment where we already ranked first in terms of market share, and which is projected to grow faster than the industry average. Meanwhile, other higher-ranked players in the fabric care market offer products such as powder detergent, which could be replaced by liquid detergent in the longer term, according to the Frost & Sullivan Report. Specifically, the market share in terms of retail sales value of powder laundry detergents in China's fabric care market decreased from 53.5% in 2015 to 43.4% in 2019. Over the same period, the market share in terms of retail sales value of liquid laundry detergent in China's fabric care market increased from 29.5% in 2015 to 40.1% in 2019. In 2024, the market share in terms of retail sales value of the powder detergent is expected to further decrease to 31.9%, while the market share in terms of retail sales value of the liquid laundry detergent is expected to increase to 53.1%, according to the Frost & Sullivan Report. Therefore, we are confident that we can leverage our market leading position to capture the expected industry growth in the future.

To capture the market opportunities in China's household care market, we intend to (i) expand and upgrade our product offerings, (ii) strengthen our distribution network and increase our product penetration, (iii) continue to promote scientific cleaning knowledge, (iv) enrich our services to improve consumer experiences, (v) accelerate digitisation and upgrade our manufacturing network, and (vi) retain and recruit high-quality employees. Please refer to the subsection headed "Business Strategies" for details. We believe our market position, our brand name, our proven track record of producing new products, and our sales and distribution network would enable us to capture the opportunities in the market. Please refer to the subsection headed "Competitive Strengths" for details;

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- (iii) each production line is limited to the manufacture of products according to the license it has obtained and therefore, certain of our existing production lines cannot be used for the production of our other existing products, our new products under development or to be developed in the future. We have three types of production licenses, namely the cosmetic product license, the disinfectant standard product license and the industrial standard product license. Each of these production licenses is governed by the relevant provincial food and drug administration, provincial health administration, and provincial quality and technical supervision administration, respectively. The licenses issued by the government authorities cover a particular set of parameters, including the location of the production facility, products to be manufactured, production technologies, and inspection procedures. Such licenses will not cover the production of products when any of the aforementioned parameters changes. Therefore, any additional production lines which we construct for future products (including new products within an existing product category) would likely result in a change in one of the aforementioned parameters, which means that we would need to obtain one of the three licenses as described above. As advised by our PRC legal advisers, if any of the above parameters changes after the issuance of the license, we will need to apply for a new license as per the relevant regulatory requirements. Please refer to Appendix III to this prospectus for details of the relevant regulatory requirements. Even though we can modify our existing production lines and apply for new licenses, as we plan to continue developing new products in the future and do not plan to reduce the production scale of our current products, we would need to establish new production lines and apply for new licenses to meet the regulatory licensing requirement and to accomplish the mass production of our future products;
- (iv) due to the seasonality of the industry, during certain periods in the peak season (usually in the fourth quarter of each year), generally depending on the demand in the market and particularly during periods when a number of online and offline sales events are taking place, our production lines are more heavily utilised. Particularly, certain of our production lines were consistently highly utilised in certain periods during the Track Record Period. The following table sets forth our utilisation rate for the three months in each fourth quarter during the Track Record Period by product category:

	2017			2018			2019		
	October	November	December	October	November	December	October	November	December
Fabric care	53.6%	57.2%	89.1%	66.2%	74.9%	104.6% ⁽²⁾	74.5%	79.6%	102.4% ⁽²⁾
Personal									
hygiene⁽¹⁾	61.5%	31.6%	62.1%	63.0%	46.5%	54.9%	45.2%	37.9%	42.0%
Home care⁽¹⁾	17.5%	16.5%	23.7%	24.2%	23.0%	28.5%	27.4%	18.0%	28.2%

Notes:

- (1) During the Track Record Period, the production capacity for our personal hygiene and home care products were significantly lower as compared with the production capacity for our fabric care products. Please refer to the subsection headed “– Our Production Operations – Production Planning” for details. As a result, small increases in demand for products in the relevant product category could potentially lead to quick increases in the utilisation of the relevant production lines.
- (2) We calculate our utilisation rate by dividing the actual production by the production capacity of the relevant product category during that period. For the periods where our utilisation rates were higher than 100%, we manufactured more products than our projected capacity of the same period as a result of overtime.

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However, we note that historical utilisation is not the only reason for our plan to expand capacity, and we have taken into consideration other factors as disclosed in this section in deciding to expand our capacity;

- (v) while we produce additional popular products shortly before the peak season to a certain extent and hold them in inventory, we do not intend to do so on a larger scale, nor do we intend to produce products substantially in advance. This is due to the fact that such measures provide a short-term solution only and have the following limitations:
 - (1) according to the Frost & Sullivan Report, industry peers generally prefer to keep their average utilisation rates at no more than 60% to maintain sufficient head room for production flexibility to manufacture products on demand during peak season, when utilisation rates are much higher than the annual average. Without capacity expansion, as we get closer to full utilisation on average, we expect to lose the capability and flexibility to meet demand during peak season. Production ahead of peak season alone could not help us to overcome such capacity constraints in the longer term, as our flexibility to pre-produce several months prior to the peak season would also be reduced as utilisation generally rises, causing us to lose out on potential sales in the busiest months;
 - (2) the increased production prior to the peak season of demand would result in us holding more products as inventory for longer periods, resulting in higher storage rental and logistics costs;
 - (3) according to the Frost & Sullivan Report, consumers also typically prefer products that were recently produced within six months over products that have been in stock for an extended period of time. Therefore, we typically prefer to deliver more recently produced products to our customers and it would be more difficult for us to sell products that were manufactured too far in advance. Furthermore, logistics and transportation arrangements for the shipping of the products to the relevant customers also take additional time. If we need to sell products produced several months in advance, by the time such products reach our customers and end users, such products may no longer be recently produced as we and our customers prefer;
 - (4) taking into account (i) the increased storage rental and logistics costs over several months based on historical experience, and (ii) the depreciation costs of production capacity expansion and maintenance after considering the capital expenditure requirement for production lines as well as their useful life, it is estimated that the costs of pre-producing and renting storage for one tonne of inventory over several months will exceed the depreciation costs of adding the same amount of production capacity. Furthermore, once production capacity expansion is completed, much of the storage, logistics and opportunity costs associated with pre-production would be unnecessary. As such, it is commercially more reasonable for us to expand capacity to address capacity constraints and maintain production flexibility in the longer term, rather than pre-produce and hold products in the inventory; and

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- (vi) as the demand from customers can fluctuate quite significantly from time to time regardless of the seasonality of the industry, we require a higher production capacity to respond to increasing customer demand.

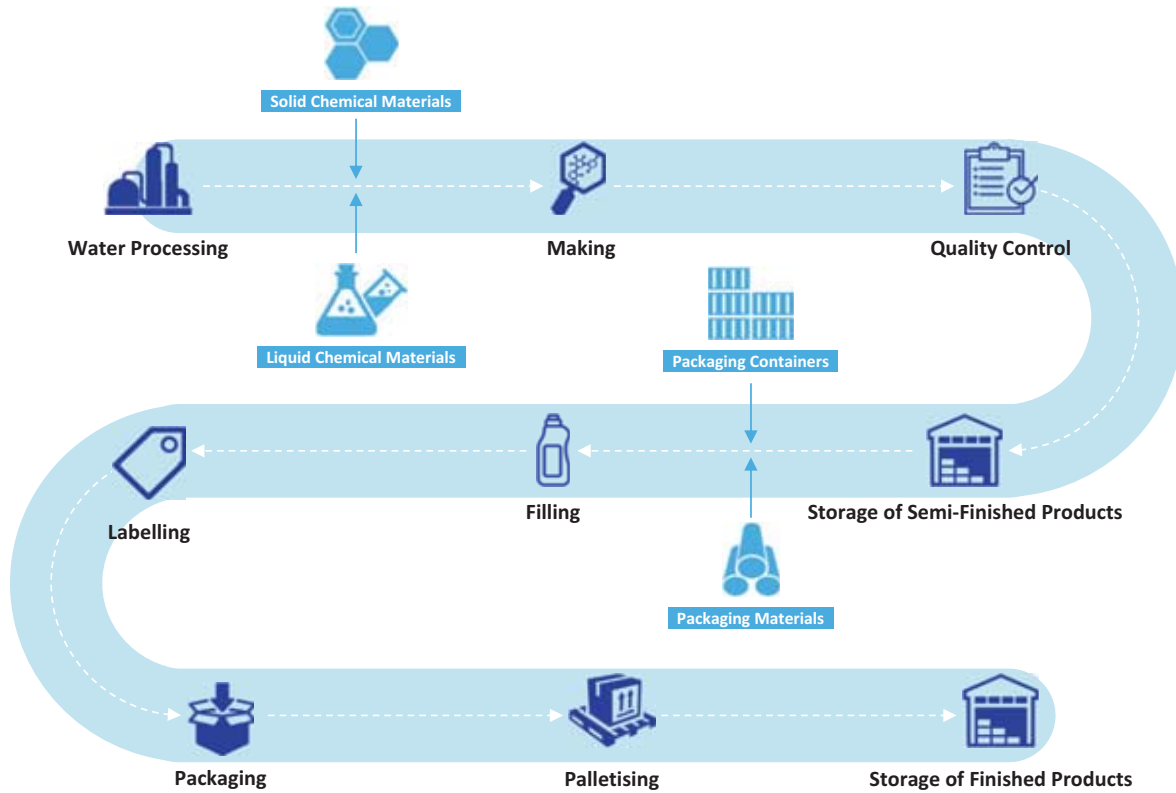
Therefore, we believe that while substantial capital expenditure would be incurred in expanding production capacity, in the longer term, this would enable us to grow our business, maintain production flexibility and address our potential capacity constraints.

Additionally, we plan to use a portion of the net proceeds of the Global Offering for the purchase of equipment and machinery and other-related ancillary expenses to facilitate our capacity expansion. Moreover, we plan to establish a new factory in China to further increase our production capacity, reduce logistics and other costs, and increase product penetration in inland areas. As at the Latest Practicable Date, we did not have definitive plan for the new factory. Please refer to the section headed “Future Plans and Use of Proceeds – Use of Proceeds” for details. The following table illustrates details of our capacity expansion plan of our four production bases:

Location	Commencement time	Expected year of completion	Description
Guangzhou	January 2017	First half of 2023	New production facilities and storage facilities, including seven new buildings with a GFA of approximately 53,000 sq.m.
Tianjin	First half of 2022	Second half of 2023	Upgrading production capacity
Kunshan	May 2019	First half of 2023	New storage facilities, including three new buildings with a GFA of approximately 24,000 sq.m.
Chongqing	Fourth quarter of 2020	Second half of 2023	New production facilities and storage facilities, including six new buildings with a GFA of approximately 52,000 sq.m.

Production Process

The following diagram illustrates our production process.



Our production process requires a stable and sufficient supply of utilities, such as water and electricity. We anticipate that our reliance on such supply of utilities will increase as we seek to expand our production capacity. During the Track Record Period, we did not experience any disruption in the supply of utilities that had a material impact on our business or operations.

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Equipment and Machinery

We own all of our major production equipment and machinery. We regularly inspect and maintain the production equipment and machinery, and replace worn consumable parts and components. To ensure production safety and efficiency, we perform daily inspections of key production equipment and machinery. Our major production equipment and machinery have an estimated average useful life of five to ten years. We use the straight-line method to make provisions for depreciation, with an annual rate of 5% to 20%. The average remaining useful life, based on our depreciation method, of such equipment and machinery is between approximately one to seven years. The following table sets out certain information relating to the top 30 essential machinery and equipment by category which are used by us in production (in terms of purchase price) as at the Latest Practicable Date:

<u>Category</u>	<u>Function</u>	<u>Total number</u>	<u>Purchase year</u>	<u>Average remaining useful life</u>
Bagging machine	Bagging	12	2013 to 2019	3 to 8
Automatic making machine	Making	3	2016 to 2018	8
Water treatment equipment	Water treatment	6	2012 to 2019	2 to 9
Pipes	Piping and transfer	6	2012 to 2018	2 to 7
Mould	Moulding	1	2020	5
Storage shelf	Storage	1	2016	6
Power generation	Power supply	1	2018	3

QUALITY CONTROL

We place great emphasis on the quality of our products. We perform various quality inspection and testing procedures, including visual inspection, physical and chemical inspection, microbiological testing, and weight checks at different stages throughout our operations, to ensure that our products meet the relevant quality standards and comply with applicable laws and regulations.

As at 30 June 2020, our quality control department comprised 162 members, with an average experience of approximately five years in quality control. A number of our PRC subsidiaries have obtained the ISO9001 certification for their quality management systems, ISO14001 for their environment protection management system, and OHSAS18001 for their employment health and safety management system, as at 30 June 2020.

Quality Control of Product Development

Our quality control begins at the initial stage of product development. Our quality control department works with our research and development team closely to evaluate the effectiveness of each formula in accordance with the relevant laws and regulations and industry standards. We produce samples based on the

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tested formula and prepare internal reports setting out the details of experiment results to help evaluate the effectiveness of such formula. For example, in order to assess certain formulae for our laundry detergents, we will test samples on different fabrics and compare the cleaning results of such fabrics before and after applying the samples. Prior to the official launch of newly developed products, we conduct trial testing on selected online platforms and offline points of sale and collect feedbacks. Afterwards we will formulate responsive sales and marketing plans for a nationwide launch.

Quality Control of Raw Materials and Packaging Materials

We believe that raw materials and packaging materials are crucial to our product quality. Therefore, we have a stringent selection process in choosing our suppliers and those who fail to meet our standard will be excluded from our supplier list. We also have internal guidelines on quality control of raw materials and packaging materials. In accordance with our internal guidelines, we inspect our raw materials and packaging materials for their appearance, specifications and functionality and conduct tests on randomly selected samples. If the samples fail to pass our tests, we will conduct further inspection and evaluation according to our internal procedures. We may return the entire batch of raw materials or packaging materials if we determine that the use of such materials will have a material adverse impact on our production.

Quality Control of Production

We assign our staff to perform regular equipment inspections and maintenance in order to ensure our production lines perform at optimal levels. During the Track Record Period, we did not experience any material production stoppages due to equipment failure. We regularly check our staff members' compliance with our internal operation standards. In addition, we perform routine product inspections on our products and set quality checkpoints during the key production process to ensure consistent quality of our products.

Quality Control of Logistics

Finished products which have passed our quality inspections will be transported to our warehouses pending delivery. Products in our warehouses are also subject to routine quality inspection. In addition, we require our logistics service providers to follow certain storage and transportation procedures to ensure that our products are transported under proper conditions.

Quality Control of Finished Products

We have a dedicated quality control team to extend the quality management to the storage, delivery and sales process of our products. Leveraging our extensive sales and distribution network, combined with our strong online presence, we have set up mechanisms to handle consumer complaints, including our cleaning consultants, hotlines, WeChat, and other feedback channels. In addressing the consumers' complaints, we undertake to communicate and liaise with the consumers in a timely manner and to commence the quality investigation procedures if necessary.

PROCUREMENT AND INVENTORY

Raw Materials

Our raw materials primarily consist of chemicals and packaging materials. For the years ended 31 December 2017, 2018 and 2019, and the six months ended 30 June 2019 and 2020, the total costs of our raw

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materials amounted to HK\$2,096.4 million, HK\$2,611.2 million, HK\$2,059.5 million, HK\$801.5 million and HK\$818.1 million, respectively, which accounted for 79.5%, 90.6%, 81.5%, 76.4% and 93.3% of our total cost of sales, respectively.

We generally procure raw materials through our centralised procurement centre that oversees the entire procurement process. The procurement centre supervises different procurement teams that are responsible for the procurement of different types of raw materials. Most of our raw materials are readily available in China, and we source most of our raw materials from suppliers located at the adjacent regions of our production bases. We generally import raw materials in the case that imported raw materials have significant competitive advantages over domestically available raw materials. For key raw materials, we collaborate with multiple suppliers to reduce the risks associated therewith. We maintain long-term business relationships with key suppliers and strategically stock certain raw materials for a short-period of time in response to the potential increase in prices of such raw materials. During the Track Record Period, we did not encounter any material raw materials shortages or delays.

Chemicals

For the years ended 31 December 2017, 2018 and 2019, and the six months ended 30 June 2019 and 2020, the total costs of our chemicals amounted to HK\$1,269.8 million, HK\$1,420.1 million, HK\$1,124.1 million, HK\$367.4 million and HK\$434.0 million, respectively, which accounted for 48.2%, 49.3%, 44.5%, 41.4% and 49.5% of our total cost of sales, respectively.

Packaging Materials

Our product packaging is important in maintaining our brand image. Most of our packaging materials are LDPE-based. We source most of our packaging materials from suppliers located at the adjacent regions of our production bases. For the years ended 31 December 2017, 2018 and 2019, and the six months ended 30 June 2019 and 2020, the total costs of our packaging materials amounted to HK\$826.6 million, HK\$1,191.1 million, HK\$935.4 million, HK\$367.4 million and HK\$384.1 million, respectively, which accounted for 31.3%, 41.3%, 37.0%, 35.0% and 43.8% of our total cost of sales, respectively.

Suppliers

We have maintained long-term business relationships with our key suppliers. We adopt a stringent selection process in choosing our suppliers and evaluate the suppliers on a number of factors, including their business scale, production capacity, quality control, location of the sites and the price and quality of the products. In general, our suppliers entered into agreements with us with a term of two to five years. Our suppliers generally grant us a credit period of 30 to 90 days. We generally settle the payment by bank transfers.

Top Five Suppliers

Our major suppliers are chemical and packaging materials providers. All of our major suppliers are located in China. For the years ended 31 December 2017, 2018 and 2019, and the six months ended 30 June 2020, the aggregate purchases from our five largest suppliers in terms of procurement amount was HK\$1,007.8 million, HK\$1,001.4 million, HK\$871.0 million, and HK\$333.4 million, respectively, which accounted for 41.6%, 31.6%, 36.1% and 34.2% of our total purchases, respectively. For the years ended 31 December 2017,

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2018 and 2019, and the six months ended 30 June 2020, our purchase from the largest supplier amount to HK\$291.1 million, HK\$234.1 million, HK\$202.2 million, and HK\$80.2 million, respectively, which accounted for 12.0%, 7.4%, 8.4% and 8.2% of our total purchases, respectively. As at the Latest Practicable Date, none of our Directors, their associates or any other Shareholder which, to the knowledge of our Directors owns more than 5% of our share capital had any interest in any of our five largest suppliers. None of our five largest suppliers, including their shareholders, directors, senior management or any of their respective associates, have any past or present relationship (family, employment, trust, financing or otherwise) with us, our subsidiaries, our Shareholders, Directors, senior management or any of their respective associates. The following tables set out the details of our five largest suppliers during the Track Record Period:

Year ended 31 December 2017									
No.	Supplier	Primary business scope	Location of operation	Registered capital of each corporate entity of the supplier ⁽¹⁾	Products procured	Amount of our purchases attributable to the supplier (HK\$'000)	% of our total purchase	Year of commencement of business relationship with us	Credit terms granted by such supplier
1.	Supplier A	Chemical production	Guangzhou, Hunan, Shanghai	RMB20.0 million, RMB10.0 million, RMB20.0 million	Chemicals	291,064	12.0%	2007	30 to 40 days
2.	Supplier B	Chemical production	Guangdong	US\$13.0 million	Chemicals	288,107	11.9%	2012	30 days
3.	Supplier C	Rubber and plastic product manufacture	Guangzhou, Tianjin, Suzhou	US\$18.0 million, US\$14.0 million, US\$20.0 million	Plastics	185,548	7.6%	2011	60 days
4.	Supplier D	Chemical production	Hebei, Zhejiang	RMB80.0 million, RMB422.7 million	Chemicals	137,408	5.7%	2013	30 to 40 days
5.	Supplier E	Rubber and plastic product manufacture	Guangzhou, Tianjin, Chongqing, Suzhou	US\$10.0 million, US\$10.0 million, US\$10.0 million, RMB100.0 million	Plastics	105,650	4.4%	2012	30 days

Note:

(1) The registered capital information was from public sources as at 30 June 2020.

Year ended 31 December 2018									
No.	Supplier	Primary business scope	Location of operation	Registered capital of each corporate entity of the supplier ⁽¹⁾	Products procured	Amount of our purchases attributable to the supplier (HK\$'000)	% of our total purchase	Year of commencement of business relationship with us	Credit terms granted by such supplier
1.	Supplier A	Chemical production	Guangzhou, Hunan, Shanghai	RMB20.0 million, RMB10.0 million, RMB20.0 million	Chemicals	234,063	7.4%	2007	30 to 40 days
2.	Supplier C	Rubber and plastic product manufacture	Guangzhou, Tianjin, Suzhou	US\$18.0 million, US\$14.0 million, US\$20.0 million	Plastics	222,489	7.0%	2011	60 days
3.	Supplier F	Paper and paper product manufacture	Guangzhou, Shanghai, Tianjin, Chongqing	RMB80.0 million, US\$5.0 million, US\$2.5 million, RMB30.0 million, RMB80.0 million	Paper boxes	187,710	5.9%	2011	60 to 90 days
4.	Supplier B	Chemical production	Guangdong	US\$13.0 million	Chemicals	179,415	5.7%	2012	30 days
5.	Supplier E	Rubber and plastic product manufacture	Guangzhou, Tianjin, Chongqing, Suzhou	US\$10.0 million, US\$10.0 million, US\$10.0 million, RMB100.0 million	Plastics	177,754	5.6%	2012	30 days

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Note:

(1) The registered capital information was from public sources as at 30 June 2020.

Year ended 31 December 2019									
No.	Supplier	Primary business scope	Location of operation	Registered capital of each corporate entity of the supplier ⁽¹⁾	Products procured	Amount of our purchases attributable to the supplier (HK\$'000)	% of our total purchase	Year of commencement of business relationship with us	Credit terms granted by such supplier
1.	Supplier C	Rubber and plastic product manufacture	Guangzhou, Tianjin, Suzhou	US\$18.0 million, US\$14.0 million, US\$20.0 million	Plastics	202,191	8.4%	2011	60 days
2.	Supplier A	Chemical production	Guangzhou, Hunan, Shanghai	RMB20.0 million, RMB10.0 million, RMB20.0 million	Chemicals	195,826	8.1%	2007	30 to 40 days
3.	Supplier G	Chemical production	Anhui, Sichuan	RMB40.0 million, RMB60.0 million	Chemicals	161,576	6.7%	2011	30 days
4.	Supplier E	Rubber and plastic product manufacture	Guangzhou, Tianjin, Chongqing, Suzhou	US\$10.0 million, US\$10.0 million, US\$10.0 million, RMB100.0 million	Plastics	157,322	6.5%	2012	30 days
5.	Supplier F	Paper and paper product manufacture	Guangzhou, Shanghai, Tianjin, Chongqing	RMB80.0 million, US\$5.0 million, US\$2.5 million, RMB30.0 million, RMB80.0 million	Paper boxes	154,071	6.4%	2011	60 to 90 days

Note:

(1) The registered capital information was from public sources as at 30 June 2020.

Six months ended 30 June 2020									
No.	Supplier	Primary business scope	Location of operation	Registered capital of each corporate entity of the supplier ⁽¹⁾	Products procured	Amount of our purchases attributable to the supplier (HK\$'000)	% of our total purchase	Year of commencement of business relationship with us	Credit terms granted by such supplier
1.	Supplier A	Chemical production	Guangzhou, Hunan, Shanghai	RMB20.0 million, RMB10.0 million, RMB20.0 million	Chemicals	80,212	8.2%	2007	30 to 40 days
2.	Supplier C	Rubber and plastic product manufacture	Guangzhou, Tianjin, Suzhou	US\$18.0 million, US\$14.0 million, US\$20.0 million	Plastics	74,494	7.6%	2011	60 days
3.	Supplier G	Chemical production	Anhui, Sichuan	RMB40.0 million, RMB60.0 million	Chemicals	66,141	6.8%	2011	30 days
4.	Supplier E	Rubber and plastic product manufacture	Guangzhou, Tianjin, Chongqing, Suzhou	US\$10.0 million, US\$10.0 million, US\$10.0 million, RMB100.0 million	Plastics	57,226	5.9%	2012	30 days
5.	Supplier F	Paper and paper product manufacture	Guangzhou, Shanghai, Tianjin, Chongqing	RMB80.0 million, US\$5.0 million, US\$2.5 million, RMB30.0 million, RMB80.0 million	Paper boxes	55,293	5.7%	2011	60 to 90 days

Note:

(1) The registered capital information was from public sources as at 30 June 2020.

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Key Terms of Agreements with Suppliers

The following table sets forth the key terms of our contracts with major suppliers during the Track Record Period:

Quality	The quality of the products supplied shall be satisfactory to us and in accordance with the quality standards mutually agreed by the supplier and us.
Pricing	The pricing shall be determined on a case-by-case basis after negotiation between the supplier and us, and shall remain unchanged throughout the term of the agreement save as mutually agreed by the supplier and us.
Payment and credit terms	The supplier generally provides a credit period within 30 to 90 days. We generally settle the outstanding payment within the credit period if we have received the invoice from the supplier ten business days prior to the expiration of the relevant credit period.
Delivery of products	The supplier shall deliver the products to a location designated by us, and bear all costs in relation to the products' transport, including insurance costs.
Transfer of risks	The risks transfer to us when the products are delivered to the location designated by us.
Inspection and product returns / exchanges	In the event of products not meeting our quality standards, we have the right to (i) return the products to the supplier, with the supplier bearing all associated costs, (ii) accept partial delivery, with the supplier bearing all associated costs, or (iii) accept all delivery after negotiation between the supplier and us in relation to compensatory measures.
Termination	Each party may unilaterally terminate the agreement with seven business days' written notice upon, among others, (i) a party committing a material breach of the contractual provisions and failing to remedy the breach within ten days of the non-breaching party's request of remedial actions, (ii) a party breaching the contractual provisions and causing the agreement to be unable to achieve its purpose, and (iii) one party having undergone, or anticipating to undergo major changes in terms of its business or operation, such as suspension of operation, reorganisation, liquidation and bankruptcy, or change of control.

Inventory Management

Our inventories primarily consist of raw materials, packaging materials, semi-finished products and finished products. Our inventory levels vary according to the demand of our customers and our sales and production plans.

As at 31 December 2017, 2018 and 2019, and 30 June 2020, our net inventories amounted to HK\$568.0 million, HK\$586.9 million, HK\$375.8 million, and HK\$445.0 million, respectively, which accounted for 13.0%, 13.7%, 7.5% and 9.9% of our total assets, respectively, and our average inventory turnover days were 96.8 days, 73.1 days, 69.5 days, and 85.1 days, respectively.

We focus on optimising our inventory management and we maintain a digital enterprise resource planning (“ERP”) system to track incoming and outgoing inventory. The ERP system enables us to manage different

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aspects of our inventory, namely (i) procurement agreements, orders and applications, and order settlements, (ii) raw material preparation, transfer to production facilities, and the consumption of raw materials, (iii) orders placed by our customers and their delivery process, and (iv) movement of inventories in our warehouse. The system enables us to monitor inventory levels and generates inventory reports on a real-time basis, which in turn helps us maintain optimal inventory levels and improve our working capital efficiency.

We typically maintain a minimum inventory level of raw materials and packaging materials ranging from 12 days to 18 days of production. Our minimum inventory levels for raw materials, packaging materials, semi-finished products, and finished products are based on our historical sales, real-time market demands for our products, and future sales projections. Additionally, after almost two decades of operations, we believe we have formed strong relationships with upstream raw material providers in the relevant market. We will stock up on certain raw materials for up to three months of inventories in anticipation of any significant increase in the price of such raw material. During the Track Record Period, we did not experience any material shortage of inventory or obsolescence of inventory. Further, we plan to further expand our product offerings and therefore diversify the raw material categories to reduce the risk of price fluctuation of certain raw materials. Please refer to the subsection headed “Business Strategies – Expand and upgrade our product offerings to solidify our leading market position” for details.

WAREHOUSING AND LOGISTICS

As at the Latest Practicable Date, we have a two-tier warehousing system that consists of (i) 10 front-tier e-commerce warehouses located in 10 provinces in China (established between September 2017 and May 2020) to cover the demands from various e-commerce platforms and certain offline distributors, and (ii) back-tier warehouses located in our four production bases to cover the demands from the respective regions. We believe the strategic locations of our front-tier warehouses greatly lower the logistics costs and ensure the timeliness of our e-commerce delivery.

To further increase our warehousing capacity in a cost-efficient manner, we have also engaged Independent Third Party logistics service providers to provide warehousing facilities as supplemental warehousing facilities.

We procure delivery services from Independent Third Party logistics service providers. As at 30 June 2020, we had 28 logistics service providers. We select logistics service providers based on their track record, geographic coverage, management ability and scale of operation. Our arrangements with third party logistics service providers allow us to provide fast and efficient delivery services of our products, reduce our capital investment and reduce the risk of incurring liability for traffic accidents, delivery delays or loss. Once our logistics service providers confirm receipt of the products to be delivered, the risks relating to the transportation and delivery of our products are transferred to the logistics service providers. For the years ended 31 December, 2017, 2018 and 2019, and the six months ended 30 June 2019 and 2020, the total delivery costs paid to the logistics service providers amounted to HK\$391.9 million, HK\$406.6 million, HK\$452.6 million, HK\$187.9 million and HK\$198.8 million, respectively, which accounted for 18.9%, 16.0%, 19.5%, 18.2% and 24.4% of our selling and distribution expenses, respectively.

During the Track Record Period, we did not experience any material disruption in the delivery of our products or suffer any loss as a result of delays in delivery or poor handling of goods.

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INFORMATION TECHNOLOGY SYSTEMS

We have been leading the growth of our operations with technological development since 2008. We utilise a number of information technology (“IT”) systems to manage almost all aspects of our operations. IT systems we utilise include mainstream third party products used in the same industry and our self-developed IT systems specialising in different aspects of our operations, such as distribution channel management, e-commerce platform management, and proprietary online store management. Our IT systems enable us to standardise our operations and manage our procurement, sales and distribution, quality control, inventory management and logistics, financial reporting and human resources functions, thereby enhancing our management and operational efficiency. As at 30 June 2020, we had more than 20 self-developed IT systems and nine mobile apps. The following table sets forth certain of our self-developed IT systems:

Name of the IT System	Year Launched	Description of Functions
e-Human Resource System (電子人力資源管理系統)	December 2015	Online human resource system tailor-made for our business operations.
Big Data Analytics System (大數據分析系統)	January 2016	Such system analyses consumer data cumulated from online sales channels and enable us to refine and optimise our sales and marketing efforts as well as prepare production plans accordingly.
MH Online Order Management System (MH在線訂單管理系統)	January 2016	Online order management system for our proprietary online stores. Such system automates and centralises management of our online order intake and handling process across different e-commerce platforms.
CRM System (CRM系統)	September 2016	Such system provides centralised management over a number of aspects of our customer relationships, including client information categorisation and analysis, sales personnel check-in and workload management.
Ingredient Management System (投配料管理系統)	September 2018	Such system standardises our ingredient management and ingredient addition procedure, collect relevant data, and improves our ingredient management automation and efficiency.
EC OMS System (電商在線訂單管理系統)	September 2019	Online order management system for our e-commerce platform customers. Such system synchronises online order data of our e-commerce platform customers with our data, and digitalises our online order management process to improve efficiency.

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Our IT systems are maintained by our IT department. Our IT department has five teams carrying out specific responsibilities, including (i) the application product and user experience team that is responsible for the analysis of the business demand for IT systems and application products, IT technology feasibility assessment, and user experience design, (ii) the data product team that is responsible for the analysis of the business demand for data products, and the design and launch of data product, (iii) the IT development team that is responsible for the development of our proprietary IT systems, (iv) the big data technology team that is responsible for all big data analysis, and the management, development and implementation of the big data infrastructure, and (v) our IT infrastructure service team that is responsible for all IT infrastructure maintenance, cybersecurity, and technical support. As at 30 June 2020, we had 319 full-time employees in our IT department, including software engineers, product managers, data scientists and other 17 staff members.

Our IT capabilities and the stability of our IT infrastructure are vital to our business operations. The IT department performs system checks, data back-ups, system maintenance and maintains spare systems and parts of emergency hardware components to secure the continual operation of the critical IT systems and facilities. We also engage external IT consultants to perform periodical systemwide security checks to ensure information security. We are committed to protecting consumer and business data and have implemented relevant internal procedures and control measures to ensure that such data is protected and leakage and loss of such data and any other cybersecurity issues are prevented. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material failure or breakdown of our IT systems which had resulted in a material adverse impact on our overall business operations.

ERP System

In order to streamline our back-office management, we first introduced the ERP System in 2008 to help our management conduct in-depth analysis of our operations and enhance information exchange among different departments. Please refer to the subsection headed “Inventory Management” for details of our ERP system.

CRM System

Our self-developed CRM system provides centralised management over various aspects of our sales and distribution network, including client information categorisation and analysis, sales personnel check-in and workload management, as well as logistics data management. Our CRM system has access to inventory data and consumption data of our offline distributors and certain proprietary online stores and sub-distributors. Our frontline sales staff who is equipped with mobile access to our CRM system can provide timely services to our customers according to their needs. Our CRM system reduces labour cost caused by online sales activity management that generally requires a large number of staff to oversee different communication channels and supervise order placement and fulfilment.

Big Data and AI

We have applied AI technology and big data analytics in various aspects of our front- and back-office operations and management, such as sales and marketing and monitoring counterfeit products. In 2015, we established a big data research centre at our headquarters for the purpose of applying big data analytics to analyse consumer data cumulated from the operations of our proprietary online stores. We use the results to refine and optimise our sales and marketing efforts for both our online and offline businesses. Moreover, we have used

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AI-empowered anti-infringement technologies to automatically search and identify counterfeit products on various e-commerce channels and submit claims to the relevant authorities automatically, thereby protecting our intellectual properties with higher efficiency and accuracy while at the same time reducing the relevant labour costs.

COMPETITION

China’s household care industry is highly concentrated, with the top ten market players having over 75% of the market share in terms of total retail sales value, according to the Frost & Sullivan Report. We face competition from international and domestic companies in each of our business segments. Competition is primarily focused on brand recognition, technological development, product differentiation and quality, marketing and promotion, cost effectiveness, price and the ability to respond to consumer’s needs and preferences. Our principal competitors include international consumer goods companies and a number of large domestic household care companies. Please refer to the sections headed “Risk Factors – Risks relating to our Business and Industry – We operate in a competitive industry and if we are unable to compete effectively, our business, financial condition, results of operations and prospects would be materially and adversely affected.” and “Industry Overview – Competitive Landscape” for details.

We compete against well-established competing brands by focusing on our competitive advantages. Leveraging our strong brand image, cleaning technologies and competitive sales and marketing capabilities, we believe that we are well-positioned to maintain our leadership position in the market and capture future opportunities in the business segments that we operate in.

AWARDS AND RECOGNITIONS

We have received numerous awards and recognitions since our establishment in recognition of our brand, business operations, products and corporate social responsibility achievements. The table below sets forth a summary of significant awards and recognitions that we have received during the Track Record Period:

<u>Year</u>	<u>Awards/Certifications</u>	<u>Awarding Body</u>
2004 to 2020	Guangzhou Municipal Famous Trademark (廣州市著名商標)	Industry & Commerce Administration of Guangzhou Municipality
2005 to 2020	Guangdong Provincial Famous Trademark (廣東省著名商標)	The Famous Trademark Evaluation Committee of Guangdong Province
2020	National COVID-19 Pandemic Prevention and Control Essential Enterprise (全國性疫情防控重點保障企業)	Ministry of Industry and Information Technology of China
2020	Guangdong Provincial Intellectual Property (廣東省知識產權示範企業)	Guangdong Administration For Market Regulation (Guangdong Intellectual Property Administration) (廣東省市場監 督管理局 (知識產權局))
2011 to 2020	Ranked first in the China Brand Power Index (C-BPI黃金品牌) of Liquid Laundry Detergent and Liquid Soap	Chnbrand (中國企業品牌顧問有限公司)
2011 to 2020	High Technology Enterprise (高新技術 企業)	Science and Technology Department of Guangdong Province Department of Finance of Guangdong Province Guangdong State Administration of Taxation

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<u>Year</u>	<u>Awards/Certifications</u>	<u>Awarding Body</u>
		Guangdong Provincial Local Taxation Bureau
2012 to 2019	Guangzhou Cleaner Production Enterprise (廣州清潔生產企業)	Office of Industry and Information Technology Development Joint Session, (廣州市工業和信息化發展聯席會議辦公室)
2015 to 2019	Annual Socially Responsible Brand Award (中國公益節責任品牌獎)	China Charity Festival (中國公益節組委會)
2016 to 2020	Guangdong and Hong Kong Cleaner Production Outstanding Participant (Manufacturing) (粵港清潔生產優越夥伴(製造業))	Environment Bureau of Hong Kong
2019	National Environmental Labelling Contribution Award (中國環境標誌貢獻獎)	China Ministry of Ecology and Environment Development
	National Environmental Labelling Outstanding Enterprise (中國環境標誌優秀企業獎)	
2019	Provincial Industrial Design Centre (省級工業設計中心)	Department of Industry and Information Technology of Guangdong Province
2018	The 7th International Carbon-Value Award General Award (國際碳金獎總獎)	World Economic and Environmental Conference
2017	Best Green Enterprise in China (中國綠效企業最佳典範獎)	World Economic and Environmental Conference

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EMPLOYEES

As at 31 December 2017, 2018 and 2019, and 30 June 2020, we had 14,362, 12,820, 11,196 and 8,349 full-time employees, respectively. The table below sets forth breakdowns of our full-time employees by function during the Track Record Period:

Function	Year ended 31 December						Six months ended 30 June	
	2017		2018		2019		2020	
	Number of employees	% of total	Number of employees	% of total	Number of employees	% of total	Number of employees	% of total
Sales	10,432	72.6	8,671	67.6	7,305	65.2	4,582 ⁽³⁾	54.9
Supply Chain ⁽¹⁾	1,890	13.2	1,896	14.8	1,721	15.4	1,794	21.5
Functional Areas ⁽²⁾	1,539	10.7	1,694	13.2	1,539	13.7	1,323	15.8
Information Technology	180	1.3	218	1.7	266	2.4	319	3.8
Marketing	170	1.2	201	1.6	208	1.9	174	2.1
Research and Development	151	1.0	140	1.1	157	1.4	157	1.9
Total	14,362	100.0	12,820	100.0	11,196	100.0	8,349	100.0

Notes:

- (1) Supply chain includes procurement, production, and logistics, among others.
- (2) Functional areas include human resource, administration, and finance, among others.
- (3) Due to the COVID-19 outbreak and its negative impact on China's retail industry (including the limited operations of our offline distributors and direct sales KAs) in the first half of 2020, we reduced the number of staff on our sales team, particularly certain cleaning consultants who primarily worked at the retail points of sale of our direct sales KAs and offline distributors. We currently plan to gradually increase the number of our sales force in the future depending on the market conditions and our business needs. Even though we had reduced our sales force, we did not expect any further material product return in our sales as at the Latest Practicable Date other than as disclosed in this prospectus.

The success of our operations depends on our ability to attract, retain and motivate qualified employees. During the Track Record Period, we recruited our employees through on-campus recruitment, job fairs, recruitment agencies and internal and external referrals. Committed to providing fair and equal opportunities in all of our employment practises, we have adopted policies and procedures including candidate competency analysis models designed by third parties to ensure a fair selection and hiring process. As part of our retention strategy, we offer our employees competitive salaries, comprehensive insurance packages and merit-based incentive schemes which are generally based on performance of the individual employees and the overall performance of our business. In addition, we have adopted a Pre-IPO Share Option Scheme to provide an additional means to motivate, retain and reward our Directors, senior management and employees. Please refer to

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the section headed “Appendix V – Statutory and General Information – D. Pre-IPO Share Option Scheme” for the principal terms of the scheme.

We provide new hire trainings to new joiners on our culture, business and industry, improving their understanding of our Company and their abilities to perform their duties. We also regularly provide tailor-made in-house training sessions to our employees that seek to improve their technical skills or arrange our employees to attend training sessions provided by third parties. In addition, we provide management skills training opportunities to certain employees to help them transition into a management role.

As required by PRC laws and regulations, in addition to what has been disclosed in this prospectus, we participate in various employee social security plans for our employees that are administered by local governments, including housing, pension, medical insurance, maternity insurance and unemployment insurance.

As at 30 June 2020, we established labour unions in China and approximately 20.0% of our employees were members of the labour unions, which may represent employees for the purpose of collective bargaining. We believe that we generally maintain a good working relationship with our employees and we did not experience any significant labour disputes or any difficulty in recruiting staff for our operations during the Track Record Period.

INTELLECTUAL PROPERTY

Our intellectual property rights are key to our success and competitiveness, primarily consisting of trademarks, copyrights, patents, and the domain names we use. As at the Latest Practicable Date, we had 673 registered trademarks, 105 applications for registered trademarks, 152 patents, 76 applications for patents, 159 copyrights, and 35 domain names in China. Please refer to the section headed “Appendix V – Statutory and General Information – B. Further Information about our Business – 2. Intellectual Property” for more details of the material intellectual property rights.

We undertake a proactive approach to managing our intellectual property portfolio. Our legal department performs regular monitoring of our intellectual rights. We take action when we are aware of a potential infringement of our intellectual property rights. For instance, we perform routine checks on the public trademark registration platform to ensure our trademarks are not infringed by others.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any threatened or pending disputes, litigation, or legal proceedings for any material violation of intellectual property rights of any person which would have a material adverse effect on our business. Please refer to the sections headed “Risk Factors – Risks relating to our Business and Industry – We may not be able to adequately protect our intellectual property rights, which could harm the value of our brand.” and “Risk Factors – Risks relating to our Business and Industry – Third parties may assert or claim that we have infringed their intellectual property rights.” for further details.

COUNTERFEIT PRODUCTS

We are aware that certain counterfeit products bearing our brand exist in the PRC market. Please refer to the section headed “Risk Factors – Risks relating to our Business and Industry – Our brands and products may be subject to counterfeiting, imitation, and/or infringement by third parties.” for further details. We have adopted a

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number of internal control measures to prevent counterfeit products and infringement of our intellectual property rights, including internal policies setting out procedures of how to handle counterfeit products and infringement incidents, a reward system encouraging our employees to report any potential infringement incidents, our cooperation with professional anti-counterfeit product organisations and law firms specialising in intellectual property laws, and our collaboration with certain e-commerce platforms to further strengthen such efforts. We investigated counterfeit products in the market through information from a number of sources, such as certain e-commerce platform customers, our offline distributors and our own employees. Our legal department is responsible for overseeing the implementation of our internal control measures related to counterfeit products and infringement of our intellectual property rights, coordinating with external professional anti-counterfeit product organisations and law firms to resolve the disputes related to counterfeit products and protect our legal rights as well as participating in any potential legal proceedings related to counterfeit products. Leveraging AI-empowered anti-infringement technologies, we are able to identify counterfeit products on various e-commerce channels. Please refer to the subsection headed “Information Technology Systems” for further details. Where appropriate, we inform and cooperate with relevant authorities of the existence of such counterfeit products and request appropriate actions to be taken, including confiscation or destruction of the counterfeit products, imposition of fines and commencement of certain proceedings against the counterfeiting party. We will continue to take appropriate actions to defend our intellectual property and our products against potential infringements. During the Track Record Period and up to the Latest Practicable Date, there was no material adverse effect by counterfeit products on our business, financial condition or results of operations.

PROPERTIES

According to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which require a valuation report with respect to all our Group’s interests in land or buildings, for the reason that, as at 31 December 2019, we had no single property with a carrying amount of 15% or more of our total assets.

Owned Properties

As at the Latest Practicable Date, we owned land use rights of eight parcels of land with a gross site area of 556,397.65 sq.m. in Guangzhou, Tianjin, Chongqing, and Kunshan. As at the same date, we owned 30 buildings located in Guangzhou, Tianjin, Chongqing, and Kunshan with an aggregate gross floor area of approximately 362,355.09 sq.m. The properties are mainly used for manufacturing, warehousing and offices purposes.

Leased Properties

As at the Latest Practicable Date, we leased 125 buildings with an aggregate gross floor area of approximately 48,145.42 sq. m. The properties are mainly used for offices and warehousing purpose. None of our leased properties is used for manufacturing purposes. All leased properties (other than those leased between members of our Group) are leased from independent third parties and we do not foresee any major difficulties or impediments in renewing the relevant leases upon their expiration.

Non-registration of Lease Agreements in the PRC

We had not registered the lease agreements in respect of 79 of our leased properties (accounting for approximately 70.18% of the aggregate gross floor area of our leased properties) with the relevant competent authorities in accordance with applicable PRC regulations. As advised by our PRC legal advisers, failure to register such lease agreements would not affect the validity and enforceability of such lease agreements. However, if we and the lessors fail to register such lease agreements as required by the relevant competent authorities, we may be subject to a fine of RMB1,000 to RMB10,000 for each of the unregistered lease agreement. As at the Latest Practicable Date, we had not been subject to any administrative penalties by the relevant competent authorities, and the amount of potential penalties accounts for a minimal portion of our total revenue during the Track Record Period.

We believe that the reasons behind the failure to register the above lease agreements are beyond our control because, among other things, the lessors' willingness to cooperate in the registration process and provision relevant documents for registration is necessary. In order to minimise the potential negative impact of the above lack of registration of lease agreements, we have continued to maintain regular communications with such lessors seeking their cooperation to complete a late registration of the relevant leases. In addition, we have established internal guidelines and enhanced our internal control procedures requiring us to seek the landlord's agreement to register lease agreement before signing in order to ensure compliance with applicable PRC laws and regulations. As advised by our PRC legal advisers the defects of such leased properties would not materially and adversely affect our business.

Title in Relation to Leased Properties in the PRC

We had obtained valid title certificates from relevant lessors of 104 leased properties with an aggregate gross floor area of approximately 44,359.43 sq.m. (accounting for 92.136% of the aggregate gross floor area of our leased properties). In respect of 21 of our leased properties with an aggregate gross floor area of approximately 3,785.99 sq.m. (accounting for 7.864% of the aggregate gross floor area of our leased properties), the lessors of such properties did not provide us with the relevant title certificates evidencing their rights to lease the leased properties as at the Latest Practicable Date. As advised by our PRC legal advisers, the validity of our lease agreements will not be affected if the relevant buildings are not illegal structures and we would not be subject to any fines or penalties. However, should the relevant PRC regulatory authorities take enforcement against our lessors, we may be subject to the risk of cessation of use.

We believe that the reasons behind the lessors' failure to provide us with the relevant title certificates are beyond our control. To the best of our knowledge, as at the Latest Practicable Date, some of the lessors have applied for the relevant title certificates and we are not aware that any of the relevant buildings are illegal structures. In order to minimise the potential negative impact of the above title defects on our operations, we have maintained regular communications with such lessors regarding the progress of their rectification of the title defects. In addition, we have established internal guidelines and enhanced our internal control procedures to improve our evaluation of the new leased properties from a compliance perspective. We will also consult our external legal advisers for reviewing the title certificates and other documents of our new leased properties in order to ensure compliance with applicable PRC laws and regulations. As advised by our PRC legal advisers, the defects of such leased properties would not materially and adversely affect our business.

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Inconsistency with Permitted Use

In respect of 23 of our leased properties with an aggregate gross floor area of approximately 18,250.2 sq.m. (accounting for 37.91% of the aggregate gross floor area of our leased properties), the current usage is inconsistent with their permitted usage. We currently use such leased properties as liaison office, offices and staff dormitories while their permitted usage under the relevant title certificates are industrial and/or residential purposes. As advised by our PRC legal advisers, the inconsistency with permitted use will not affect the validity of our lease agreements and we would not be subject to any fines or penalties. However, should the relevant PRC regulatory authorities take enforcement against our lessor, we may be subject to the risk of cessation of use.

We believe that the reasons behind the lessors' failure to lease the relevant properties to us in accordance with the permitted usage are beyond our control. For so long as we occupy these properties, we will urge the relevant lessors from time to time to apply for change of permitted usage of such properties to include the current usage. We have established internal guidelines and enhanced our internal control procedures to improve our evaluation of the new leased properties from a compliance perspective. We will also consult our external legal advisers for reviewing the title certificates and other documents of our new leased properties in order to ensure compliance with applicable PRC laws and regulations. As advised by our PRC legal advisers, the defects of such leased properties would not materially and adversely affect our business.

Our Directors' View

Our Directors are of the view that the failure to register lease agreements and defects of the leased properties as set out above would not materially and adversely affect our business operations, considering that (i) we would be able to relocate to a different site easily should we be required to do so given the leased properties are not material to our operation nor used for production plants or factories, and the lease market in the vicinity of such leased properties are active, (ii) the current usage of the leased properties and failure of the lessors to provide us with the relevant title certificates would not affect the validity and enforceability of such lease agreements and we have a right to claim against the lessors in the event we cannot legally occupy and use such leased properties, and (iii) the failure to register lease agreements would not affect the validity and enforceability of such lease agreements.

INSURANCE

We maintain insurance policies to cover potential product liabilities and potential safety issues relating to our production. In addition, we have purchased a number of property-related insurance policies covering our buildings, facilities, machinery, vehicles, equipment, inventories and other assets. We review our insurance policies from time to time for adequacy in the breadth of coverage. We believe our existing insurance coverage is adequate for our existing operations and is in line with industry standards in China. Nevertheless, we may be exposed to claims and liabilities which exceeds our insurance coverage. Please refer to the section headed "Risk Factors – Risks relating to our Business and Industry – Our insurance coverage may not be sufficient to cover all of our potential losses." for further details. During the Track Record Period and up to the Latest Practicable Date, we had not made, neither had we been the subject of, any insurance claims which are of a material nature to us.

HEALTH, OCCUPATIONAL SAFETY AND ENVIRONMENTAL PROTECTION

Our business is subject to various health and occupational safety and environmental laws and regulations in the PRC. As at the Latest Practicable Date, we had complied with applicable laws and regulations on health,

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occupational safety and environmental protection in all material respects. Our PRC legal advisers are of the view that during the Track Record Period, we did not receive any material fines or penalties from the relevant government authorities, nor were there any material legal proceedings brought against us, in relation to our production safety or product quality, including any safety issues related to chemicals.

In an effort to ensure the safety of our employees, we have operational procedures and safety standards for our production process. The environment, health and safety team at our headquarters provide compliance training sessions to each production base and conduct quarterly examinations at each production base to ensure the ongoing compliance with these laws and regulations.

We have an ISO-certified health, safety and environmental protection management system (the “**EHS system**”). We provide our employees with regular occupational safety education and training sessions to enhance their awareness of safety issues. They are tested at the end of these training sessions and the result of these tests will be taken into consideration when determining the employee’s overall performance. We also carry out equipment maintenance regularly to ensure their safe operations. During the Track Record Period, we did not record any accidents that had a material impact on our business or operations.

Our operation is subject to environmental laws mostly relating to the disposal of waste water and solid waste, reduction and disposal of emission pollution, and the reduction of noise pollution. Please refer to the section headed “Appendix III – Regulatory Overview” for further details. We have implemented a “prevention from source, control at all stage (源頭預防，全程控制)” governance which guides us to prevent environmental-related risks at an early stage and emphasizes on continuous monitoring of such risks throughout our operations. In particular, we emphasise the importance of environmental protection and have assigned responsibilities to our staff at different levels and regularly provide environmental protection awareness trainings to all staff. Our Directors and senior management are involved in various environmental, social and governance (“**ESG**”) activities, including formulating ESG related policies, organising training sessions, and communicating and collecting feedback from employees. We have established an ESG committee to oversee our ESG management. Members of the ESG committee include our chief supply officer, Ms. Luo Dong, our chief financial officer, Mr. Poon, and our chief operating officer, Ms. Xiao Haishan. Additionally, our environmental protection, health, and safety department (the “**EHS department**”) is responsible for assessing and managing all ESG related matters. Our EHS department uses a number of metrics (the “**ESG metrics**”) to assess potential risks, including a maximum of 26 kilogramme standard coal consumption per unit product, and waste water of less than 50 gramme/tonne per unit product, which is much lower than the regulatory standard of 450 gramme/tonne. Our EHS department strictly oversees all ESG related issues to ensure our operations meet the ESG metrics. If any of our ESG metrics are not met, our EHS department will liaise with the responsible party and take prompt actions to rectify the noncompliant practice and mitigate the impact. For the years ended 31 December 2017, 2018 and 2019, and the six months ended 30 June 2020, we incurred costs of approximately RMB2.8 million, RMB6.1 million, RMB6.4 million and RMB2.3 million, in connection with compliance with environmental laws and regulations, including purchase of environmentally-friendly raw materials, environmentally-friendly equipment and waste disposal equipment, among others. We expect that the cost of environmental compliance will not have any material impact on our results of operations. During the Track Record Period and up to the Latest Practicable Date, we had not received any notice or warning in relation to pollution in respect of our operation, including any pollution related to the LDPE, nor had we been subject to any fines, penalties or other legal actions by government authorities resulting from any non-compliance with any environmental protection laws or regulations that had a material adverse impact on our operations and, so far as our Directors are aware after making all

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reasonable enquiries, there was no threatened or pending action by any environmental government authorities in respect thereof. Additionally, as advised by our PRC legal advisers, even though we are subject to certain requirements stipulated in its pollutant discharge permit, there will not be any legal or practical impediment for us to expand our production capacity as the actual quantities of waste water we discharged were less than half of the allowed quantities during the Track Record Period and we do not expect the additional waste water as a result of our capacity expansion plans would use up all the allowed discharge quantity. Further, we could apply for new pollutant discharge permits after we complete our capacity expansion plans. The following table sets out the gross quantities of pollutants that we were allowed to discharge to water, and the quantities actually discharged, during the Track Record Period:

	<u>Year ended 31 December</u>			<u>Six month ended 30 June</u>
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Gross quantities of waste water allowed annually (tonne)	377,226	450,138	450,138	450,138
Waste water actually discharged during the year/period (tonne)	236,464	251,168	209,766	98,492 ⁽¹⁾

Note:

(1) Waste water we discharged for the six months ended 30 June 2020.

We had complied with all relevant pollutant discharge requirements during the Track Record Period and up to the Latest Practicable Date. For the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, we paid all outstanding environmental protection tax during each period, amounting to nil, RMB12,182, RMB13,347, and RMB10,619, respectively. Please refer to the section headed “Risk Factors – Risks relating to our Business and Industry – We are subject to a wide variety of regulations, and failure to comply with such regulations or control the associated costs may harm our business.” for further details.

SOCIAL AND COMMUNITY MATTERS

Our achievements and initiatives in the area of social and community responsibility include the following:

Environmental and Social Sustainability

We are committed to environmental and social sustainability as an important value of our business. Our flagship products under the “Supreme (至尊)” brand, have a number of unique features, including lower carbon footprint and less water and plastic usage. With an aim to promote environmental awareness, in the past, we worked with various organisations, such as United Nations Environment Programme (“UNEP”), and are still actively working with the Society for Environmental Exploration Conservation (阿拉善SEE生態協會), and sponsored multiple international and domestic environmental events including World Water Day and Water Conservation Forum.

Education

We are keen on providing education, support and opportunities to children from different communities. We have worked with China Family Education Institute for 20 years to hold the annual Little Health Angel Selection to promote personal hygiene knowledge among children.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

Our Board of Directors and our senior management are responsible for establishing and maintaining adequate risk management and internal control systems. In order to identify, assess and control the risks that may hinder our success, we have designed and implemented a risk management system that covers each material aspect of our operations, including financial security, production, logistics, technology and compliance.

Without prejudice to the responsibilities of our Board of Directors as a whole, our Audit Committee oversees financial and business risk management and supervises the financial reporting process and internal control system. Please refer to the section headed “Directors and Senior Management – Board Committees” for further details of the qualification and experience of the members of our Audit Committee.

In addition, we have implemented or will adopt before the Listing a series of internal control policies and measures for the purpose of setting up internal policies to ensure effective risk management, which include:

- Code of Conduct: we have maintained a Code of Conduct for our employees with respect to various aspects of employee behaviour during the ordinary business operations;
- Ongoing trainings: we have conducted and will continue to conduct regular internal trainings for our employees and management on applicable laws and regulations to ensure awareness and compliance;
- Compliance with Listing Rules: we have internal policies in place to ensure compliance with the Listing Rules, including but not limited to aspects related to corporate governance, connected transactions and securities transactions by our Directors; and
- Compliance adviser: we have appointed Somerley Capital Limited as our compliance adviser to advise on ongoing compliance with the Listing Rules and other applicable securities laws and regulations in Hong Kong.

IMPACT OF THE COVID-19 OUTBREAK ON OUR BUSINESS

The COVID-19 outbreak in early 2020 has materially and adversely affected the global economy. In an effort to contain the outbreak, the PRC government has imposed, among others, the following policies: (i) outside of Hubei Province, the Chinese New Year holidays were extended by various local governments for three to seven days, with the workforce resuming work between 3 February and 10 February 2020; and (ii) in Hubei Province, travel restrictions have been gradually imposed in the entire province since 23 January 2020.

Demand for consumer goods was significantly affected as retail stores were temporarily closed. According to the National Bureau of Statistics, China’s total retail sales of consumer goods decreased by 19.0% in the first quarter of 2020, compared with the first quarter of 2019.

The retail industry was affected to various degrees. Traditional sales and distribution channels, such as offline retail shops were temporarily closed. However, supermarkets and hypermarkets were affected less significantly as most of them remained open during the outbreak. E-commerce channels became consumers’ first choice for shopping, but the sales growth from such channels was limited, primarily due to difficulties in logistics and distribution.

Resumption of work in China has gradually taken place at locations less affected by the COVID-19 outbreak since 3 February 2020. As at 10 April 2020, according to the Ministry of Industry and Information Technology, 98.6% of industrial enterprises of national scale and over 80% of small and medium enterprises in China had resumed operation. According to the Frost & Sullivan Report, the COVID-19 outbreak has stimulated the demands of disinfectant products. In the future, the demand for disinfectant products will continue to grow due to customers' increasing awareness of hygiene and public health.

Campaign against the COVID-19 Outbreak

Since the COVID-19 outbreak in early 2020 we have launched several initiatives to combat COVID-19. We set up a committee to make guidelines on preventing the spread of COVID-19 and provide support for our employees in need. We donated our disinfectant products (liquid soap and disinfectant) with a value of approximately RMB5.3 million to certain non-profit organisations in Hubei Province. We resumed our production of disinfectant products at full production capacity on 26 January 2020. Committed to delivering our products to more people in need, we did not raise the prices for our products notwithstanding the increased costs of raw materials, packaging materials and logistics.

Our Response to the COVID-19 Outbreak

In line with PRC government guidelines, we have implemented precautionary measures to maintain a hygienic working environment. For example, employees who travelled within China during the Chinese New Year holidays are required to self-quarantine in their homes for 14 days. For employees who are not required to work onsite, we provided alternative means such as work-from-home arrangements, to protect their health and also ensure our smooth business operations during the outbreak.

We have implemented health screening procedures for all entrants of our premises, including checking their travel history and whether they have any symptoms associated with COVID-19 and measuring their temperature. We have assembled a pandemic emergency team that is responsible for closely tracking the health status of our employees. In addition, we provide and require all persons to wear face masks when they are working onsite. We also provide personal disinfectant products such as hand sanitisers to our employees. Furthermore, our premises are regularly cleaned every day.

Impact of the COVID-19 Outbreak on Our Operational Performance

Our Production

Due to the COVID-19 outbreak and the government's relevant control measures, most of our production were temporarily suspended in late January and February 2020, other than those for disinfectant products. Please refer to the subsection headed "Campaign against COVID-19 outbreak" for details. In order to prevent and control the outbreak, we adjusted our business operations and set up specific plans for resumption of work, our health and safety management system and emergency plans. During the COVID-19 outbreak, enterprises recognised by the local governments as essential enterprises in relation to assuring the supply of anti-pandemic goods were allowed to resume operations from an earlier date than other enterprises. All four of our production bases were recognised as such enterprises and had gradually resumed production since 26 January 2020. We have fully resumed our business operations since March 2020.

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Sales and Distribution

As COVID-19 outbreak related travel restrictions have been gradually lifted, the adverse effects of the outbreak on sales and distribution of our products have gradually subsided. As at the Latest Practicable Date, we have not encountered and do not anticipate any material issues in our operations with (i) procurement of raw materials and packaging materials, or (ii) materially late deliveries or failures to fulfil sales orders, or penalties arising thereof, as a result of the COVID-19 outbreak. This is primarily because (i) most of our suppliers and customers (including our major distributors) have gradually resumed operations after Chinese New Year, (ii) we were stocked with finished products to satisfy the sales orders while our manufacturing facilities were suspended, and (iii) our logistics service providers have gradually resumed operations after Chinese New Year. For further details of the impact of the COVID-19 outbreak on logistics services in China, see the section headed “Industry Overview – Impact of COVID-19 Outbreak on China’s Household Care Industry”. However, the COVID-19 outbreak had an impact on products under the “Supreme (至尊)” brand which were more reliant on consumer education by offline sales personnel, resulting in the return of certain of such products by some offline supermarkets in the first quarter of 2020. Please see the sections headed “Risk Factors – Risks relating to our Business and Industry – Our efforts in developing, launching and promoting new brands and products, diversifying our brand and product portfolio may not be successful.” and “Financial Information – Recent Developments and Material Adverse Change” for details.

Impact of the COVID-19 Outbreak on Our Financial Performance

The COVID-19 outbreak presents challenges to our business and financial conditions. The temporary suspension of our production by the order of the local governments from January to February 2020 had a negative impact on our financial performance primarily due to a delay in receiving and handling the then new orders during our office closure in that period. The table below sets forth a breakdown of our revenue by product segment for the periods indicated:

	Three months ended	
	31 March	
	2019	2020
	<i>HK\$’000</i>	<i>HK\$’000</i>
	<i>(unaudited)</i>	
Revenue		
Fabric care products	1,088,492	601,139
Personal hygiene products	80,521	234,533
Home care products	92,897	196,052
Total	1,261,910	1,031,724

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	Three months ended	
	30 June	
	2019	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue		
Fabric care products	1,275,859	1,080,268
Personal hygiene products	99,530	231,069
Home care products	83,051	92,807
Total	1,458,440	1,404,144

While our overall revenue in February 2020 increased by HK\$137.7 million as compared to February 2019, the sales of our fabric care products decreased by HK\$487.4 million in the three months ended 31 March 2020 as compared with the corresponding period in 2019. In the three months ended 30 June 2020, the COVID-19 outbreak continued to affect the sales of our fabric care products as consumers temporarily reduced outdoor activities due to social distancing, resulting in a decrease of HK\$195.6 million in the sales of fabric care products as compared to the corresponding period in 2019. As the effect of the COVID-19 outbreak gradually subsided and social and economic activities resumed in China in the second quarter of 2020, our revenue has recovered since the second quarter of 2020.

The negative impact of the COVID-19 outbreak on our fabric care products were partially offset by a significant increase in the demand for disinfectant products, resulting in significant growth in the sales of our personal hygiene products and home care products in the first half of 2020. The sales of our personal hygiene products and home care products increased by HK\$154.0 million and HK\$103.2 million, respectively, in the three months ended 31 March 2020 as compared to the corresponding period in 2019. The trend continued in the second quarter of 2020, with the sales of our personal hygiene products and home care products increased by HK\$131.5 million and HK\$9.8 million, respectively, in the three months ended 30 June 2020 as compared to the corresponding period in 2019.

At the same time, our selling and distribution expenses in the first three months ended 31 March 2020 and the three months ended 30 June 2020 also decreased by HK\$86.7 million and HK\$127.6 million, respectively, as compared with the corresponding period in 2019 as we (i) temporarily streamlined our offline sales force due to less consumer traffic in offline channels following the COVID-19 outbreak, and (ii) benefited from government subsidies in response to the COVID-19 outbreak that reduced our employee social insurance expenses. Depending on market conditions and the future impact of the COVID-19 outbreak, we plan to strengthen our offline sales force in the future to support our offline sales activities.

Please refer to the sections headed “Risk Factors – Risks Relating to our Business and Industry – Our efforts in developing, launching and promoting new brands and products, diversifying our brand and product portfolio may not be successful.” and “Financial Information – Results of Operations – Six months ended 30 June 2020 compared to six months ended 30 June 2019” for details. Additionally, all of our production bases have received government support in various forms including cash subsidises, tax exemptions and preferential interest rates on borrowings, the estimated total amount of government support related to the COVID-19 outbreak was approximately RMB49.8 million. Please refer to the section headed “Financial Information – Recent Developments and Material Adverse Change” for details.

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We are of the view that we will have sufficient working capital for our present requirements covering at least 12 months from the date of this prospectus. However, there is no assurance that there will not be any direct or indirect adverse impact on our business, financial condition and results of operations arising from any effect on the PRC economy or other parts of the world as a result of the continuance of the COVID-19 outbreak. In the unlikely worst case scenario, assuming (i) all of our operations are suspended indefinitely, (ii) our trade receivables continue to be settled in the same manner as during the Track Record Period, (iii) our general and administrative costs remain unchanged since 30 June 2020, (iv) we maintained our available cash and cash equivalents and our unutilised banking facilities as at 30 June 2020 and (v) we utilise 10% of the net proceeds from the Global Offering as our working capital, we believe our business would be financially viable for at least 12 months. Please refer to the sections headed “Risk Factors – Risks Relating to our Business and Industry – We face risks related to health epidemics, infectious diseases and other outbreaks, including the recent COVID-19 outbreak.”, “Industry Overview – Impact of the COVID-19 Outbreak on China’s Household Care Industry” and “Financial Information – Recent Developments and Material Adverse Change” for further details.

Our Directors are also of the view that, taking into account the relevant circumstances, the COVID-19 outbreak is not expected to have a material adverse impact on our Group as a whole, on the basis that (i) as at the Latest Practicable Date, the production at all of our production bases has resumed, (ii) the COVID-19 outbreak has brought significant growth in the sales of our personal hygiene products and home care products, which partially offset the negative impact of the COVID-19 outbreak on the sales of our fabric care products, (iii) even though the COVID-19 outbreak has gradually subsided in the PRC, the consumers’ awareness of the importance of personal and household hygiene has increased, which we believe will continue to drive up the sales of our personal hygiene products and home care products going forward, and (iv) the sales of our fabric care products have shown signs of recovery in the second quarter of 2020 as the COVID-19 outbreak has subsided. With people across the nation resuming their outdoor activities, we expect the demand of our fabric care products will continue to recover in the second half of 2020.

Impact of the COVID-19 Outbreak on Our Business Plan

Overall, the COVID-19 outbreak did not have a material adverse impact on our business strategies, and we believe that it has not and will not have a material adverse impact on our future business plans. Please refer to the subsection headed “Business Strategies” and the section headed “Future Plans and Use of Proceeds” for details.

LICENCES, APPROVALS AND PERMITS

We are required to maintain various licences, approvals and permits in order to operate our business. Our material licences and permits include the cosmetics product license, the disinfectant standard product license and the industrial standard product license. Our legal department is responsible for monitoring the validity status of our licences and permits and make timely applications for renewal to relevant government authorities. Please refer to the section headed “Appendix III – Regulatory Overview” for further information on the laws and regulations that we are subject to.

As at the Latest Practicable Date, we had obtained the requisite licences, approvals and permits from relevant authorities that are material to our operations in the PRC and such licences, approvals, and permits were valid and remain in effect as at the Latest Practicable Date. In addition, we monitor our compliance with the

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relevant laws and regulations to ensure that we have the requisite licences, approvals and permits for our operations.

LEGAL AND ARBITRATION PROCEEDINGS AND COMPLIANCE MATTERS

We may from time to time become a party to various litigation, arbitration or administrative proceedings arising in the ordinary course of our business. As at the Latest Practicable Date, there were no litigation, arbitration or administrative proceedings pending or threatened against us or any of our Directors which could have a material and adverse effect on our business, financial condition or results of operations.

We were advised by our PRC legal advisers that, during the Track Record Period and up to the Latest Practicable Date, there were no material breaches or violations of laws or regulations applicable to us that would have a material adverse effect on our business, financial condition or results of operations. The table below sets forth summaries of certain incidents of non-compliance with applicable laws and regulations during the Track Record Period. Our Directors believe that these incidents of non-compliance, whether individually or collectively, will not have a material adverse impact on our business, financial condition or results of operations.

Non-compliance Incident	Reasons for the Non-compliance	Legal Consequences and Potential Maximum Penalties	Rectification and Preventive Actions Taken	Potential Operational and Financial Impact
<p>1. Blue Moon China failed to pay housing provident funds for certain types of employees prior to July 2018.</p> <p>As at 30 June 2020, some of our PRC subsidiaries had not paid housing provident funds for our employees with disabilities in accordance with the requirements and standards of the local housing provident fund authority.</p> <p>The amount of outstanding housing provident fund contribution of our PRC subsidiaries for each of the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 were approximately RMB7,330,000, RMB4,310,000, RMB120,000 and RMB55,000, respectively.</p>	<p>We had not fully complied with the requirements in respect of housing provident fund contribution prior to July 2018 for certain types of employees because (1) the movements of these types of employees were relatively frequent and high, and (2) some employees were reluctant to make contribution to housing provident fund. Court for compulsory enforcement.</p> <p>Further, we had not fully complied with the requirements in respect of housing provident fund contributions for employees with disabilities as at 30 June 2020 because (1) some employees were reluctant to make contribution to housing provident fund, (2) housing provident funds for new employees had not started in the same month of their commencement of employment with our relevant subsidiaries given the need to complete the relevant registration procedures, and (3) some employees' housing provident fund payment relationships with former employers had not yet been terminated at the relevant time and our subsidiaries were unable to make contributions for such employees.</p>	<p>Where an employer is overdue in the payment of or contributions to the housing provident fund, the authority shall order it to make the payment within a prescribed time limit; where the payment has not been made after the time limit, an application may be made to a People's Court for compulsory enforcement.</p> <p>The amount of outstanding housing provident fund contribution of our PRC subsidiaries for each of the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 were approximately RMB4,310,000, RMB7,330,000, RMB120,000 and RMB55,000, respectively. We may therefore be ordered by the relevant authorities to pay the outstanding amount in the aggregate sum of RMB11.82 million within a prescribed time limit, failing which we may be subject to specific enforcement by the People's Court.</p> <p>As advised by our PRC legal advisers and in accordance with the Regulations on the Housing Provident Fund of the PRC (住房公積金管理條例), no penalty</p>	<p>We have received confirmations from the competent PRC regulatory authorities of our PRC subsidiaries confirming that our PRC subsidiaries had never been subject to any administrative penalty due to non-compliance with the relevant laws and regulations concerning housing provident fund.</p> <p>Separately, in an interview with the Guangzhou Housing Provident Fund Management Centre on 1 June 2020, it was confirmed that, among others, (1) the authority was fully aware of the situations of our major PRC subsidiaries in Guangzhou where the number of employees making contributions and the size of contributions were compliant, (2) our PRC subsidiaries in Guangzhou had housing provident fund policies in place and had never been subject to any administrative penalty or investigation due to non-compliance with the laws and regulations concerning housing provident fund, (3) the Guangzhou Housing Provident Fund Management Centre had not received any complaint or disagreement in respect of our major PRC subsidiaries</p>	<p>As at the Latest Practicable Date, we had not received any notice to pay any fine or demand from the competent authorities ordering us to make payments of any shortfall to the housing provident fund. We had not received any material complaint from employees.</p> <p>Based on the above and the prevailing policies of the PRC regulatory authorities on outstanding housing provident fund contributions, our PRC legal advisers are of the view that there is a remote risk that these PRC subsidiaries will be ordered to pay the outstanding housing provident fund contributions or be penalised as a result of their failure to make contribution to housing provident fund in respect of all of its employees.</p> <p>On the basis of the advice from our PRC legal advisers, as the risk of the relevant PRC subsidiaries being penalised or ordered to make retrospective payments or any shortfall to the housing provident fund as a result of their failure to make housing provident fund contributions for their employees is remote, no provision has</p>

Non-compliance Incident	Reasons for the Non-compliance	Legal Consequences and Potential Maximum Penalties	Rectification and Preventive Actions Taken	Potential Operational and Financial Impact
		<p>will be levied by relevant authority in respect of the above amount of outstanding housing provident fund contribution.</p>	<p>in Guangzhou, (4) the Guangzhou Housing Provident Fund Management Centre currently had no plan to demand the payment of any shortfall in housing provident fund contributions, and (5) the Guangzhou Housing Provident Fund Management Centre had not discovered any material issues in respect of the contribution of our major PRC subsidiaries in Guangzhou.</p> <p>We have implemented a policy on managing housing provident fund contribution for our employees. We have also designated experienced human resources staff to process matters relating to housing provident fund contribution matters including all filing of documents, payment of contributions and updating the relevant government policies and regulations, including the applicable bases for calculation of the housing provident fund contributions, to our internal guidelines.</p> <p>We have also implemented additional internal control measures (which are set out below the table) to ensure our ongoing compliance with laws and regulations relating to housing provident fund.</p>	<p>been made nor indemnity from our Controlling Shareholders has been sought.</p> <p>Based on the above, our Directors are of the view that the non-compliance incidents of these PRC subsidiaries in respect of the housing provident fund contributions will not have a material adverse impact on our Group's business, financial condition and results of operations.</p> <p>As at the Latest Practicable Date, our PRC subsidiaries were in compliance with the housing provident fund contribution requirements in the PRC and will continue to make housing provident fund contributions in accordance with such requirements after the completion of the Global Offering.</p>

Non-compliance Incident	Reasons for the Non-compliance	Legal Consequences and Potential Maximum Penalties	Rectification and Preventive Actions Taken	Potential Operational and Financial Impact
<p>2. Some of our PRC subsidiaries failed to make social insurance contributions based on the actual salary level of certain employees between January 2017 and April 2017.</p> <p>The shortfall amount of social insurance contribution of some of our PRC subsidiaries for the period between January 2017 and April 2017 was RMB1,087,000.</p>	<p>We had not fully complied with the requirements in respect of social insurance contribution between January 2017 and April 2017 because certain employees of our PRC subsidiaries were reluctant to make full social insurance contributions.</p>	<p>According to the Social Insurance Law of the PRC (中華人民共和國社會保險法), if an employer fails to make social insurance contributions in full, the relevant authority shall order the employer to pay, within a prescribed time limit, the outstanding amount with an additional late payment penalty at the daily rate of 0.05%, and if the employer fails to make the overdue contributions within such time limit, a fine which is equal to one to three times the outstanding amount may be imposed.</p>	<p>We have received confirmations from the competent PRC regulatory authorities of our relevant PRC subsidiaries confirming that (1) these PRC subsidiaries had never been subject to any administrative penalty due to non-compliance with the relevant laws and regulations concerning social insurance contribution, and (2) these PRC subsidiaries had not been found to have any unpaid social insurance contributions.</p> <p>We have been advised by our PRC legal advisers that if the relevant employees are unwilling to pay their unpaid share of social insurance contribution, the relevant PRC subsidiaries would be unable to pay the unpaid amount as well.</p>	<p>As at the Latest Practicable Date, we had not received any notice to pay any fine or demand from the relevant PRC regulatory authorities ordering us to pay any shortfall to the social insurance fund. We had not received any material complaint from employees and were not aware of any employees lodging any material complaint to the relevant competent regulatory authorities or initiating any arbitration or court proceedings against the relevant PRC subsidiaries in relation to their failure to fully contribute to the social insurance fund which may have any material adverse impact on our business, financial condition or results of operation.</p>
		<p>The shortfall amount of social insurance contribution of our relevant PRC subsidiaries for the period between January 2017 and April 2017 was RMB1,087,000. We may therefore be ordered by the relevant authorities to pay the outstanding amount in the aggregate sum of RMB1,087,000 within a prescribed period, failing which we may be subject to a penalty in an amount which is equal to one to three times of such shortfall amount.</p>	<p>We have implemented a policy on managing social insurance contribution for our employees. We have also designated experienced human resources staff to process matters relating to social insurance contribution including all filing of documents, payment of contributions and updating the relevant government policies and regulations, including the applicable bases for calculation of the social insurance contributions, to our internal guidelines.</p> <p>We have also implemented additional internal control measures (which are set out below the table) to ensure our ongoing compliance with laws and regulations relating to social insurance.</p>	<p>Based on the above and the prevailing policies of the PRC regulatory authorities on outstanding social insurance contributions, our PRC legal advisers are of the view that the shortfall amount of social insurance contribution will not have any material adverse impact on our relevant PRC subsidiaries' business and operations.</p>
		<p>As advised by our PRC legal advisers, the maximum amount which may be payable in respect of the above shortfall amount of social insurance contribution is RMB5,435,000. Such maximum amount is only payable if we fail to make overdue contributions within time limit set by the relevant authority. As at the Latest Practicable Date, we have not received any notice from the relevant authority demanding payment of any shortfall amount of social insurance contribution.</p>	<p>On the basis of (1) the advice from our PRC legal advisers, (2) the fact that we have been making social insurance contributions in full since May 2017, (3) the shortfall amount of social insurance contribution is immaterial, and (4) the confirmations received from the competent PRC regulatory authorities, no provision has been made nor indemnity from our Controlling Shareholders is sought.</p>	

Non-compliance Incident	Reasons for the Non-compliance	Legal Consequences and Potential Maximum Penalties	Rectification and Preventive Actions Taken	Potential Operational and Financial Impact
				<p>Based on the above, our Directors are of the view that the non-compliance incidents of these PRC subsidiaries in respect of the social insurance contributions will not have a material adverse impact on our Group's business, financial condition or results of operations.</p> <p>As at the Latest Practicable Date, our PRC subsidiaries were in compliance with the social insurance contribution requirements in the PRC and will continue to make social insurance contributions in accordance with such requirements after the completion of the Global Offering.</p>

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We have established an internal control function at the group level and each of our subsidiaries has designated the relevant personnel who will be responsible for monitoring our ongoing compliance with the relevant PRC laws and regulations that govern our business operations and overseeing the implementation of any necessary measures. In addition, we plan to provide our Directors, senior management and employees involved with continuing training programmes and/or updates regarding the relevant PRC laws and regulations on a regular basis with a view to proactively identifying any concerns and issues relating to potential non-compliance. Our chief operating officer and executive Director, Ms. Xiao Haishan and our chief financial officer, company secretary and executive Director, Mr. Poon Kwok Leung, are responsible for ensuring our overall ongoing compliance.

With respect to our employee social security plan, we have implemented the following internal control measures to ensure our compliance with relevant PRC social security laws and regulations:

- we have designated experienced human resources staff to process matters relating to social insurance and housing provident fund contribution matters (including all filing of documents, payment of contributions and updating the relevant government policies and regulations to our internal guidelines);
- the manager of the human resources department of our Group will review the reporting and contributions of social insurance and housing provident fund for the employees of our Group regularly;
- our human resources department will also consult our PRC legal advisers, on the requirements under the relevant PRC laws and regulations in relation to social insurance and housing provident fund;
- training on relevant PRC social security and housing provident fund laws and regulations will be arranged for our management from time to time to keep them informed of the latest development in these areas;
- our human resources department will also organise information sessions for our employees and urge them to make contributions/payments in accordance with relevant social security and housing provident fund laws and regulations; and
- the manager of the human resources department will report to Ms. Xiao Haishan and Mr. Poon Kwok Leung on the legal and regulatory compliance and provide improvement recommendations when required.

With respect to our ongoing compliance generally, we have implemented the following internal control measures to ensure our compliance with applicable laws and regulations and to enhance our internal control:

- internal control system manuals on corporate governance, operations, management, legal matters, finance and auditing setting out the internal approval and review procedures pursuant to which our employees are mandated to comply with;

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- supervision and guidance by our Audit Committee, which is empowered to provide an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group and the relevant audit processes;
- hiring additional personnel to support our continued growth and development including candidates with professional experience and qualifications; and
- engaging external professional advisers (including our compliance adviser, as well as legal advisers as to Hong Kong laws, PRC laws and laws of the jurisdiction(s) in which we may expand our operations, and tax advisers) to provide professional advice and guidance to our Group to ensure compliance with applicable laws and regulations. We will also arrange our external professional advisers to provide internal trainings to our Directors, senior management and employees from time to time to ensure our Directors, senior management and employees are kept up-to-date with any legal and regulatory developments.

Taking into account the above internal control measures implemented by us, the ongoing monitoring and supervision by our Board with the assistance from professional external advisers where required, and the fact that, as confirmed by our Directors, the non-compliance incidents did not involve any fraud or dishonesty, our Directors are of the view that (i) our enhanced internal control measures are adequate and effective, (ii) the suitability of our Directors is compliant with Rules 3.08 and 3.09 of the Listing Rules, and (iii) our Company is suitable for listing under Rule 8.04 of the Listing Rules.