*Prospective investors should read the following discussion and analysis in conjunction with our audited consolidated financial statements included in the section headed "Appendix I – Accountant's Report", together with the accompanying notes. The Accountant's Report has been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). Investors should read the whole of the Accountant's Report and not rely merely on the information contained in this section.*

The following discussion contains certain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of its experience and perception of historical trends, current conditions and expected future developments, as well as factors that we believe are appropriate under the circumstances. However, our actual results and the timing of selected events may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in the section headed "Risk Factors" and elsewhere in this prospectus.

For the purpose of this section, unless the context otherwise requires, references to 2017, 2018 and 2019 refer to our financial year ended 31 December of each year.

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, Blue Moon Deep Clean Care Liquid Laundry Detergent and Blue Moon Machine Wash Supreme Concentrated Plus Laundry Detergent, and we continue to upgrade our products. As a result, we have become a leader in liquid laundry detergents, concentrated liquid laundry detergents and liquid soap markets in China.

We are an early mover and leader in utilising e-commerce in China's household care industry and have built a powerful omni-channel sales and distribution network. Our first mover advantage in the online sales and distribution channels in China's household care industry, as well as our expansion into new online sales channels allowed us to achieve rapid growth in online sales. Revenue generated from our online channels increased from HK$1,866.5 million in 2017 to HK$2,718.2 million in 2018 and further to HK$3,328.2 million in 2019, and decreased from HK$1,561.7 million for the six months ended 30 June 2019 to HK$1,431.6 million for the six months ended 30 June 2020, representing 33.1%, 40.2%, 47.2%, 57.4% and 58.8%, respectively, of our total revenue.

Our revenue increased from HK$5,632.0 million in 2017 to HK$7,049.9 million in 2019, at a CAGR of 11.9%, and our net profit increased from HK$86.2 million to HK$1,079.6 million during the same period. Our revenue for the six months ended 30 June 2020 was HK$2,435.9 million, as compared to HK$2,720.4 million for the six months ended 30 June 2019. Our net profit increased from HK$218.0 million for the six months ended 30 June 2019 to HK$302.2 million for the six months ended 30 June 2020.

BASIS OF PREPARATION OF FINANCIAL INFORMATION

We were incorporated in the Cayman Islands on 27 December 2007. Our consolidated financial statements for the Track Record Period has been prepared in accordance with HKFRS issued by the HKICPA. The consolidated financial statements have been prepared under the historical cost convention. Please refer to Note 2.1 to the section headed "Appendix I – Accountant's Report" for details.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our financial condition and results of operations have been and will continue to be affected by a number of factors, some of which may not be within our control, including, but not limited to:

Consumer demand and consumption patterns

Our results of operations are affected by consumer demand and consumption patterns for our fabric care products, personal hygiene products and home care products, which in turn largely depend on the growth of disposable incomes in China as well as other factors that may contribute significantly to changes in our sales volume and revenue.

From 2015 to 2019, the per capita disposable income of the PRC urban residents has increased at a CAGR of 7.9%, and is expected to grow at a CAGR of 6.5% from 2019 to 2024. We believe that as the per capita disposable income in China continues its growth in the foreseeable future, the demand for our products will also generally increase. Consumer demand for our products is also generally driven by the growth of the market segments in which we operate. According to the Frost & Sullivan Report, the retail sales value of the household care industry in the PRC increased at a CAGR of 5.3% from 2015 to 2019, and is expected to grow at a CAGR of 8.7% from 2019 to 2024. According to the same source, retail sales value of fabric care, personal hygiene and home care products in China has increased at a CAGR of 4.8%, 2.5% and 7.4%, respectively from 2015 to 2019, and is expected to increase at a CAGR of 7.4%, 9.8% and 10.6% from 2019 to 2024, respectively. The continuing growth of the market segments in which we operate is expected to continue to drive our sales growth in the future.

Additionally, over the past decade, consumer preference in China has been gradually shifting from powder laundry detergents to liquid laundry detergents. According to the Frost & Sullivan Report, from 2015 to 2019, retail sales value of liquid laundry detergents in China has increased at a CAGR of 13.1%, while retail sales value of powder laundry detergents has decreased at a CAGR of 0.6%. As a result, we have seen steady increases in sales of our liquid laundry detergents during the Track Record Period. The liquid laundry detergent market is expected to continue to grow at a CAGR of 13.6% from 2019 to 2024, according to the Frost & Sullivan Report, as the penetration rate of liquid laundry detergent in China in 2019 was 44.0%, still substantially lower than that of other major economies such as 79.5% in Japan and 91.4% in the U.S. Additionally, with the continued growth of disposable incomes in China, we also believe that the consumer preferences will shift toward premium products, such as concentrated liquid laundry detergents and liquid soap. According to the Frost & Sullivan Report, the penetration rates of concentrated liquid laundry detergents and liquid soap in China remained significantly lower than those of other major economies, indicating further growth potential of such premium products in China.

In addition, changes of consumption patterns may be affected by factors that are beyond our control. With the recent COVID-19 outbreak, for example, the consumers' demand for fabric care products was generally weakened as consumers temporarily reduced outdoor activities due to social distancing during the COVID-19 outbreak. On the other hand, as a result of the COVID-19 outbreak, there has been an increasing awareness of the importance of personal and household hygiene, which has driven up the demand of our disinfectant products. We monitor the changes in the consumption patterns closely and endeavour to make timely adjustments to our production plans in response to these changes. Please refer to the section headed "Business – Impact of the COVID-19 Outbreak on Our Business" for further details.

Product mix

Our revenue and profitability are affected by our product mix. Different products, whether within the same product category, typically vary in product pricing and marketing strategies, raw materials, packaging formats and production costs, and thus have different gross profit margins. We believe that our diversified product portfolio enables us to capitalise on changes in market conditions and consumer demand in a timely manner. We have made continuous effort to adjust our product mix in response to consumers' changing preference during the Track Record Period.

The table below sets forth a breakdown of our gross profit and gross profit margin by product category for the periods indicated.

	Year ended 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	Amount	Gross profit margin	Amount	Gross profit margin	Amount	Gross profit margin	Amount	Gross profit margin	Amount	Gross profit margin
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* *(Unaudited)*	*%*	*HK$'000*	*%*
Fabric care products	2,546,370	51.7	3,346,739	56.6	3,948,753	63.9	1,444,655	61.1	1,031,954	61.4
Personal hygiene products	208,674	63.6	263,856	64.3	271,986	65.0	117,890	65.5	317,549	68.2
Home care products	240,079	62.9	275,706	62.7	302,271	66.6	109,170	62.0	209,100	72.4
Total	2,995,123	53.2	3,886,301	57.4	4,523,010	64.2	1,671,715	61.5	1,558,603	64.0

During the Track Record Period, our gross profit margin increased from 53.2% in 2017 to 57.4% in 2018, and further increased to 64.2% in 2019, primarily due to a general increase in the gross profit margin of our fabric care products. Our gross profit margin increased from 61.5% for the six months ended 30 June 2019 to 64.0% for the six months ended 30 June 2020, primarily due to the increased sales of disinfectant products under both the personal hygiene and the home care product categories, which have relatively higher profit margins than other products. Please refer to the subsection headed "Description of Certain Consolidated Statements of Comprehensive Income Items – Gross profit and gross profit margin" for further information on our gross margins by product category.

Cost of raw materials

We offer a wide variety of household care products, including a variety of fabric care products, personal hygiene products and home care products. Please refer to the section headed "Business – Our Products" for details. The production of different products, especially those of different categories, usually requires different combinations of raw materials. Our raw materials primarily include chemicals and packaging materials. For the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, cost of chemicals represented 48.2%, 49.3%, 44.5%, 41.4% and 49.5%, respectively, of our total cost of sales. Most of our packaging materials are LDPE-based. For the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, cost of packaging materials represented 31.4%, 41.3%, 37.0%, 35.0% and 43.8%, respectively, of our total cost of sales. Please refer to the section headed "Business – Procurement and Inventory" for details.

Prices of raw materials generally fluctuate according to market conditions, changes in commodity prices, our bargaining power with the suppliers, logistics and processing costs, and government regulations and policies. Please refer to the section headed "Industry Overview – Price Trends of Raw Materials and Products" for details of the cost of main raw materials used in the production of household care products. We also take into account the cost of storage and storage capacity when optimising the cost of raw materials. We have sought to mitigate the impact of raw materials price fluctuations by (i) improving inventory and procurement management by refining our sales forecast to optimise our inventory levels based on (a) our insight into consumer behaviour based on the direct online transactions with the end customers, and (b) our proprietary CRM system that captures our distributors' inventory data and (ii) improving our production efficiency by standardising our ingredient management and ingredient addition procedure with the help of our self-developed Ingredient Management System. These efforts, along with the decreases in the cost of palm oil-based chemicals and LDPE-based packaging materials supplied to us, have led to a general decrease in our cost of sales per unit during the Track Record Period. Please refer to the subsection headed "Description of Certain Consolidated Statements of Comprehensive Income Items – Cost of sales" for further information on our cost of raw materials, including a sensitivity analysis illustrating the impact of hypothetical fluctuations in our average cost of such materials.

The increase in our gross profit margin during the Track Record Period was primarily driven by the decreasing price trend of the raw materials, which accounted for approximately 79.5%, 90.6%, 81.5%, 76.4% and 93.3% of our total cost of sales during the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, respectively. During the same periods, chemicals (a substantial amount of which is comprised of palm oil-based materials) accounted for approximately 48.2%, 49.3%, 44.5%, 41.4% and 49.5% of our total cost of sales, respectively; packaging materials (a substantial amount of which is comprised of LDPE-based materials) accounted for approximately 31.3%, 41.3%, 37.0%, 35.0% and 43.8% of our total cost of sales, respectively. According to the Frost & Sullivan Report, from 2017 to 2019, the price of LDPE decreased from RMB9,513.6 per tonne to RMB7,860.7 per tonne and the price of palm oil decreased from RMB5,771.5 per tonne to RMB4,884.2 per tonne.

We expect fluctuations in raw material prices to continue to affect our gross profit, our profit margins and other aspects of our results of operations. We believe that our diversified product portfolio has reduced the impact of raw materials' price fluctuations on our business, financial condition and results of operations. However, we cannot guarantee that we will be able to control our costs of raw materials and packaging materials or to pass our increased costs onto our distributors, key accounts or consumers. Please refer to the section headed "Risk Factors – Risks Relating to our Business and Industry – Changes in supply, quality and costs of raw materials, energy, transportation and other necessary supplies or services may impact our business, financial condition and results of operations." for further information.

Sales and distribution network

Our products are sold nationwide through our omni-channel sales and distribution network that covers all provinces in China. During the Track Record Period, we primarily sold our products through (i) online channels, which include (1) sales to major e-commerce platforms in China and various emerging online sales channels, such as social e-commerce platforms, fresh foods e-commerce platforms and the online procurement systems of corporations, and (2) sales to consumers through (a) our online proprietary stores on various major e-commerce platforms, social media platform and our self-developed mobile apps, and (b) third party online stores, (ii) direct sales to key account clients, including hypermarkets and supermarkets, and (iii) 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 and certain corporations that make procurement for resale or internal use.

According to the Frost & Sullivan Report, we were one of the first companies in the household care industry in China to utilise online channels. Leveraging the rapid growth of e-commerce in China, we have started utilising online channels to market and distribute our products since as early as July 2012. During the Track Record Period, we generated a significant portion of our revenue through our online 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. The increase was driven by our strengthened cooperation with the e-commerce platforms in light of the increasing and prevalent use of online channels by consumers in China. The retail sales value of China's online sales of household care products increased at a CAGR of 10.6% from 2015 to 2019 and is expected to grow at a CAGR of 16.2% from 2019 to 2024, according to the Frost & Sullivan Report. We expect sales via online channels to continue to contribute to our sales growth and to have synergies with our other sales and distribution network by enhancing our brand recognition.

For the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, revenue generated through direct sales to key account clients represented 12.5%, 12.1%, 14.1%, 11.1% and 7.7% of our total revenue. During the same periods, revenue generated through our offline distributors represented 54.4%, 47.7%, 38.7%, 31.5% and 33.5%, respectively, of our total revenue. As at 31 December 2017, 2018 and 2019 and 30 June 2020, we had 1,175, 1,306, 1,267 and 1,403 offline distributors. We will 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. Please refer to the section headed "Business – Sales and Distribution Network – Offline Distributors" for details of our offline distributors.

Marketing and promotional activities

Our results of operations depend on the efficiency and effectiveness of our marketing and promotional activities. For the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, our advertising and promotion expenses, as a percentage of total revenue, were 12.7%, 10.4%, 9.9%, 8.8% and 10.6%, respectively. The decrease in our advertising and promotion expenses as a percentage of our revenue has contributed to an improvement in our operating profit margin during the Track Record Period. Efficient and effective marketing and promotion could increase demand for our products, thereby increasing our sales volume in the short run and converting consumers to supporters of our brands that will bring us sustainable profits in the long run. During the Track Record Period, we marketed and promoted our brands and products primarily through our unique knowledge-based marketing strategies that seek to deliver knowledge and insights on household care based on our research and development experience to consumers, thereby educating the consumers in the value of our products and services. We have implemented our knowledge-based marketing 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. Please refer to the section headed "Business – Knowledge-Based Marketing" for details. Because market conditions and consumer preferences change constantly, our marketing and promotional activities may not necessarily be effective in the future and may also change as we continually strive to tailor our marketing strategy to market conditions.

Seasonality

Our results of operations are affected by seasonal fluctuations in demand for our products. Our customers usually order more products from us in the time leading to the Chinese New Year holidays. Thus, the timing of Chinese New Year can have an impact on our sales. For example, our sales were higher in December 2019 compared to December 2018, primarily because the customers ordered more products from us in December 2019 in anticipation of Chinese New Year in January 2020, whereas the Chinese New Year in 2019 was in February. Sales also tend to increase around a few major online shopping holidays in China, such as the 618 Shopping Festival on 18 June and Singles' Day on 11 November. Such increases are seasonal in nature and are not indicative of our results of operations for the full year. Moreover, sales of certain products are subject to seasonality by nature. For example, sales of down jacket cleansers are generally higher in winter. Additionally, the timing of Chinese New Year may also affect the ending balances of inventory and trade and bill receivables for a financial year, both of which are recorded at 31 December of that financial year. Accordingly, various aspects of our financial positions and results of operations, including sales, inventory, trade and bill receivables, working capital and operating cashflow, are exposed to the seasonal fluctuations in demand for our products, and our half-year results may not reflect our full-year results.

Effect of currency fluctuation on translation of our consolidated financial statements

Our consolidated financial statements presentation and reporting currency is Hong Kong dollar, which is also the functional currency of Blue Moon Group. The functional currency of the majority of our subsidiaries is RMB. Consequently, fluctuations in the exchange rates between Hong Kong dollar versus RMB affect the translation into Hong Kong dollar of the financial results of our consolidated financial statements.

Fluctuations in the exchange rates between Hong Kong dollar versus RMB affect the translation into Hong Kong dollar of the financial results of our consolidated financial statements. Assets and liabilities for each balance sheet presented are translated into Hong Kong dollar at the closing exchange rate on the date of that balance sheet; income and expenses for each consolidated statements of comprehensive income are translated into Hong Kong dollar at average exchange rates (unless such translations are not reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and all resulting exchange differences are recognised in other comprehensive income. The following table provides the effective exchange rate used in our consolidated financial statements for the Track Record Period.

	Year ended or as at 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	Consolidated statements of comprehensive income	*Consolidated balance sheet*	*Consolidated statements of comprehensive income*	*Consolidated balance sheet*	*Consolidated statements of comprehensive income*	*Consolidated balance sheets*	*Consolidated statements of comprehensive income*	*Consolidated balance sheets*	*Consolidated statements of comprehensive income*	*Consolidated balance sheets*
1 RMB to:										
Hong Kong dollar	1.1542	1.1963	1.1681	1.1413	1.1288	1.1164	1.1390	1.1368	1.1056	1.0948

We currently do not have any foreign currency hedging policy, nor do we have any plans to conduct any hedging activities as we do not have any significant foreign currency exchange exposure. We carry out substantially all of our business and derive all of our revenue from the PRC. Accordingly, our revenue, expenses, assets and liabilities are denominated in RMB.

Changes in RMB against Hong Kong dollar has had an impact on our profit and loss during the Track Record Period. We recognised other comprehensive income in our consolidated statements of comprehensive income of HK$89.0 million in 2017, other comprehensive loss of HK$65.0 million in 2018, other comprehensive loss of HK$74.3 million in 2019, other comprehensive loss of HK$29.2 million for the six months ended 30 June 2019 and other comprehensive loss of HK$49.6 million for the six months ended 30 June 2020, due to exchange differences from translation of financial statements of subsidiaries. While such fluctuations did not have a significant impact on our consolidated statements of comprehensive income during the Track Record Period, this may not be the case in the future. Please refer to the subsections headed "Results of Operations – Revenue" and "Results of Operations – Gross profit and gross profit margin" for details of the impact of currency fluctuation on our revenue and gross profit.

SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. Please refer to Notes 2 and 4 to the section headed "Appendix I – Accountant's Report" for our significant accounting policies, judgements and estimates that are important for you to understand our financial condition and results of operations.

We have adopted HKFRS 9, HKFRS 15 and HKFRS 16 using full retrospective approach with which the relevant accounting policies have been consistently applied to our Group's consolidated financial statements throughout the Track Record Period. As compared to HKAS 39, HKAS 18 and HKAS 17, the adoption of HKFRS 9, HKFRS 15 and HKFRS 16 did not have any material impact on our financial position and performance during the Track Record Period.

Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgements relating to accounting items. The assumptions and estimates are based on historical experience and other factors that are considered to be relevant. While such judgements, estimates and assumptions were generally in line with our actual results in the past and our Directors do not expect such estimates and assumptions will change significantly in the future, actual results may differ from these estimates. When reviewing our consolidated financial statements, you should consider (i) our selection of critical accounting policies, (ii) the judgements and other uncertainties affecting the application of such policies, and (iii) the sensitivity of reported results to changes in conditions and assumptions.

We set forth below those accounting policies that we believe involve the most significant estimates and judgements used in preparing of our consolidated financial statements.

Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of our activities. Revenue is shown net of value-added tax ("**VAT**"), returns and rebates and after eliminating sales within our Group.

Sales of Goods

Revenue from the sales of goods is recognised when control of the products has transferred, being when the products are delivered to the customer, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or we have objective evidence that all criteria for acceptance have been satisfied.

Revenue from these sales is recognised based on the price specified in the contract, net of the estimated returns and volume rebates (if any). Accumulated experience is used to estimate and provide for the returns and rebates, using the expected value method, based on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in trade and other payables) is recognised for expected returns and volume rebates payable to customers in relation to sales made until the end of the reporting period. No element of financing is deemed present as the sales are made with credit terms that are consistent with market practice. Our obligation to provide a refund for faulty products under the standard warranty terms is recognised as a provision.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

If the services we rendered or products we delivered exceed the payments made by the counterparties, a contract asset is recognised. If the payments exceed the services rendered or products delivered, a contract liability is recognised. A contract liability is the obligation to transfer goods or services to a customer for which we have received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before we transfer goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when we perform under the contract.

Interest Income

Interest income is recognised using the effective interest method.

Property and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items and costs incurred in bringing the asset to its working condition and location for intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to us and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	30 to 50 years
Leasehold improvements	Shorter of the lease terms or 5 years
Plant and machinery	5 to 20 years
Furniture, fixtures and equipment	4 to 15 years
Motor vehicles	3 to 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing net proceeds with the carrying amount and are recognised in consolidated statements of comprehensive income.

Our management determines the estimated useful lives and related depreciation and amortisation charges for our property, plant and equipment and intangible assets, respectively. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and intangible assets of similar nature. Our management will increase the depreciation and amortisation where useful lives are less than previously estimated lives. Periodic review could result in a change in useful lives and therefore depreciation and amortisation expense in the future periods.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the applicable variable selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. Our management reassesses the estimation at the end of each reporting period.

Intangible Assets

Trademarks and Patents

Separately acquired trademarks and patents are stated at historical cost. Trademarks and patents acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and patents have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and patents over their estimated useful lives of 10 years, i.e. the license period.

Computer Software and System

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products and system controlled by us, and that will generate probable future economic benefits exceeding costs (beyond one year), are recognised as intangible assets.

Directly attributable costs that are capitalised as part of the software and system include the software and system development employee costs and an appropriate portion of relevant overheads.

Our Group's computer system under development as at 31 December 2017, 2018 and 2019 and 30 June 2020 represented operating systems and software developed for our Group's internal use to support our Group's daily operations. Such intangible assets, upon completion, cannot generate cash inflows independently, and are considered as "corporate assets" in accordance with "HKAS 36 – Impairment assets". Accordingly, in the impairment testing of such intangible assets not yet available for use, the related carrying amounts are allocated to the related cash generating unit (i.e. our Group's financial performance as a whole) and has been assessed annually on a consistent basis during the Track Record Period.

No impairment loss for the computer system under development is considered necessary during the Track Record Period in view of favourable financial performance of our Group.

Computer systems under development are transferred to computer software upon the completion of the respective development, and amortisation will commence accordingly over their estimated useful lives of 5 to 10 years based on our management's expectation on the technological lives of the systems, on a straight-line basis.

Provisions

Provisions are recognised when we have a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Trade Receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. If collection of trade receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. We hold the trade receivables with the objective to collect the contractual cash flows and therefore measure them subsequently at amortised cost using the effective interest method. Please refer to Note 3.1(c) to the section headed "Appendix I – Accountant's Report" for further information about our accounting for trade receivables and a description of our impairment policies.

Current and Deferred Income Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statements of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity, respectively.

We are subject to income taxes in the PRC and Hong Kong. Judgement is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Current Income Tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where we operate and generate taxable income. Our management periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. We establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred Income Tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where we are able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

We offset deferred tax assets and liabilities where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

We recognise current and deferred tax in the consolidated profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Provision for sales return

We use the probability of sales return to account for our refund liabilities and right to returned goods for the goods sold in each reporting period. The probability is measured by reference to the historical pattern of sales return to estimate the total refund liabilities and right to returned goods. Significant assumptions are required to estimate the total refund liabilities and right to returned goods that may affect the revenue and cost of sales.

Refund liabilities

The revenue recognised by us at inception of sales (i.e. at the point in time when transfer of control of products occurs) comprises the fair value of consideration received or to be received, net of estimated returns, in accordance with the applicable HKFRS. At the end of each financial reporting period, our management remeasures the estimate for product returns based on historical results, taking into consideration types of customers, types of transactions and the specifics of each arrangement. Given the low historical product return rates over the Track Record Period prior to 2020, our management considered the fair value of estimated returns to be insignificant and therefore no refund liability nor relevant right of returned goods were provided for or recognised as at 31 December 2017, 2018 and 2019. In 2020, we have experienced product return requests from our customers and accepted certain product return requests in light of the market disruption arisen from the COVID-19 outbreak. As at 30 June 2020, refund liabilities amounted to approximately HK$53.5 million and relevant right of returned goods amounted to approximately HK$12.8 million was recognised as at 30 June 2020 in accordance with the applicable HKFRS based on our management's best estimate for product returns as at 30 June 2020. No additional performance obligation was accounted for in relation to the product return.

SELECTED HISTORICAL FINANCIAL INFORMATION

The following consolidated statements of comprehensive income for the years ended 31 December 2017, 2018 and 2019, and the six months ended 30 June 2019 and 2020 and the selected consolidated balance sheet information as at 31 December 2017, 2018 and 2019 and 30 June 2020 set forth below, are derived from the section headed "Appendix I – Accountant's Report".

Extract of Consolidated Statements of Comprehensive Income

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Revenue	5,632,033	6,767,945	7,049,905	2,720,350	2,435,868
Cost of sales	(2,636,910)	(2,881,644)	(2,526,895)	(1,048,635)	(877,265)
Gross profit	2,995,123	3,886,301	4,523,010	1,671,715	1,558,603
Other income and other gains, net	23,097	37,446	51,522	34,673	39,768
Selling and distribution expenses	(2,068,649)	(2,547,972)	(2,323,123)	(1,030,713)	(816,386)
General and administrative expenses	(776,271)	(632,774)	(747,765)	(328,924)	(346,154)
Net (provision for)/reversal of impairment loss of financial assets	(16,073)	6,151	(1,867)	226	(6,459)
Operating profit	157,227	749,152	1,501,777	346,977	429,372
Finance income	3,126	6,218	5,652	2,154	4,136
Finance costs	(47,123)	(53,455)	(32,188)	(20,328)	(4,703)
Finance costs, net	(43,997)	(47,237)	(26,536)	(18,174)	(567)
Profit before income tax	113,230	701,915	1,475,241	328,803	428,805
Income tax expense	(27,071)	(147,930)	(395,624)	(110,847)	(126,612)
Profit for the year attributable to the owners of our Company	86,159	553,985	1,079,617	217,956	302,193

Consolidated Balance Sheets

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS				
Non-current assets				
Intangible assets	97,143	100,779	146,943	139,460
Property, plant and equipment	1,113,900	1,124,285	1,211,091	1,211,978
Right-of-use assets	404,902	370,793	415,989	406,651
Prepayments for property, plant and equipment	245,211	160,248	59,421	58,648
Deferred income tax assets	113,724	79,270	76,540	91,074
	1,974,880	1,835,375	1,909,984	1,907,811
Current assets				
Inventories	567,978	586,879	375,757	445,019
Trade and bills receivables	928,643	1,142,940	1,750,049	1,123,046
Prepayments, deposits and other receivables	354,036	235,818	282,719	260,939
Restricted cash	2,863	19,120	25,890	18,085
Cash and cash equivalents	547,436	467,967	690,064	753,442
Tax recoverable	–	–	6,228	–
	2,400,956	2,452,724	3,130,707	2,600,531
Total assets	4,375,836	4,288,099	5,040,691	4,508,342
LIABILITIES				
Non-current liabilities				
Deferred government grant	68,192	63,670	61,843	59,982
Borrowings	185,263	211,182	207,396	73,548
Deferred income tax liabilities	12,531	22,707	98,698	119,959
Lease liabilities	39,017	28,915	33,824	28,009
	305,003	326,474	401,761	281,498
Current liabilities				
Trade and bills payables	931,943	664,721	511,922	349,276
Contract liabilities	14,366	20,502	16,188	44,644
Accruals and other payables	807,577	602,995	746,871	552,027
Amounts due to related companies	6,780	4,187	1,076	837
Dividend payable	85,261	85,261	48,261	–
Current income tax liabilities	17,540	39,527	218,679	95,885
Borrowings	812,992	662,628	206,529	74,386
Lease liabilities	25,534	24,021	26,325	30,781
	2,701,993	2,103,842	1,775,851	1,147,836
Total liabilities	3,006,996	2,430,316	2,177,612	1,429,334

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
EQUITY				
Equity attributable to owners of our Company				
Share capital	–	–	–	–
Retained earnings	1,209,069	1,749,141	2,804,226	3,060,113
Other reserves	159,771	108,642	58,853	18,895
Total equity	1,368,840	1,857,783	2,863,079	3,079,008
Total equity and liabilities	4,375,836	4,288,099	5,040,691	4,508,342
Net current (liabilities)/assets	(301,037)	348,882	1,354,856	1,452,695
Total assets less current liabilities	1,673,843	2,184,257	3,264,840	3,360,506

Summarised Consolidated Statements of Cash Flows

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Net cash generated from operating activities	703,114	249,017	1,032,424	93,516	526,908
Net cash used in investing activities	(214,890)	(138,220)	(193,503)	(9,030)	(81,209)
Net cash used in financing activities	(133,403)	(165,759)	(598,878)	(152,499)	(372,524)
Net increase/(decrease) in cash and cash equivalents	354,821	(54,962)	240,043	(68,013)	73,175
Cash and cash equivalents, at beginning of the year/period	165,075	547,436	467,967	467,967	690,064
Effect of foreign exchange rate changes	27,540	(24,507)	(17,946)	(16,020)	(9,797)
Cash and cash equivalents, at end of the year/period	547,436	467,967	690,064	383,934	753,442

DESCRIPTION OF CERTAIN CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME ITEMS

Revenue

During the Track Record Period, we generated revenue from the sale of (i) fabric care products, (ii) personal hygiene products and (iii) home care products in the PRC market. Our revenue represents the net of value-added tax, returns and rebates and after eliminating sales within our Group. The table below sets forth a breakdown of our revenue by product category for the periods indicated.

	Year ended 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	Revenue	% of Total Revenue	Revenue	% of Total Revenue	Revenue	% of Total Revenue	Revenue	% of Total Revenue	Revenue	% of Total Revenue
	HK$'000	*(%)*	*HK$'000*	*(%)*	*HK$'000*	*(%)*	*HK$'000* *(unaudited)*	*(%)*	*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

The following table sets forth our sales volume and average selling price by product category for the periods indicated.

	Year ended 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	Sales volume (net weight)	Average selling price	Sales volume (net weight)	Average selling price	Sales volume (net weight)	Average selling price	Sales volume (net weight)	Average selling price	Sales volume (net weight)	Average selling price
	kg '000	*HK$ per kg*	*kg '000*	*HK$ per kg*	*kg '000*	*HK$ per kg*	*kg '000*	*HK$ per kg*	*kg '000*	*HK$ per kg*
Fabric care products	401,269	12.3	464,022	12.8	508,665	12.1	198,716	11.9	167,077	10.1
Personal hygiene products	24,138	13.6	30,310	13.5	32,425	12.9	13,551	13.3	32,470	14.3
Home care products	25,059	15.2	30,317	14.5	32,831	13.8	13,137	13.4	23,045	12.5
Total	450,466	12.5	524,649	12.9	573,921	12.3	225,404	12.1	222,592	10.9

In RMB terms, the average selling prices of fabric care products for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020 were RMB10.6 per kg, RMB10.9 per kg, RMB10.8 per kg, RMB10.5 per kg and RMB9.1 per kg, respectively; the average selling prices of personal hygiene products during the same periods were RMB11.8 per kg, RMB11.6 per kg, RMB11.4 per kg, RMB11.7 per kg and RMB13.0 per kg, respectively; and the average selling prices for home care products during the same periods were RMB13.2 per kg, RMB12.4 per kg, RMB12.2 per kg, RMB11.8 per kg and RMB11.3 per kg, respectively.

The average selling prices of fabric care products remained generally stable between 2017 and 2019. However, the average selling prices of such products decreased in the six months ended 30 June 2020, primarily due to the COVID-19 outbreak, which (i) resulted in more discounts due to weaker consumers' demand for fabric care products in general as consumers temporarily reduced outdoor activities due to social distancing during the COVID-19 outbreak, (ii) had a more severe impact on our Supreme branded concentrated liquid laundry detergents which had a higher average selling price. Because of government restrictions and less customer traffic in offline channels as a result of, the COVID-19 outbreak, we were unable to deploy our sales personnel to offline hypermarkets to help consumers better understand the value of such products and (iii) resulted in returns of fabric care products of approximately HK$149.8 million, of which HK$54.1 million were offset against sales of fabric care products for the six months ended 30 June 2020 without a corresponding decrease in the sales volume as these returned products have not yet been received as at 30 June 2020. The average selling price of fabric care products for the six months ended 30 June 2020 would have been RMB9.4 per kg without the impact of the HK$54.1 million offset.

The average selling prices of personal hygiene products remained generally stable between 2017 and 2019. The average selling prices of such products increased in the six months ended 30 June 2020, primarily due to reduced sales discount offered to consumers as demand for personal hygiene products such as liquid soap increased in the six months ended 30 June 2020 because of the COVID-19 outbreak.

The decrease in the average selling prices of home care products between 2017 and 2018 was primarily due to (i) a decrease in the average selling prices of our kitchen cleaner series and natural tea concentrated dishwash series and (ii) an increase in the revenue contribution of natural tea concentrated dishwash series which have relatively lower average selling prices. While the average selling price of home care products remained generally stable between 2018 and 2019, the average selling prices of such products decreased in the six months ended 30 June 2020, primarily due to a change in product mix as we sold more disinfectant liquid in the first half of 2020, which has a relatively lower average selling price than other home care products.

During the Track Record Period, Blue Moon Deep Clean Care Liquid Laundry Detergent series (including Blue Moon Liquid Laundry Deep Clean Care (Whitening) Detergent), pre-wash and hand-wash liquid laundry detergent series and laundry aids were among the most popular under fabric care products during the Track Record Period. During the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, the revenue of Blue Moon Deep Clean Care Liquid Laundry Detergent Series, pre-wash and hand-washed liquid laundry detergent series and laundry aids combined was HK$3,820.8 million, HK$4,495.3 million, HK$4,751.4 million, HK$1,895.6 million and HK$1,400.7 million, respectively, which accounted for 77.6%, 76.0%, 76.9%, 80.2% and 83.3% of the total revenue under fabric care products during the same periods. The table below sets forth the sales volume and average selling price of Blue Moon Deep Clean Care Liquid Laundry Detergent series, pre-wash and hand-wash liquid laundry detergent series and laundry aids for the periods indicated.

	Year ended 31 December					
	2017		**2018**		**2019**	
	Sales volume (net weight)	**Average selling price**	**Sales volume (net weight)**	**Average selling price**	**Sales volume (net weight)**	**Average selling price**
	kg ’000	*HK$ per kg*	*kg ’000*	*HK$ per kg*	*kg ’000*	*HK$ per kg*
Blue Moon Deep Clean Care Liquid Laundry Detergent Series	299,221	10.6	341,684	11.1	365,617	11.1
Pre-wash and hand-wash liquid laundry detergent series	23,258	14.4	23,512	14.2	23,360	14.0
Laundry aids	24,691	12.5	29,655	12.1	32,055	11.4

	Six months ended 30 June			
	2019		**2020**	
	Sales volume (net weight)	**Average selling price**	**Sales volume (net weight)**	**Average selling price**
	kg ’000	*HK$ per kg*	*kg ’000*	*HK$ per kg*
Blue Moon Deep Clean Care Liquid Laundry Detergent Series	147,937	11.1	106,540	10.5
Pre-wash and hand-wash liquid laundry detergent series	8,667	13.4	6,213	13.5
Laundry aids	14,229	11.2	16,747	11.5

During the Track Record Period, the most popular products under personal hygiene products were antibacterial liquid soap series. During the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, the revenue of the antibacterial liquid soap series was HK$236.1 million, HK$330.9 million, HK$339.4 million, HK$146.2 million and HK$405.7 million, respectively, which accounted for 72.0%, 80.6%, 81.1%, 81.2% and 87.1% of the total revenue under personal hygiene products during the same periods. The table below sets forth the sales volume and average selling price of antibacterial liquid soap series for the periods indicated.

	Year ended 31 December					
	2017		**2018**		**2019**	
	Sales volume (net weight)	**Average selling price**	**Sales volume (net weight)**	**Average selling price**	**Sales volume (net weight)**	**Average selling price**
	kg '000	*HK$ per kg*	*kg '000*	*HK$ per kg*	*kg '000*	*HK$ per kg*
Antibacterial liquid soap series	18,380	12.8	23,964	13.8	25,330	13.4

	Six months ended 30 June			
	2019		**2020**	
	Sales volume (net weight)	**Average selling price**	**Sales volume (net weight)**	**Average selling price**
	kg '000	*HK$ per kg*	*kg '000*	*HK$ per kg*
Antibacterial liquid soap series	10,584	13.8	27,691	14.7

During the Track Record Period, the most popular products under home care products were generally kitchen cleaner series, natural tea concentrated dishwash series and Volo cleaner series. The table below sets forth the revenue of kitchen cleaner series, natural tea concentrated dishwash series and Volo cleaner series for the periods indicated.

	Year Ended 31 December			**Six Months ended 30 June**	
	2017	**2018**	**2019**	**2019**	**2020**
		HK$'000		*HK$'000*	
				(Unaudited)	
Revenue					
Kitchen cleaner series	82,553.0	93,035.1	102,406.8	34,301.2	33,723.2
Natural tea concentrated series	60,565.6	78,757.2	71,884.4	28,860.0	31,317.7
Volo cleaner series	52,444.8	63,713.8	59,692.7	22,830.3	23,012.0
Total	195,563.4	235,506.1	233,983.8	85,991.5	88,052.9

During the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, the combined revenue of the kitchen cleaner series, natural tea concentrated dishwash series and Volo cleaner series was HK$195.6 million, HK$235.5 million, HK$234.0 million, HK$86.0 million and HK$88.1 million, respectively, which accounted for 51.3%, 53.5%, 51.6%, 48.9% and 30.5% of the total revenue under home care products during the same periods. The revenue contribution of these products decreased in the six months ended 30 June 2020 primarily because of the COVID-19 outbreak, as a result of which the demand for our disinfectant liquid series increased substantially in the first six months ended 30 June 2020. Revenue from disinfectant liquid increased substantially from HK$19.0 million in the six months ended 30 June 2019 to HK$117.8 million in the six months ended 30 June 2020, which accounted for 10.8% and 40.8% of the total revenue under home care products during the same periods, respectively. The table below sets forth the sales volume and average selling price of kitchen cleaner series, natural tea concentrated dishwash series and Volo cleaner series for the periods indicated.

	Year ended 31 December					
	2017		**2018**		**2019**	
	Sales volume (net weight)	**Average selling price**	**Sales volume (net weight)**	**Average selling price**	**Sales volume (net weight)**	**Average selling price**
	kg '000	*HK$ per kg*	*kg '000*	*HK$ per kg*	*kg '000*	*HK$ per kg*
Kitchen cleaner series	4,451	18.5	5,175	18.0	5,379	19.0
Natural tea concentrated dishwash series	4,619	13.1	6,097	12.9	5,791	12.4
Volo cleaner series	3,662	14.3	4,317	14.8	4,313	13.8

	Six months ended 30 June			
	2019		**2020**	
	Sales volume (net weight)	**Average selling price**	**Sales volume (net weight)**	**Average selling price**
	kg '000	*HK$ per kg*	*kg '000*	*HK$ per kg*
Kitchen cleaner series	2,068	16.6	1,834	18.4
Natural tea concentrated dishwash series	2,212	13.0	2,445	12.8
Volo cleaner series	1,642	13.9	1,572	14.6

Please refer to the subsection headed "Results of Operations" for further analysis of different products' average selling price and sales volume during the Track Record Period.

The following table sets forth our sales revenue by channel for the periods indicated.

	Year ended 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	Revenue	% of Total Revenue	Revenue	% of Total Revenue	Revenue	% of Total Revenue	Revenue	% of Total Revenue	Revenue	% of Total Revenue
	HK$'000	*(%)*	*HK$'000*	*(%)*	*HK$'000*	*(%)*	*HK$'000* *(Unaudited)*	*(%)*	*HK$'000*	*(%)*
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

Please refer to the subsection headed "Results of Operations – Revenue" for further analysis of sales revenue by sales channel during the Track Record Period.

Cost of sales

Our cost of sales included the (i) costs of raw materials consumed, (ii) changes in inventories of finished goods and work in progress related to the goods made in prior years that are subsequently sold in that period, (iii) overhead costs, including utility expenses, maintenances expenses, consumables and other indirect labour and material expenses related to the manufacturing process, but excluding depreciation, (iv) employee benefit expenses directly associated with product production, including salaries and wages and staff welfare relating to the employees who were directly or indirectly involved in the manufacture, assembly, testing and quality control of our products, (v) depreciation of property, plant and equipment related to product production and (vi) others.

The table below sets forth a breakdown of our cost of sales by nature for the periods indicated.

	Year ended 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	Cost	% of Total Cost of Sales	Cost	% of Total Cost of Sales	Cost	% of Total Cost of Sales	Cost	% of Total Cost of Sales	Cost	% of Total Cost of Sales
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* *(unaudited)*	*%*	*HK$'000*	*%*
Cost of raw materials consumed	2,096,388	79.5	2,611,150	90.6	2,059,549	81.5	801,453	76.4	818,137	93.3
Changes in inventories of finished goods and work in progress	261,230	9.9	8,360	0.3	218,739	8.7	134,525	12.8	(61,995)	(7.1)
Overhead costs	23,751	0.9	40,568	1.4	39,385	1.6	18,961	1.8	20,311	2.3
Employee benefit expenses	122,680	4.7	158,481	5.5	143,415	5.7	59,581	5.7	64,440	7.3
Depreciation of property, plant and equipment	65,587	2.5	71,361	2.5	65,807	2.5	34,115	3.3	31,410	3.6
Others[(1)]	67,274	2.5	(8,276)	(0.3)	–	–	–	–	4,962	0.6
Total	2,636,910	100.0	2,881,644	100.0	2,526,895	100.0	1,048,635	100.0	877,265	100.0

Note:

(1) "Others" primarily included inventory provision or its reversal and inventory written-off.

Cost of raw materials consumed

The major raw materials we use in our production process mainly include chemicals and packaging materials. Please refer to the section headed "Financial Information – Cost of raw materials" for details. Other materials accounted for an insignificant portion of our total cost of sales, for the same periods. The table below sets forth a breakdown of our cost of raw materials consumed for the periods indicated.

	Year ended 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	Cost	% of Total Cost of Raw Materials Consumed	Cost	% of Total Cost of Raw Materials Consumed	Cost	% of Total Cost of Raw Materials Consumed	Cost	% of Total Cost of Raw Materials Consumed	Cost	% of Total Cost of Raw Materials Consumed
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* *(unaudited)*	*%*	*HK$'000*	*%*
Chemicals	1,269,808	60.6	1,420,063	54.4	1,124,114	54.6	434,074	54.2	434,039	53.1
Packaging materials	826,580	39.4	1,191,087	45.6	935,435	45.4	367,379	45.8	384,098	46.9
Total	2,096,388	100.0	2,611,150	100.0	2,059,549	100.0	801,453	100.0	818,137	100.0

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the costs of our chemicals and packaging materials on our profit before income tax for the periods indicated, assuming all other factors affecting our profitability had remained unchanged.

Increase/decrease in the cost of chemicals:

	Increase/ decrease by 1%	Increase/ decrease by 5%	Increase/ decrease by 10%
	HK$'000	*HK$'000*	*HK$'000*
Corresponding change in profit before income tax			
2017	-/+12,698	-/+63,490	-/+126,981
2018	-/+14,201	-/+71,003	-/+142,006
2019	-/+11,241	-/+56,206	-/+112,411
Six months ended 30 June 2020	-/+4,340	-/+21,702	-/+43,404

Increase/decrease in the cost of packaging materials:

	Increase/ decrease by 1%	Increase/ decrease by 5%	Increase/ decrease by 10%
	HK$'000	*HK$'000*	*HK$'000*
Corresponding change in profit before income tax			
2017	-/+8,266	-/+41,329	-/+82,658
2018	-/+11,911	-/+59,554	-/+119,109
2019	-/+9,354	-/+46,772	-/+93,544
Six months ended 30 June 2020	-/+3,841	-/+19,205	-/+38,410

Note:

This sensitivity analysis is intended for reference only, and any actual change in profit before income tax may differ from the amounts indicated. Investors should note in particular that the factors considered in this sensitivity analysis are not intended to be exhaustive and are limited to the changes in our costs of raw materials and packaging materials.

Gross profit and gross profit margin

Our gross profit represents our revenue less our cost of sales, and our gross profit margin represents our gross profit divided by our revenue, expressed as a percentage. The table below sets forth our gross profit and gross profit margin by product category for the periods indicated.

	Year ended 31 December						Six months ended 30 June			
	2017		2018		2019		2019		2020	
	Amount	Gross profit margin	Amount	Gross profit margin	Amount	Gross profit margin	Amount	Gross profit margin	Amount	Gross profit margin
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* *(unaudited)*	*%*	*HK$'000*	*%*
Fabric care products	2,546,370	51.7	3,346,739	56.6	3,948,753	63.9	1,444,655	61.1	1,031,954	61.4
Personal hygiene products	208,674	63.6	263,856	64.3	271,986	65.0	117,890	65.5	317,549	68.2
Home care products	240,079	62.9	275,706	62.7	302,271	66.6	109,170	62.0	209,100	72.4
Total	2,995,123	53.2	3,886,301	57.4	4,523,010	64.2	1,671,715	61.5	1,558,603	64.0

The increase in our gross profit margin during the Track Record Period was primarily driven by the decreasing price trend of the raw materials as well as other factors such as improved inventory management and production efficiency. Raw materials accounted for approximately 79.5%, 90.6%, 81.5%, 76.4% and 93.3% of our total cost of sales during the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, respectively. During the same periods, chemicals (a substantial amount of which is comprised of palm oil-based materials) accounted for approximately 48.2%, 49.3%, 44.5%, 41.4% and 49.5% of our total cost of sales, respectively; packaging materials (a substantial amount of which is comprised of LDPE-based materials) accounted for approximately 31.3%, 41.3%, 37.0%, 35.0% and 43.8% of our total cost of sales, respectively. According to the Frost & Sullivan Report, from 2017 to 2019, the price of LDPE decreased from RMB9,513.6 per tonne to RMB7,860.7 per tonne and the price of palm oil decreased from RMB5,771.5 per tonne to RMB4,884.2 per tonne.

Other income and other gains, net

Our net other income and other gains comprised government grants primarily related to subsidies granted by the local government authority to Blue Moon Industrial in recognition of its achievements and contribution to local economy, foreign exchange gains, gain on de-recognition of right-of-use assets, gain on early termination of leases, scrap sales related to unused materials and sundry income.

The table below sets forth a breakdown of our net other income and other gains for the periods indicated.

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
		HK$'000		*HK$'000* (*unaudited*)	
Government grants	7,553	35,932	40,491	30,244	37,372
Net foreign exchange gains/(losses)	3,455	1,441	(457)	399	(700)
Gain on disposal of right-of-use assets	8,631	–	–	–	–
(Loss)/gain on early termination of leases	(182)	42	–	–	–
Scrap sales	3,337	1,232	6,119	3,623	3,723
Sundry income/(expense), net	303	(1,201)	5,369	407	(627)
Total	23,097	37,446	51,522	34,673	39,768

Selling and distribution expenses

Selling and distribution expenses consisted principally of (i) employee benefit expenses, including salaries and wages and staff welfare of employees directly related to the sales and marketing of our products, (ii) advertising and promotion expenses, (iii) transportation and related expenses, including those incurred in delivery of products and business travel of sales and marketing employees, (iv) rental expenses in respect of office premises, (v) depreciation and amortisation, and (vi) others. In 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, our selling and distribution expenses were HK$2,068.6 million, HK$2,548.0 million, HK$2,323.1 million, HK$1,030.7 million and HK$816.4 million, respectively, representing 36.7%, 37.6%, 33.0%, 37.9% and 33.5% of our revenue for the same respective periods.

The table below sets forth a breakdown of our selling and distribution expenses for the periods indicated.

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
		HK$'000		*HK$'000*	
				(unaudited)	
Employee benefit expenses	867,602	1,313,357	1,062,752	550,743	316,302
Advertising and promotion	713,893	707,296	699,571	240,349	258,921
Transportation and related expenses	428,864	458,769	505,754	187,831	198,744
Rental expenses in respect of office premises	11,436	23,647	16,454	8,008	10,379
Depreciation and amortisation	19,165	20,988	21,381	10,737	9,931
Others[(1)]	27,689	23,915	17,211	33,045	22,109
Total	2,068,649	2,547,972	2,323,123	1,030,713	816,386

Note:

(1) "Others" primarily included other tax expense, consumables, office expenses, recruitment fee, consumables, utility expenses, maintenance expenses and others.

The advertising and promotion expenses primarily related to expenses on advertisements on different media, such as TV, online and newspapers, and expenses related to other online and offline marketing activities. The table below sets forth a breakdown of our advertising and promotion expenses for the periods indicated.

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
		HK$'000		*HK$'000*	
				(unaudited)	
Advertisement expenses[(1)]	499,023	422,360	404,659	120,923	107,627
Promotion expenses related to online channels[(2)]	102,116	123,243	178,903	72,441	90,099
Promotion expenses related to offline channels[(3)]	64,747	97,219	83,442	34,354	51,918
Others[(4)]	48,007	64,474	32,567	12,631	9,277
Total	713,893	707,296	699,571	240,349	258,921

Notes:

(1) Advertisement expenses primarily included those related to TV advertisements, followed by expenses related to advertisements online and in newspapers.

(2) Promotion expenses related to online channels primarily included (a) platform support fees which were pegged to the number of orders our Group received from that online platform, and (b) fees that our Group paid to the online platforms to increase our product exposure on such platforms to promote its sales.

(3) Promotion expenses related to offline channels primarily included (a) product display fees in certain locations of offline stores; (b) expenses to allow our sales personnel market our products in offline stores, (c) expenses to allow offline promotional activities and events to be initiated by us in offline stores, (d) expenses in relation to store-wide promotional events initiated by offline stores, and (e) entrance fees for certain offline channels.

(4) "Others" primarily included fees related to public relations and consultation fees related to marketing strategies.

General and administrative expenses

General and administrative expenses included (i) employee benefit expenses, including salaries and wages and staff welfare for our administrative and management staff, (ii) professional fee, including auditor's renumeration and consulting fee, (iii) transportation and related expenses, including those incurred in business travels of administrative and management staff and business use of our vehicles, (iv) other tax expenses, (v) depreciation and amortisation, and (vi) others. In 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, our general and administrative expenses were HK$776.3 million, HK$632.8 million, HK$747.8 million, HK$328.9 million and HK$346.2 million, respectively, representing 13.8%, 9.4%, 10.6%, 12.1% and 14.2% of our revenue for the same respective periods.

The table below sets forth a breakdown of our general and administrative expenses for the periods indicated.

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
		HK$'000		*HK$'000*	
				(unaudited)	
Employee benefit expenses	471,017	372,767	462,530	203,542	204,946
Professional fee	28,719	25,019	29,769	12,748	11,585
Transportation and related expenses	37,902	14,292	19,849	8,802	5,503
Other tax expenses	78,753	81,339	76,182	32,264	28,974
Depreciation and amortisation	61,741	82,911	66,722	33,592	44,557
Listing expenses	–	–	–	–	21,448
Others[(1)]	98,139	56,446	92,713	37,976	29,141
Total	776,271	632,774	747,765	328,924	346,154

Note:

(1) "Others" primarily included rental expenses in respect of office premises, consumables, office expenses, recruitment fee, utility expenses, maintenance expenses, net losses on disposal of property, plant and equipment and others.

Net (provision for)/reversal of impairment loss of financial assets

Our net impairment loss of financial assets primarily included provision for or reversal of impairment loss related to trade and bills receivables due from certain customers.

Operating profit

As a result of the foregoing, our operating profit was HK$157.2 million, HK$749.2 million, HK$1,501.8 million, HK$347.0 million and HK$429.4 million in 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, while our operating profit margins were 2.8%, 11.1%, 21.3%, 12.8% and 17.6% over the same respective periods.

Finance income and costs

Our finance income consisted of interest income from bank deposits. Interest income was recognised as it accrued, using the effective interest method. Finance costs consisted of interest expenses on bank borrowings and on lease liabilities less borrowing costs capitalised on qualifying assets.

The table below sets forth a breakdown of our finance income and costs for the periods indicated.

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
		HK$'000		*HK$'000* *(unaudited)*	
Finance income					
Interest income on bank deposits	3,126	6,218	5,652	2,154	4,136
Finance costs					
Interest expenses on bank borrowings	(47,049)	(53,876)	(34,010)	(20,677)	(5,699)
Interest expenses on lease liabilities	(2,899)	(3,331)	(3,234)	(1,527)	(1,792)
Less: borrowing costs capitalised on qualifying asset	2,825	3,752	5,056	1,876	2,788
Finance costs, net	(43,997)	(47,237)	(26,536)	(18,174)	(567)

Income tax expense

Our Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law and, accordingly, is exempt from payment of Cayman Islands income tax. We have not made any provision for Hong Kong profits tax as we did not generate any assessable profits in Hong Kong during the Track Record Period.

Income tax expense consisted of current income tax and deferred income tax expense payable by our subsidiaries in the PRC. These subsidiaries are subject to PRC enterprise income tax on their taxable income as reported in their respective statutory financial statements in accordance with the relevant tax laws and regulations in the PRC. The general enterprise income tax rate in the PRC is 25%. Certain subsidiaries have enjoyed preferential income tax rate of 15% during the Track Record Period. However, we expect that the preferential rate enjoyed by one of our subsidiaries, Blue Moon Industrial, will not be renewed from November 2020 onwards. In 2017, 2018 and 2019, the profit before taxation of Blue Moon Industrial per the statutory financial statements was RMB39.1 million, RMB53.5 million and RMB167.8 million, respectively. Please refer to the section headed "Risk Factors – Risks relating to our Business and Industry – We may be subject to higher income tax rates as certain preferential tax treatments granted to us may not be renewed." for details. Our income tax expense amounted to HK$27.1 million, HK$147.9 million, HK$395.6 million, HK$110.8 million and HK$126.6 million in 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, respectively, while our effective tax rates were 23.9%, 21.1%, 26.8%, 33.7% and 29.5%, respectively. Please refer to Note 10 to the section headed "Appendix I – Accountant's Report" for further information. During the Track Record Period and as at the Latest Practicable Date, we did not have any material dispute or unresolved issues with the relevant tax authorities.

RESULTS OF OPERATIONS

Six months ended 30 June 2020 compared to six months ended 30 June 2019

Revenue

Our revenue decreased by HK$284.5 million, or 10.5%, from HK$2,720.4 million for the six months ended 30 June 2019 to HK$2,435.9 million for the six months ended 30 June 2020. In RMB terms, revenue decreased by RMB185.0 million, or 7.7%, from RMB2,388.3 million for the six months ended 30 June 2019 to RMB2,203.3 million for the six months ended 30 June 2020. This decrease was primarily due to a decrease in revenue from our fabric care products, which was partially offset by increases in revenue from our personal hygiene products and home care products. Both of the increases and the decrease were attributable to the impact of the COVID-19 outbreak. While the COVID-19 outbreak weakened the consumers' demand for fabric care products as consumers temporarily reduced outdoor activities due to social distancing during the COVID-19 outbreak, it has increased consumers' awareness of personal hygiene, resulting in significant growth in our revenue from the sales of our personal hygiene products and home care products in the first six months of 2020. Please refer to the section headed "Business – Impact of the COVID-19 Outbreak on Our Business" for further details.

By product category

Fabric care products

Revenue from our fabric care products decreased by HK$683.0 million, or 28.9%, from HK$2,364.4 million for the six months ended 30 June 2019 to HK$1,681.4 million for the six months ended 30 June 2020. In RMB terms, revenue decreased by RMB554.8 million, or 26.7%, from RMB2,075.7 million for the six months ended 30 June 2019 to RMB1,520.9 million for the six months ended 30 June 2020. The sales volume of our fabric care products decreased from 198.7 million kg for the six months ended 30 June 2019 to 167.1 million kg for the six months ended 30 June 2020, primarily due to the impact of the COVID-19 outbreak that reduced consumers' demand for fabric care products as they temporarily reduced outdoor activities due to social distancing during the COVID-19 outbreak. In RMB terms, the average selling prices of our fabric care products decreased from RMB10.5 per kg for the six months ended 30 June 2019 to RMB9.1 per kg for the six months ended 30 June 2020, primarily due to the COVID-19 outbreak, which (i) resulted in more discounts on our fabric care products due to weaker consumers' demand for fabric care products in general as consumers temporarily reduced outdoor activities due to social distancing during the COVID-19 outbreak, (ii) had a more severe impact on our Supreme branded concentrated liquid laundry detergents which had a higher average selling price. Because of government restrictions and less customer traffic in offline channels as a result of, the COVID-19 outbreak, we were unable to deploy our sales personnel to offline hypermarkets to help consumers to better understand the value of such products, and (iii) resulted in returns of fabric care products of approximately HK$149.8 million, of which HK$54.1 million were offset against sales of fabric care products for the six months ended 30 June 2020 without a corresponding decrease in the sales volume as these products have not yet been received as at 30 June 2020. The average selling price of fabric care products for the six months ended 30 June 2020 would have been RMB9.4 per kg without the impact of the HK$54.1 million offset.

- *Blue Moon Deep Clean Care Liquid Laundry Detergent series*: revenue from Blue Moon Deep Clean Care Liquid Laundry Detergent series decreased by HK$496.7 million, or 30.7%, from HK$1,619.9 million in the six months ended 30 June 2019 to HK$1,123.2 million in the six months ended 30 June 2020. In RMB terms, revenue decreased by RMB406.3 million, or 28.6%, from RMB1,422.2 million in the six months ended 30 June 2019 to RMB1,015.9 million in the six months ended 30 June 2020. The sales volume of Blue Moon Deep Clean Care Liquid Laundry Detergent series decreased from 147.9 million kg for the six months ended 30 June 2019 to 106.5 million kg for the six months ended 30 June 2020, primarily due to weaker consumers' demand for fabric care products in general as consumers temporarily reduced outdoor activities due to social distancing during the COVID-19 outbreak. In RMB terms, the average selling prices of Blue Moon Deep Clean Care Liquid Laundry Detergent series remained generally stable at RMB9.5 per kg for the six months ended 30 June 2020 as compared to RMB9.6 per kg for the six months ended 30 June 2019.

- *Pre-wash and hand-wash liquid laundry detergent series*: revenue from pre-wash and hand-wash liquid laundry detergent series decreased by HK$31.7 million, or 27.3%, from HK$115.8 million in the six months ended 30 June 2019 to HK$84.1 million in the six months ended 30 June 2020. In RMB terms, revenue decreased by RMB25.6 million, or 25.1%, from RMB101.7 million in the six months ended 30 June 2019 to RMB76.1 million in the six months ended 30 June 2020. The sales volume of pre-wash and hand-wash liquid laundry detergent series decreased from 8.7 million kg for the six months ended 30 June 2019 to 6.2 million kg for the six months ended 30 June 2020, primarily due to weaker consumers' demand for such products as consumers temporarily reduced outdoor activities due to social distancing during the COVID-19 outbreak. In RMB terms, the average selling prices of pre-wash and hand-wash liquid laundry detergent series remained relatively stable at RMB12.3 per kg for the six months ended 30 June 2020 as compared to RMB11.7 per kg for the six months ended 30 June 2019.

- *Laundry aids*: revenue from laundry aids increased by HK$33.6 million, or 21.0%, from HK$159.8 million in the six months ended 30 June 2019 to HK$193.4 million in the six months ended 30 June 2020. In RMB terms, revenue increased by RMB34.6 million, or 24.6%, from RMB140.3 million in the six months ended 30 June 2019 to RMB174.9 million in the six months ended 30 June 2020. The sales volume of laundry aids increased from 14.2 million kg for the six months ended 30 June 2019 to 16.7 million kg for the six months ended 30 June 2020, primarily due to the increased sales of disinfectant sanitiser for clothing because of the COVID-19 outbreak. In RMB terms, the average selling prices of laundry aids remained relatively stable at RMB10.4 per kg for the six months ended 30 June 2020 as compared to RMB9.9 per kg for the six months ended 30 June 2019.

Personal hygiene products

Revenue from our personal hygiene products increased by HK$285.5 million, or 158.5%, from HK$180.1 million for the six months ended 30 June 2019 to HK$465.6 million for the six months ended 30 June 2020. In RMB terms, revenue increased by RMB263.0 million, or 133.9%, from RMB158.1 million for the six months ended 30 June 2019 to RMB421.1 million for the six months ended 30 June 2020. The sales volume of our personal hygiene products increased from 13.6 million kg for the six months ended 30 June 2019 to 32.5 million kg for the six months ended 30 June 2020, primarily due to the impact of the COVID-19 outbreak that increased consumers' awareness of personal hygiene, which led to an increase in the demand for personal hygiene products, especially our antibacterial liquid soap. In RMB terms, the average selling prices of our personal hygiene products increased from RMB11.7 per kg for the six months ended 30 June 2019 to RMB13.0 per kg for the six months ended 30 June 2020, primarily due to reduced sales discount provided to consumers as demand for the products was very high because of the COVID-19 outbreak.

- *Antibacterial Liquid Soap Series*: revenue from antibacterial liquid soap series increased by HK$259.5 million, or 177.5%, from HK$146.2 million in the six months ended 30 June 2019 to HK$405.7 million in the six months ended 30 June 2020. In RMB terms, revenue increased by RMB238.6 million, or 185.9%, from RMB128.3 million in the six months ended 30 June 2019 to RMB367.0 million in the six months ended 30 June 2020. The sales volume of antibacterial liquid soap series increased from 10.6 million kg for the six months ended 30 June 2019 to 27.7 million kg for the six months ended 30 June 2020, primarily due to the impact of the COVID-19 outbreak that increased consumers' awareness of personal hygiene, which led to an increase in the demand for our antibacterial liquid soap. In RMB terms, the average selling prices of antibacterial liquid soap series increased from RMB12.1 per kg for the six months ended 30 June 2019 to RMB13.3 per kg for the six months ended 30 June 2020, primarily due to reduced sales discount provided to consumers as demand for the products was very high because of the COVID-19 outbreak.

Home care products

Revenue from our home care products increased by HK$113.0 million, or 64.2%, from HK$175.9 million for the six months ended 30 June 2019 to HK$288.9 million for the six months ended 30 June 2020. In RMB terms, revenue increased by RMB106.8 million, or 69.1%, from RMB154.5 million for the six months ended 30 June 2019 to RMB261.3 million for the six months ended 30 June 2020. The sales volume of our home care products increased from 13.1 million kg for the six months ended 30 June 2019 to 23.0 million kg for the six months ended 30 June 2020, primarily due to the impact of that increased consumers' awareness of personal hygiene, which led to an increase in the demand for home care products such as disinfectants. In RMB terms, the average selling prices of our home care products decreased from RMB11.8 per kg for the six months ended 30 June 2019 to RMB11.3 per kg for the six months ended 30 June 2020, primarily due to a change in product mix as we sold a lot more disinfectant liquid in the first half of 2020, which has a relatively lower average selling price than other home care products.

- *Kitchen Cleaner Series*: revenue from kitchen cleaner series decreased by HK$0.6 million, or 1.7%, from HK$34.3 million in the six months ended 30 June 2019 to HK$33.7 million in the six months ended 30 June 2020. In RMB terms, revenue increased by RMB0.4 million, or 1.3%, from RMB30.1 million in the six months ended 30 June 2019 to RMB30.5 million in the six months ended 30 June 2020. The sales volume of kitchen cleaner series decreased from 2.1 million kg for the six months ended 30 June 2019 to 1.8 million kg for the six months ended 30 June 2020, primarily due to a decrease in sales through offline channel of the impact of the COVID-19 outbreak. In RMB terms, the average selling prices of kitchen cleaner series increased from RMB14.6 per kg for the six months ended 30 June 2019 to RMB16.6 per kg for the six months ended 30 June 2020, primarily due to the introduction of our new product, Foam Kitchen Cleaner, which has a relatively higher average selling price than other products in the series.

- *Natural Tea Concentrated Dishwash Series*: revenue from natural tea concentrated dishwash series increased by HK$2.5 million, or 8.5%, from HK$28.9 million in the six months ended 30 June 2019 to HK$31.3 million in the six months ended 30 June 2020. In RMB terms, revenue increased by RMB3.0 million, or 11.8%, from RMB25.3 million in the six months ended 30 June 2019 to RMB28.3 million in the six months ended 30 June 2020. The sales volume of natural tea concentrated dishwash series increased from 2.2 million kg for the six months ended 30 June 2019 to 2.4 million kg for the six months ended 30 June 2020, primarily because the sales of our natural tea concentrated dishwash series relied less on offline channels and thus were less affected by the COVID-19 outbreak. In RMB terms, the average selling price of natural tea concentrated dishwash series remained generally stable at RMB11.6 per kg for the six months ended 30 June 2020 as compared to RMB11.5 per kg for the six months ended 30 June 2019.

- *Volo Cleaner Series*: revenue from Volo cleaner series increased by HK$0.2 million, or 0.8%, from HK$22.8 million in the six months ended 30 June 2019 to HK$23.0 million in the six months ended 30 June 2020. In RMB terms, revenue increased by RMB0.8 million, or 3.8%, from RMB20.0 million in the six months ended 30 June 2019 to RMB20.8 million in the six months ended 30 June 2020. The sales volume of Volo cleaner series remained at 1.6 million kg for the six months ended 30 June 2020, which is the same level as that for the six months ended 30 June 2019. In RMB terms, the average selling price of Volo cleaner series increased from RMB12.2 per kg for the six months ended 30 June 2019 to RMB13.2 per kg for the six months ended 30 June 2020, primarily due to reduced sales discount offered to consumers as our Volo cleaner series gained popularity among consumers.

By channel

Online channels

Revenue from our online channels decreased by HK$130.1 million, or 8.3%, from HK$1,561.7 million for the six months ended 30 June 2019 to HK$1,431.6 million for the six months ended 30 June 2020, primarily due to the impact of the COVID-19 outbreak. While the COVID-19 outbreak has adversely affected the sales of our fabric care products in the online channels due to weaker consumers' demand for fabric care products in general as consumers temporarily reduced outdoor activities due to social distancing during the COVID-19 outbreak, it has also resulted in 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 online channels in the first six months of 2020, partially offsetting the negative impact of the COVID-19 outbreak on our fabric care products.

Direct sales to key account clients

Revenue from direct sales to our key account clients decreased by HK$114.6 million, or 37.9%, from HK$302.3 million for the six months ended 30 June 2019 to HK$187.7 million for the six months ended 30 June 2020, primarily due to the COVID-19 outbreak, which (i) adversely affected the sales of our fabric care products in the hypermarkets as (x) the consumers' demand for fabric care products was weakened in general as they temporarily reduced outdoor activities due to social distancing during the COVID-19 outbreak, and (y) we were unable to deploy our sales personnel to offline hypermarkets to help consumers to better understand the value of our products, and (ii) resulted in returns of fabric care products of approximately HK$83.0 million from the hypermarkets for the six months ended 30 June 2020.

Offline distributors

Revenue from offline distributors decreased by HK$39.7 million, or 4.6%, from HK$856.3 million for the six months ended 30 June 2019 to HK$816.6 million for the six months ended 30 June 2020, primarily due to the impact of the COVID-19 outbreak. While the COVID-19 outbreak has (i) adversely affected the sales of our fabric care products to the offline distributors due to weaker consumers' demand for fabric care products in general as they temporarily reduced outdoor activities due to social distancing during the COVID-19 outbreak, and (ii) resulted in returns of fabric care products of approximately HK$66.8 million from the offline distributors for the six months ended 30 June 2020, it has also resulted in 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 to the offline distributors in the first six months of 2020, partially offsetting the negative impact of the COVID-19 outbreak on our fabric care products.

Cost of sales

Our cost of sales decreased by HK$171.3 million, or 16.3% from HK$1,048.6 million for the six months ended 30 June 2019 to HK$877.3 million for the six months ended 30 June 2020, primarily due to a decrease in changes in inventories of finished goods and work in progress, generally in line with the decrease in sales in the six months ended 30 June 2020.

Gross profit and gross profit margin

Our gross profit decreased by HK$113.1 million, or 6.8%, from HK$1,671.7 million for the six months ended 30 June 2019 to approximately HK$1,558.6 million for the six months ended 30 June 2020. In RMB terms, our gross profit decreased by RMB57.8 million, or 3.9%, from RMB1,467.6 million for the six months ended 30 June 2019 to RMB1,409.8 million for the six months ended 30 June 2020. Our overall gross profit margin increased from 61.5% for the six months ended 30 June 2019 to 64.0% for the six months ended 30 June 2020, primarily due to the increased sales of disinfectant products, which had a relatively higher profit margin than other products.

By product category

Fabric care products

Our gross profit from sales of fabric care products decreased by HK$412.7 million, or 28.6%, from HK$1,444.7 million for the six months ended 30 June 2019 to HK$1,032.0 million for the six months ended

30 June 2020 and our gross profit margin from sales of fabric care products remained relatively stable at 61.1% for the six months ended 30 June 2019 and 61.4% for the six months ended 30 June 2020.

- *Blue Moon Deep Clean Care Liquid Laundry Detergent Series*: our gross profit from the sales of Blue Moon Deep Clean Care Liquid Laundry Detergent decreased by HK$278.3 million, or 28.4%, from HK$980.7 million in the six months ended 30 June 2019 to HK$702.4 million in the six months ended 30 June 2020 and our gross profit margin from the sales of such products increased from 60.5% in the six months ended 30 June 2019 to 62.5% in the six months ended 30 June 2020.

- *Pre-wash and hand-wash liquid laundry detergent series*: our gross profit from the sales of pre-wash and hand-wash liquid laundry detergent series decreased by HK$17.2 million, or 23.8%, from HK$72.4 million in the six months ended 30 June 2019 to HK$55.2 million in the six months ended 30 June 2020 and our gross profit margin from the sales of such products increased from 62.6% in the six months ended 30 June 2019 to 65.6% in the six months ended 30 June 2020, primarily due to a decrease in the unit cost of palm-oil-based chemicals and LDPE supplied to us in the six months ended 30 June 2020.

- *Laundry aids*: our gross profit from the sales of laundry aids increased by HK$23.3 million, or 22.8%, from HK$102.2 million in the six months ended 30 June 2019 to HK$125.5 million in the six months ended 30 June 2020 and our gross profit margin from the sales of such products remained relatively stable at 64.9% in the six months ended 30 June 2020 as compared to 63.9% in the six months ended 30 June 2019.

Personal hygiene products

Our gross profit from sales of personal hygiene products increased by HK$199.6 million, or 169.3%, from HK$117.9 million for the six months ended 30 June 2019 to HK$317.5 million for the six months ended 30 June 2020 and our gross profit margin from sales of personal hygiene products increased from 65.5% for the six months ended 30 June 2019 to 68.2% for the six months ended 30 June 2020, primarily due to reduced sales discount provided to consumers as demand for the products was very high because of the COVID-19 outbreak.

- *Antibacterial Liquid Soap Series*: our gross profit from the sales of antibacterial liquid soap series increased by HK$180.0 million, or 187.8%, from HK$95.8 million in the six months ended 30 June 2019 to HK$275.8 million in the six months ended 30 June 2020 and our gross profit margin from the sales of such products increased from 65.6% for the six months ended 30 June 2019 to 68.0% for the six months ended 30 June 2020, primarily due to reduced sales discounts provided to customers as demand for such products was very high because of the COVID-19 outbreak.

Home care products

Our gross profit from sales of home care products increased by HK$99.9 million, or 91.5%, from HK$109.2 million for the six months ended 30 June 2019 to HK$209.1 million for the six months ended 30 June 2020 and our gross profit margin from sales of home care products increased from 62.0% for the six months ended 30 June 2019 to 72.4% for the six months ended 30 June 2020, primarily due to the increased sales of disinfectant liquids, which had a relatively higher profit margin than other home care products.

- *Kitchen Cleaner Series*: our gross profit from the sales of kitchen cleaner series increased by HK$2.4 million, or 11.1%, from HK$21.0 million in the six months ended 30 June 2019 to HK$23.4 million in the six months ended 30 June 2020 and our gross profit margin from the sales of such products increased from 61.3% for the six months ended 30 June 2019 to 69.3% for the six months ended 30 June 2020, primarily due to (i) the introduction of our new product, Foam Kitchen Cleaner, which has a relatively higher gross profit margin than the other products in the series, and (ii) a decrease in the unit cost of palm oil-based chemicals and LDPE supplied to us in the six months ended 30 June 2020.

- *Natural Tea Concentrated Dishwash Series*: our gross profit from the sales of natural tea concentrated dishwash series increased by HK$2.1 million, or 11.9%, from HK$17.9 million in the six months ended 30 June 2019 to HK$20.0 million in the six months ended 30 June 2020 and our gross profit margin from the sales of such products increased from 62.1% for the six months ended 30 June 2019 to 64.0% for the six months ended 30 June 2020, primarily due to a decrease in the unit cost of palm oil-based chemicals and LDPE supplied to us in the six months ended 30 June 2020.

- *Volo Cleaner Series*: our gross profit from the sales of Volo cleaner series increased by HK$3.4 million, or 30.1%, from HK$11.1 million in the six months ended 30 June 2019 to HK$14.5 million in the six months ended 30 June 2020 and our gross profit margin from the sales of such products increased from 48.7% for the six months ended 30 June 2019 to 62.8% for the six months ended 30 June 2020, primarily due to an increase in the average selling price as we reduced the sales discounts offered on Volo cleaner series and a decrease in the unit cost of palm oil-based chemicals and LDPE supplied to us in the six months ended 30 June 2020.

Other income and other gains, net

Our other income/gains, net increased by HK$5.1 million, or 14.7%, from HK$34.7 million for the six months ended 30 June 2019 to HK$39.8 million for the six months ended 30 June 2020, primarily due to an increase of HK$7.2 million in government grants mainly related to government grants to offset the impact of the COVID-19 outbreak.

Selling and distribution expenses

Our selling and distribution expenses decreased by HK$214.3 million, or 20.8%, from HK$1,030.7 million for the six months ended 30 June 2019 to HK$816.4 million for the six months ended 30 June 2020, primarily due to a decrease in employee benefit expenses as we (i) temporarily streamlined our offline sales force due to less customer traffic in offline channels as a result of the COVID-19 outbreak; after the COVID-19 outbreak, we will continue to strengthen our offline sales force to support our offline sales activities, and (ii) benefited from government subsidies in response to the COVID-19 outbreak that reduced our employee social insurance expenses.

General and administrative expenses

General and administrative expenses increased by HK$17.3 million, or 5.3%, from HK$328.9 million for the six months ended 30 June 2019 to HK$346.2 million for the six months ended 30 June 2020, primarily due to listing expenses incurred in the six months ended 30 June 2020.

Net impairment loss of financial assets

We incurred a net provision for impairment loss of financial assets of HK$6.5 million for the six months ended 30 June 2020, compared to a net reversal of impairment loss of financial assets of HK$0.2 million for the six months ended 30 June 2019, mainly related to trade and bills receivables due from certain customers.

Operating profit

As a result of the foregoing, our operating profit increased by HK$82.4 million, or 23.7%, from HK$347.0 million for the six months ended 30 June 2019 to HK$429.4 million for the six months ended 30 June 2020.

Finance costs, net

Our finance costs, net decreased by HK$17.6 million, or 96.7%, from HK$18.2 million for the six months ended 30 June 2019 to HK$0.6 million for the six months ended 30 June 2020, primarily due to a decrease in interest expenses on bank borrowings as a result of less bank borrowings and lower effective interest rate in the six months ended 30 June 2020.

Profit before income tax

As a result of the foregoing, our profit before income tax increased by HK$100.0 million, or 30.4%, from HK$328.8 million for the six months ended 30 June 2019 to HK$428.8 million for the six months ended 30 June 2020.

Income tax expense

Our income tax expenses increased by HK$15.8 million, or 14.3%, from HK$110.8 million for the six months ended 30 June 2019 to HK$126.6 million for the six months ended 30 June 2020. Our effective tax rate decreased from 33.7% for the six months ended 30 June 2019 to 29.5% for the six months ended 30 June 2020, primarily due to additional deferred tax assets being recognised for the provision of sales return.

Profit for the period

As a result of the foregoing, our profit increased by HK$84.2 million, or 38.6%, from HK$218.0 million for the six months ended 30 June 2019 to HK$302.2 million for the six months ended 30 June 2020.

2019 compared to 2018

Revenue

Our revenue increased by HK$282.0 million, or 4.2%, from HK$6,767.9 million in 2018 to HK$7,049.9 million in 2019. In RMB terms, revenue increased by RMB451.5 million, or 7.8%, from RMB5,794.0 million in

2018 to RMB6,245.5 million in 2019. This increase was primarily due to (i) the successful marketing and promotional efforts that contributed to the increase in sales of our fabric care products and (ii) the increased sales through online channels as we increased the number of e-commerce platforms we cooperated with from 55 as at 31 December 2018 to 82 as at 31 December 2019, and strengthened cooperation with various e-commerce platforms as we advertised more frequently and held more promotional activities on these platforms in 2019.

By product category

Fabric care products

Revenue from our fabric care products increased by HK$260.3 million, or 4.4%, from HK$5,917.3 million in 2018 to HK$6,177.6 million in 2019. In RMB terms, revenue increased by RMB407.0 million, or 8.0%, from RMB5,065.7 million in 2018 to RMB5,472.7 million in 2019. The sales volume of our fabric care products increased from 464.0 million kg in 2018 to 508.7 million kg in 2019, primarily due to (i) an increase in the sales of our liquid laundry detergents in 2019, mainly as a result of our continued marketing and promotional efforts, especially our knowledge-based marketing, and (ii) an increase in the sales of our fabric softeners in 2019, mainly as a result of increased fabric care awareness of consumers in China as the living standards improved. The increase in our sales also reflected increased popularity of multi-item combo packs sold through our online channels. In RMB terms, the average selling prices of our fabric care products remained relatively stable at RMB10.8 per kg in 2019 compared to RMB10.9 per kg in 2018.

- *Blue Moon Deep Clean Care Liquid Laundry Detergent series*: revenue from Blue Moon Deep Clean Care Liquid Laundry Detergent series increased by HK$259.0 million, or 6.8%, from HK$3,801.2 million in 2018 to HK$4,060.2 million in 2019. In RMB terms, revenue increased by RMB342.9 million, or 10.5%, from RMB3,254.0 million in 2018 to RMB3,596.9 million in 2019. The sales volume of Blue Moon Deep Clean Care Liquid Laundry Detergent series increased from 341.7 million kg for 2018 to 365.7 million kg for 2019, primarily due to our continued marketing and promotional efforts, especially our knowledge-based marketing. In RMB terms, the average selling prices of Blue Moon Deep Clean Care Liquid Laundry Detergent series increased from RMB9.5 per kg for 2018 to RMB9.8 per kg for 2019, primarily due to reduced sales discount provided to customers as our Blue Moon Deep Clean Care Liquid Detergent series became more popular as a result of our continued marketing and promotional efforts, especially our knowledge-based marketing, in 2019.

- *Pre-wash and hand-wash liquid laundry detergent series*: revenue from pre-wash and hand-wash liquid laundry detergent series remained relatively stable at HK$326.1 million in 2019 as compared to HK$333.9 million in 2018. In RMB terms, revenue remained relatively stable at RMB288.9 million in 2019 as compared to RMB285.9 million in 2018. The sales volume of pre-wash and hand-wash liquid laundry detergent series remained relatively stable at 23.4 million kg in 2019 as compared to 23.5 million kg in 2018. In RMB terms, the average selling prices of pre-wash and hand-wash liquid laundry detergent series remained relatively stable at RMB12.4 per kg for 2019 as compared to RMB12.2 per kg for 2018.

- *Laundry aids*: revenue from laundry aids remained relatively stable at HK$365.1 million in 2019 as compared to HK$360.2 million in 2018. In RMB terms, revenue from laundry aids remained relatively stable at RMB323.5 million in 2019 as compared to RMB308.4 million in 2018. The sales volume of laundry aids increased from 29.7 million kg for 2018 to 32.1 million kg for 2019, primarily due to (i) the continued marketing and promotional efforts that contributed to the increase in sales of our laundry aids, and (ii) increased fabric care awareness of consumers in China as the living standards improved. In RMB terms, the average selling prices of laundry aids remained relatively stable at RMB10.1 per kg in 2019 as compared to RMB10.4 per kg in 2018.

Personal hygiene products

Revenue from our personal hygiene products increased by HK$7.9 million, or 1.9%, from HK$410.6 million in 2018 to HK$418.5 million in 2019. In RMB terms, revenue increased by RMB19.3 million, or 5.5%, from RMB351.5 million in 2018 to RMB370.8 million in 2019. The sales volume of our personal hygiene products increased from 30.3 million kg in 2018 to 32.4 million kg in 2019, primarily due to an increase in sales of liquid soap, mainly as a result of (i) the successful marketing and promotional efforts that enhanced our brand recognition, and (ii) our successful cross-selling strategy online. We promoted our personal hygiene products as add-ons so that the consumers may qualify for additional benefits (such as additional discounts and complimentary product delivery), which promoted the sales of our personal hygiene products. In RMB terms, the average selling prices of our personal hygiene products remained relatively stable at RMB11.4 per kg in 2019 compared to RMB11.6 per kg in 2018.

- *Antibacterial Liquid Soap Series*: revenue from antibacterial liquid soap series increased by HK$8.5 million, or 2.6%, from HK$330.9 million in 2018 to HK$339.4 million in 2019. In RMB terms, revenue increased by RMB17.4 million, or 6.1%, from RMB283.3 million in 2018 to RMB300.6 million in 2019. The sales volume of antibacterial liquid soap series increased from 24.0 million kg for 2018 to 25.3 million kg for 2019, mainly as a result of (i) the successful marketing and promotional efforts that enhanced our brand recognition, and (ii) our successful cross-selling strategy online. In RMB terms, the average selling prices of antibacterial liquid soap series remained generally stable at RMB11.9 per kg for 2019 as compared to RMB11.8 per kg for 2018.

Home care products

Revenue from our home care products increased by HK$13.6 million, or 3.1%, from HK$440.1 million in 2018 to HK$453.7 million in 2019. In RMB terms, revenue increased by RMB25.3 million, or 6.7%, from RMB376.7 million in 2018 to RMB402.0 million in 2019. The sales volume of our home care products increased from 30.3 million kg in 2018 to 32.8 million kg in 2019, mainly as a result of (i) the successful marketing and promotional efforts that enhanced our brand recognition, (ii) our successful cross-selling strategy online. We promoted our home care products as add-ons so that the consumers may qualify for additional benefits (such as additional discounts and complimentary product delivery), which promoted the sales of our home care products, and (iii) sales generated by our new product, Foam Kitchen Cleaner. In RMB terms, average selling prices of our home care products remained relatively stable at RMB12.2 per kg in 2019 compared to RMB12.4 per kg in 2018.

- *Kitchen Cleaner Series*: revenue from kitchen cleaner series increased by HK$9.4 million, or 10.1%, from HK$93.0 million in 2018 to HK$102.4 million in 2019. In RMB terms, revenue increased by RMB11.1 million, or 13.9%, from RMB79.6 million in 2018 to RMB90.7 million in 2019. The sales volume of kitchen cleaner series increased from 5.2 million kg for 2018 to

5.4 million kg for 2019, primarily due to additional sales generated by our new product, Foam Kitchen Cleaner. In RMB terms, the average selling price of kitchen cleaner series increased from RMB15.4 per kg for 2018 to RMB16.9 per kg for 2019, primarily due to the introduction of our new product, Foam Kitchen Cleaner, which has a relatively higher average selling prices than other products in the series.

- *Natural Tea Concentrated Dishwash Series*: revenue from natural tea concentrated dishwash series decreased by HK$6.9 million, or 8.7%, from HK$78.8 million in 2018 to HK$71.9 million in 2019. In RMB terms, revenue decreased by RMB3.7 million, or 5.5%, from RMB67.4 million in 2018 to RMB63.7 million in 2019. The sales volume of natural tea concentrated dishwash series remained generally stable at 5.8 million kg in 2019 as compared to 6.1 million kg in 2018. In RMB terms, the average selling price of natural tea concentrated dishwash series remained generally stable at RMB11.0 per kg for 2019 as compared to RMB11.1 per kg for 2018.

- *Volo Cleaner Series*: revenue from Volo cleaner series decreased by HK$4.0 million, or 6.3%, from HK$63.7 million in 2018 to HK$59.7 million in 2019. In RMB terms, revenue decreased by RMB1.6 million, or 3.0%, from RMB 54.5 million in 2018 to RMB52.9 million in 2019. The sales volume of Volo cleaner series remained generally stable at 4.3 million kg for 2019 as compared to 4.3 million kg for 2018. In RMB terms, the average selling price of Volo cleaner series remained generally stable at RMB12.3 per kg in 2019 as compared to RMB12.6 per kg in 2018.

By channel

Online channels

Revenue from our online channels increased by HK$610.0 million, or 22.4%, from HK$2,718.2 million in 2018 to HK$3,328.2 million in 2019. The increase was primarily due to (i) an increase in the number of e-commerce platforms we cooperated with from 55 as at 31 December 2018 to 82 as at 31 December 2019, (ii) our strengthened cooperation with various popular e-commerce platforms as we advertised more frequently and held more promotional activities on these platforms, especially around major online shopping holidays such as the 618 Shopping Festival on 18 June and Singles' Day on 11 November, as well as our "Super Brand Day" on 16 April, (iii) increased sales of multi-item combo packs through our online channels, and (iv) our successful cross-selling strategy that promoted the sales of our personal hygiene products and home care products as described above.

Direct sales to key account clients

Revenue from direct sales to our key account clients increased by HK$176.4 million, or 21.5%, from HK$820.2 million in 2018 to HK$996.6 million in 2019, primarily because we began to cooperate with new key account clients in 2019 and December 2018.

Offline distributors

Revenue from offline distributors decreased by HK$504.4 million, or 15.6%, from HK$3,229.6 million in 2018 to HK$2,725.2 million in 2019, primarily due to our efforts to optimise our offline distributor network since the second half of 2018. Please refer to the section headed "Business – Sales and Distribution Network" for details.

Cost of sales

Our cost of sales decreased by HK$354.7 million, or 12.3%, from HK$2,881.6 million in 2018 to HK$2,526.9 million in 2019. The decrease in cost of sales was primarily due to a decrease in the costs of raw material consumed from HK$2,611.2 million to HK$2,059.5 million, mainly as a result of decreases in costs of palm oil-based chemicals and LDPE supplied to us in 2019, as well as our successful effort in (i) improving inventory and procurement management by refining our sales forecast to optimise our inventory levels based on (a) our insight into consumer behaviour based on the direct online transactions with the end customers, and (b) our proprietary CRM system that captures our distributors' inventory data and (ii) improving our production efficiency by standardising our ingredient management and ingredient addition procedure with the help of our self-developed Ingredient Management System.

Gross profit and gross profit margin

Our gross profit increased by HK$636.7 million, or 16.4%, from HK$3,886.3 million in 2018 to approximately HK$4,523.0 million in 2019. In RMB terms, our gross profit increased by RMB679.9 million, or 20.4%, from RMB3,327.0 million in 2018 to RMB4,006.9 million in 2019. Our overall gross profit margin increased from 57.4% in 2018 to 64.2% in 2019, primarily due to (i) a decrease in our cost of sales mainly as a result of the reasons described above, and (ii) to a lesser extent, an increase in sales of products with relatively high gross profit margins as part of our strategy to optimise our product mix.

By product category

Fabric care products

Our gross profit from sales of fabric care products increased by HK$602.1 million, or 18.0%, from HK$3,346.7 million in 2018 to HK$3,948.8 million in 2019 and our gross profit margin from sales of fabric care products increased from 56.6% in 2018 to 63.9% in 2019, primarily due to (i) a decrease in the costs of sales mainly as a result of the reasons described above, and (ii) to a lesser extent, an increase in sales of certain fabric care products with relatively high gross profit margins as part of our strategy to optimise our product mix.

- *Blue Moon Deep Clean Care Liquid Laundry Detergent Series*: our gross profit from the sales of Blue Moon Deep Clean Care Liquid Laundry Detergent increased by HK$360.1 million, or 16.1%, from HK$2,239.9 million in 2018 to HK$2,600.0 million in 2019 and our gross profit margin from the sales of such products increased from 58.9% in 2018 to 64.0% in 2019, primarily due to a decrease in the unit cost of palm oil-based chemicals and LDPE supplied to us in 2019.

- *Pre-wash and hand-wash liquid laundry detergent series*: our gross profit from the sales of pre-wash and hand-wash liquid laundry detergent series increased by HK$15.9 million, or 8.0%, from HK$198.6 million in 2018 to HK$214.5 million in 2019 and our gross profit margin from the sales of such products increased from 59.5% in 2018 to 65.8% in 2019, primarily due to a decrease in the unit cost of palm oil-based chemicals and LDPE supplied to us in 2019.

- *Laundry aids*: our gross profit from the sales of laundry aids increased by HK$10.1 million, or 4.3%, from HK$233.6 million in 2018 to HK$243.6 million in 2019 and our gross profit margin from the sales of such products increased from 64.8% in 2018 to 66.7% in 2019, primarily due to a decrease in the unit cost of palm oil-based chemicals and LDPE supplied to us in 2019.

Personal hygiene products

Our gross profit from sales of personal hygiene products increased by HK$8.1 million, or 3.1%, from HK$263.9 million in 2018 to HK$272.0 million in 2019 and our gross profit margin from sales of personal hygiene products increased from 64.3% in 2018 to 65.0% in 2019, primarily due to (i) a decrease in our cost of sales mainly as a result of the reasons described above, and (ii) an increase in sales of certain personal hygiene products with relatively high profit margin, as part of our strategy to optimise our product mix.

- *Antibacterial Liquid Soap Series*: our gross profit from the sales of antibacterial liquid soap series increased by HK$8.2 million, or 3.9%, from HK$211.5 million in 2018 to HK$219.7 million in 2019 and our gross profit margin from the sales of such products remained generally stable at 64.7% in 2019 as compared to 63.9% in 2018.

Home care products

Our gross profit from sales of home care products increased by HK$26.6 million, or 9.6%, from HK$275.7 million in 2018 to HK$302.3 million in 2019 and our gross profit margin from sales of home care products increased from 62.7% in 2018 to 66.6% in 2019, primarily due to (i) a decrease in our cost of sales mainly as a result of the reasons described above and (ii) an introduction of certain new home care products with higher profit margins.

- *Kitchen Cleaner Series*: our gross profit from the sales of kitchen cleaner series increased by HK$13.2 million, or 22.4%, from HK$58.9 million in 2018 to HK$72.1 million in 2019 and our gross profit margin from the sales of such products increased from 63.3% in 2018 to 70.4% in 2019, primarily due to (i) the introduction of our new product, Foam Kitchen Cleaner, which had a relatively higher gross profit margin than other products in the series, and (ii) a decrease in the unit cost of palm oil-based chemicals and LDPE supplied to us in 2019.

- *Natural Tea Concentrated Dishwash Series*: our gross profit from the sales of natural tea concentrated dishwash series decreased by HK$2.0 million, or 4.3%, from HK$46.5 million in 2018 to HK$44.5 million in 2019 and our gross profit margin from the sales of such products increased from 59.0% in 2018 to 61.8% in 2019, primarily due to a decrease in the unit cost of palm oil-based chemicals and LDPE supplied to us in 2019.

- *Volo Cleaner Series*: our gross profit from the sales of Volo cleaner series decreased by HK$0.7 million, or 2.0%, from HK$34.5 million in 2018 to HK$33.8 million in 2019 and our gross profit margin from the sales of such products increased from 54.1% in 2018 to 56.6% in 2019, primarily due to a decrease in the unit cost of palm oil-based chemicals and LDPE supplied to us in 2019.

Other income and other gains, net

Our other income and other gains, net increased by HK$14.1 million, or 37.7%, from HK$37.4 million in 2018 to HK$51.5 million in 2019, primarily due to (i) an increase of HK$4.6 million in government grants mainly related to subsidies granted by the local government authority to Blue Moon Industrial in recognition of its achievements and contribution to local economy, (ii) an increase of HK$4.9 million of scrap sales mainly related to unused raw materials, and (iii) an increase of HK$6.6 million in sundry income, partially offset by a decrease of HK$1.9 million in net foreign exchange gain.

Selling and distribution expenses

Our selling and distribution expenses decreased by HK$224.9 million, or 8.8%, from HK$2,548.0 million in 2018 to HK$2,323.1 million in 2019, primarily due to a decrease in employee benefit expenses as we changed the compensation structure of our sales personnel to be more performance driven, which incentivised our sales force while saving costs at the same time, partially offset by increased transportation expenses generally in line with the increase in our revenue.

General and administrative expenses

General and administrative expenses increased by HK$115.0 million, or 18.2%, from HK$632.8 million in 2018 to HK$747.8 million in 2019, primarily due to (i) an increase in employee benefit expenses as a result of an increase in bonuses awarded to administrative and management staff in recognition of our satisfactory business performance and (ii) an increase in maintenance expenses related to development of certain mobile apps and computer software.

Net impairment loss of financial assets

We incurred a net provision for impairment loss of financial assets of HK$1.9 million related to trade and bills receivables due from certain customers in 2019, compared to a net reversal of impairment loss of financial assets of HK$6.2 million related to trade and bills receivables due from certain customers in 2018.

Operating profit

As a result of the foregoing, our operating profit increased by HK$752.6 million, or 100.5%, from HK$749.2 million in 2018 to HK$1,501.8 million in 2019.

Finance costs, net

Our finance costs, net decreased by HK$20.7 million, or 43.9%, from HK$47.2 million in 2018 to HK$26.5 million in 2019, primarily due to a decrease in interest expenses on bank borrowings as a result of less bank borrowings and lower effective interest rate in 2019.

Profit before income tax

As a result of the foregoing, our profit before income tax increased by HK$773.3 million, or 110.2%, from HK$701.9 million in 2018 to HK$1,475.2 million in 2019.

Income tax expense

Our income tax expense increased by HK$247.7 million, or 167.5%, from HK$147.9 million in 2018 to HK$395.6 million in 2019. Our effective tax rate increased from 21.1% in 2018 to 26.8% in 2019, primarily due to an increase in deferred tax expenses as a result of withholding tax on unremitted earnings.

Profit for the year

As a result of the foregoing, our profit for the year increased by HK$525.6 million, or 94.9%, from HK$554.0 million in 2018 to HK$1,079.6 million in 2019.

2018 compared to 2017

Revenue

Our revenue increased by HK$1,135.9 million, or 20.2%, from HK$5,632.0 million in 2017 to HK$6,767.9 million in 2018. In RMB terms, revenue increased by RMB914.4 million, or 18.7%, from RMB4,879.6 million in 2017 to RMB5,794.0 million in 2018. This increase was primarily due to (i) the successful marketing and promotional efforts that contributed to the increase in sales of our fabric care products and (ii) the increased sales through online channels as we increased the number of e-commerce platforms we cooperated with from 40 as at 31 December 2017 to 55 as at 31 December 2018, and strengthened cooperation with various e-commerce platforms as we advertised more frequently and held more promotional activities on these platforms in 2018.

By product category

Fabric care products

Revenue from our fabric care products increased by HK$994.8 million, or 20.2%, from HK$4,922.5 million in 2017 to HK$5,917.3 million in 2018. In RMB terms, revenue increased by RMB800.8 million, or 18.8%, from RMB4,264.9 million in 2017 to RMB5,065.7 million in 2018. The sales volume of our fabric care products increased from 401.3 million kg in 2017 to 464.0 million kg in 2018, primarily due to an increase in the sales of our liquid laundry detergent, mainly as a result of (i) our continued marketing and promotional efforts, especially our knowledge-based marketing, (ii) increased popularity of multi-item combo packs sold through our online channels, and (iii) an increase in the sales of our fabric softeners mainly as a result of increased fabric care awareness of consumers in China as the living standards improved. In RMB terms, the average selling prices of our fabric care products remained relatively stable at RMB10.9 per kg in 2018 compared to RMB10.6 per kg in 2017.

- *Blue Moon Deep Clean Care Liquid Laundry Detergent series*: revenue from Blue Moon Deep Clean Care Liquid Laundry Detergent series increased by HK$622.0 million, or 19.6%, from HK$3,179.2 million in 2017 to HK$3,801.2 million in 2018. In RMB terms, revenue increased by RMB499.5 million, or 18.1%, from RMB2,754.5 million in 2017 to RMB3,254.0 million in 2018. The sales volume of Blue Moon Deep Clean Care Liquid Laundry Detergent series increased from 299.2 million kg for 2017 to 341.7 million kg for 2018, primarily due to our continued marketing and promotional efforts, especially our knowledge-based marketing. In RMB terms, the average selling prices of Blue Moon Deep Clean Care Liquid Laundry Detergent remained generally stable at RMB9.5 per kg for 2018 as compared to RMB9.2 per kg for 2017.

- *Pre-wash and hand-wash liquid laundry detergent series*: revenue from pre-wash and hand-wash liquid laundry detergent series remained relatively stable at HK$333.9 million in 2018 as compared to HK$334.0 million in 2017. In RMB terms, revenue remained relatively stable at RMB285.9

million in 2018 as compared to RMB289.4 million in 2017. The sales volume of pre-wash and hand-wash liquid laundry detergent series remained relatively stable at 23.5 million kg in 2018 as compared to 23.3 million kg in 2017. In RMB terms, the average selling prices of pre-wash and hand-wash liquid laundry detergent series remained relatively stable at RMB12.2 per kg in 2018 as compared to RMB12.4 per kg in 2017.

- *Laundry aids*: revenue from laundry aids increased by HK$52.7 million, or 17.1%, from HK$307.5 million in 2017 to HK$360.2 million in 2018. In RMB terms, revenue increased by RMB42.0 million, or 15.8%, from RMB266.4 million in 2017 to RMB308.4 million in 2018. The sales volume of laundry aids increased from 24.7 million kg for 2017 to 29.7 million kg for 2018, primarily due to (i) the continued marketing and promotional efforts that contributed to the increase in sales of our laundry aids, and (ii) increased fabric care awareness of consumers in China as the living standards improved. In RMB terms, the average selling prices of laundry aids remained relatively stable at RMB10.4 per kg in 2018 as compared to RMB10.8 per kg in 2017.

Personal hygiene products

Revenue from our personal hygiene products increased by HK$82.6 million, or 25.2%, from HK$328.0 million in 2017 to HK$410.6 million in 2018. In RMB terms, revenue increased by RMB67.3 million, or 23.7%, from RMB284.2 million in 2017 to RMB351.5 million in 2018. The sales volume of our personal hygiene products increased from 24.1 million kg in 2017 to 30.3 million kg in 2018, primarily due to an increase in sales of liquid soap, mainly as a result of (i) the successful marketing and promotional efforts that enhanced our brand recognition, and (ii) our successful cross-selling strategy online. We promoted our personal hygiene products as add-ons so that the consumers may qualify for additional benefits (such as additional discounts and complimentary product delivery). In RMB terms, the average selling prices of our personal hygiene products remained relatively stable at RMB11.6 per kg in 2018 compared to RMB11.8 per kg in 2017.

- *Antibacterial Liquid Soap Series*: revenue from antibacterial liquid soap series increased by HK$94.8 million, or 40.2%, from HK$236.1 million in 2017 to HK$330.9 million in 2018. In RMB terms, revenue increased by RMB78.8 million, or 38.5%, from RMB204.5 million in 2017 to RMB283.3 million in 2018. The sales volume of antibacterial liquid soap series increased from 18.4 million kg for 2017 to 24.0 million kg for 2018, primarily due to (i) the successful marketing and promotional efforts that enhanced our brand recognition, and (ii) our successful cross-selling strategy online. In RMB terms, the average selling prices of antibacterial liquid soap series increased from RMB11.1 per kg for 2017 to RMB11.8 per kg for 2018, primarily due to reduced sales discount provided to customers as our antibacterial liquid soap series became more popular as a result of (i) the successful marketing and promotional efforts that enhanced our brand recognition, and (ii) our successful cross-selling strategy online.

Home care products

Revenue from our home care products increased by HK$58.5 million, or 15.3%, from HK$381.6 million in 2017 to HK$440.1 million in 2018. In RMB terms, revenue increased by RMB46.2 million, or 14.0%, from RMB330.6 million in 2017 to RMB376.8 million in 2018. The sales volume of our home care products increased from 25.1 million kg in 2017 to 30.3 million kg in 2018, primarily due to (i) the successful marketing and promotional efforts that enhanced our brand recognition, and (ii) our successful cross-selling strategy online. We promoted our home care products as add-ons so that the consumers may qualify for additional benefits (such as additional discounts and complimentary product delivery). In RMB terms, average selling prices of home care products slightly decreased from RMB13.2 per kg in 2017 to RMB12.4 per kg in 2018, primarily due to a decrease in the average selling prices of our kitchen cleaner series and natural tea concentrated dishwash series.

- *Kitchen Cleaner Series*: revenue from kitchen cleaner series increased by HK$10.4 million, or 12.7%, from HK$82.6 million in 2017 to HK$93.0 million in 2018. In RMB terms, revenue increased by RMB8.1 million, or 11.4%, from RMB71.5 million in 2017 to RMB79.6 million in 2018. The sales volume of kitchen cleaner series increased from 4.5 million kg for 2017 to 5.2 million kg for 2018, primarily due to (i) the successful marketing and promotional efforts that enhanced our brand recognition, and (ii) our successful cross-selling strategy online. In RMB terms, the average selling price of kitchen cleaner series decreased from RMB16.1 per kg for 2017 to RMB15.4 per kg for 2018, primarily due to more discounts provided to consumers to promote sales in 2018.

- *Natural Tea Concentrated Dishwash Series*: revenue from natural tea concentrated dishwash series increased by HK$18.2 million, or 30.0%, from HK$60.6 million in 2017 to HK$78.8 million in 2018. In RMB terms, revenue increased by RMB 14.9 million, or 28.5%, from RMB52.5 million in 2017 to RMB67.4 million in 2018. The sales volume of natural tea concentrated dishwash series increased from 4.6 million kg for 2017 to 6.1 million kg for 2018, primarily due to (i) the successful marketing and promotional efforts that enhanced our brand recognition, and (ii) our successful cross-selling strategy online. In RMB terms, the average selling price of natural tea concentrated dishwash series decreased from RMB11.4 per kg in 2017 to RMB11.1 per kg in 2018, primarily due to more discounts provided to consumers to promote sales in 2018.

- *Volo Cleaner Series*: revenue from Volo cleaner series increased by HK$11.3 million, or 21.5%, from HK$52.4 million in 2017 to HK$63.7 million in 2018. In RMB terms, revenue increased by RMB9.1 million, or 20.0%, from RMB45.4 million in 2017 to RMB54.5 million in 2018. The sales volume of Volo cleaner series increased from 3.7 million kg for 2017 to 4.3 million kg for 2018, primarily due to (i) the successful marketing and promotional efforts that enhanced our brand recognition, and (ii) our successful cross-selling strategy online. In RMB terms, the average selling price of Volo cleaner series remained generally stable at RMB12.6 per kg in 2018 as compared to RMB12.4 per kg in 2017.

By channel

Online channel

Revenue from our online channels increased by HK$851.7 million, or 45.6%, from HK$1,866.5 million in 2017 to HK$2,718.2 million in 2018. The increase was primarily due to (i) an increase in the number of e-commerce platforms we cooperated with from 40 as at 31 December 2017 to 55 as at 31 December 2018, (ii) our strengthened cooperation with various popular e-commerce platforms as we advertised more frequently and held more promotional activities on these platforms, (iii) increased sales of multi-item combo packs through our online channels, and (iv) our successful cross-selling strategy that promoted the sales of our personal hygiene products and home care products as described above.

Direct sales to key account clients

Revenue from direct sales to our key account clients increased by HK$117.0 million, or 16.6%, from HK$703.2 million in 2017 to HK$820.2 million in 2018, primarily due to our strengthened cooperation with certain hypermarkets in 2018 by sending our sales personnel to these hypermarkets to help promote our products.

Offline distributors

Revenue from offline distributors increased by HK$167.3 million, or 5.5%, from HK$3,062.3 million in 2017 to HK$3,229.6 million in 2018, primarily due to our strengthened cooperation with certain hypermarkets in 2018 to which some of our offline distributors sell our products.

Cost of sales

Our cost of sales increased by HK$244.7 million, or 9.3%, from HK$2,636.9 million in 2017 to HK$2,881.6 million in 2018, primarily due to an increase in cost of raw materials consumed from HK$2,096.4 million in 2017 to HK$2,611.2 million in 2018, mainly as a result of an increase in cost of raw materials consumed in line with the increase in revenue.

Gross profit and gross profit margin

Our gross profit increased by HK$891.2 million, or 29.8%, from HK$2,995.1 million in 2017 to HK$3,886.3 million in 2018. In RMB terms, our gross profit increased by RMB732.0 million, or 28.2%, from RMB2,595.0 million in 2017 to RMB3,327.0 million in 2018. Our overall gross profit margin increased from 53.2% in 2017 to 57.4% in 2018, primarily due to (i) a decrease in our cost of sales per unit as a result of decreases in the costs of palm oil-based chemicals supplied to us in 2018, as well as our successful effort in (a) improving inventory and procurement management by refining our sales forecast to optimise our inventory levels based on (x) our insight into consumer behaviour based on the direct online transactions with the end customers, and (y) our proprietary CRM system that captures our distributors' inventory data and (b) improving our production efficiency by standardising our ingredient management and ingredient addition procedure with the help of our self-developed Ingredient Management System, and (ii) an increase in sales of certain fabric care products with higher gross profit margins.

By product category

Fabric care products

Our gross profit from sales of fabric care products increased by HK$800.3 million, or 31.4%, from HK$2,546.4 million in 2017 to HK$3,346.7 million in 2018 and our gross profit margin from sales of fabric care products increased from 51.7% in 2017 to 56.6% in 2018, primarily due to (i) a decrease in our cost of sales per unit mainly as a result of the reasons described above, and (ii) an increase in sales of fabric care products with relatively high gross profit margins as part of our strategy to optimise our product mix.

- *Blue Moon Deep Clean Care Liquid Laundry Detergent Series*: our gross profit from the sales of Blue Moon Deep Clean Care Liquid Laundry Detergent increased by HK$535.7 million, or 31.4%, from HK$1,704.2 million in 2017 to HK$2,239.9 million in 2018 and our gross profit margin from the sales of such products increased from 53.6% in 2017 to 58.9% in 2018, primarily due to a decrease in the unit cost of palm oil-based chemicals supplied to us in 2018.

- *Pre-wash and hand-wash liquid laundry detergent series*: our gross profit from the sales of pre-wash and hand-wash liquid laundry detergent series increased by HK$14.7 million, or 8.0%, from HK$184.0 million in 2017 to HK$198.6 million in 2018 and our gross profit margin from the sales of such products increased from 55.1% in 2017 to 59.5% in 2018, primarily due to a decrease in the unit cost of palm oil-based chemicals supplied to us in 2018.

- *Laundry aids*: our gross profit from the sales of laundry aids increased by HK$32.5 million, or 16.2%, from HK$201.0 million in 2017 to HK$233.6 million in 2018 and our gross profit margin from the sales of such products remained relatively stable at 64.8% in 2018 as compared to 65.4% in 2017.

Personal hygiene products

Our gross profit from sales of personal hygiene products increased by HK$55.2 million, or 26.4%, from HK$208.7 million in 2017 to HK$263.9 million in 2018 and our gross profit margin from sales of personal hygiene products increased from 63.6% in 2017 to 64.3% in 2018, primarily due to a change in our product mix.

- *Antibacterial Liquid Soap Series*: our gross profit from the sales of antibacterial liquid soap series increased by HK$69.0 million, or 48.5%, from HK$142.5 million in 2017 to HK$211.5 million in 2018 and our gross profit margin from the sales of such products increased from 60.4% in 2017 to 63.9% in 2018, primarily due to reduced sales discount provided to customers in 2018.

Home care products

Our gross profit from sales of home care products increased by HK$35.6 million, or 14.8%, from HK$240.1 million in 2017 to HK$275.7 million in 2018 and our gross profit margin from sales of home care products remained relatively stable at 62.7% in 2018, as compared to 62.9% in 2017.

- *Kitchen Cleaner Series*: our gross profit from the sales of kitchen cleaner series increased by HK$4.1 million, or 7.5%, from HK$54.8 million in 2017 to HK$58.9 million in 2018 and our gross profit margin from the sales of such products decreased from 66.4% in 2017 to 63.3% in 2018, primarily due to more discounts provided to consumers to promote sales.

- *Natural Tea Concentrated Dishwash Series*: our gross profit from the sales of natural tea concentrated dishwash series increased by HK$12.5 million, or 36.7%, from HK$34.0 million in 2017 to HK$46.5 million in 2018 and our gross profit margin from the sales of such products increased from 56.2% in 2017 to 59.0% in 2018, primarily due to a decrease in the unit cost of palm oil-based chemicals supplied to us in 2018.

- *Volo Cleaner Series*: our gross profit from the sales of Volo cleaner series increased by HK$12.4 million, or 55.8%, from HK$22.1 million in 2017 to HK$34.5 million in 2018 and our gross profit margin from the sales of such products increased from 42.2% in 2017 to 54.1% in 2018, primarily due to a decrease in the unit cost of palm oil-based chemicals supplied to us in 2018.

Other income and other gains, net

Our other income and other gains, net increased by HK$14.3 million, or 61.9%, from HK$23.1 million in 2017 to HK$37.4 million in 2018, primarily due to an increase of HK$28.3 million government grants mainly related to subsidies granted by the local government authority to Blue Moon Industrial in recognition of its achievements and contribution to local economy, partially offset by a decrease of HK$8.6 million in gain on disposal of right-of-use assets related to disposal of land use rights.

Selling and distribution expenses

Our selling and distribution expenses increased by HK$479.4 million, or 23.2%, from HK$2,068.6 million in 2017 to HK$2,548.0 million in 2018, primarily due to an increase in employee benefit expenses as we strengthened cooperation with certain hypermarkets by sending our sales personnel to these hypermarkets to help promote our products, generally in line with the increase in our revenue.

General and administrative expenses

Our general and administrative expenses decreased by HK$143.5 million, or 18.5%, from HK$776.3 million in 2017 to HK$632.8 million in 2018, primarily due to decreases in (i) employee benefit expenses as we streamlined and optimised our management personnel by slowing down the relevant hiring, (ii) transportation and related expenses as we adopted a more efficient budget control system and (iii) maintenance expense as we completed the development of certain mobile apps and computer software.

Net impairment loss of financial assets

We incurred a net reversal of impairment loss of financial assets of HK$6.2 million related to reversal of provision for trade and bills receivables due from certain customers in 2018 primarily as a result of the subsequent recovery of such trade and bills receivables in that year, compared to a net provision for impairment loss of financial assets of HK$16.1 million related to such trade and bills receivables in 2017. Trade receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are considered to be subjected to higher risk of default and are tested individually. HK$9.1 million of the trade receivables were assessed on such basis as at 31 December 2017. Trade receivables are also grouped based on shared credit risk characteristics and the days past due. HK$6.9 million of the trade receivables were assessed on such basis as at 31 December 2017. Please refer to Note 3.1(c)(ii) to the section headed "Appendix I – Accountant's Report" for details related to our impairment of trade receivables.

Operating profit

As a result of the foregoing, our operating profit increased by HK$592.0 million, or 376.6%, from HK$157.2 million in 2017 to HK$749.2 million in 2018.

Finance costs, net

Our finance costs, net increased by HK$3.2 million, or 7.3%, from HK$44.0 million in 2017 to HK$47.2 million in 2018, primarily due to an increase in interest expenses on bank borrowings as the effective interest rate on the bank borrowings increased in 2018.

Profit before income tax

As a result of the foregoing, our profit before income tax increased by HK$588.7 million, or 520.1%, from HK$113.2 million in 2017 to HK$701.9 million in 2018.

Income tax expense

Our income tax expense increased by HK$120.8 million, or 445.8%, from HK$27.1 million in 2017 to HK$147.9 million in 2018. Our effective tax rate decreased from 23.9% in 2017 to 21.1% in 2018, primarily because Blue Moon Chongqing ramped up its production in 2018 and its assessable profit was subject to the preferential income tax rate granted to it in 2017.

Profit for the year

As a result of the foregoing, our profit for the year increased by HK$467.8 million, or 542.7%, from HK$86.2 million in 2017 to HK$554.0 million in 2018.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Historically, we have funded our working capital primarily from cash generated from our business operations and bank borrowings. After the Global Offering, we intend to finance our future capital requirements through the same sources of funds, together with the net proceeds we received from the Global Offering. We do not anticipate any material changes to the availability of financing to fund our operations and to our capital structure in the future.

As at 31 October 2020, we had cash and cash equivalents of HK$656.7 million.

Our Directors are of the view that, taking into account the net proceeds from the Global Offering and the financial resources available to us, including cash and cash equivalents, our available banking facilities and cash flows from operating activities, we have sufficient working capital for our present requirements, that is for at least 12 months from the date of this prospectus.

The following discussion of liquidity and capital resources principally focuses on our consolidated statements of cash flows and assets and liabilities.

Cash flow

The following table sets forth selected consolidated statements of cash flow information for the periods indicated.

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
			HK$'000		
				(unaudited)	
Net cash generated from operating activities	703,114	249,017	1,032,424	93,516	526,908
Net cash used in investing activities	(214,890)	(138,220)	(193,503)	(9,030)	(81,209)
Net cash used in financing activities	(133,403)	(165,759)	(598,878)	(152,499)	(372,524)
Net increase/(decrease) in cash and cash equivalents	354,821	(54,962)	240,043	(68,013)	73,175
Cash and cash equivalents, at beginning of the year	165,075	547,436	467,967	467,967	690,064
Effect of foreign exchange rate changes	27,540	(24,507)	(17,946)	(16,020)	(9,797)
Cash and cash equivalents, at end of the year	547,436	467,967	690,064	383,934	753,442

Net cash generated from operating activities

Our net cash generated from operating activities for the six months ended 30 June 2020 was HK$526.9 million, resulting from our profit before income taxation of HK$428.8 million, adjustment of non-cash and non-operating items, movements in working capital, interest received of HK$4.1 million and income tax paid of HK$232.4 million. Our movements in working capital primarily reflected a decrease in trade and bills receivables of HK$592.6 million, primarily due to a decrease in trade receivables, mainly as a result of settlement of trade receivables by our customers and a decrease in sales as a result of seasonality, partially offset by (i) a decrease in trade and bills payables of HK$154.3 million, primarily due to a decrease in procurement as our sales decreased in the six months ended 30 June 2020 and (ii) a decrease in contract liabilities, accruals and other payables of HK$143.4 million, primarily due to a decrease in accrued salaries and wages as we temporarily streamlined our offline sales force due to less customer traffic in offline hypermarkets as a result of the COVID-19 outbreak.

Our net cash generated from operating activities in 2019 was HK$1,032.4 million, resulting from our profit before income taxation of HK$1,475.2 million, adjustment of non-cash and non-operating items, movements in working capital, interest received of HK$5.7 million and income tax paid of HK$128.4 million. Our movements in working capital primarily reflected (i) an increase in trade and bills receivables of HK$641.0 million, primarily due to higher sales in December 2019 mainly as a result of the earlier Chinese New Year in

2020, (ii) a decrease in trade and bills payables of HK$149.8 million, primarily due to a decrease in the unit price of certain raw materials and the continuous improvement in our inventory management and operational efficiency, partially offset by (i) a decrease in inventories of HK$200.5 million, primarily due to higher sales in December 2019 mainly as a result of the earlier Chinese New Year in 2020 and continuous improvement in inventory management and (ii) an increase in contract liabilities, accruals and other payables of HK$144.9 million, primarily due to increases in value-added tax and other payables mainly as a result of an increase in sales in December 2019.

Our net cash generated from operating activities in 2018 was HK$249.0 million, resulting from our profit before taxation of HK$701.9 million, adjustment of non-cash and non-operating items, movements in working capital, interest received of HK$6.2 million and income tax paid of HK$82.4 million. Our movements in working capital primarily reflected (i) an increase in trade and bills receivables of HK$256.9 million, generally in line with the increase in our sales, (ii) a decrease in trade and bills payables of HK$229.6 million, primarily due to a decrease in the unit price of certain raw materials and the continuous improvement in our inventory management and operational efficiency, and (iii) a decrease in contract liabilities, accruals and other payables of HK$164.4 million, primarily due to decreases in (x) deposits from logistics companies as we switched our logistics service providers, and (y) value-added tax and other tax payables, mainly as a result of a decrease in our sales relative to purchases made in December 2018.

Our net cash generated from operating activities in 2017 was HK$703.1 million, resulting from our profit before income taxation of HK$113.2 million, adjustment of non-cash and non-operating items, movements in working capital, interest received of HK$3.1 million and income tax paid of HK$36.6 million. Our movements in working capital primarily reflected (i) an increase in trade and bills payables of HK$412.6 million, primarily due to an increase in procurement as our revenue increased and (ii) a decrease in inventories of HK$280.4 million, generally in line with the increase in our sales, partially offset by a decrease in contract liabilities, accruals and other payables of HK$145.7 million, primarily due to a decrease in payables to logistics companies as our new factories commenced operations and transportation costs decreased.

Net cash used in investing activities

Our net cash used in investing activities was HK$81.2 million for the six months ended 30 June 2020, primarily due to (i) acquisition of property, plant and equipment of HK$79.5 million primarily related to production facilities, and (ii) acquisition of intangible assets of HK$9.6 million primarily related to computer system and computer software and development, partially offset by a release of restricted cash of HK$7.4 million.

Our net cash used in investing activities was HK$193.5 million in 2019, primarily due to (i) HK$131.3 million for the acquisition of property, plant and equipment primarily related to production facilities, and (ii) HK$65.6 million for the acquisition of intangible assets primarily related to computer system and computer software and development.

Our net cash used in investing activities was HK$138.2 million in 2018, primarily due to (i) HK$89.5 million for the acquisition of property, plant and equipment primarily related to production facilities, (ii) HK$32.0 million for the acquisition of intangible assets primarily related to computer system and computer software and development, and (iii) HK$16.8 million for increase in restricted cash primarily related to cash placed in the bank to secure the use of an online payment platform and certain bank borrowings.

Our net cash used in investing activities was HK$214.9 million in 2017, primarily due to the acquisition of property, plant and equipment of HK$330.1 million primarily related to production facilities, partially offset by (i) a receipt of government grant of HK$41.6 million primarily related to subsidies granted by the local government authority to Blue Moon Industrial in recognition of its achievements and contribution to local economy, (ii) release of restricted cash of HK$36.9 million primarily related to cash placed in the bank to secure the use of an online payment platform and certain bank borrowings, and (iii) proceeds from the disposal of right-to-use assets of HK$33.2 million.

Net cash used in financing activities

Our net cash used in financing activities was HK$372.5 million for the six months ended 30 June 2020, primarily due to repayment of borrowings of HK$287.7 million and dividend paid of HK$84.9 million.

Our net cash used in financing activities was HK$598.9 million in 2019, primarily due to repayment of borrowings of HK$726.8 million, partially offset by proceeds from borrowings of HK$281.1 million.

Our net cash used in financing activities was HK$165.8 million in 2018, primarily due to repayment of borrowings of HK$840.6 million, partially offset by proceeds from borrowings of HK$760.2 million.

Our net cash used in financing activities was HK$133.4 million in 2017, primarily due to repayment of borrowings of HK$1,020.8 million, partially offset by proceeds from borrowings of HK$963.1 million.

Net current assets/liabilities

The table below sets out our current assets, current liabilities and net current assets as at the dates indicated.

	As at 31 December			As at 30 June	As at 31 October
	2017	2018	2019	2020	2020
		HK$'000		*HK$'000*	*HK$'000* *(unaudited)*
Current assets					
Inventories	567,978	586,879	375,757	445,019	556,221
Trade and bills receivables	928,643	1,142,940	1,750,049	1,123,046	1,500,735
Prepayments, deposits and other receivables	354,036	235,818	282,719	260,939	275,686
Restricted cash(1)	2,863	19,120	25,890	18,085	30,427
Cash and cash equivalents	547,436	467,967	690,064	753,442	656,742
Tax recoverable	–	–	6,228	–	–
Total current assets	2,400,956	2,452,724	3,130,707	2,600,531	3,019,811
Current liabilities					
Trade and bills payables	931,943	664,721	511,922	349,276	417,133
Contract liabilities	14,366	20,502	16,188	44,644	39,626
Accruals and other payables	807,577	602,995	746,871	552,027	605,536
Amounts due to related companies	6,780	4,187	1,076	837	872
Dividend payable	85,261	85,261	48,261	–	–
Current income tax liabilities	17,540	39,527	218,679	95,885	43,047
Borrowings	812,992	662,628	206,529	74,386	84,305
Lease liabilities	25,534	24,021	26,325	30,781	32,135
Total current liabilities	2,701,993	2,103,842	1,775,851	1,147,836	1,222,654
Net current (liabilities)/assets	(301,037)	348,882	1,354,856	1,452,695	1,797,157

Note:

(1) As at 31 December 2017, 2018 and 2019 and 30 June 2020, our restricted cash was placed in the bank to secure the use of an online payment platform and certain bank borrowings.

Our net current assets increased from HK$1,452.7 million as at 30 June 2020 to HK$1,797.2 million as at 31 October 2020, primarily due to increases in (i) trade receivables and bill receivables of HK$377.7 million, mainly as a result of the increase in sales to the e-commerce platforms in preparation for the Singles' Day sales events, and (ii) inventories of HK$111.2 million as we recovered from the relatively low inventory level as at 30 June 2020 as a result of 618 Shopping Festival, partially offset by (i) a decrease in cash and cash equivalents of HK$96.7 million, mainly as a result of the purchase of production equipment as well as intangible assets primarily related to computer system and computer software development, and (ii) an increase in trade payables of HK$67.9 million, mainly as a result of an increase in purchases of raw materials in line with the higher production level in October 2020 compared with June 2020.

Our net current assets increased by HK$97.8 million from HK$1,354.9 million as at 31 December 2019 to HK$1,452.7 million as at 30 June 2020, primarily due to decreases in (i) trade and bills payables of HK$162.6

million, accruals and other payables of HK$194.9 million and current income tax liabilities of HK$122.8 million, primarily due to a decrease in sales as a result of the impact of the COVID-19 outbreak and seasonality, and (ii) borrowings of HK$132.1 million, mainly as a result of repayment of short-term borrowings and less short-term borrowings incurred in the six months ended 30 June 2020, and increases in (i) cash and cash equivalents of HK$63.3 million, mainly as a result of settlement of trade receivables by our customers, and (ii) inventories of HK$69.2 million, mainly because (a) we had low inventories as at 31 December 2019 mainly as a result of higher sales in December 2019 due to the earlier Chinese New Year in January 2020, and (b) the COVID-19 outbreak caused a decrease in our sales and an increase in product returns in the six months ended 30 June 2020, partially offset by a decrease in trade and bills receivables of HK$627.0 million, mainly as a result of settlement of trade receivables by our customers and a decrease in sales as a result of the impact of the COVID-19 outbreak and seasonality.

Our net current assets increased by HK$1,006.0 million from HK$348.9 million as at 31 December 2018 to HK$1,354.9 million as at 31 December 2019, primarily due to (i) an increase in trade and bills receivables of HK$607.1 million, mainly as a result of higher sales in December 2019 due to the earlier Chinese New Year in January 2020, (ii) a decrease in borrowings of HK$456.1 million, mainly as a result of repayment of short-term borrowings and less short-term borrowings incurred, and (iii) an increase in cash and cash equivalents of HK$222.1 million, mainly as a result of cash generated from our operating activities, partially offset by (i) an increase in accruals and other payables of HK$143.9 million, mainly as a result of increases in value-added tax and other tax payables generally in line with the increase in our sales, (ii) an increase in current income tax liabilities of HK$179.2 million, generally in line with the increase in our profit before tax, and (iii) a decrease in inventories of HK$211.1 million, mainly as a result of higher sales in December 2019 due to the earlier Chinese New Year in January 2020 and continuous improvement in inventory and procurement management by refining our sales forecast to optimise our inventory levels.

We had net current assets of HK$348.9 million as at 31 December 2018 compared to current liabilities of HK$301.0 million as at 31 December 2017. The change was primarily due to (i) a decrease in trade and bills payables of HK$267.2 million, mainly as a result of a decrease in the payments made to our suppliers as the unit price of certain raw materials decreased and the continuous improvement in our inventory and procurement management by refining our sales forecast to optimise our inventory levels, (ii) an increase in trade and bills receivables of HK$214.3 million, generally in line with the increase in our sales, (iii) a decrease in accruals and other payables of HK$204.6 million, mainly as a result of decreases in (a) deposits from logistics companies as we switched our logistics service providers, and (b) value-added tax and other tax payables due to a decrease in sales in December 2018 compared to December 2017, and (iv) a decrease in borrowings of HK$150.4 million, as a result of repayment of short-term borrowings and less short-term borrowings incurred.

Our net current liabilities position as at 31 December 2017 was primarily because (i) we primarily utilised short-term borrowings to finance our construction of production facilities and expansion of existing facilities, which are generally categorised as non-current property, plant and equipment; and (ii) we had incurred certain trade and bills payables and accruals and other payables as we were expanding our operations. Subsequently, our liquidity position improved at 31 December 2018 and 2019, 30 June 2020 and 31 October 2020 as we repaid our borrowings and our trade and bills payables decreased in 2018, 2019 and the six months ended 30 June 2020.

OFF-BALANCE SHEET TRANSACTIONS

During the Track Record Period, we did not have any material off-balance sheet arrangements or any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support for us. As at the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

DESCRIPTION OF SELECTED BALANCE SHEETS ITEMS

Inventories

Our inventories consist primarily of raw materials and finished goods, and to a lesser extent, work in progress. Raw materials primarily consist of chemical and packaging materials.

The following table sets forth details of our inventories and inventory turnover days as at and for the dates or periods indicated.

	As at or for 31 December			As at or for 30 June
	2017	**2018**	**2019**	**2020**
		HK$'000		*HK$'000*
Raw materials	135,872	129,526	128,721	135,988
Work in progress	2,311	1,280	830	497
Finished goods	463,400	456,073	246,206	308,534
Inventories – gross	601,583	586,879	375,757	445,019
Provision for impairment	(33,605)	–	–	–
Inventories – net	567,978	586,879	375,757	445,019
Inventory turnover days[1]	96.8	73.1	69.5	85.1

Note:

(1) Inventory turnover days for each one-year period equals the average of the beginning and ending net inventory for the year divided by cost of sales for that year and multiplied by 365 days.

Inventory turnover days for the six-month period equals the average of the beginning and ending net inventory for the period divided by cost of sales for that period and multiplied by 182 days.

From 31 December 2017 to 31 December 2018, our inventories increased from HK$568.0 million to HK$586.9 million, primarily due to the reversal in 2018 of a provision made for impairment in 2017 of HK$33.6 million, mainly as a result of the impairment made in relation to certain obsolete products, partially offset by decreases in finished goods and raw materials in 2018, mainly as a result of an increase in sales and an improvement in inventory and procurement management by refining our sales forecast to optimise our inventory levels based on (i) our insight into consumer behaviour based on the direct online transactions with the end customers, and (ii) our proprietary CRM system that captures our distributors' inventory data.

From 31 December 2018 to 31 December 2019, our inventories decreased from HK$586.9 million to HK$375.8 million, primarily due to decreases in finished goods in 2019, mainly as a result of higher sales in December 2019 due to the earlier Chinese New Year in January 2020 and continuous improvement in inventory and procurement management by further refining our sales forecast to optimise our inventory levels.

From 31 December 2019 to 30 June 2020, our inventories increased from HK$375.8 million to HK$445.0 million, primarily because (i) we had low inventories as at 31 December 2019 mainly as a result of higher sales in December 2019 due to the earlier Chinese New Year in January 2020, and (ii) the COVID-19 outbreak caused a decrease in our sales and an increase in product returns in the six months ended 30 June 2020.

During the Track Record Period, our average inventory turnover days were 96.8, 73.1, 69.5 days and 85.1 days, respectively. The decreases in our inventory turnover days from 96.8 days in 2017 to 73.1 days in 2018 was primarily because our cost of sales increased along with the increase in our revenue at a faster rate than the increase in our net inventories in 2018, primarily due to our improvement in inventory and procurement management by refining our sales forecast to optimise our inventory levels based on (i) our insight into consumer behaviour based on the direct online transactions with the end customers, and (ii) our proprietary CRM system that captures our distributors' inventory data. Our inventory turnover days further decreased to 69.5 days in 2019 primarily because the ending balance of inventories decreased in 2019 due to increased sales in December 2019 mainly as a result of the earlier Chinese New Year in January 2020. The increase in our inventory turnover days to 85.1 days in the six months ended 30 June 2020 was primarily due to (i) the impact of the COVID-19 outbreak and the related product returns and (ii) the decrease in our cost of sales in the six months ended 30 June 2020. The COVID-19 outbreak presented logistical challenges for us, especially in the beginning of the outbreak.

As at 31 October 2020, HK$198.3 million, or 44.6%, of our inventory balance as at 30 June 2020 had been sold or utilised.

Trade and Bills Receivables

Our trade and bills receivables represent amounts in connection with the sales of our products due from our customers. They are either (i) letters of credit with bills payable at sight or (ii) open accounts with credit terms of 30 to 90 days.

The following table sets forth details of our trade and bills receivables and trade and bills receivables turnover days as at and for the dates or periods indicated.

	As at or for the year ended 31 December			As at or for the six months ended 30 June
	2017	2018	2019	2020
		HK$'000		*HK$'000*
Bills receivables	3,948	10,420	37,131	3,589
Trade receivables	940,768	1,142,442	1,724,707	1,137,705
Trade and bills receivables	944,716	1,152,862	1,761,838	1,141,294
Less: Loss allowance	(16,073)	(9,922)	(11,789)	(18,248)
Trade and bills receivables – net	928,643	1,142,940	1,750,049	1,123,046
Trade and bills receivables turnover days(1)	57.0	55.9	74.9	107.3

Note:

(1) Trade and bills receivables turnover days for each one-year period equals the average of the beginning and ending net trade and bills receivables for the year divided by revenue for that year and multiplied by 365 days.

Trade and bills receivables turnover days for the six-month period equals the average of the beginning and ending net trade and bills receivables for the year divided by revenue for that period and multiplied by 182 days.

The increase in our trade and bills receivables from HK$928.6 million as at 31 December 2017 to HK$1,142.9 million as at 31 December 2018, was generally in line with the increase in our sales. Our trade and bills receivables further increased to HK$1,750.0 million as at 31 December 2019, primarily due to an increase in trade receivables, mainly as a result of higher sales in December 2019 due to the earlier Chinese New Year in January 2020. Our trade and bills receivables decreased to HK$1,123.0 million for the six months ended 30 June 2020, primarily due to a decrease in trade receivables, mainly as a result of settlement of trade receivables by our customers and a decrease in sales as a result of the impact of the COVID-19 outbreak and seasonality.

During the Track Record Period, our average trade and bills receivables turnover days remained relatively stable at 57.0 and 55.9 days, respectively, in 2017 and 2018, and increased to 74.9 days in 2019, primarily due to an increase in trade receivables mainly as a result of higher sales in December 2019 due to the earlier Chinese New Year in 2020. Our average trade and bills receivables turnover days further increased to 107.3 days for the six months ended 30 June 2020, primarily due to the impact of the COVID-19 outbreak. The COVID-19 outbreak presented logistical challenges for certain customers, especially in the beginning of the outbreak.

The table sets out below an ageing analysis of trade and bills receivables as at the dates indicated.

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 – 30 days	922,832	769,953	1,124,774	275,262
31 – 60 days	2,839	272,780	298,211	441,209
61 – 180 days	4,608	107,029	326,521	216,526
Over 180 days	14,437	3,100	12,332	208,297
Total	944,716	1,152,862	1,761,838	1,141,294

As at 30 June 2020, our trade and bills receivables aged over 180 days were HK$208.3 million, as compared to HK$12.3 million as at 31 December 2019. This increase was primarily due to the impact of the COVID-19 outbreak, which resulted in weaker consumer's demand for fabric care products in general as consumers temporarily reduced outdoor activities due to social distancing during the COVID-19 outbreak. As at 31 October 2020, HK$895.5 million, or 78.5% of our trade and bills receivables as at 30 June 2020 had been settled. As at the same date, HK$308.9 million, or 72.7% of our trade and bills receivables that aged over 60 days as at 30 June 2020, had been settled. Barring any unforeseen circumstances, we do not expect to experience any material recoverability issues for trade receivables over 60 days, as we expect the demand for fabric care products will further recover as the adverse effects of the COVID-19 outbreak gradually subside.

Sales are generally on open account with credit terms of 30 to 90 days during the Track Record Period. The remaining balances are covered by either (i) letters of credit with bills payable at sight or (ii) advances received from customers. We have policies in place to ensure that sales of products are made to customers with an appropriate credit history. We also have policies on granting different settlement methods to different customers to monitor the credit exposure. Letters of credit are normally required from new customers and existing customers with short trading history for settlement purposes. Please refer to Note 3.1(c) to the section headed "Appendix I – Accountant's Report" for further information about our credit risk management.

Prepayments, Deposits and Other Receivables

Our prepayments, deposits and other receivables primarily consist of (i) prepayments for acquisition of property, plant and equipment, (ii) prepayments for advertising and promotion expenses, (iii) prepayments for raw materials and transportation, (iv) prepayments for listing expenses, (v) deferred listing expenses, (vi) deposits, (vii) value-added tax recoverable, (viii) advances to staff, (ix) receivables from payment intermediaries, (x) right of returned goods related to the COVID-19 outbreak, and (xi) others.

The table sets out below details of our prepayments, deposits and other receivables as at the dates indicated.

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current				
Prepayments for acquisition of property, plant and equipment	245,211	160,248	59,421	58,648
Current				
Prepayments for advertising and promotion expenses	202,711	125,577	88,132	104,677
Prepayments for raw materials and transportation	78,990	61,113	14,024	16,246
Prepayments for listing expenses	–	–	–	103
Deferred listing expenses	–	–	–	4,045
Deposits	22,446	18,558	31,903	34,387
Value added tax recoverable	17,860	16,481	35,531	53,991
Advances to staff	3,970	679	1,206	893
Receivables from payment intermediaries	7,721	6,863	100,101	14,611
Right of returned goods	–	–	–	12,760
Others	20,338	6,547	11,822	19,226
Subtotal	354,036	235,818	282,719	260,939
Total	599,247	396,066	342,140	319,587

Our prepayments, deposits and other receivables decreased from HK$599.2 million as at 31 December 2017 to HK$396.1 million as at 31 December 2018, primarily due to decreases in (i) prepayments for acquisition of property, plant and equipment, mainly as a result of the payment being made as the construction of the production facilities progressed, and (ii) prepayments for advertising and promotion expenses, which in turn is primarily due to a decrease in prepayments for TV advertisements as a result of (a) our Group reaching an agreement with one of its TV advertisement providers which allowed our Group to pay a smaller prepayment upfront and (b) the rollover and utilisation of certain prepayments made by our Group in 2018 in relation to its TV advertisement projects in previous years.

Our prepayments, deposits and other receivables decreased from HK$396.1 million as at 31 December 2018 to HK$342.1 million as at 31 December 2019, primarily due to decreases in (i) prepayments for acquisition of property, plant and equipment, mainly as a result of the payment being made as the construction of the production facilities progresses, (ii) prepayments for advertising and promotion expenses mainly as a result of the decrease in prepayments for offline promotion expenses. As promotion services were rendered by certain offline KAs in 2019, the prepayments for the corresponding services were utilised. In addition, the decrease was also due to a decrease in offline promotion expenses, which led to a decrease in the associated prepayment as we increasingly utilised online promotions, and (iii) prepayments for raw material and transportation mainly as a result of a decrease in inventories as we improved our management of the inventories and as a result of our increased bargaining power vis-a-vis our suppliers, partially offset by an increase in receivables from payment intermediaries related to receivables from third party payment platforms, primarily because (i) in accordance with the relevant accounting rules, we recognise funds in our accounts with payment intermediaries as receivables from payment intermediaries until the funds are withdrawn from such accounts, and (ii) an online platform made a large payment to our account with a payment intermediary close to year end in relation to our sales on such platform and we had not fully withdrawn the funds from the account as at 31 December 2019. The payment was relatively large, primarily due to (i) an increase in our sales through online channels in 2019, which typically involve payment intermediaries, (ii) higher sales in December 2019 due to the earlier Chinese New Year in January 2020, and (iii) a change in an online platform's settlement policy in March 2019 that resulted in a lower payment frequency but a higher amount per payment. We have the freedom to withdraw the funds from such accounts at any time, subject to daily withdrawal limits imposed by certain payment intermediaries. Because of the daily withdrawal limit, we were unable to fully withdraw the funds from our accounts with the relevant payment intermediaries as at 31 December 2019. Thereafter, we continued to withdraw the funds from our accounts with the relevant payment intermediaries and as at 31 January 2020, 99.1% of the receivables with the relevant payment intermediaries as at 31 December 2019 have been withdrawn.

From 31 December 2019 to 30 June 2020, our prepayments, deposits and other receivables decreased from HK$342.1 million to HK$319.6 million, primarily due to a decrease in receivables from payment intermediaries related to payments due from third party payment platforms, primarily as a result of a decrease in online sales in the six months ended 30 June 2020, partially offset by (i) an increase in prepayments for advertising and promotion expenses as we increased our online advertising in the six months ended 30 June 2020, and (ii) right of returned goods related to refund liabilities we recognised for product return due to the COVID-19 outbreak; the amount is measured by reference to the former carrying amount of the goods subject to the product returns but are still being processed by 30 June 2020. Please refer to Note 26 to the section headed "Appendix I – Accountant's Report" for details.

As at 31 October 2020, HK$87.6 million, or 83.7% of our prepayments for advertising and promotion expenses have been utilised.

Trade and Bills Payables

Our trade and bills payables represent amounts due to our suppliers for purchases of raw materials. The credit period for our trade payables generally range from 30 to 90 days.

The following table sets forth details of our trade and bills payables and trade and bills payables turnover days as at and for the dates or periods indicated.

	As at or for the year ended 31 December			**As at or for the six months ended 30 June**
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	764,049	664,721	511,922	349,276
Bills payables	167,894	–	–	–
Total	931,943	664,721	511,922	349,276
Trade and bills payables turnover days(1)	97.1	101.1	85.0	89.3

Note:

(1) Trade and bills payables turnover days for each one-year period equals the average of the beginning and ending trade and bills payables for the year divided by cost of sales for that year and multiplied by 365 days.

Trade and bills payables turnover days for the six-month period equals the average of the beginning and ending trade and bills payables for the period divided by cost of sales for that period and multiplied by 182 days.

The decreases in our trade and bills payables from HK$931.9 million as at 31 December 2017 to HK$664.7 million as at 31 December 2018 and further to HK$511.9 million as at 31 December 2019 were primarily due to a decrease in the unit price of certain raw materials and the continuous improvement in our inventory management by refining our sales forecast to optimise our inventory level and production efficiency by standardising our ingredient management and ingredient addition procedure with the help of our self-developed Ingredient Management System. The decrease in our trade and bills payables from HK$511.9 million as at 31 December 2019 to HK$349.3 million as at 30 June 2020 was primarily due to a decrease in procurement as our sales decreased in the six months ended 30 June 2020 as a result of the impact of the COVID-19 outbreak and seasonality. We did not have any bills payables as at 31 December 2018 and 2019 and 30 June 2020 primarily because we switched to trade payables as our primary method of settlement as bills payables generally carry interest that is payable by us while trade payables are interest free.

During the Track Record Period, our average trade and bills payables turnover days remained relatively stable at 97.1 and 101.1 days, respectively, in 2017 and 2018. Our average trade and bills payables turnover days were relatively high as at 31 December 2017 and 2018, primarily due to the relatively high trade and bills payables as at 31 December 2017 as a result of the relatively high price of raw materials in 2017. Our average trade and bills payables turnover days decreased to 85.0 days in 2019, primarily due to the decrease of trade and bills payables as discussed above. Our average trade and bills payables remained relatively stable at 89.3 days in the six months ended 30 June 2020 as compared to 85.0 days in 2019.

The table sets out below an ageing analysis of trade and bills payables as at the dates indicated.

	As at 31 December			**As at 30 June**
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Up to 3 months	921,112	653,779	510,654	348,503
3 to 6 months	9,043	5,098	1,268	–
6 months to 1 year	1,788	5,844	–	773
Total	931,943	664,721	511,922	349,276

As at 31 October 2020, HK$347.4 million, or 99.5% of our trade and bills payables as at 30 June 2020 had been settled.

Accruals and other payables

Our accruals and other payables during the Track Record Period primarily consist of (i) deposits from logistic companies, (ii) accrued salaries and wages, (iii) accrued advertising and promotion expenses, (iv) accrued listing expenses, (v) payables for capital expenditures, (vi) value-added tax and other tax payables, (vii) transportation cost payables and (viii) refund liabilities.

The table sets out below details of our contract liabilities, accruals and other payables as at the dates indicated.

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deposits from logistics companies	126,298	9,147	9,199	7,293
Accrued salaries / wages	162,506	188,231	215,787	132,199
Accrued advertising and promotion expenses	19,492	15,518	29,267	14,424
Accrued listing expenses	–	–	–	25,073
Payable for capital expenditures	24,045	70,858	63,738	30,937
Value-added tax and other tax payables	220,776	145,740	225,329	118,775
Transportation cost payables	172,515	150,200	164,384	110,301
Refund liabilities	–	–	–	53,525
Others	81,945	23,301	39,167	59,500
Total	807,577	602,995	746,871	552,027

The decrease in our accruals and other payables from HK$807.6 million as at 31 December 2017 to HK$603.0 million as at 31 December 2018 was primarily due to decreases in (i) deposits from logistics companies as we switched our logistics service providers, and (ii) value-added tax and other tax payables, mainly as a result of a decrease in our sales relative to purchases made in December 2018, partially offset by an increase in payable for capital expenditures, mainly as a result of the progress made in the construction of production facilities and related equipment. The increase in our accruals and other payables from HK$603.0 million as at 31 December 2018 to HK$746.9 million as at 31 December 2019 was primarily due to increases in value-added tax and other tax payables, mainly as a result of an increase in sales in December 2019. The decrease in our accruals and other payables from HK$746.9 million as at 31 December 2019 to HK$552.0 million as at 30 June 2020 was primarily due to decrease in (i) accrued salaries and wages as we temporarily streamlined our offline sales force due to less customer traffic in offline hypermarkets as a result of the COVID-19 outbreak, (ii) value-added tax and other tax payables as our sales decreased in the six months ended 30 June 2020, and (iii) transportation cost payables as our sales decreased in the six months ended 30 June 2020, partially offset by refund liabilities recognised for sales return due to the COVID-19 outbreak. As at 30 June 2020, we recognised refund liabilities of HK$53.5 million related to expected product returns due to COVID-19, being the amount of consideration received for which we do not expect to be entitled.[1] We also recognise a right to the returned goods

[1] The refund liabilities as at 30 June 2020 were slightly different from the sales value of the remaining products that have not been received by us as at the same date, due to the different exchange rates used in calculating the income statement line items and the balance sheet line items.

of HK$12.8 million measured by reference to the former carrying amount of the goods subject to the product returns. Please refer to Note 26 to the section headed “Appendix I – Accountant’s Report” for details.

INDEBTEDNESS

Borrowings

The table sets out below details of our borrowings as at the dates indicated.

	As at 31 December			As at 30 June	As at 31 October
	2017	**2018**	**2019**	**2020**	**2020**
	HK$’000	*HK$’000*	*HK$’000*	*HK$’000*	*HK$’000 (unaudited)*
Current					
Bank borrowings, secured	812,992	662,628	206,529	74,386	84,305
Non-current					
Bank borrowings, secured	185,263	211,182	207,396	73,548	68,259
Total	998,255	873,810	413,925	147,934	152,564

Our bank borrowings are secured by corporate guarantees, buildings, bank deposits and land use rights of our Group.

The table below sets out the maturity analysis of our borrowings as at the dates indicated.

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	HK$’000	*HK$’000*	*HK$’000*	*HK$’000*
Within 1 year	812,992	662,628	206,529	74,386
Between 2 to 5 years	185,263	211,182	207,396	73,548
Total	998,255	873,810	413,925	147,934

The table below sets out the currencies of our borrowings as at the dates indicated.

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
RMB	972,303	873,810	413,925	147,934
U.S. Dollars	25,952	–	–	–
Total	998,255	873,810	413,925	147,934

The effective interest rates (calculated as interest expenses on bank borrowings divided by total borrowings) of our borrowings as at 31 December 2017, 2018 and 2019 and 30 June 2020 were 4.6%, 5.0%, 4.6% and 4.3%, respectively. Our borrowings are secured by corporate guarantees, buildings, bank deposits and land use rights provided by our Company and certain of its subsidiaries.

Our borrowings decreased by HK$124.5 million from HK$998.3 million as at 31 December 2017 to HK$873.8 million as at 31 December 2018, further decreased by HK$459.9 million to HK$413.9 million as at 31 December 2019, and further decreased by HK$266.0 million to HK$147.9 million as at 30 June 2020. The decreases were primarily due to repayment of short-term borrowings and less short-term borrowings incurred during the Track Record Period. Our borrowings remained relatively stable at HK$152.6 million as at 31 October 2020, as compared to HK$147.9 million as at 30 June 2020. As at 31 October 2020, we had bank facilities of RMB1,559.1 million in aggregate, of which RMB132.3 million has been drawn down and RMB1,426.8 million remained available for draw down. As at the Latest Practicable Date, we had bank facilities of RMB3,637.5 million in aggregate, of which RMB132.3 million has been drawn down and RMB3,505.2 million remained available for draw down.

Our borrowings contain standard terms, conditions and covenants that are customary for commercial bank loans. We also undertake financial covenants that require us to meet certain financial ratio requirements such as net tangible assets, interest coverage ratio and tangible asset coverage ratio in our loan agreements.

Our Directors confirm that we had neither material defaults in payment of trade and non-trade payables and loans and borrowings, nor any breach of financial covenants during the Track Record Period.

Lease Liabilities

The table sets out below details of our lease liabilities as at the dates indicated.

	As at 31 December			As at 30 June	As at 31 October
	2017	2018	2019	2020	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*
Current	25,534	24,021	26,325	30,781	32,135
Non-current	39,017	28,915	33,824	28,009	25,609
Total	64,551	52,936	60,149	58,790	57,744

The table below sets out the maturity analysis of our lease liabilities as at the dates indicated.

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year	25,534	24,021	26,325	30,781
More than 1 year but less than 2 years	18,826	14,290	19,792	20,576
More than 2 years but less than 5 years	20,191	13,603	13,299	6,826
More than 5 years	–	1,022	733	607
Total	64,551	52,936	60,149	58,790

During the Track Record Period, we entered into leases primarily for offices and training venues for our sales personnel. Our lease liabilities decreased from HK$64.6 million as at 31 December 2017 to HK$52.9 million as at 31 December 2018. Our lease liabilities increased from HK$52.9 million as at 31 December 2018 to HK$60.1 million as at 31 December 2019. Our lease liabilities decreased from HK$60.1 million as at 31 December 2019 to HK$58.8 million as at 30 June 2020, mainly as a result of the lease payments we made.

As at 31 October 2020, we had lease liabilities of HK$57.7 million.

Contingent Liabilities

We did not have any material contingent liabilities as at 31 December 2017, 2018 and 2019, 30 June 2020 and 31 October 2020, respectively.

Statement of indebtedness

As at the close of business on 31 October 2020, being the latest practicable date for the purpose of this indebtedness statement, we did not have any bank overdraft, outstanding bank borrowings or loan facilities other than as disclosed above.

As at 31 October 2020, other than as disclosed above, we did not have any other borrowings, charges, mortgages, debentures or debt securities issued or outstanding, or authorised or otherwise created but unissued, or other similar indebtedness, hire purchase and finance lease commitments, liabilities under acceptance, acceptance credits, any guarantees or other material contingent liabilities.

On 24 November 2020, we entered into a term loan facility agreement with a principal amount of HK$2,300,000,000 (or its U.S. dollar equivalent) to finance the payment of the interim dividend we declared in June 2020. Please refer to the sub-section headed "Recent Developments and Material Adverse Change – Term Loan Facility" for details.

Since 31 October 2020 and up to the date of this prospectus, other than as disclosed above, our Directors confirm that, there had not been any material adverse change in our indebtedness and contingent liabilities.

CAPITAL EXPENDITURE

The following table sets forth our capital expenditures as at the dates indicated.

	Year ended 31 December			Six months ended 30 June
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Purchase of property, plant and equipment	234,831	178,165	234,730	81,871
Intangible assets	15,689	31,996	65,561	9,551
Total	250,520	210,161	300,291	91,422

During the Track Record Period, we incurred capital expenditure primarily for purchase of property, plant and equipment in relation to our existing production facilities and production facilities that are under construction and development of computer software. In 2017, 2018 and 2019 and the six months ended 30 June 2020, our capital expenditure totalled HK$250.5 million, HK$210.2 million, HK$300.3 million and HK$91.4 million, respectively.

We estimate that our capital expenditures for the year ending 31 December 2020 will be approximately HK$386.2 million, which we will use primarily to finance our production capacity expansion plan for our four production bases and the establishment of a new factory in China and the development of computer software. We expect to fund these capital expenditures with a combination of cash generated from our operations, bank loans and the net proceeds received from the Global Offering.

COMMITMENTS

Capital commitments

During the Track Record Period, our capital commitment was principally incurred for the acquisition of property, plant and equipment and land use rights for production facilities under construction and expansion of production capacity at certain existing production facilities. The following table sets forth our capital commitment as at the dates indicated. The increase in 2019 was primarily related to the acquisition of property, plant and equipment and land use rights related to (i) construction and capacity expansion of our production facilities in Guangzhou, Tianjin, Kunshan and Chongqing, and (ii) development of certain computer software. Please refer to the section headed "Business – Our Production Operations – Capacity Expansion" for details.

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contracted, but not provided for:				
Acquisition of property, plant and equipment and intangible assets	52,283	42,496	194,424	232,802

Operating lease commitments

During the Track Record Period, we have recognised right-of-use assets for non-cancellable leases, except for short-term leases. The following table sets forth our future aggregate minimum lease payments in respect of rented premises under non-cancellable short-term operating leases not recognised as right-of-use assets.

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Buildings				
No later than one year	10,757	7,107	6,671	3,223

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios as at the dates or for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
				(unaudited)	
Gross profit margin(1)	53.2%	57.4%	64.2%	61.5%	64.0%
Net profit margin(2)	1.5%	8.2%	15.3%	8.0%	12.4%
Return on equity(3)	6.7%	34.3%	45.7%	N/A	N/A
Return on assets(4)	2.1%	12.8%	23.1%	N/A	N/A

	As at 31 December			As at 30 June
	2017	2018	2019	2020
Gearing ratio(5)	77.6%	49.9%	16.6%	6.7%
Current ratio(6)	0.9	1.2	1.8	2.3
Quick ratio(7)	0.7	0.9	1.6	1.9

Notes:

(1) Gross profit margin equals gross profit divided by revenue and multiplied by 100%.

(2) Net profit margin equals net profit divided by revenue and multiplied by 100%.

(3) Return on equity equals net profit divided by the average of the beginning and ending total equity and multiplied by 100%.

(4) Return on assets equals net profit divided by the average of the beginning and ending total assets and multiplied by 100%.

(5) Gearing ratio equals total debt (including borrowings and lease liabilities) divided by total equity and multiplied by 100%.

(6) Current ratio equals current assets divided by current liabilities.

(7) Quick ratio equals current assets less inventories divided by current liabilities.

Net profit margin

Our net profit margin increased from 1.5% in 2017 to 8.2% in 2018 primarily due to a 543.0% increase in our net profit while revenue increased by 20.2% during the same period. Our net profit margin further increased to 15.3% in 2019 primarily due to a 94.9% increase in our net profit while revenue increased by 4.2% during the same period. Our net profit margin increased from 8.0% in the six months ended 30 June 2019 to 12.4% in the six months ended 30 June 2020 primarily due to a 38.6% increase in net profit while our revenue decreased by 10.5% during the same period. The general increase in our net profit margin during the Track Record Period was also due to (i) the general increase in our gross profit margin, (ii) the general decrease in our selling and distribution expenses as a percentage of our revenue as we improved operations efficiency, especially by streamlining our offline sales force, and (iii) our improved inventory and procurement management as we refined our sales forecast to optimise our inventory levels.

Return on equity

Our return on equity increased from 6.7% in 2017 to 34.3% in 2018 primarily due to a 543.0% increase in net profit. Our return on equity further increased to 45.7% in 2019 primarily due to a 94.9% increase in net profit.

Return on assets

Our return on assets increased from 2.1% in 2017 to 12.8% in 2018 primarily due to a 543.0% increase in net profit. Our return on equity further increased to 23.1% in 2019 primarily due to a 94.9% increase in net profit.

Gearing ratio

Our gearing ratio decreased from 77.6% as at 31 December 2017 to 49.9% as at 31 December 2018 and 16.6% as at 31 December 2019, and further decreased to 6.7% as at 30 June 2020 primarily due to decreases in borrowings. Had we taken into account (i) the proceeds from the term loan with the principal amount of HK$2,300,000,000 pursuant to the Facility Agreement; (ii) the receipt of the net proceeds of HK$8,492 million from the Global Offering which is one of the conditions precedent of the term loan (assuming (a) an Offer Price of HK$11.68 per Share (being the mid-point of the Offer Price Range), (b) the underwriting commissions and the other estimated expenses payable by us as at 30 June 2020 have been deducted from the proceeds, and (c) the Over-allotment Option is not exercised); and (iii) the distribution of interim dividend of HK$2,300,000,000, the gearing ratio as at 30 June 2020 would have been 27.0%.

Current ratio

Our current ratio increased from 0.9 as at 31 December 2017 to 1.2 as at 31 December 2018 primarily due to a decrease in current liabilities, particularly from trade and bills payables, accruals and other payables, and borrowings. Our current ratio further increased to 1.8 as at 31 December 2019 primarily due to a decrease in current liabilities, particularly from borrowings, and an increase in current assets, particularly from trade and bills receivables. Our current ratio further increased to 2.3 as at 30 June 2020 primarily due to a decrease in current liabilities, particularly from borrowings.

Quick ratio

Our quick ratio increased from 0.7 as at 31 December 2017 to 0.9 as at 31 December 2018 primarily due to a decrease in current liabilities, particularly from trade and bills payables, accruals and other payables, and borrowings. Our quick ratio further increased to 1.6 as at 31 December 2019 primarily due to a decrease in current liabilities, particularly from borrowings, an increase in current assets, particularly from trade and bills receivables, and a decrease in inventories. Our quick ratio further increased to 1.9 as at 30 June 2020 primarily due to a decrease in current liabilities, particularly from borrowings.

RELATED PARTY TRANSACTIONS

We enter into transactions with related parties from time to time. Our Directors are of the view that each of the related party transactions set out in Note 29 to the section headed "Appendix I – Accountant's Report" was conducted in the ordinary course of business on an arm's length basis and with normal commercial terms between the relevant parties.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, our outstanding balances due to related parties of trade nature was HK$6.8 million, HK$4.2 million, HK$1.1 million and HK$0.8 million, respectively. As at the same dates, we did not have any outstanding balance due to related parties of non-trade nature.

QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to various types of market risk, including foreign exchange risks, interest rate risks, credit risks and liquidity risks. Please refer to Note 3 to the section headed "Appendix I – Accountant's Report" for details.

Foreign Exchange Risks

The majority of our subsidiaries are operating in the PRC with most of the transactions and assets denominated in RMB. The conversion of RMB into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the PRC government. Because of the simplicity of our financial structure and current operations, no hedging activities are undertaken by management.

Interest Rate Risks

Our interest rate risk mainly arises from interest-bearing borrowings. Borrowings issued at variable rates expose us to cash flow interest rate risk, while borrowings issued at fixed rates expose us to fair value interest rate risk. We have not used any interest rate swap to hedge its exposure to interest rate risk.

If the interest rate on all borrowings had been 100 basis points higher/lower with all other variables held constant, our profit before income tax in 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020 would have been HK$10.0 million, HK$8.7 million, HK$4.1 million, HK$7.8 million and HK$1.5 million lower/higher respectively, mainly as a result of higher/lower interest expense on borrowings with floating interest rates.

We regularly monitor our interest rate risk to ensure there are no undue exposures to significant interest rate movements.

Credit Risk

Risk Management

Our credit risk mainly arises from cash and bank balances, trade and bills receivables, deposits and other receivables (except for prepayments). Our maximum exposure to credit risk is the carrying amounts of these financial assets.

Sales are generally on open account with credit terms of 30 to 90 days during the Track Record Period. The remaining balances are covered by either (i) letters of credit with bills payable at sight or (ii) advances received from customers. We have policies in place to ensure that sales of products are made to customers with an appropriate credit history. We also have policies on granting different settlement methods to different customers to monitor the credit exposure. Letters of credit are normally required from new customers and existing customers with short trading history for settlement purposes. Our historical experience in collection of trade and other receivables falls within the recorded allowances. At as 31 December 2017, 2018 and 2019 and 30 June 2020, trade and bill receivables of HK$944.7 million, HK$1,152.9 million, HK$1,761.8 million and HK$1,141.3 million were due from companies operating under domestically well-known supermarkets, e-commerce platforms and certain wholesalers in the PRC. Loss allowances of HK$16.1 million, HK$9.9 million, HK$11.8 million and HK$18.2 million have been provided for such trade and bill receivables as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the majority of our cash and bank deposits are held in major financial institutions located in Hong Kong and the PRC, which our management believes are of high credit quality. Our management does not expect any losses from non-performance by these financial institutions, therefore, the expected credit loss for cash and bank balances is minimal. We have no policy to limit the amount of credit exposure to any financial institutions.

We have no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Impairment of Financial Assets

We have two types of financial assets that are subject to the expected credit loss model:

- Trade receivables

- Other financial assets at amortised costs

While cash and bank balances are also subject to the impairment requirements of HKFRS 9, the identified impairment loss is immaterial.

Trade receivables

We apply simplified approach under HKFRS 9 to measure expected credit losses which use a lifetime expected loss allowance for all trade receivables. Trade receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are considered to be subjected to higher risk of default and are tested individually.

Measurement of expected credit loss on individual basis

Trade receivables with higher risk of default are assessed individually for provision for impairment allowance. As at 31 December 2017, 2018 and 2019 and 30 June 2020, the balances of such individually assessed trade receivables and the loss allowance in respect of these receivables are as follows:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
		HK$'000		*HK$'000*
Individually assessed trade receivables	9,134	–	–	–
Loss allowance	(9,134)	–	–	–
	–	–	–	–

Measurement of expected credit loss on collective basis

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a specific period before each year end date and the corresponding historical credit losses experienced within the periods. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. We have identified the overall industry outlook and GDP of the PRC in which we sell our goods and services to be the most relevant factors, and accordingly adjust the historical loss rates based on expected changes in these factors.

Loss allowance in respect of these collectively assessed trade receivables amounted to approximately HK$6.9 million, HK$9.9 million, HK$11.8 million and HK$18.2 million based on an average expected loss rate of approximately 0.7%, 0.9%, 0.7% and 1.6% as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively.

Impairment losses on trade receivables are separately presented as "net (provision for)/reversal of impairment losses of financial assets" in the consolidated profit or loss. Trade receivables are written off when there is no reasonable expectation of recovery. We normally categorise a trade receivable for write off when a debtor fails to make contractual payments greater than 365 days past due. Subsequent recoveries of amounts previously written off are credited against the same line item.

Other financial assets at amortised cost

Other financial assets at amortised cost include bills receivables, refundable deposits and other receivables (excluding prepayments), they are considered to be low credit risk primarily because historically they had no history of default and the debtors had a strong capacity to meet its contractual cash flow obligations in the near term. No impairment losses were provided for during the Track Record Period.

Liquidity risk

Our primary cash requirements have been used on payments for additions and upgrades of property, plant and equipment, related debts and raw material purchases and operating expenses. We finance our working capital requirements through a combination of funds generated from operations and bank borrowings and take into account all available information on future business environment including among others, the economic impact of the unprecedented COVID-19 outbreak on the economies of the countries in which our Group and our customers and suppliers operate.

Our policy is to maintain sufficient cash and cash equivalents or have available funding through adequate amount of committed credit facilities to meet our working capital requirements.

Please refer to Note 3.1(d) the section headed "Appendix I – Accountant's Report" for a maturity analysis of different categories of our financial liabilities.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that as at the Latest Practicable Date, there were no circumstances which, had they been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

DIVIDENDS AND DIVIDEND POLICY

Dividends

In January 2013, we declared a dividend in the aggregate amount of HK$188.7 million to ZED, our sole shareholder until November 2010, in respect of our retained earnings for the periods up to 31 December 2009. During 2019, we paid HK$37.0 million of such dividend to ZED and as at 31 December 2019, the amount of the outstanding dividend payable to ZED was HK$48.3 million. In January 2020, we declared a dividend in the amount of HK$36.6 million to ZED in respect of our retained earnings for the periods up to 31 December 2009. During the six months ended 30 June 2020, we paid the total outstanding dividends payable to ZED in the aggregate amount of HK$84.9 million using our internal resources.

During the Track Record Period, save for the interim dividend referred to below, we did not declare any dividend to our sole Shareholder, being Aswann.

In June 2020, we declared an interim dividend to our then sole Shareholder, being Aswann, in the amount of HK$2,300.0 million in respect of our retained earnings for the period up to June 2020. Such dividend is conditional upon the Global Offering being completed on or before 31 December 2021 and subject to such condition being satisfied and with a view to maintaining sufficient flexibility for our operations and business expansions, it will be paid by us on or before 31 December 2021. Such dividend is expected to be funded by internal resources and/or a term loan facility obtained from a syndicate of banks including Citibank, N.A., Hong Kong Branch. None of the net proceeds from the Global Offering will be used to fund such dividend. As at the date the interim dividend was declared, Aswann was held as to 88.70% by ZED, 0.22% by Van Group Limited, 0.07% by Allied Power Limited, 10% by HCM, 0.72% by Hai Fei and 0.29% by CCIL which is identical to our Company's shareholding structure immediately prior to the Global Offering.

Dividend Policy

Our Directors are of the view that the amount of any dividends to be declared in the future will depend on, among other things, our results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on the generally accepted accounting principles in Hong Kong, the applicable PRC laws and regulations in respect of repatriation of dividends and distributions, the Cayman Companies Law, the other applicable laws and regulations and all other relevant factors.

As advised by the PRC legal advisers to our Company, the distributable profits of PRC subsidiaries of our Company can be remitted out of the PRC provided that such PRC subsidiaries have complied with all the relevant laws and regulations of the PRC for tax payment, the distribution has been duly authorised by resolutions or other internal procedures, the auditors of the PRC subsidiaries have issued an audited report in accordance with PRC laws and regulations and the relevant remittance procedures have been completed.

We intend to distribute dividend to our Shareholders, the amount of which would be no less than 30% of our net profit for the first financial year (as determined in accordance with HKFRS) subsequent to the Global Offering. The past dividend declared and the above intention do not amount to, and shall not be construed as any guarantee or representation or indication that our Company must or will declare and pay dividend in such manner or declare and pay any dividend at all. Cash dividends on our Shares, if any, will be paid in Hong Kong dollars. The amount of dividend actually distributed to our Shareholders will depend upon our earnings, financial condition, operating requirements and capital requirements, and any other conditions that our Directors may deem relevant, and the requirement that any final dividend will be subject to approval of our Shareholders. The future declaration of dividends may or may not reflect our Company's historical declarations of dividends and will be at the absolute discretion of our Board.

Our Company's ability to pay cash dividend will also depend upon the amount of distributions, if any, received by it from its operating subsidiaries. Under PRC law, dividends may be paid out only by way of distributable profits, which are the retained earnings of the relevant companies incorporated in the PRC. Our Company will not ordinarily pay any dividends in a year in which it does not have any distributable earnings.

There can be no assurance that any dividends will be paid. Investors should consider the risk factors affecting our Group contained in the section headed "Risk Factors".

LISTING EXPENSES

Assuming an Offer Price of HK$11.68 per Offer Share (which is the mid-point of the Offer Price Range) and the full payment of the discretionary incentive fee, if any, we expect to incur approximately HK$234.0

million of listing expenses (including the aggregate underwriting commissions and fees, the Stock Exchange listing fees, the SFC transaction levy and the Stock Exchange trading fee, legal and other professional fees and printing and all other expenses relating to the Global Offering), accounting for approximately 2.7% of the gross proceeds from the Global Offering. As at 30 June 2020, approximately HK$21.4 million has been charged to our consolidated statements of comprehensive income as administrative expenses. We expect to incur additional listing expenses of approximately HK$208.6 million after 30 June 2020, of which HK$32.4 million is expected to be recognised as administrative expenses. A total of HK$180.2 million is expected to be capitalised and deducted from equity upon Listing. The listing expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.

DISTRIBUTABLE RESERVES

As at 30 June 2020, our Company had retained earnings of approximately HK$2,313.6 million, representing the distributable reserves available for distribution to our Shareholders.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

Please refer to the section headed "Appendix II – Unaudited Pro Forma Financial Information" for details.

RECENT DEVELOPMENTS AND MATERIAL ADVERSE CHANGE

Term Loan Facility

On 24 November 2020, we entered into a term loan facility agreement with a principal amount of HK$2,300,000,000 (or its U.S. dollar equivalent) (the "**Facility Agreement**") with a syndicate of banks including Citibank, N.A., Hong Kong Branch to finance the payment of the interim dividend we declared in June 2020. Subject to the Listing taking place and the fulfilment of certain customary conditions precedent, the term loan is available for drawdown from the date of the agreement to the earlier of (i) six months after the date of the Facility Agreement and (ii) six months after the Listing Date. Once drawn, the tenor of the loan is 36 months after the date of the Facility Agreement, with an interest rate of the applicable Hong Kong Interbank Offered Rate (if the drawdown is in Hong Kong dollars) or London Interbank Offered Rate (if the drawdown is in U.S. dollars) plus a certain margin. The mandatory repayment of the principal amount of the term loan will take place between the 24th and 36th month after the date of the Facility Agreement. However, the Company may make any voluntary prepayment of the term loan after 6 months from the date of the Facility Agreement (or if earlier, the day on which the available facility is zero). The Facility Agreement contains a set of covenants that are customary for commercial bank loans and requires us to meet certain financial ratio requirements such as maximum net debt-to-EBITDA ratio, minimum EBITDA-to-interest coverage ratio and minimum tangible net worth. The term loan provides for multiple drawdowns which would provide flexibility for us to fund the payment of the interim dividend using such combination of resources which is in the best interest of our Company and the Shareholders as a whole. As at the Latest Practicable Date, no drawdown has been made under the Facility Agreement.

Pre-IPO Share Option Scheme

On 23 September 2020, we adopted the Pre-IPO Share Option Scheme. On 23 September 2020, pursuant to the Pre-IPO Share Option Scheme, we have granted share options to subscribe for an aggregate of 61,651,000

Shares to certain grantees who are our employees (including our Directors and members of our senior management team) and our Business Associates. Please refer to the section headed "Appendix V – Statutory and General Information – D. Pre-IPO Share Option Scheme" for details.

The fair value of the share options granted will be recognised as share-based compensation expenses, which will have an adverse effect on our profits. Please refer to the section headed "Risk Factors – Risks relating to the Global Offering – Allotment and issue of Shares upon the exercise of the options granted under the Pre-IPO Share Option Scheme could negatively impact our future results of our operations" for details.

COVID-19 Outbreak

The COVID-19 outbreak presents challenges to our business and financial conditions. As a result of COVID-19, we incurred sales returns of approximately HK$149.8 million related to our consolidated profit or loss for the six months ended 30 June 2020. Among the sales returns, products with a sales value of HK$95.7 million has been returned as at 30 June 2020 and relevant trade receivables have been derecognised accordingly. Although the remaining products with a sales amount of HK$54.1 million have not been received by us as at 30 June 2020, as we expect such products will be returned to us based on our ongoing communication with our customers and the progress of the refund requests being processed, we have recognised refund liabilities of HK$53.5 million[1] in relation to these yet-to-be returned products as at 30 June 2020. Our management estimates the amount of sales returns, treated as variable consideration, by using the expected value method in accordance with applicable HKFRS. During the six months ended 30 June 2020, almost all sales returns of Supreme branded concentrated liquid laundry detergent occurred due to the unprecedented market disruption brought by the COVID-19 outbreak and our management reassessed the amount of goods returns as at 30 June 2020 taking into account the return requests received from customers and accepted by the Group. We consider the customers who did not request for product returns has an insignificant sales return rate during Track Record Period prior to 2020 and therefore do not consider any recognition of refund liabilities is necessary for those customers. The unsold inventory balance of each of our direct sales KAs or offline distributors is not directly related to the amount of returns requested by that direct sales KA or offline distributor. Accordingly, the amount of sales returns has not been determined based on the level of related unsold inventory balance of each of these direct sales KAs or offline distributors. Based on our management's assessment, refund liabilities for goods return of HK$53.5 million as at 30 June 2020 is considered sufficient and no further significant sales return request in respect of our Supreme branded concentrated liquid laundry detergent is expected based on the return requests accepted by our Group. Between 30 June 2020 and the Latest Practicable Date, products with a sales amount of HK$40.9 million have been returned. Please refer to the subsections headed "– Significant Accounting Policies, Judgements and Estimates – Provision for sales return" and "– Significant Accounting Policies, Judgements and Estimates – Refund liabilities" for our accounting judgement related to product returns and refund liabilities. We accepted such product returns from our customers primarily for commercial considerations, such as to maintain good business relationships with our customers. Based on information provided by our customers who were Independent Third Parties during the Track Record Period, we estimate that the approximate amount of the unsold inventories of Supreme branded concentrated liquid laundry detergents from our direct sales KAs and offline distributors as at the Latest Practicable Date would not exceed 5% of our revenue for the year ended 31 December 2019. Please refer to the section headed "Risk Factors – Risks Relating to our Business and

[1] The refund liabilities as at 30 June 2020 were slightly different from the sales amount of the remaining products that have not been received by us as at the same date, due to the different exchange rates used in calculating the income statement line items and the balance sheet line items.

Industry – Our efforts in developing, launching and promoting new brands and products, diversifying our brand and product portfolio may not be successful." for details.

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 other 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. 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 "Business – Impact of the COVID-19 Outbreak on Our Business" for further details. Given the dynamic nature of the COVID-19 outbreak, our Group will continuously evaluate its impact on the financial condition and results of operations of our Group.

Based on our management accounts, our revenue for the nine months ended 30 September 2020 decreased slightly from the nine months ended 30 September 2019, primarily due to a decrease in revenue from fabric care products. The demand for fabric care products was weaker in general as consumers reduced outdoor activities due to social distancing during the COVID-19 outbreak primarily in the first half of 2020. Such decrease in revenue was partially offset by an increase in revenue from our personal hygiene products and home care products in the nine months ended 30 September 2020 driven by consumers' increased awareness of personal and household hygiene as a result of the COVID-19 outbreak as well as the general recovery in sales in the third quarter of 2020 as the impact of the COVID-19 outbreak gradually subsided in China. In addition, based on our management accounts, our gross profit for the nine months ended 30 September 2020 slightly decreased compared to that for the nine months ended 30 September 2019 and our gross profit margin for the nine months ended 30 September 2020 was comparable to that for the nine months ended 30 September 2019.

Save as disclosed above in this section, our Directors confirm that, as at the date of this prospectus, there has not been any material adverse change in our financial or trading position or prospects since 30 June 2020, being the date as at which our latest audited consolidated financial statements were prepared as set out in the section headed "Appendix I – Accountant's Report".