

The following is the text of a report set out on pages I-1 to I-3, received from our Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of our Company and to the Joint Sponsors pursuant to the requirements of HKSIR 200 Accountant's Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF BLUE MOON GROUP HOLDINGS LIMITED, CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED, CITIGROUP GLOBAL MARKETS ASIA LIMITED AND MERRILL LYNCH FAR EAST LIMITED

Introduction

We report on the historical financial information of Blue Moon Group Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-70, which comprises the consolidated balance sheets as at 31 December 2017, 2018 and 2019 and 30 June 2020, the Company balance sheets as at 31 December 2017, 2018 and 2019 and 30 June 2020, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-70 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 4 December 2020 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountant's Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

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Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at 31 December 2017, 2018 and 2019 and 30 June 2020 and the consolidated financial position of the Group as at 31 December 2017, 2018 and 2019 and 30 June 2020 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2019 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 11 to the Historical Financial Information which contains information about the dividend paid by Blue Moon Group Holdings Limited in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
4 December 2020

I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("Underlying Financial Statements").

The Historical Financial Information is presented in Hong Kong Dollars ("HK\$") and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended 31 December			Six months ended	
					30 June	
		2017	2018	2019	2019	2020
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
						(Unaudited)
Revenue	5	5,632,033	6,767,945	7,049,905	2,720,350	2,435,868
Cost of sales	7	(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	6	23,097	37,446	51,522	34,673	39,768
Selling and distribution expenses	7	(2,068,649)	(2,547,972)	(2,323,123)	(1,030,713)	(816,386)
General and administrative expenses	7	(776,271)	(632,774)	(747,765)	(328,924)	(346,154)
Net (provision for)/reversal of impairment losses of financial assets	18	(16,073)	6,151	(1,867)	226	(6,459)
Operating profit		157,227	749,152	1,501,777	346,977	429,372
Finance income	9	3,126	6,218	5,652	2,154	4,136
Finance costs	9	(47,123)	(53,455)	(32,188)	(20,328)	(4,703)
Finance costs, net	9	(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	10	(27,071)	(147,930)	(395,624)	(110,847)	(126,612)
Profit for the year/period attributable to owners of the Company		86,159	553,985	1,079,617	217,956	302,193
Other comprehensive income/(loss)						
Item that may be reclassified subsequently to profit or loss						
Exchange differences from translation of financial statements of subsidiaries		89,044	(65,042)	(74,321)	(29,206)	(49,600)
Profit and total comprehensive income for the year/period		175,203	488,943	1,005,296	188,750	252,593
Earnings per share	12	HK\$8,616	HK\$55,399	HK\$107,962	HK\$21,796	HK\$30,219

CONSOLIDATED BALANCE SHEETS

	Note	As at 31 December			As at
		2017	2018	2019	June 30
		HK\$'000	HK\$'000	HK\$'000	2020
				HK\$'000	
ASSETS					
Non-current assets					
Intangible assets	14	97,143	100,779	146,943	139,460
Property, plant and equipment	15	1,113,900	1,124,285	1,211,091	1,211,978
Right-of-use assets	16	404,902	370,793	415,989	406,651
Prepayments for property, plant and equipment	19	245,211	160,248	59,421	58,648
Deferred income tax assets	24	113,724	79,270	76,540	91,074
		<u>1,974,880</u>	<u>1,835,375</u>	<u>1,909,984</u>	<u>1,907,811</u>
Current assets					
Inventories	17	567,978	586,879	375,757	445,019
Trade and bills receivables	18	928,643	1,142,940	1,750,049	1,123,046
Prepayments, deposits and other receivables	19	354,036	235,818	282,719	260,939
Restricted cash	20	2,863	19,120	25,890	18,085
Cash and cash equivalents	20	547,436	467,967	690,064	753,442
Tax recoverable		—	—	6,228	—
		<u>2,400,956</u>	<u>2,452,724</u>	<u>3,130,707</u>	<u>2,600,531</u>
Total assets		<u>4,375,836</u>	<u>4,288,099</u>	<u>5,040,691</u>	<u>4,508,342</u>
EQUITY					
Equity attributable to owners of the Company					
Share capital	21	—	—	—	—
Retained earnings	22	1,209,069	1,749,141	2,804,226	3,060,113
Other reserves	22	159,771	108,642	58,853	18,895
Total equity		<u>1,368,840</u>	<u>1,857,783</u>	<u>2,863,079</u>	<u>3,079,008</u>

	Note	As at 31 December			As at
		2017	2018	2019	30 June
		HK\$'000	HK\$'000	HK\$'000	2020
					HK\$'000
LIABILITIES					
Non-current liabilities					
Deferred government grant	23	68,192	63,670	61,843	59,982
Borrowings	27	185,263	211,182	207,396	73,548
Deferred income tax liabilities	24	12,531	22,707	98,698	119,959
Lease liabilities	16	39,017	28,915	33,824	28,009
		<u>305,003</u>	<u>326,474</u>	<u>401,761</u>	<u>281,498</u>
Current liabilities					
Trade and bills payables	25	931,943	664,721	511,922	349,276
Contract liabilities	5	14,366	20,502	16,188	44,644
Accruals and other payables	26	807,577	602,995	746,871	552,027
Amounts due to related companies	29	6,780	4,187	1,076	837
Dividend payable	11	85,261	85,261	48,261	–
Current income tax liabilities		17,540	39,527	218,679	95,885
Borrowings	27	812,992	662,628	206,529	74,386
Lease liabilities	16	25,534	24,021	26,325	30,781
		<u>2,701,993</u>	<u>2,103,842</u>	<u>1,775,851</u>	<u>1,147,836</u>
Total liabilities		<u>3,006,996</u>	<u>2,430,316</u>	<u>2,177,612</u>	<u>1,429,334</u>
Total equity and liabilities		<u>4,375,836</u>	<u>4,288,099</u>	<u>5,040,691</u>	<u>4,508,342</u>
Net current (liabilities)/assets		<u>(301,037)</u>	<u>348,882</u>	<u>1,354,856</u>	<u>1,452,695</u>
Total assets less current liabilities		<u>1,673,843</u>	<u>2,184,257</u>	<u>3,264,840</u>	<u>3,360,506</u>

BALANCE SHEETS OF THE COMPANY

	<i>Note</i>	<u>Year ended 31 December</u>			<u>As at</u>
		<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>30 June</u>
		<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>2020</u>
				<u>HK\$'000</u>	
ASSETS					
Non-current assets					
Investments in subsidiaries	13	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>
Current assets					
Dividend receivable	11	85,261	85,261	84,925	2,335,000
Deferred and prepayment for listing expenses	19	<u>–</u>	<u>–</u>	<u>–</u>	<u>4,148</u>
Total assets		<u>85,271</u>	<u>85,271</u>	<u>84,935</u>	<u>2,339,158</u>
EQUITY					
Equity attributable to owners of the Company					
Share capital	21	–	–	–	–
Retained earnings		<u>–</u>	<u>–</u>	<u>36,664</u>	<u>2,313,552</u>
Total equity		<u>–</u>	<u>–</u>	<u>36,664</u>	<u>2,313,552</u>
LIABILITIES					
Current liabilities					
Other payables		10	10	10	10
Dividend payable	11	85,261	85,261	48,261	–
Accruals and other payables	26	–	–	–	25,073
Amount due to a subsidiary	29	<u>–</u>	<u>–</u>	<u>–</u>	<u>523</u>
Total liabilities		<u>85,271</u>	<u>85,271</u>	<u>48,271</u>	<u>25,606</u>
Total equity and liabilities		<u>85,271</u>	<u>85,271</u>	<u>84,935</u>	<u>2,339,158</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company		
	Share capital	Reserves (Note 22)	Total equity
	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2017	–	1,193,637	1,193,637
Profit for the year	–	86,159	86,159
Other comprehensive income:			
Exchange differences	–	89,044	89,044
As at 31 December 2017	–	<u>1,368,840</u>	<u>1,368,840</u>
As at 1 January 2018	–	1,368,840	1,368,840
Profit for the year	–	553,985	553,985
Other comprehensive loss:			
Exchange differences	–	(65,042)	(65,042)
As at 31 December 2018	–	<u>1,857,783</u>	<u>1,857,783</u>
As at 1 January 2019	–	1,857,783	1,857,783
Profit for the year	–	1,079,617	1,079,617
Other comprehensive loss:			
Exchange differences	–	(74,321)	(74,321)
As at 31 December 2019	–	<u>2,863,079</u>	<u>2,863,079</u>
<i>(Unaudited)</i>			
As at 1 January 2019	–	1,857,783	1,857,783
Profit for the period	–	217,956	217,956
Other comprehensive loss:			
Exchange differences	–	(29,206)	(29,206)
As at 30 June 2019	–	<u>2,046,533</u>	<u>2,046,533</u>
As at 1 January 2020	–	2,863,079	2,863,079
Profit for the period	–	302,193	302,193
Other comprehensive loss:			
Exchange differences	–	(49,600)	(49,600)
Dividend declared and paid	–	(36,664)	(36,664)
As at 30 June 2020	–	<u>3,079,008</u>	<u>3,079,008</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
						(Unaudited)
Cash flows from operating activities						
Net cash generated from operations	28(a)	736,569	325,185	1,155,182	140,915	755,183
Interest received		3,126	6,218	5,652	2,154	4,136
Income tax paid		(36,581)	(82,386)	(128,410)	(49,553)	(232,411)
Net cash generated from operating activities		703,114	249,017	1,032,424	93,516	526,908
Cash flows from investing activities						
Acquisition of property, plant and equipment		(330,098)	(89,450)	(131,261)	(3,045)	(79,463)
Proceeds from disposal of property, plant and equipment	28(b)	21,848	–	10,587	1,425	431
Proceeds from disposal of right-of-use assets	28(c)	33,242	–	–	–	–
Acquisition of intangible assets		(15,689)	(31,996)	(65,561)	(5,933)	(9,551)
Increase in restricted cash		(2,762)	(16,774)	(8,244)	(3,474)	–
Release of restricted cash		36,936	–	976	1,997	7,374
Receipt of government grant in relation to land use rights		41,633	–	–	–	–
Net cash used in investing activities		(214,890)	(138,220)	(193,503)	(9,030)	(81,209)
Cash flows from financing activities						
Interest paid		(49,948)	(57,207)	(37,244)	(22,204)	(7,491)
Acquisition of right-of-use assets		–	–	(48,342)	–	(2,750)
Proceeds from borrowings		963,125	760,190	281,099	426,441	27,196
Repayments of borrowings		(1,020,826)	(840,581)	(726,813)	(518,934)	(287,722)
Payment for listing expenses		–	–	–	–	(25)
Dividend paid		–	–	(37,000)	(22,000)	(84,925)
Principal elements of lease payments		(25,754)	(28,161)	(30,578)	(15,802)	(16,807)
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		<u>547,436</u>	<u>467,967</u>	<u>690,064</u>	<u>383,934</u>	<u>753,442</u>

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1 General information**

Blue Moon Group Holdings Limited (the “Company”) is a limited liability company incorporated in the Cayman Islands on 27 December 2007. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company and its subsidiaries (together, the “Group”) is principally engaged in the design, research, development, manufacture and sale of (i) personal hygiene products, (ii) home care products, and (iii) fabric care products in the People’s Republic of China (the “PRC”).

Ms. Pan Dong is the ultimate controlling shareholder of the Company and Mr. Luo Qiu Ping, a director of the Company, is the husband of Ms. Pan Dong.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Historical Financial Information of the Group has been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The Historical Financial Information has been prepared under the historical cost convention.

The preparation of the Historical Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

The Group has adopted HKFRS 9, HKFRS 15 and HKFRS 16 using full retrospective approach with which the relevant accounting policies have been consistently applied to the Group’s consolidated financial statements throughout the Track Record Period.

New standard and amendments to existing standards that have been issued but are not effective and have not been early adopted by the Group

		Effective for annual periods beginning on or after
Amendment to HKFRS 16	COVID-19-related rent concessions	1 June 2020
HKFRS 17	Insurance contracts	1 January 2022
Amendments to Hong Kong Accounting Standards (“HKAS”) 3	Update reference to the conceptual framework	1 January 2022
Amendments to HKAS 16	Proceeds before intended use	1 January 2022
Amendments to HKAS 37	Onerous contracts – costs of fulfilling a contract	1 January 2022
Amendments to HKAS 1	Classification of liabilities as current or Non-current	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The directors of the Company are of the opinion that the adoption of the above new standard and amendments to existing standards would not have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions. The Group intends to adopt the above new standards and amendments to existing standards when they become effective.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Changes in ownership interests

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified or permitted by applicable HKFRSs.

2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividends exceed the total comprehensive income of the subsidiary in the period the dividends are declared or if the carrying amount of the investments in the separate financial statements exceed the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the Historical Financial Information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the majority of the Group's subsidiaries is Renminbi ("RMB"). The Historical Financial Information is presented in Hong Kong dollars, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

All foreign exchange gains and losses are presented in the consolidated statements of comprehensive income.

(c) Transactions and balances

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- (ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

2.6 Property, plant 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 the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their 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 (Note 2.9).

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

2.7 Construction-in-progress

Construction-in-progress represents buildings under construction and machineries and equipment under installation, which is stated at historical cost less accumulated impairment losses, if any. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are ready for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in Note 2.6 above.

2.8 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 the Group, 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.

Computer system 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 management's expectation on the technological lives of the systems, on a straight-line basis.

2.9 Impairment of non-financial assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.10 Financial assets

(a) Classification

The Group classifies its financial assets as debt instruments to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

Debt instruments held at amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in the consolidated statements of comprehensive income when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest method.

(d) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instrument carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Notes 3.1(c) and 18 for further details.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. There are also arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

2.12 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.

2.13 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. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 3.1(c) for further information about the Group's accounting for trade receivables and a description of the Group's impairment policies.

2.14 Cash and cash equivalents

For the purpose of presentation in the consolidated statements of cash flows, cash and cash equivalents include cash on hand and deposits held at call with financial institutions.

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated profit or loss in the period in which they are incurred.

2.18 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.

(a) 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 the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

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

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

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

Deferred tax assets and liabilities are offset 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.

Current and deferred tax is recognised 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.

2.19 Employee benefits

(a) Pension obligation

The Group participates in various defined contribution retirement benefit plans which are available to all relevant employees. These plans are generally funded through payments to schemes established by government or trustee-administered funds. A defined contribution plan is a pension plan under which the Group pays contributions on a mandatory, contractual or voluntary basis into a separate entity.

The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefit relating to employee service in the current and prior periods.

All contributions to pension plans are fully and immediately vested and the Group had no unvested benefits available to reduce its future contributions.

The Group also contributes on a monthly basis to various defined contribution plans and other employee social security plans, including pension, medical, other welfare benefits, organised and administered by the relevant governmental authorities in respect of its employees in the People's Republic of China (the "PRC"). The Group contributes to these plans based on certain percentages of the total salary of employees, subject to certain ceiling, as stipulated by the relevant regulations.

(b) Share-based compensation

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- i) including any market performance conditions (for example, an entity's share price);
- ii) excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

- iii) including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investments in subsidiaries undertakings, with a corresponding credit to equity.

(c) Bonus plans

The Group recognises a liability and an expense for bonuses. The Group recognises a provision where contractually obliged or where there is a past practise that has created a constructive obligation.

2.20 Provisions

Provisions are recognised when the Group has 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.

2.21 Revenue recognition

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

(a) 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 the Group has 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 practise. The Group's 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 rendered or products delivered by the Group 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 the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

(b) Interest income

Interest income is recognised using the effective interest method.

2.22 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the consolidated profit or loss over the period necessary to match them with the costs that they are intended to compensate. Government grants that compensate the Group for the cost of an asset are included in non-current liabilities as deferred income and are credited to the consolidated profit or loss on a straight-line basis over the expected useful lives of the related assets.

2.23 Leases

The Group leases various properties. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), less any lease incentives receivable (if any). The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate.

Lease payments are allocated between the principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability and any lease payments made at or before the commencement date less any lease incentives received. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in the consolidated profit or loss. Short-term leases are leases with a lease term of 12 months or less.

2.24 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks, including foreign exchange risk, interest rate risk, credit risk and liquidity risk. These risks are managed by the Group's financial management policies and practises described below.

(a) Foreign exchange risk

Majority of the subsidiaries of the Group 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 the financial structure and the current operations of the Group, no hedging activities are undertaken by management.

(b) Interest rate risk

The Group's interest rate risk mainly arises from interest-bearing borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk, while borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group has 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, profit before income tax for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020 would have been HK\$9,983,000, HK\$8,738,000, HK\$4,139,000, HK\$7,781,000 and HK\$1,479,000 lower/higher respectively, mainly as a result of higher/lower interest expense on borrowings with floating interest rates.

The Group regularly monitors its interest rate risk to ensure there are no undue exposures to significant interest rate movements.

(c) Credit risk**(i) Risk management**

The credit risk of the Group mainly arises from cash and bank balances, trade and bills receivables, deposits and other receivables (except for prepayments). The Group's 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. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The Group also has 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. The Group's 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 bills receivables of HK\$944,716,000, HK\$1,152,862,000 and HK\$1,761,838,000, and HK\$1,141,294,000 were due from companies operating under domestically well-known supermarkets, online platforms and certain wholesalers in the PRC. Loss allowances of HK\$16,073,000, HK\$9,922,000 and HK\$11,789,000, and HK\$18,248,000 have been provided for such trade and bills 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, majority of the cash and bank deposits of the Group are held in major financial institutions located in Hong Kong and the PRC, which management believes are of high credit quality. 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. The Group has no policy to limit the amount of credit exposure to any financial institutions.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

(ii) Impairment of financial assets

The Group has 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

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses 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	HK\$'000	HK\$'000
Individually assessed trade receivables	9,134	–	–	–
Loss allowance	<u>(9,134)</u>	<u>–</u>	<u>–</u>	<u>–</u>

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. The Group has identified the overall industry outlook and Gross Domestic Product (“GDP”) of the PRC in which it sells its goods to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Loss allowance in respect of these collectively assessed trade receivables amounted to approximately HK\$6,939,000, HK\$9,922,000 and HK\$11,789,000, and HK\$18,248,000 based on an average expected loss rate of approximately 0.7%, 0.9% and 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. The Group normally categorises 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.

(d) Liquidity risk

The Group's 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. The Group finances its working capital requirements through a combination of funds generated from operations and bank borrowings and takes into account all available information on future business environment including among others, the economic impact of the unprecedented COVID-19 on the economies of the countries in which the Group and its customers and suppliers operate.

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through adequate amount of committed credit facilities to meet its working capital requirements.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 Year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 31 December 2017					
Trade and bills payables	931,943	–	–	–	931,943
Accruals and other payables	645,071	–	–	–	645,071
Amounts due to related companies	6,780	–	–	–	6,780
Interest-bearing borrowings	900,656	77,416	73,911	–	1,051,983
Dividend payable	85,261	–	–	–	85,261
Lease liabilities	28,242	20,298	21,339	–	69,879
	<u>2,597,953</u>	<u>97,714</u>	<u>95,250</u>	<u>–</u>	<u>2,790,917</u>
As at 31 December 2018					
Trade and bills payables	664,721	–	–	–	664,721
Accruals and other payables	414,764	–	–	–	414,764
Amounts due to related companies	4,187	–	–	–	4,187
Interest-bearing borrowings	785,360	117,130	105,005	–	1,007,495
Dividend payable	85,261	–	–	–	85,261
Lease liabilities	26,084	15,370	14,301	1,115	56,870
	<u>1,980,377</u>	<u>132,500</u>	<u>119,306</u>	<u>1,115</u>	<u>2,233,298</u>
As at 31 December 2019					
Trade and bills payables	511,922	–	–	–	511,922
Accruals and other payables	531,084	–	–	–	531,084
Amounts due to related companies	1,076	–	–	–	1,076
Interest-bearing borrowings	326,961	130,665	44,576	–	502,202
Dividend payable	48,261	–	–	–	48,261
Lease liabilities	28,781	21,023	13,899	783	64,486
	<u>1,448,085</u>	<u>151,688</u>	<u>58,475</u>	<u>783</u>	<u>1,659,031</u>

	<u>Within 1 Year</u>	<u>Between 1 - 2 years</u>	<u>Between 2 - 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 30 June 2020					
Trade and bills payables	349,276	–	–	–	349,276
Accruals and other payables	419,828	–	–	–	419,828
Amounts due to related companies	837	–	–	–	837
Interest-bearing borrowings	84,181	35,836	61,790	–	181,807
Lease liabilities	<u>33,054</u>	<u>21,460</u>	<u>7,154</u>	<u>640</u>	<u>62,308</u>
	<u>887,176</u>	<u>57,296</u>	<u>68,944</u>	<u>640</u>	<u>1,014,056</u>

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, issue new shares or obtain funding through adequate amount of committed credit facilities.

3.3 Fair value estimation

The carrying amounts of the Group's financial assets, including cash and cash equivalents, trade and bills receivables, restricted cash, deposits and other receivables, and the Group's financial liabilities, including trade and bills payables, accruals and other payables, borrowings, dividend payable, lease liabilities and amounts due to related companies, approximate their fair values.

The nominal values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair values of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

4 Critical estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4.1 Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated cost to completion and selling expenses. These estimates are based on the current market

condition and the historical experience of manufacturing and selling products of similar nature. Management reassesses the estimation at the end of each reporting period.

4.2 Estimated useful lives of property, plant and equipment and intangible assets

The Group's management determines the estimated useful lives and related depreciation and amortisation charges for its 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. The 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.

4.3 Impairment of financial assets

The impairment for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in Note 3.1(c).

4.4 Current and deferred income tax

The Group is 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.

Deferred income tax assets relating to certain temporary differences are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences can be utilised. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

4.5 Provision for sales return

The Group uses the probability of sales return to account for its 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 and 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.

5 Revenue and segment information

The chief operating decision-maker ("CODM") has been identified as the executive directors of the Group. The CODM reviews the performance of the Group on a regular basis.

As substantial business operations of the Group relate to the manufacturing, selling and distribution of cleaning products, the CODM makes decisions about resources allocation and performance assessment based on the entity-wide consolidated financial information. Accordingly, there is only one single operating segment for the Group qualified as reportable segment under HKFRS 8. No separate segmental analysis is presented in the Historical Financial Information.

(a) **Revenue from external customers**

Revenue from the sales of finished goods recognised is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(Unaudited)</i>	
Revenue recognised at a point in time:					
Personal hygiene products	328,021	410,616	418,545	180,051	465,602
Home care products	381,553	440,052	453,747	175,948	288,859
Fabric care products	<u>4,922,459</u>	<u>5,917,277</u>	<u>6,177,613</u>	<u>2,364,351</u>	<u>1,681,407</u>
	<u>5,632,033</u>	<u>6,767,945</u>	<u>7,049,905</u>	<u>2,720,350</u>	<u>2,435,868</u>

Revenue from external parties contributing 10% or more of the total revenue of the Group is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(Unaudited)</i>	
Customer A	904,884	900,111	1,014,095	548,004	554,913
Customer B	<u>N/A</u>	<u>N/A</u>	<u>961,014</u>	<u>426,886</u>	<u>315,435</u>
Total	<u>904,884</u>	<u>900,111</u>	<u>1,975,109</u>	<u>974,890</u>	<u>870,348</u>

Except for customers A and B, no other customer individually contributed to more than 10% of the Group's total revenue for the Track Record Period.

During the years ended 31 December 2017 and 2018, the revenue generated by customer B was below 10% of the Group's total revenue.

Following the outbreak of COVID-19 pandemic in early 2020, certain customers of the Group encountered difficulties in selling the goods purchased from the Group prior to COVID-19 pandemic, i.e. before 31 December 2019, and requested for return of goods to the Group. Taking into consideration of long term business relationship, the Group has agreed to accept return of unsold products from certain customers on a one-off basis. Accordingly, returned goods with sales

There was no revenue recognised during the years ended 31 December 2017, 2018 and 2019 and six months ended 30 June 2019 and 2020 from performance obligations satisfied in prior years of each of the respective year.

Amount of transaction price from unsatisfied performance obligation as at 31 December 2017, 2018 and 2019 and 30 June 2020 was equivalent to the contract liabilities as at each of the respective year/period dates. Management expects 100% of the contract liabilities balance as at 30 June 2020 will be recognised as revenue during the next financial year (approximately HK\$44,644,000). The balance mainly represents receipts in advance from wholesale customers. The balances decreased from HK\$86,679,000 in 2017 to HK\$14,366,000 in 2018 due to the shifting of customer base from offline sale channels' customers (including wholesalers) to online sale channels' customers (i.e. E-commerce customers), for which no payment in advance is required. For the six months ended 30 June 2020, the balance increased from HK\$16,188,000 to HK\$44,644,000 due to seasonality factor.

6 Other income and other gains, net

	Year ended 31 December			Six months ended	
				30 June	
	2017	2018	2019	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(Unaudited)</i>	
Government grants (Note)	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 (Note 28(c))	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)
	<u>23,097</u>	<u>37,446</u>	<u>51,522</u>	<u>34,673</u>	<u>39,768</u>

Note: The government grants represent the amortisation of deferred government grant of approximately HK\$583,000, HK\$1,420,000, HK\$1,340,000, HK\$670,000 and HK\$797,000 and operating subsidies of approximately HK\$6,970,000, HK\$34,512,000, HK\$39,151,000, HK\$29,574,000 and HK\$36,575,000 for the year ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020 respectively. Management does not consider that there were any significant unfulfilled conditions or other contingencies attached to these operating subsidies.

7 Expenses by nature

	Year ended 31 December			Six months ended	
				30 June	
	2017	2018	2019	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(Unaudited)
Cost of raw materials consumed	2,096,388	2,611,150	2,059,549	801,453	818,137
Changes in inventories of finished goods and work in progress	261,230	8,360	218,739	134,525	(61,995)
Manufacturing overheads (excluding depreciation)	11,567	15,028	11,574	7,093	7,982
Provision for/(reversal of) impairment loss of inventory	28,927	(33,605)	–	–	–
Inventory written off	38,347	25,329	–	–	4,962
Employee benefits expense (Note 8)	1,461,299	1,844,605	1,668,697	813,866	585,688
Advertising expenses	499,023	422,360	404,659	120,923	107,627
Promotion expenses	214,870	281,146	294,912	119,426	151,294
Transportation expenses	391,923	406,565	452,588	187,876	198,833
Other tax expenses	78,753	85,262	76,182	32,264	28,974
Rental expenses related to short term leases	22,338	27,132	23,183	10,956	11,146
Depreciation of property, plant and equipment (Note 15)	94,917	108,367	102,674	53,085	52,121
Depreciation of right-of-use assets (Note 16)	35,101	43,831	36,023	18,227	20,927
Amortisation of intangible assets (Note 14)	16,475	23,062	15,213	7,133	12,849
Auditor's remuneration	2,359	2,405	3,075	1,782	1,825
Travelling expenses	55,295	52,248	59,756	28,056	14,376
Motor expenses	19,548	14,248	13,260	5,836	4,550
Consumables	9,642	8,122	9,271	2,658	2,678
Office expenses	4,822	4,629	3,281	1,770	1,894
Recruitment fee	5,204	7,379	6,649	2,947	937
Utility expenses	28,965	27,880	26,265	11,823	11,448
Consulting fee	26,360	22,614	26,694	10,966	9,760
Maintenance expenses	11,026	3,061	14,579	6,612	7,598
Loss/(gain) on disposals of plant and equipment, net	1,057	–	(298)	(443)	293
(Gain)/loss on disposals of property, net	(152)	–	376	–	–
Property, plant and equipment written off	–	3,438	–	–	–
Listing expenses	–	–	–	–	21,448
Others	66,546	47,774	70,882	29,438	24,453
	<u>5,481,830</u>	<u>6,062,390</u>	<u>5,597,783</u>	<u>2,408,272</u>	<u>2,039,805</u>

8 Employee benefits expense (including directors' emoluments)

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(Unaudited)</i>	
Wages, salaries and allowances	763,387	1,005,935	764,028	368,538	365,180
Bonuses and commission	416,098	478,302	628,718	308,459	136,895
Contributions to social security plans	245,812	327,166	241,653	123,449	66,468
Other benefits	36,002	33,202	34,298	13,420	17,145
	<u>1,461,299</u>	<u>1,844,605</u>	<u>1,668,697</u>	<u>813,866</u>	<u>585,688</u>

All local employees of the subsidiaries in the PRC participate in mandatory employee social security plans pursuant to the regulations enacted in the PRC, which cover pension, medical and other welfare benefits. The plans are organised and administered by the government authorities. Apart from welfare benefits provided by these social security plans, the Group has no other material commitments owing to the employees. According to the relevant regulations, the portion of premium and welfare benefit contributions that should be borne by the companies within the Group as required by the above social security plans are principally determined based on a percentage of the monthly compensation of employees, subject to certain ceilings, and are paid to the respective labour and social welfare authorities. Contributions to these plans are expensed as incurred.

The Group's Hong Kong subsidiaries' contributions to the Mandatory Provident Fund Scheme in Hong Kong are expensed as incurred. Both the employers and employees in Hong Kong are required to contribute 5% of each individual's relevant income with a maximum amount of HK\$1,500 per month as a mandatory contribution. The assets of the scheme are held separately from those of the Group and managed by independent professional fund managers.

Employee benefits expense has been charged to the consolidated statements of comprehensive income as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(Unaudited)</i>	
Cost of sales	122,680	158,481	143,415	59,581	64,440
Selling and distribution expenses	867,602	1,313,357	1,062,752	550,743	316,302
General and administrative expenses	471,017	372,767	462,530	203,542	204,946
	<u>1,461,299</u>	<u>1,844,605</u>	<u>1,668,697</u>	<u>813,866</u>	<u>585,688</u>

(a) Five highest paid individuals

For each of the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, the five individuals whose emoluments were the highest in the Group consist of 1, 1, 2, and 2 and 3 directors respectively, the employee benefits expenses in relation to the remaining 4, 4, 3, and 3 and 2 highest paid individuals are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(Unaudited)</i>	
Basic salaries and allowances	5,141	9,105	7,315	3,349	2,919
Discretionary bonuses	7,472	8,853	13,026	2,453	467
Employer's contribution to defined contribution plan	367	356	272	121	67
	<u>12,980</u>	<u>18,314</u>	<u>20,613</u>	<u>5,923</u>	<u>3,453</u>

The emoluments of the above individuals fell within the following bands during each of the years ended 31 December 2017, 2018 and 2019 and six months ended 30 June 2019 and 2020:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
				<i>(Unaudited)</i>	
Nil – HK\$1,000,000	–	–	–	–	–
HK\$1,000,001 – HK\$2,000,000	–	–	–	2	1
HK\$2,000,001 – HK\$5,000,000	4	2	2	1	1
HK\$5,000,001 – HK\$10,000,000	–	2	–	–	–
HK\$10,000,001 – HK\$15,000,000	–	–	1	–	–
	<u>–</u>	<u>–</u>	<u>1</u>	<u>–</u>	<u>–</u>

No incentive payment for joining the Group or compensation for loss of office was paid or payable to any of the five highest paid individuals during each of the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020.

(b) Directors' emoluments

The emoluments of individual directors of the Company are set out as below:

<u>For the year ended</u>	<u>Basic salaries and allowances</u> <i>HK\$'000</i>	<u>Discretionary bonuses</u> <i>HK\$'000</i>	<u>Employer's contribution to a retirement benefit scheme</u> <i>HK\$'000</i>	<u>Total</u> <i>HK\$'000</i>
31 December 2017				
Executive directors				
Ms. Pan Dong	700	–	18	718
Mr. Luo Qiu Ping (<i>Chief Executive Officer</i>)	995	–	–	995
Ms. Luo Dong	<u>5,687</u>	<u>3,744</u>	<u>87</u>	<u>9,518</u>
	<u>7,382</u>	<u>3,744</u>	<u>105</u>	<u>11,231</u>
31 December 2018				
Executive directors				
Ms. Pan Dong	600	300	18	918
Mr. Luo Qiu Ping (<i>Chief Executive Officer</i>)	995	–	–	995
Ms. Luo Dong	<u>5,602</u>	<u>4,076</u>	<u>90</u>	<u>9,768</u>
	<u>7,197</u>	<u>4,376</u>	<u>108</u>	<u>11,681</u>
31 December 2019				
Executive directors				
Ms. Pan Dong	700	300	18	1,018
Mr. Luo Qiu Ping (<i>Chief Executive Officer</i>)	6,502	13,715	18	20,235
Ms. Luo Dong	<u>7,539</u>	<u>5,034</u>	<u>92</u>	<u>12,665</u>
	<u>14,741</u>	<u>19,049</u>	<u>128</u>	<u>33,918</u>

<u>For the six months ended</u>	<u>Basic salaries and allowances</u> <i>HK\$'000</i>	<u>Discretionary bonuses</u> <i>HK\$'000</i>	<u>Employer's contribution to a retirement benefit scheme</u> <i>HK\$'000</i>	<u>Total</u> <i>HK\$'000</i>
30 June 2019 (Unaudited)				
Executive directors				
Ms. Pan Dong	340	–	9	349
Mr. Luo Qiu Ping (<i>Chief Executive Officer</i>)	3,280	–	9	3,289
Ms. Luo Dong	<u>2,823</u>	–	<u>41</u>	<u>2,864</u>
	<u>6,443</u>	–	<u>59</u>	<u>6,502</u>
<u>For the six months ended</u>	<u>Basic salaries and allowances</u> <i>HK\$'000</i>	<u>Discretionary bonuses</u> <i>HK\$'000</i>	<u>Employer's contribution to a retirement benefit scheme</u> <i>HK\$'000</i>	<u>Total</u> <i>HK\$'000</i>
30 June 2020				
Executive directors				
Ms. Pan Dong	360	–	9	369
Mr. Luo Qiu Ping (<i>Chief Executive Officer</i>)	3,184	–	–	3,184
Ms. Luo Dong	3,715	–	26	3,741
Mr. Poon Kwok Leung (Appointed on 22 June 2020)	–	–	–	–
Ms. Xiao Hai Shan (Appointed on 22 June 2020)	–	–	–	–
	<u>7,259</u>	–	<u>35</u>	<u>7,294</u>
30 June 2020				
Non-Executive directors				
Mr. Cai Wei (Appointed on 22 June 2020)	–	–	–	–
30 June 2020				
Independent Non-Executive directors				
Mr. Bruno Robert Mercier (Appointed on 22 June 2020)	–	–	–	–
Ms. Ngai Edith Manling (Appointed on 22 June 2020)	–	–	–	–
Mr. Hu Yebi (Appointed on 22 June 2020)	–	–	–	–
	–	–	–	–

No emoluments were paid by the Group to any of the directors, supervisors or senior management as an inducement to join or upon joining the Group or as compensation for loss of office during the Track Record Period.

No emoluments, retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable as at 31 December 2017, 2018 and 2019 and 30 June 2020. No consideration was provided to or received by third parties for making available directors' services during the Track Record Period.

There are no loans, quasi-loans or other dealings in favour of directors, their controlled bodies corporate and connected entities.

Saved as disclosed elsewhere in Note 29 to the Historical Financial Information, no other significant transactions, arrangements and contracts in relation to the Group's business to which the Group was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at 31 December 2017, 2018 and 2019 and 30 June 2020 or at any time during the Track Record Period.

None of the directors of the Company waived any emoluments.

Mr. Poon Kwok Leung and Ms. Xiao Hai Shan were appointed as the Company's executive directors on 22 June 2020. During the Track Record Period, the directors consider the remuneration paid or payable to Mr. Poon Kwok Leung and Ms. Xiao Hai Shan in respect of their services as directors is immaterial.

Mr. Cao Wei was appointed as the Company's non-executive director on 22 June 2020. During the Track Record Period, such non-executive director has not been appointed and did not received any remuneration.

Mr. Bruno Robert Mercier, Ms. Ngan Edith Manling, Mr. Hu Yebi were appointed as the Company's independent non-executive directors on 22 June 2020. During the Track Record Period, such independent non-executive directors have not been appointed and did not received any remuneration.

9 Finance income and costs

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Finance income					
– Interest income on bank deposits	<u>3,126</u>	<u>6,218</u>	<u>5,652</u>	<u>2,154</u>	<u>4,136</u>
Finance costs					
– interest expenses on bank borrowings	(47,049)	(53,876)	(34,010)	(20,677)	(5,699)
– interest expenses on lease liabilities	<u>(2,899)</u>	<u>(3,331)</u>	<u>(3,234)</u>	<u>(1,527)</u>	<u>(1,792)</u>
	(49,948)	(57,207)	(37,244)	(22,204)	(7,491)
– amount capitalised (Note 15)	<u>2,825</u>	<u>3,752</u>	<u>5,056</u>	<u>1,876</u>	<u>2,788</u>
	<u>(47,123)</u>	<u>(53,455)</u>	<u>(32,188)</u>	<u>(20,328)</u>	<u>(4,703)</u>
Finance costs, net	<u>(43,997)</u>	<u>(47,237)</u>	<u>(26,536)</u>	<u>(18,174)</u>	<u>(567)</u>

10 Income tax expense

The amount of income tax charged to the consolidated profit or loss is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Current income tax					
– PRC corporate income tax	25,999	103,750	313,482	58,592	110,470
Deferred income tax expense (Note 24)	<u>1,072</u>	<u>44,180</u>	<u>82,142</u>	<u>52,255</u>	<u>16,142</u>
Income tax expense	<u>27,071</u>	<u>147,930</u>	<u>395,624</u>	<u>110,847</u>	<u>126,612</u>

(a) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Company and its subsidiaries have no assessable profit arising in or deriving from Hong Kong during the years ended 31 December 2017, 2018 and 2019 and six months ended 30 June 2019 and 2020.

(b) PRC corporate income tax (“CIT”)

Current income tax expense primarily represents the provision for CIT for subsidiaries operating in the PRC. These subsidiaries are subject to CIT on their taxable income as reported in their respective statutory financial statements in accordance with the relevant tax laws and regulations in the PRC.

Guangzhou Blue Moon Industrial Co., Ltd. has been qualified as a New and Hi-Tech Enterprise (“NHTE”) and enjoyed a preferential income tax rate of 15% since 2014, which is subject to review and renewal every three years. The NHTE Certificate remains valid for 3 years from November 2017 to November 2020. As the management considered that Guangzhou Blue Moon Industrial Co., Ltd. will not renew the certificate after expiration date, the standard income tax rate of 25% will be adopted in 2020.

Blue Moon (Chongqing) Co., Ltd. has been qualified as a Western Region Encouragement Industrial Enterprise and enjoyed a preferential income tax rate of 15% since 2017, which is subject to review and renewal by the local government.

The tax on the Group’s profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the Group for the Track Record Period is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(Unaudited)</i>	
Profit before income tax	113,230	701,915	1,475,241	328,803	428,805
Expected tax calculated at the weighted average applicable tax rate	22,041	171,969	332,972	67,038	106,228
Changes in applicable tax rate	–	–	(18,560)	–	–
Expenses not deductible for tax purposes (Note (i))	2,796	31,802	8,038	971	481
Effect of super-deduction for research and development expenses	(1,837)	(3,845)	(4,789)	(2,416)	(4,436)
Losses for which no deferred tax assets were recognised	1,526	1,348	1,424	2,100	1,289
Utilisation of previously unrecognised tax losses	–	(65,080)	–	–	–
Withholding tax on unremitted earnings	2,545	11,736	76,539	43,154	23,050
Income tax expense	<u>27,071</u>	<u>147,930</u>	<u>395,624</u>	<u>110,847</u>	<u>126,612</u>

13 Investments in subsidiaries

The Company

	As at 31 December			As at
	2017	2018	2019	30 June
	HK\$'000	HK\$'000	HK\$'000	2020
Investment, at cost				HK\$'000
– Unlisted shares	10	10	10	10

The following is a list of subsidiaries held by the Company as at 31 December 2017, 2018 and 2019 and 30 June 2020:

Name	Place and date of incorporation/ establishment and kind of legal entity	Principal activities/ place of principal activities	Particulars of registered/ issued capital	Effective interest held			
				31 December 2017	2018	2019	30 June 2020

Directly held:

Blue Moon (BVI) Limited	British Virgin Islands, 12 November 2007, limited liability company	Investment holding, Hong Kong	HK\$50,000/ HK\$10,000	100%	100%	100%	100%
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Name	Place and date of incorporation/ establishment and kind of legal entity	Principal activities/ place of principal activities	Particulars of registered/ issued capital	Effective interest held				Note
				2017	2018	2019	2020	
Indirectly held:								
Blue Moon Group Limited 藍月亮國際集團有限公司	Hong Kong, 24 November 1994, limited liability company	Investment holding, Hong Kong	HK\$427,488,000/ HK\$427,488,000	100%	100%	100%	100%	(g)
Guangzhou Blue Moon Industrial Co., Ltd.* (廣州藍月亮實業有限公司)	The PRC, 9 January 2001, limited liability company	Design, research, development and manufacturing of cleaning products, the PRC	US\$20,000,000/ US\$20,000,000	100%	100%	100%	100%	(b)
Blue Moon (Tianjin) Co., Ltd.* (藍月亮(天津)有限公司)	The PRC, 6 January 2010, limited liability company	Design, research, development and manufacturing of cleaning products, the PRC	US\$36,000,000/ US\$30,000,000	100%	100%	100%	100%	(c)
Blue Moon (China) Co., Ltd.* (藍月亮(中國)有限公司)	The PRC, 18 January 2011, limited liability company	Design, research, development and manufacturing of cleaning products, the PRC	US\$22,008,062/ US\$22,008,062	100%	100%	100%	100%	(a)

Name	Place and date of incorporation/ establishment and kind of legal entity	Principal activities/ place of principal activities	Particulars of registered/issued capital	Effective interest held				Note
				31 December		30 June		
				2017	2018	2019	2020	
Blue Moon (Kunshan) Co., Ltd.* (藍月亮(昆山)實業有限公司)	The PRC, 3 December 2013, limited liability company	Design, research, development and manufacturing of cleaning products, the PRC	US\$50,000,000/ US\$28,700,100	100%	100%	100%	100%	(d)
Villa La Luna Group Limited (月亮小屋國際集團有限公司)	Hong Kong, 3 March 2014, limited liability company	Investment holding, Hong Kong	HK\$10,000/ HK\$10,000	100%	100%	100%	100%	(g)
Xingshuo (Guangzhou) Industrial Co., Ltd.* (星朔(廣州)實業有限公司)	The PRC, 26 September 1997, limited liability company	Biotechnology development services and production, the PRC	US\$1,250,000/ US\$1,250,000	100%	100%	100%	100%	(f)
Blue Moon (Chongqing) Co., Ltd.* (藍月亮(重慶)有限公司)	The PRC, 30 July 2015, limited liability company	Design, research, development and manufacturing of cleaning products, the PRC	US\$30,000,000/ US\$19,180,000	100%	100%	100%	100%	(e)
Indirectly held: Blue Moon (Guangzhou) Co., Ltd.* (藍月亮(廣州)有限公司)	The PRC, 8 July 2016, limited liability company	Design, research, development and manufacturing of cleaning products, the PRC	US\$84,000,000/ US\$17,224,464	100%	100%	100%	100%	(h)
Villa La Luna (China) Co., Ltd.* (月亮小屋(中國)有限公司)	The PRC, 30 June 2014, limited liability company	Laundry services, the PRC	US\$16,800,000/ US\$2,500,010	100%	100%	100%	100%	(a)
Blue Moon (Guangzhou) Washing Technology Co., Ltd.* (藍月亮(廣州)洗滌科技有限公司)	The PRC, 10 November 2015, limited liability company	Laundry technology and service, the PRC	RMB10,000,000/ RMB10,000,000	100%	100%	100%	100%	(i)
Moon House (Shenzhen) Data Technology Co., Ltd.* (月亮小屋(深圳)數據技術有限公司)	The PRC, 10 November 2015, limited liability company	Data technology and service, the PRC	HK\$10,000,000/ HK\$6,000,200	100%	100%	100%	100%	(h)
Moon House (Nantong) Washing Co., Ltd.* (月亮小屋(南通)洗滌有限公司)	The PRC, 8 January 2019, limited liability company	Washing services, the PRC	RMB8,000,000/ RMB60,000	100%	100%	100%	100%	(j)
Chengdu Moon House Washing Co., Ltd.* (成都月亮小屋洗滌有限公司)	The PRC, 4 January 2016, limited liability company	Washing services, the PRC	RMB8,000,000/ RMB8,000,000	100%	100%	100%	100%	(h)

Name	Place and date of incorporation/ establishment and kind of legal entity	Principal activities/ place of principal activities	Particulars of registered/issued capital	Effective interest held				Note
				31 December		30 June		
				2017	2018	2019	2020	
Guangzhou Moon House Washing Co., Ltd.* (廣州月亮小屋洗滌有限公司)	The PRC, 11 August 2015, limited liability company	Washing services, the PRC	RMB50,000/Nil	100%	100%	100%	100%	(h)

* English translation is for identification purpose only

- (a) The statutory financial statements of these subsidiaries for the years ended 31 December 2017, 2018 and 2019 were audited by Zhong Tian Yun Certified Public Accountants.
- (b) The statutory financial statements of this subsidiary for the years ended 31 December 2017, 2018 and 2019 were audited by Guangzhou Zhenyang Certified Public Accountants.
- (c) The statutory financial statements of this subsidiary for the year ended 31 December 2017, 2018 and 2019 were audited by Tianjin Zhongshen United Certified Public Accountants.
- (d) The statutory financial statements of this subsidiary for the year ended 31 December 2017, 2018 and 2019 were audited by Suzhou Hua Ming United Certified Public Accountants.
- (e) The statutory financial statements of this subsidiary for the year ended 31 December 2017, 2018 and 2019 were audited by Chongqing Kanghua Certified Public Accountants.
- (f) The statutory financial statements of this subsidiary for the year ended 31 December 2017, 2018 and 2019 were audited by Guangzhou Haocheng Certified Public Accountants Co., Ltd.
- (g) The statutory financial statements of this subsidiary for the year ended 31 December 2017, 2018 and 2019 were audited by PricewaterhouseCoopers.
- (h) No audited financial statements were required for the years ended 31 December 2017, 2018 and 2019. These companies were in small-scale with limited business activities.
- (i) No audited financial statement was required for the year ended 31 December 2017 since the subsidiary was in small scale with limited business activity. The statutory financial statements of this subsidiary for the year ended 31 December 2018 and 2019 were audited by Zhong Tian Yun Certified Public Accountants.
- (j) No audited financial statements were required for the year end 31 December 2017, 2018 and 2019. The subsidiary is incorporated on 8 January 2019.

14 Intangible assets

	Trademarks and patents	Computer software and development cost	Computer system under development	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2017				
Cost	41,563	106,734	23,118	171,415
Accumulated amortisation	(32,789)	(47,122)	—	(79,911)
Net book amount	<u>8,774</u>	<u>59,612</u>	<u>23,118</u>	<u>91,504</u>

	Trademarks and patents	Computer software and development cost	Computer system under development	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2017				
Opening net book amount	8,774	59,612	23,118	91,504
Additions	–	15,442	247	15,689
Transfer	–	11,781	(11,781)	–
Amortisation	(4,423)	(12,052)	–	(16,475)
Exchange differences	454	4,771	1,200	6,425
	<u>4,805</u>	<u>79,554</u>	<u>12,784</u>	<u>97,143</u>
Closing net book amount	<u>4,805</u>	<u>79,554</u>	<u>12,784</u>	<u>97,143</u>
As at 31 December 2017				
Cost	44,477	142,434	12,784	199,695
Accumulated amortisation	(39,672)	(62,880)	–	(102,552)
	<u>4,805</u>	<u>79,554</u>	<u>12,784</u>	<u>97,143</u>
Net book amount	<u>4,805</u>	<u>79,554</u>	<u>12,784</u>	<u>97,143</u>
Year ended 31 December 2018				
Opening net book amount	4,805	79,554	12,784	97,143
Additions	900	6,266	24,830	31,996
Transfer	–	35,283	(35,283)	–
Amortisation	(4,171)	(18,891)	–	(23,062)
Exchange differences	(40)	(4,303)	(955)	(5,298)
	<u>1,494</u>	<u>97,909</u>	<u>1,376</u>	<u>100,779</u>
Closing net book amount	<u>1,494</u>	<u>97,909</u>	<u>1,376</u>	<u>100,779</u>
As at 31 December 2018				
Cost	43,232	176,354	1,376	220,962
Accumulated amortisation	(41,738)	(78,445)	–	(120,183)
	<u>1,494</u>	<u>97,909</u>	<u>1,376</u>	<u>100,779</u>
Net book amount	<u>1,494</u>	<u>97,909</u>	<u>1,376</u>	<u>100,779</u>
Year ended 31 December 2019				
Opening net book amount	1,494	97,909	1,376	100,779
Additions	25	4,849	60,687	65,561
Amortisation	(204)	(15,009)	–	(15,213)
Exchange differences	(42)	(3,441)	(701)	(4,184)
	<u>1,273</u>	<u>84,308</u>	<u>61,362</u>	<u>146,943</u>
Closing net book amount	<u>1,273</u>	<u>84,308</u>	<u>61,362</u>	<u>146,943</u>

	<u>Trademarks and patents</u>	<u>Computer software and development cost</u>	<u>Computer system under development</u>	<u>Total</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 31 December 2019				
Cost	42,296	176,098	61,362	279,756
Accumulated amortisation	<u>(41,023)</u>	<u>(91,790)</u>	<u>–</u>	<u>(132,813)</u>
Net book amount	<u>1,273</u>	<u>84,308</u>	<u>61,362</u>	<u>146,943</u>
<i>(Unaudited)</i>				
Six months ended 30 June 2019				
Opening net book amount	1,494	97,909	1,376	100,779
Additions	–	1,475	4,458	5,933
Amortisation	(106)	(7,027)	–	(7,133)
Exchange differences	<u>(6)</u>	<u>(694)</u>	<u>(14)</u>	<u>(714)</u>
Closing net book amount	<u>1,382</u>	<u>91,663</u>	<u>5,820</u>	<u>98,865</u>
As at 30 June 2019				
Cost	43,061	176,814	5,820	225,695
Accumulated amortisation	<u>(41,679)</u>	<u>(85,151)</u>	<u>–</u>	<u>(126,830)</u>
Net book amount	<u>1,382</u>	<u>91,663</u>	<u>5,820</u>	<u>98,865</u>
Six months ended 30 June 2020				
Opening net book amount	1,273	84,308	61,362	146,943
Additions	238	305	9,008	9,551
Transfer	–	32,480	(32,480)	–
Amortisation	(106)	(12,743)	–	(12,849)
Exchange differences	<u>(53)</u>	<u>(3,175)</u>	<u>(957)</u>	<u>(4,185)</u>
Closing net book amount	<u>1,352</u>	<u>101,175</u>	<u>36,933</u>	<u>139,460</u>
As at 30 June 2020				
Cost	41,688	205,279	36,933	283,900
Accumulated amortisation	<u>(40,336)</u>	<u>(104,104)</u>	<u>–</u>	<u>(144,440)</u>
Net book amount	<u>1,352</u>	<u>101,175</u>	<u>36,933</u>	<u>139,460</u>

The 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 the Group's internal use to support the 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. the 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 the Group.

15 Property, plant and equipment

	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction -in-progress	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 January 2017							
Cost	513,727	12,078	422,657	104,598	24,623	103,852	1,181,535
Accumulated depreciation	<u>(38,957)</u>	<u>(10,864)</u>	<u>(147,104)</u>	<u>(43,995)</u>	<u>(12,074)</u>	–	<u>(252,994)</u>
Net book amount	<u>474,770</u>	<u>1,214</u>	<u>275,553</u>	<u>60,603</u>	<u>12,549</u>	<u>103,852</u>	<u>928,541</u>
Year ended 31 December 2017							
Opening net book amount	474,770	1,214	275,553	60,603	12,549	103,852	928,541
Additions	734	–	10,155	16,427	3,178	204,337	234,831
Disposals	(14,636)	–	(6,270)	(1,847)	–	–	(22,753)
Transfer	133,398	–	80,885	6,475	–	(220,758)	–
Depreciation	(12,953)	(867)	(62,691)	(16,346)	(2,060)	–	(94,917)
Exchange differences	<u>36,583</u>	<u>53</u>	<u>19,998</u>	<u>4,419</u>	<u>827</u>	<u>6,318</u>	<u>68,198</u>
Closing net book amount	<u>617,896</u>	<u>400</u>	<u>317,630</u>	<u>69,731</u>	<u>14,494</u>	<u>93,749</u>	<u>1,113,900</u>
As at 31 December 2017							
Cost	672,532	12,857	531,412	132,312	29,238	93,749	1,472,100
Accumulated depreciation	<u>(54,636)</u>	<u>(12,457)</u>	<u>(213,782)</u>	<u>(62,581)</u>	<u>(14,744)</u>	–	<u>(358,200)</u>
Net book amount	<u>617,896</u>	<u>400</u>	<u>317,630</u>	<u>69,731</u>	<u>14,494</u>	<u>93,749</u>	<u>1,113,900</u>

	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction -in-progress	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended							
31 December							
2018							
Opening net book amount	617,896	400	317,630	69,731	14,494	93,749	1,113,900
Additions	1,739	–	17,618	11,142	–	147,666	178,165
Write-off	(293)	–	(1,705)	(1,440)	–	–	(3,438)
Transfer	148,606	–	70,558	5,337	–	(224,501)	–
Depreciation	(18,821)	–	(68,659)	(18,721)	(2,166)	–	(108,367)
Exchange differences	(30,632)	(3)	(19,611)	(2,713)	(523)	(2,493)	(55,975)
Closing net book amount	<u>718,495</u>	<u>397</u>	<u>315,831</u>	<u>63,336</u>	<u>11,805</u>	<u>14,421</u>	<u>1,124,285</u>
As at 31 December							
2018							
Cost	797,335	11,469	584,844	136,771	28,209	14,421	1,573,049
Accumulated depreciation	(78,840)	(11,072)	(269,013)	(73,435)	(16,404)	–	(448,764)
Net book amount	<u>718,495</u>	<u>397</u>	<u>315,831</u>	<u>63,336</u>	<u>11,805</u>	<u>14,421</u>	<u>1,124,285</u>

	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction -in-progress	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended							
31 December							
2019							
Opening net book amount	718,495	397	315,831	63,336	11,805	14,421	1,124,285
Additions	456	–	9,895	11,873	4,719	207,787	234,730
Disposals	(376)	–	(6,187)	(3,780)	(322)	–	(10,665)
Transfer	18,444	–	37,106	3,536	–	(59,086)	–
Depreciation	(18,215)	(393)	(64,017)	(17,486)	(2,563)	–	(102,674)
Exchange differences	(15,396)	(4)	(13,759)	(3,270)	(207)	(1,949)	(34,585)
Closing net book amount	<u>703,408</u>	<u>–</u>	<u>278,869</u>	<u>54,209</u>	<u>13,432</u>	<u>161,173</u>	<u>1,211,091</u>
As at 31 December							
2019							
Cost	798,510	11,244	591,560	140,839	28,338	161,173	1,731,664
Accumulated depreciation	(95,102)	(11,244)	(312,691)	(86,630)	(14,906)	–	(520,573)
Net book amount	<u>703,408</u>	<u>–</u>	<u>278,869</u>	<u>54,209</u>	<u>13,432</u>	<u>161,173</u>	<u>1,211,091</u>
<i>(Unaudited)</i>							
Six months ended							
30 June 2019							
Opening net book amount	718,495	397	315,831	63,336	11,805	14,421	1,124,285
Additions	–	–	1,279	5,680	2,356	78,788	88,103
Disposals	–	–	(649)	(67)	(266)	–	(982)
Transfer	15,703	–	18,618	856	–	(35,177)	–
Depreciation	(9,200)	(200)	(33,394)	(8,825)	(1,466)	–	(53,085)
Exchange differences	(9,647)	(4)	(6,077)	(534)	(37)	(141)	(16,440)
Closing net book amount	<u>715,351</u>	<u>193</u>	<u>295,608</u>	<u>60,446</u>	<u>12,392</u>	<u>57,891</u>	<u>1,141,881</u>
As at 30 June 2019							
Cost	803,072	11,425	588,770	141,576	26,325	57,891	1,629,059
Accumulated depreciation	(87,721)	(11,232)	(293,162)	(81,130)	(13,933)	–	(487,178)
Net book amount	<u>715,351</u>	<u>193</u>	<u>295,608</u>	<u>60,446</u>	<u>12,392</u>	<u>57,891</u>	<u>1,141,881</u>
Six months ended							
30 June 2020							
Opening net book amount	703,408	–	278,869	54,209	13,432	161,173	1,211,091
Additions	–	–	3,244	3,760	–	74,867	81,871

	Furniture, fixtures and Motor Construction						
	Buildings	Leasehold improvements	Plant and machinery	equipment	vehicles	-in-progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Disposals	–	–	(99)	(625)	–	–	(724)
Transfer	114,912	–	27,243	12,226	–	(154,381)	–
Depreciation	(8,676)	–	(30,747)	(11,285)	(1,413)	–	(52,121)
Exchange differences	(14,862)	–	(9,370)	(1,111)	(464)	(2,332)	(28,139)
Closing net book amount	<u>794,782</u>	<u>–</u>	<u>269,140</u>	<u>57,174</u>	<u>11,555</u>	<u>79,327</u>	<u>1,211,978</u>
As at 30 June 2020							
Cost	896,652	11,244	604,060	152,359	27,661	79,327	1,771,303
Accumulated depreciation	<u>(101,870)</u>	<u>(11,244)</u>	<u>(334,920)</u>	<u>(95,185)</u>	<u>(16,106)</u>	–	<u>(559,325)</u>
Net book amount	<u>794,782</u>	<u>–</u>	<u>269,140</u>	<u>57,174</u>	<u>11,555</u>	<u>79,327</u>	<u>1,211,978</u>

Note: As at 31 December 2017, 2018 and 2019, buildings with the carrying amounts of HK\$240,190,000, HK\$226,318,000 and HK\$202,771,000, respectively, were pledged to banks to secure bank borrowings (Note 27). No buildings were pledged to the banks as at 30 June 2020.

During the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, the Group capitalised borrowing costs amounting to HK\$2,825,000, HK\$3,752,000, HK\$5,056,000, HK\$1,876,000 and HK\$2,788,000, respectively, on qualifying assets (Note 9). Borrowing costs for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020 were capitalised at the weighted average rate of its general borrowings of 1.3%, 5.9%, 6.2%, 3.2% and 2.9% respectively.

Depreciation expenses have been charged to the consolidated statements of comprehensive income as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Cost of sales	65,587	71,361	65,807	34,115	31,410
Selling and distribution expenses	2,153	2,154	1,830	936	912
General and administrative expenses	<u>27,177</u>	<u>34,852</u>	<u>35,037</u>	<u>18,034</u>	<u>19,799</u>
	<u>94,917</u>	<u>108,367</u>	<u>102,674</u>	<u>53,085</u>	<u>52,121</u>

16 Leases

(a) Right-of-use assets

	As at 31 December			As at
	2017	2018	2019	30 June
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Land use rights	341,072	319,236	356,380	348,582
Leased buildings	63,830	51,557	59,609	58,069
	<u>404,902</u>	<u>370,793</u>	<u>415,989</u>	<u>406,651</u>

Land use rights represent the prepaid operating lease payments of the Group's interests in land use rights located in the PRC, which are held on leases within 50 years. As at 31 December 2017, 2018 and 2019 and 30 June 2020, land use rights with a total carrying amount of HK\$106,169,000, HK\$163,317,000, HK\$220,128,000 and HK\$154,110,000, respectively, were pledged to banks to secure bank borrowings (Note 27).

Leased properties of the Group represent mainly offices and training venues for sales personnel under lease arrangements with lease terms from 2 to 6 years.

- (b) Depreciation expenses from right-of-use assets have been charged to the consolidated statements of comprehensive income as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(Unaudited)</i>	
Selling and distribution expenses	17,012	18,834	19,551	9,801	9,018
General and administrative expenses	18,089	24,997	16,472	8,426	11,909
	<u>35,101</u>	<u>43,831</u>	<u>36,023</u>	<u>18,227</u>	<u>20,927</u>
				<i>(Unaudited)</i>	
	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Land use rights	8,745	14,918	6,262	3,410	3,927
Lease buildings	26,356	28,913	29,761	14,817	17,000
	<u>35,101</u>	<u>43,831</u>	<u>36,023</u>	<u>18,227</u>	<u>20,927</u>

- (c) Lease liabilities

The total cash outflows for leases for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020 were HK\$50,991,000, HK\$58,624,000, HK\$56,995,000, HK\$28,285,000 and HK\$29,745,000 respectively.

A maturity analysis of lease liabilities is shown in the table below:

	As at 31 December			As at
	2017	2018	2019	30 June
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2020</i>
				<i>HK\$'000</i>
The present value of lease liabilities is as follows:				
Within 1 year	25,534	24,021	26,325	30,781
Later than 1 year but not later than 2 years	18,826	14,290	19,792	20,576
Later than 2 years but not later than 5 years	20,191	13,603	13,299	6,826
Over 5 years	–	1,022	733	607
	<u>64,551</u>	<u>52,936</u>	<u>60,149</u>	<u>58,790</u>

17 Inventories

	As at 31 December			As at
	2017	2018	2019	30 June
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2020</i>
				<i>HK\$'000</i>
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	<u>567,978</u>	<u>586,879</u>	<u>375,757</u>	<u>445,019</u>

The cost of inventories recognised as cost of sales amounted to approximately HK\$2,357,618,000, HK\$2,619,510,000, HK\$2,278,288,000, HK\$935,978,000 and HK\$756,142,000 for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, respectively.

Inventories of approximately HK\$38,347,000, HK\$25,329,000, nil, nil and HK\$4,962,000 were written off during the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, respectively.

18 Trade and bills receivables

	<u>As at 31 December</u>			<u>As at</u>
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>30 June</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	940,768	1,142,442	1,724,707	1,137,705
Bills receivables	3,948	10,420	37,131	3,589
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	<u>928,643</u>	<u>1,142,940</u>	<u>1,750,049</u>	<u>1,123,046</u>

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the carrying amounts of the Group's trade and bills receivables were denominated in RMB and approximated their fair values.

During the Track Record Period, sales to wholesale customers are generally covered by advances received from customers. The remaining balances are generally covered by letters of credit with bills payable at sight.

Bills receivables are with average maturity dates of less than two months.

The Group allows a credit period of up to 90 days to its customers. The ageing analysis of trade and bills receivables based on invoice date is as follows:

	<u>As at 31 December</u>			<u>As at</u>
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>30 June</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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
	<u>944,716</u>	<u>1,152,862</u>	<u>1,761,838</u>	<u>1,141,294</u>

As at 30 June 2020, trade receivables aged over 180 days of HK\$53,525,000 were related to COVID-19 sales return (Note 5) as the underlying products have not been returned to the Group. Such balances are to be derecognised by the Group upon the receipt of relevant products.

Information about the Group's exposure to credit risk and the impairment of trade and bills receivables can be found in Note 3.1(c).

The movement of provision for impairment of trade receivables is as follows:

	As at 31 December			As at
	2017	2018	2019	30 June
	2020			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January	–	16,073	9,922	11,789
Provision for impairment charged to consolidated profit or loss	16,073	2,983	1,867	6,459
Reversal of provision for impairment recognised in consolidated profit or loss	–	(9,134)	–	–
As at year/period end	<u>16,073</u>	<u>9,922</u>	<u>11,789</u>	<u>18,248</u>

The creation and release of provision for impairment of trade and bills receivables has been included in the consolidated statements of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering the amount.

19 Prepayments, deposits and other receivables

The Group

	As at 31 December			As at
	2017	2018	2019	30 June
	2020			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current				
Prepayments for acquisition of property, plant and equipment	<u>245,211</u>	<u>160,248</u>	<u>59,421</u>	<u>58,648</u>
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
Prepayment for listing expenses	–	–	–	103
Deferred listing expenses	–	–	–	4,045
Deposits	22,446	18,558	31,903	34,387
VAT recoverable	17,860	16,481	35,531	53,991
Advances to staff	3,970	679	1,206	893
Receivables from payment intermediaries ^(Note)	7,721	6,863	100,101	14,611
Right of returned goods (Note 26)	–	–	–	12,760
Others	<u>20,338</u>	<u>6,547</u>	<u>11,822</u>	<u>19,226</u>
	<u>354,036</u>	<u>235,818</u>	<u>282,719</u>	<u>260,939</u>

Note: Receivables from payment intermediaries represent the sales received by Alipay and WeChat pay on behalf of the Group for the online platform sales.

Deferred listing expenses will be deducted from equity upon listing of the Group.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the carrying amounts of prepayments, deposits and other receivables were denominated in RMB and approximated their fair values.

The Company

As at 30 June 2020, deferred listing expense and prepayment for listing expenses amounted to approximately HK\$4,045,000 and HK\$103,000 respectively.

20 Cash and cash equivalents and restricted cash

	As at 31 December			As at
	2017	2018	2019	30 June
	HK\$'000	HK\$'000	HK\$'000	2020
				HK\$'000
Cash at banks	547,396	467,918	689,998	753,424
Cash on hand	40	49	66	18
Restricted cash ^(Note)	<u>2,863</u>	<u>19,120</u>	<u>25,890</u>	<u>18,085</u>
	<u>550,299</u>	<u>487,087</u>	<u>715,954</u>	<u>771,527</u>

Note: As at 31 December 2017, 2018 and 2019 and 30 June 2020, the Group's restricted cash was denominated in RMB and placed in the bank to secure the use of an online payment platform and certain bank borrowings (Note 27).

The credit quality of cash and cash equivalents has been assessed by reference to external credit ratings (if available) or to historical information about the counterparty default rates. The existing counterparties do not have history of default.

RMB is not a freely convertible currency in the international market and its exchange rate is determined by the People's Bank of China. The conversion of RMB into foreign currencies and remittance of RMB out of the PRC is subject to the rules and regulations of the foreign exchange control promulgated by the PRC government.

21 Share capital

	Number of shares	Share capital
<u>Authorised ordinary shares:</u>		
At 1 January 2017, 31 December 2017, 2018 and 2019, and 30 June 2020	<u>38,000,000</u>	<u>HK\$380,000</u>
<u>Ordinary shares, issued and fully paid:</u>		
At 1 January 2017, 31 December 2017, 2018 and 2019, and 30 June 2020	<u>10,000</u>	<u>HK\$ 100</u>

22 Reserves

	Statutory surplus reserves	Retained earnings	Exchange translation reserve	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 January 2017	162,676	1,130,000	(99,039)	1,193,637
Profit for the year	–	86,159	–	86,159
Transfer	7,090	(7,090)	–	–
Exchange differences	–	–	89,044	89,044
As at 31 December 2017	<u>169,766</u>	<u>1,209,069</u>	<u>(9,995)</u>	<u>1,368,840</u>
As at 1 January 2018	169,766	1,209,069	(9,995)	1,368,840
Profit for the year	–	553,985	–	553,985
Transfer	13,913	(13,913)	–	–
Exchange differences	–	–	(65,042)	(65,042)
As at 31 December 2018	<u>183,679</u>	<u>1,749,141</u>	<u>(75,037)</u>	<u>1,857,783</u>
As at 1 January 2019	183,679	1,749,141	(75,037)	1,857,783
Profit for the year	–	1,079,617	–	1,079,617
Transfer	24,532	(24,532)	–	–
Exchange differences	–	–	(74,321)	(74,321)
As at 31 December 2019	<u>208,211</u>	<u>2,804,226</u>	<u>(149,358)</u>	<u>2,863,079</u>
<i>(Unaudited)</i>				
As at 1 January 2019	183,679	1,749,141	(75,037)	1,857,783
Profit for the period	–	217,956	–	217,956
Transfer	9,074	(9,074)	–	–
Exchange differences	–	–	(29,206)	(29,206)
As at 30 June 2019	<u>192,753</u>	<u>1,958,023</u>	<u>(104,243)</u>	<u>2,046,533</u>
As at 1 January 2020	208,211	2,804,226	(149,358)	2,863,079
Profit for the period	–	302,193	–	302,193
Transfer	9,642	(9,642)	–	–
Dividend declared and paid	–	(36,664)	–	(36,664)
Exchange differences	–	–	(49,600)	(49,600)
As at 30 June 2020	<u>217,853</u>	<u>3,060,113</u>	<u>(198,958)</u>	<u>3,079,008</u>

Statutory reserves represent the statutory surplus reserves and statutory public welfare fund. The subsidiaries in the PRC appropriate 10% of the net profits as reported in their statutory financial statements (after offsetting any prior year's losses) to the statutory surplus reserves until the reserves have reached 50% of their registered capital. Statutory surplus reserves are non-distributable to shareholders. The use of these reserves is to offset accumulated losses or to increase capital as determined by the board of directors of the relevant PRC subsidiaries in accordance with the relevant laws and regulations in the PRC.

23 Deferred government grant

	As at 31 December			As at
	2017	2018	2019	30 June
	HK\$'000	HK\$'000	HK\$'000	2020
As at 1 January	23,964	68,192	63,670	61,843
Addition	43,137	–	–	–
Amortisation	(583)	(1,420)	(1,340)	(797)
Exchange differences	1,674	(3,102)	(487)	(1,064)
As at 31 December	<u>68,192</u>	<u>63,670</u>	<u>61,843</u>	<u>59,982</u>

Deferred government grant represents grants obtained from the PRC government in relation to the acquisition of land use rights by the Group.

24 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes related to the same fiscal authority.

The balances shown in the consolidated balance sheet, after appropriate offsetting, are as follows:

	As at 31 December			As at
	2017	2018	2019	30 June
	HK\$'000	HK\$'000	HK\$'000	2020
Deferred income tax assets	113,724	79,270	76,540	91,074
Deferred income tax liabilities	(12,531)	(22,707)	(98,698)	(119,959)
Net deferred income tax assets/(liabilities)	<u>101,193</u>	<u>56,563</u>	<u>(22,158)</u>	<u>(28,885)</u>

The movements in the net deferred income tax assets/(liabilities) are as follows:

	<u>As at 31 December</u>			<u>As at</u>
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>30 June</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 January	92,668	101,193	56,563	(22,158)
Charged to the consolidated profit or loss (Note 10)	(1,072)	(44,180)	(82,142)	(16,142)
Withholding tax paid	5,473	2,078	3,254	8,375
Exchange differences	<u>4,124</u>	<u>(2,528)</u>	<u>167</u>	<u>1,040</u>
As at 31 December	<u>101,193</u>	<u>56,563</u>	<u>(22,158)</u>	<u>(28,885)</u>

The movements in deferred income tax assets and liabilities during the Track Record Period, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred income tax liabilities

	Unremitted earnings of PRC entities	Accelerated depreciation	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 January 2017	(12,240)	(14,294)	(26,534)
Charged to the consolidated profit or loss	(2,545)	(676)	(3,221)
Withholding tax paid	5,473	–	5,473
Exchange differences	<u>(751)</u>	<u>(789)</u>	<u>(1,540)</u>
As at 31 December 2017	<u>(10,063)</u>	<u>(15,759)</u>	<u>(25,822)</u>
As at 1 January 2018	(10,063)	(15,759)	(25,822)
Charged to the consolidated profit or loss	(11,736)	(1,393)	(13,129)
Withholding tax paid	2,078	–	2,078
Exchange differences	<u>570</u>	<u>744</u>	<u>1,314</u>
As at 31 December 2018	<u>(19,151)</u>	<u>(16,408)</u>	<u>(35,559)</u>
As at 1 January 2019	(19,151)	(16,408)	(35,559)
Charged to the consolidated profit or loss	(76,539)	(10,755)	(87,294)
Withholding tax paid	3,254	–	3,254
Exchange differences	<u>1,220</u>	<u>478</u>	<u>1,698</u>
As at 31 December 2019	<u>(91,216)</u>	<u>(26,685)</u>	<u>(117,901)</u>
As at 1 January 2020	(91,216)	(26,685)	(117,901)
Charged to the consolidated profit or loss	(23,050)	(9,319)	(32,369)
Withholding tax paid	8,375	–	8,375
Exchange differences	<u>1,909</u>	<u>607</u>	<u>2,516</u>
As at 30 June 2020	<u>(103,982)</u>	<u>(35,397)</u>	<u>(139,379)</u>

Deferred income tax assets

	Accrued expenses and others	Decelerated depreciation	Unclaimed advertising expenses	Unrealised profits	Lease liabilities	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 January 2017	39,987	–	32,880	39,130	7,205	119,202
Credited/(charged) to the consolidated profit or loss	6,929	704	2,521	(15,939)	7,934	2,149
Exchange differences	<u>2,683</u>	<u>(211)</u>	<u>2,397</u>	<u>–</u>	<u>795</u>	<u>5,664</u>
As at 31 December 2017	<u>49,599</u>	<u>493</u>	<u>37,798</u>	<u>23,191</u>	<u>15,934</u>	<u>127,015</u>
As at 1 January 2018	49,599	493	37,798	23,191	15,934	127,015
(Charged)/credited to the consolidated profit or loss	(39,036)	(493)	8,771	1,779	(2,072)	(31,051)
Exchange differences	<u>(1,220)</u>	<u>–</u>	<u>(1,940)</u>	<u>–</u>	<u>(682)</u>	<u>(3,842)</u>
As at 31 December 2018	<u>9,343</u>	<u>–</u>	<u>44,629</u>	<u>24,970</u>	<u>13,180</u>	<u>92,122</u>
As at 1 January 2019	9,343	–	44,629	24,970	13,180	92,122
Credited/(charged) to the consolidated profit or loss	8	–	4,908	(1,309)	1,545	5,152
Exchange differences	<u>(197)</u>	<u>–</u>	<u>(1,029)</u>	<u>–</u>	<u>(305)</u>	<u>(1,531)</u>
As at 31 December 2019	<u>9,154</u>	<u>–</u>	<u>48,508</u>	<u>23,661</u>	<u>14,420</u>	<u>95,743</u>
As at 1 January 2020	9,154	–	48,508	23,661	14,420	95,743
(Charged)/credited to the consolidated profit or loss	28,777	–	(19,481)	7,028	(97)	16,227
Exchange differences	<u>(450)</u>	<u>–</u>	<u>(748)</u>	<u>–</u>	<u>(278)</u>	<u>(1,476)</u>
As at 30 June 2020	<u>37,481</u>	<u>–</u>	<u>28,279</u>	<u>30,689</u>	<u>14,045</u>	<u>110,494</u>

As at 31 December 2017 and 2018, deferred income tax liabilities of approximately HK\$25,992,000 and HK\$31,327,000 have not been established for the withholding taxation that would be

payable on the unremitted earnings of certain subsidiaries in the PRC totalling HK\$519,839,000 and HK\$626,536,000 as the Company controls the dividend policies of these subsidiaries and it is not probable that these subsidiaries would distribute such earnings in the foreseeable future.

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the Group did not recognise deferred income tax assets of approximately HK\$68,995,000, HK\$3,555,000, HK\$4,950,000 and HK\$6,239,000 in respect of losses incurred by the Group's PRC subsidiaries amounting to approximately HK\$277,870,000, HK\$14,221,000, HK\$19,800,000 and HK\$24,956,000, that can be carried forward for one to five years for offsetting against future taxable income.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the Group did not recognise deferred income tax assets of approximately HK\$27,000, HK\$56,000, HK\$85,000 and HK\$101,000 in respect of losses incurred by the Group's Hong Kong subsidiaries amounting to approximately HK\$164,000, HK\$341,000, HK\$514,000 and HK\$613,000, that can be used to offset future income with no expiry date.

25 Trade and bills payables

	<u>As at 31 December</u>			<u>As at</u>
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>30 June</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	764,049	664,721	511,922	349,276
Bills payables	167,894	—	—	—
Trade and bills payables	<u>931,943</u>	<u>664,721</u>	<u>511,922</u>	<u>349,276</u>

The credit period for trade payables generally ranges from 30 to 90 days.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the carrying amounts of trade payables were denominated in RMB and approximated their fair values.

The aging analysis of the trade and bill payables based on invoice dates is as follows:

	As at 31 December			As at
	2017	2018	2019	30 June
	HK\$'000	HK\$'000	HK\$'000	2020
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
	<u>931,943</u>	<u>664,721</u>	<u>511,922</u>	<u>349,276</u>

26 Accruals and other payables

The Group

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deposits from logistic companies	126,298	9,147	9,199	7,293
Accrued salaries and 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
Payables for capital expenditures	24,045	70,858	63,738	30,937
VAT 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 (Note)	–	–	–	53,525
Others	81,945	23,301	39,167	59,500
	<u>807,577</u>	<u>602,995</u>	<u>746,871</u>	<u>552,027</u>

Note: As described in Note 18, the underlying products in relation to COVID-19 sales return of HK\$53,525,000 have not been received by the Group as at 30 June 2020. Accordingly, the Group recognised refund liabilities of HK\$53,525,000 for such COVID-19 sales return, being the amount of consideration received for which the Group does be expected to be entitled should the relevant products be returned.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the carrying amounts of accruals and other payables were mainly denominated in RMB and approximated their fair values.

The Company

Accruals and other payables of the Company represents accrued listing expenses as at 30 June 2020.

27 Borrowings

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current				
Bank borrowings, secured	812,992	662,628	206,529	74,386
Non-current				
Bank borrowings, secured	<u>185,263</u>	<u>211,182</u>	<u>207,396</u>	<u>73,548</u>
	<u>998,255</u>	<u>873,810</u>	<u>413,925</u>	<u>147,934</u>
Borrowings are repayable as follows:				
– Within 1 year	812,992	662,628	206,529	74,386
– Between 2 and 5 years	<u>185,263</u>	<u>211,182</u>	<u>207,396</u>	<u>73,548</u>
	<u>998,255</u>	<u>873,810</u>	<u>413,925</u>	<u>147,934</u>

Borrowings of the Group were denominated in below currencies:

	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
USD	<u>25,952</u>	—	—	—
	<u>998,255</u>	<u>873,810</u>	<u>413,925</u>	<u>147,934</u>

As at 31 December 2017, 2018, 2019 and 30 June 2020, the effective interest rate of bank borrowings was 4.6%, 5.0%, 4.6% and 4.3% per annum.

Bank borrowings are secured by corporate guarantees, buildings (Note 15), bank deposits (Note 20) and land use rights (Note 16) provided by the Company and certain of its subsidiaries.

The carrying amounts of the borrowings approximated their fair values.

The Group has complied with the financial covenants of its borrowing facilities during the Track Record Period.

The Group has undrawn borrowing facilities amounting to HK\$329,000,000, HK\$1,077,000,000, HK\$1,739,000,000 and HK\$1,659,000,000 as at 31 December 2017, 2018, 2019 and 30 June 2020 respectively.

28 Consolidated statements of cash flows

(a) Reconciliation of profit before income tax to net cash generated from operations is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(Unaudited)</i>	
Profit before income tax	113,230	701,915	1,475,241	328,803	428,805
Adjustments for:					
– Interest income	(3,126)	(6,218)	(5,652)	(2,154)	(4,136)
– Interest expense	47,123	53,455	32,188	20,328	4,703
– Depreciation of property, plant and equipment	94,917	108,367	102,674	53,085	52,121
– Loss/(gain) on disposals of plant and equipment, net	1,057	–	(298)	(443)	293
– (Gain)/loss on disposals of property, net	(152)	–	376	–	–
– Write-off of property, plant and equipment	–	3,438	–	–	–
– Provision for/(reversal of) impairment loss of inventory	28,927	(33,605)	–	–	–
– Gain on disposal of right-of-use assets	(8,631)	–	–	–	–
– Loss/(gain) on early termination of leases	182	(42)	–	–	–
– Depreciation of right-of-use assets	35,101	43,831	36,023	18,227	20,927
– Amortisation of intangible assets	16,475	23,062	15,213	7,133	12,849
– Amortisation of deferred government grant	(583)	(1,420)	(1,340)	(670)	(797)
– Net provision for/(reversal of) impairment of financial assets	16,073	(6,151)	1,867	(226)	6,459
Operating profit before working capital changes	340,593	886,632	1,656,292	424,083	521,224
Changes in working capital:					
– Inventories	280,440	(12,474)	200,512	141,704	(77,284)
– Trade and bills receivables	(54,165)	(256,895)	(641,013)	36,526	592,550
– Prepayments, deposits and other receivables	(98,745)	104,337	(52,636)	11,358	16,539
– Trade and bills payables	412,612	(229,649)	(149,818)	(321,968)	(154,252)
– Contract liabilities, accruals and other payables	(145,729)	(164,431)	144,898	(150,356)	(143,374)
– Amounts due to related companies	1,563	(2,335)	(3,053)	(432)	(220)
Net cash generated from operations	<u>736,569</u>	<u>325,185</u>	<u>1,155,182</u>	<u>140,915</u>	<u>755,183</u>

	Bank borrowings due within 1 year	Bank borrowings due after 1 year	Lease liabilities	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 31 December 2017	<u>(812,992)</u>	<u>(185,263)</u>	<u>(64,551)</u>	<u>(1,062,806)</u>
As at 1 January 2018	(812,992)	(185,263)	(64,551)	(1,062,806)
Cash outflows/(inflows)	115,641	(35,250)	31,492	111,883
Non-cash items:				
Addition of leases	–	–	(22,148)	(22,148)
Early termination of leases	–	–	2,836	2,836
Interest accruals	–	–	(3,331)	(3,331)
Exchange difference	<u>34,723</u>	<u>9,331</u>	<u>2,766</u>	<u>46,820</u>
As at 31 December 2018	<u>(662,628)</u>	<u>(211,182)</u>	<u>(52,936)</u>	<u>(926,746)</u>
As at 1 January 2019	(662,628)	(211,182)	(52,936)	(926,746)
Cash outflows/(inflows)	446,552	(838)	33,812	479,526
Non-cash items:				
Addition of leases	–	–	(39,042)	(39,042)
Interest accruals	–	–	(3,234)	(3,234)
Exchange difference	<u>9,547</u>	<u>4,624</u>	<u>1,251</u>	<u>15,422</u>
As at 31 December 2019	<u>(206,529)</u>	<u>(207,396)</u>	<u>(60,149)</u>	<u>(474,074)</u>
<i>(Unaudited)</i>				
As at 1 January 2019	(662,628)	(211,182)	(52,936)	(926,746)
Cash outflows/(inflows)	102,161	(9,668)	17,329	109,822
Non-cash items:				
Addition of leases	–	–	(11,517)	(11,517)
Interest accruals	–	–	(1,527)	(1,527)
Exchange difference	<u>2,405</u>	<u>851</u>	<u>1,099</u>	<u>4,355</u>
As at 30 June 2019	<u>(558,062)</u>	<u>(219,999)</u>	<u>(47,552)</u>	<u>(825,613)</u>
As at 1 January 2020	(206,529)	(207,396)	(60,149)	(474,074)
Cash outflows	253,582	6,944	18,599	279,125
Non-cash items:				
Addition of leases	–	–	(16,609)	(16,609)
Interest accruals	–	–	(1,792)	(1,792)
Other changes	(124,174)	124,174	–	–
Exchange difference	<u>2,735</u>	<u>2,730</u>	<u>1,161</u>	<u>6,626</u>
As at 30 June 2020	<u>(74,386)</u>	<u>(73,548)</u>	<u>(58,790)</u>	<u>(206,724)</u>

(e) Significant non-cash transactions:

Except for the additions of right-of-use assets and lease liabilities upon commencement of leases, there were no other significant non-cash transactions during the Track Record Period.

29 Related party transactions**The Group**

The directors of the Company are of the view that the following companies are related parties of the Group:

<u>Company's name</u>	<u>Relationship with the Group</u>
Guangzhou Daoming Chemical Co., Ltd.	Company owned by Mr. Luo Wengui, father of Mr. Luo Qiping
Guangzhou VAN Management Consultant Co. Ltd.	Company owned by Ms. Pan Dong
ZED Group Limited	Ultimate holding company
Aswann Ventures Limited	Immediate holding company

Save as disclosed elsewhere in the consolidated financial statements, the following transactions were carried out with related parties:

(a) Transactions with related parties

	<u>Year ended 31 December</u>			<u>Six months ended 30 June</u>	
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2019</u>	<u>2020</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Purchase of goods and raw materials from:					
Guangzhou Daoming Chemical Co., Ltd. (Note i)	<u>9,170</u>	<u>11,919</u>	<u>6,568</u>	<u>3,201</u>	<u>1,129</u>
Service fees paid to:					
Guangzhou VAN Management Consultant Co. Ltd. (Note ii)	<u>1,756</u>	<u>2,150</u>	<u>1,177</u>	<u>645</u>	<u>–</u>

Notes:

- (i) Goods were purchased in the ordinary course of business and in accordance with the terms and prices of the underlying agreements as agreed by both parties.
- (ii) The management consultancy services provided to the Group were conducted in accordance with the terms as agreed by both parties.

(b) Balances with related parties

	As at 31 December			As at
	2017	2018	2019	30 June
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2020</i>
				<i>HK\$'000</i>
Amounts due to related companies – Trade nature				
Guangzhou Daoming Chemical Co., Ltd.	6,202	2,862	960	837
Guangzhou VAN Management Consultant Co. Ltd	<u>578</u>	<u>1,325</u>	<u>116</u>	<u>–</u>
	<u>6,780</u>	<u>4,187</u>	<u>1,076</u>	<u>837</u>

The carrying amounts approximated their fair values and were denominated in RMB, which were unsecured, interest-free and repayable on demand. The trade balances due to the related companies represent the trade payables arising from the purchase of goods and raw materials and services from the related companies.

(c) Key management compensation

	Year ended 31 December			Six months ended 30	
	2017	2018	2019	2019	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, bonuses, allowances and other benefits	39,181	29,403	47,090	16,195	18,393
Contributions to social security plans	<u>632</u>	<u>626</u>	<u>586</u>	<u>335</u>	<u>281</u>
	<u>39,813</u>	<u>30,029</u>	<u>47,676</u>	<u>16,530</u>	<u>18,674</u>

(Unaudited)

The Company

Amount due to a subsidiary represents expenses paid by a subsidiary on behalf of the Company as at 30 June 2020.

30 Commitments**(a) Capital commitments**

Capital expenditure of the Group contracted at the balance sheet date but not yet incurred is as follows:

	As at 31 December			As at 30 June	
	2017	2018	2019	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(Unaudited)</i>	
Acquisition of property, plant and equipment and intangible assets:					
- Contracted but not provided for	<u>52,283</u>	<u>42,496</u>	<u>194,424</u>	<u>269,072</u>	<u>232,802</u>

(b) Operating lease as lessee

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the Group has recognised right-of-use assets for non-cancellable leases where the Group is a lessee, except for short-term leases. The future aggregate minimum lease payments under non-cancellable short-term leases not recognised in the Historical Financial Information are as follows:

	As at 31 December			As at
	2017	2018	2019	30 June
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Buildings				
- No later than 1 year	<u>10,757</u>	<u>7,107</u>	<u>6,671</u>	<u>3,223</u>

31 Contingent liabilities

Saved as disclosed elsewhere in this report, as at 31 December 2017, 2018 and 2019 and 30 June 2020, the Group and the Company did not have any significant contingent liabilities.

32 Events after the balance sheet date

- a. On 23 September 2020, the Company has adopted a Pre-IPO Share Option Scheme. On 23 September 2020, pursuant to the Pre-IPO Share Option Scheme, the Company has granted an aggregate of 61,651,000 share options, representing rights to subscribe for 61,651,000 Shares to certain grantees who are the employees of the Group (including directors and members of the Company's senior management team).

- b. Given the dynamic nature of COVID-19 pandemic, the Group will pay close attention to the COVID-19 development continuously and evaluate its impact on the financial position and operating results of the Group.
- c. Immediately prior to the Listing, the Company will allot and issue a total of 4,999,990,000 Shares credited as fully paid at par value of HK\$0.01 each by way of capitalisation of the sum of HK\$49,999,900 standing to the credit of the share premium account.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to the last reported balance sheet date: 30 June 2020 and up to the date of this report. Save as disclosed in this report, no other dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2020.