An investment in our Shares involves a high degree of risk. Prospective investors should carefully consider the following risk factors, together with all other information contained in this prospectus, before deciding whether to invest in our Shares. The occurrence of any of the following events could harm our Company or our Group. If any of these events occur or these risks or any additional risks not currently known to our Group or which it now deems immaterial risks materialise, the business, financial condition, results of operation and/or the prospects of our Group could be materially and adversely affected. The market price of our Shares could fall significantly due to any of these events or risks (or such additional risks) and you may lose your investment.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Our success depends on the value, reputation and relevance of our brands.

Brand value plays an important role in influencing consumers' decision to purchase our products. Our business and market position depend on our ability to successfully market our brands, especially our "Blue Moon (藍月亮)" brand, which is critical to our success, and our ability to continue developing new products under our brands. The maintenance and promotion of our brand image also depend on many other factors that are not completely within our control, including, but not limited to, (i) customer satisfaction with our products; (ii) perception of the quality of our products, (iii) our ability to respond to changes in consumer preferences and stay competitive in the industry, (iv) our ability to maintain good relationship with e-commerce platforms, key account clients and offline distributors, (v) our ability to protect our trademarks and patents, and (vi) our ability to detect and take actions against counterfeiting or imitation of our products. We cannot assure you that we will be able to effectively mitigate against the factors that undermine our brand image.

In addition, we cannot assure you that we will be able to develop new brands in the future. Accordingly, we may continue to be exposed to the risk of relying significantly on our existing brands, especially the "Blue Moon (藍月亮)" brand. If these brands are tarnished in any manner, we may lose our competitive advantage and our business, financial condition, results of operations and prospects may be materially and adversely affected.

Our business is subject to changes in consumer demand, preferences and spending patterns.

Consumers' willingness to purchase our products may fluctuate as a result of changes in economic conditions, disposable income, technology, lifestyle and publicity of our products or products of our competitors. Additionally, the household care industry in China is highly competitive and consumers may be tempted to shift their choices and preferences when new products are introduced by various marketing and pricing campaigns of different brands. Any of these factors or our failure to anticipate, identify or adapt to these changes in a timely manner could result in reduced demand for our products. We may not be able to successfully adapt our business strategy, brand image and product portfolio to changes in market trends or shifts in consumer preferences and spending patterns, which may in turn materially and adversely affect our business, financial condition, results of operations and prospects.

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

We have consistently devoted our efforts to developing new products and exploring new technology in order to not only adapt to evolving consumer preferences, but also influence market trends. For example, we have devoted a significant amount of resources into developing our concentrated liquid laundry detergent products and have launched our concentrated liquid laundry detergent branded "Supreme (至尊)" in 2015. We intend to further invest in research and development efforts in concentrated liquid laundry detergent products in the foreseeable future. However, we cannot assure you that such efforts will be successful. The new concentrated liquid laundry detergent products resulting from such efforts may not be well received by consumers, sometimes due to factors beyond our control. According to the Frost & Sullivan Report, although concentrated liquid laundry detergent is a well-developed concept in certain other countries and regions, it remains novel to most consumers in China and the market for concentrated liquid laundry detergent in China is still developing. Additionally, due to the application of concentration technologies, concentrated liquid laundry detergents are generally lighter in product weight but higher in price as compared with non-concentrated liquid laundry detergents. The small size of the concentrated liquid laundry detergent products may cause consumers to ignore such products as it is quite different from the typical laundry detergents that they expect. Further, consumers accustomed to non-concentrated liquid laundry detergents may use more than the required amount for laundry tasks and may gain a wrong impression of the cost-effectiveness of such concentrated products. As a result, consumers in China generally have not fully understood the value of the concentrated liquid laundry detergent products and therefore, it may take a longer period of time for consumers in China to fully appreciate the benefits of such products. Accordingly, since the first launch of our Supreme branded concentrated liquid laundry detergent products in 2015, we have sent our sales personnel to offline hypermarkets to help consumers better understand the value of such products, including the small amount per use, as well as the low viscosity and low foam performance of such products, which might be different from consumers' perception.

However, the COVID-19 outbreak significantly affected our ability to conduct such activities in the first quarter of 2020. As a result, sales of our Supreme branded concentrated liquid laundry detergents declined and we recognised sales return from our direct sales KAs and offline distributors of unsold products of approximately HK$149.8 million as a result of the COVID-19 outbreak which impacted our consolidated statements of comprehensive income for the six months ended 30 June 2020 which amounted to 6.1% of our revenue for the six months ended 30 June 2020. Among the sales returns, products with a sales amount of HK$95.7 million have been received as at 30 June 2020 and the corresponding trade receivables have been derecognised accordingly. Although the remaining products with a sales amount of HK$54.1 million have not been received by us as at 30 June 2020, as we expect such products will be returned to us based on our ongoing communication with our customers and the progress of the refund requests being processed, we have recognised refund liabilities of HK$53.5 million[1] in relation to these yet-to-be returned products as at 30 June 2020. Between 30 June 2020 and the Latest Practicable Date, products with a sales amount of HK$40.9 million have been returned. Based on our ongoing communication with our customers as at the Latest Practicable Date regarding their general inventory levels, trends of inventory movements and product return plans, and given we have only supplied significantly reduced amount of new Supreme branded products in 2020, we do not expect other major product returns related to the COVID-19 outbreak. Please refer to the sections headed "Business – Sales and Distribution Network – Offline Distributors – Key Terms of Agreements with Offline Distributors" and "Business – Sales and Distribution Network – Sales Return Policy" for details of the key contract terms. Please also refer to the sections headed "Financial Information – Significant Accounting Policies, Judgements and Estimates – Provision for sales return" and "Financial Information – Significant Accounting Policies, Judgements and Estimates – Refund liabilities" for our accounting judgement related to product returns and refund liabilities. We accepted such product returns from our customers primarily for commercial considerations, such as to maintain good business relationships with our customers. Based

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

on information provided by our customers who were Independent Third Parties during the Track Record Period, we estimate that the approximate amount of the unsold inventories of Supreme branded concentrated liquid laundry detergents from our direct sales KAs and offline distributors as at the Latest Practicable Date would not exceed 5% of our revenue for the year ended 31 December 2019.

Additionally, reduced sales force may lead to further decrease in the sales of our products which rely heavily on onsite consumer education activities, such as the Supreme branded concentrated liquid laundry detergent, in the future. Our other products do not rely heavily on onsite consumer education. Please refer to the section headed "Business – Employees" for details. We cannot assure you that we will be successful in promoting our "Supreme (至尊)" brand or other concentrated liquid laundry detergent in the future. Furthermore, the consumers' preferences may shift away from concentrated liquid laundry detergent products to alternative laundry detergent products. If any of these events occurs, our business, financial condition, results of operations and prospects could be materially and adversely affected.

We also intend to further expand our product portfolio and diversify our brand portfolios by launching new brands in the future. The launch of new product series or brands and entry into new product categories involve inherent risks such as those relating to incorrect judgements regarding consumer preferences, market demand and new brand images and pricing. Failure to successfully diversify our products and brands to adapt to the constantly changing consumer preferences and market trends may cause our profit margin to decrease as we will not be able to recoup the associated costs, jeopardise our competitive advantage and market share, and result in continued reliance on our existing products and brands. Any of these events could materially and adversely affect our business, financial condition, results of operations and prospects.

We operate in a competitive industry and if we are unable to compete effectively, our business, financial condition, results of operations and prospects would be materially and adversely affected.

The household care industry is highly competitive and is characterised by consumers' focus on quality and functions and frequent introduction of new products. We face strong competition from our existing competitors as well as new industry entrants, including domestic and international manufacturers of household care products. Some of these manufacturers are large-scale domestic players or multi-national conglomerates with ample business resources, financial resources and/or proven track record of developing and marketing household care products. We compete on the basis of brand awareness, product development, sales and distribution network, quality and marketing, as well as our ability to tailor our products to consumer preferences and market trends. In order to compete effectively, we may need to increase our marketing expenses from time to time, which may materially and adversely affect our financial condition and results of operations. If we are unable to maintain our competitive advantage and compete successfully against our competitors and any new industry entrant in the future, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Our marketing activities may not be effective in attracting consumers.

We market our brands and products through various channels and methods such as (i) online marketing, including marketing events hosted on social media platforms and e-commerce platforms, (ii) offline marketing, primarily through our cleaning consultants at our retail points of sale, (iii) special events, including our sponsorship of nationally televised programmes and offline themed events that we organise from time to time, and (iv) commercial advertisements, including celebrity endorsement. These marketing activities may result in significant marketing expenses. In 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, our selling and distribution expenses were HK$2,068.6 million, HK$2,548.0 million, HK$2,323.1 million, HK$1,030.7 million and HK$816.4 million, respectively. We cannot assure you that our marketing activities will enable us to successfully promote our brands and products or achieve our sales targets. The effectiveness of sales and marketing activities is relatively hard to predict and evaluate. Their effects may be delayed, resulting in a slower revenue growth which may not fully reflect the sales and marketing activities. If the results of our marketing activities fail to meet our expectation, or if we fail to conduct the marketing activities as planned, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We face risks related to health epidemics, infectious diseases and other outbreaks, including the recent COVID-19 outbreak.

Our business could be materially and adversely affected by the outbreaks of contagious diseases such as SARS, H5N1 avian influenza, human swine flu or most recently, COVID-19, or another epidemic or outbreak. The COVID-19 outbreak in early 2020 has already caused, and may continue to cause, an adverse and prolonged impact on both economic and social conditions in China, among other countries, and the exacerbation, continuance or reoccurrence of the COVID-19 outbreak in China could interrupt our business operations.

In an effort to contain the COVID-19 outbreak, the PRC government has imposed, among others, the following policies: (i) outside of Hubei Province, the Chinese New Year holidays were extended by various local governments for three to seven days, with workforce resuming work between 3 February and 10 February 2020, and (ii) in Hubei Province, travel restrictions have been gradually imposed in the entire province since 23 January 2020, with the workforce resuming work after 11 March 2020. Since 14 March 2020, lockdown has been gradually lifted in low-risk areas of Hubei Province. Since 23 March 2020, lockdown has been gradually lifted in Wuhan as well.

In response to the COVID-19 outbreak, on 26 January 2020, approximately 100 employees of our four production bases nationwide returned early to their posts after the Chinese New Year holidays and worked overtime to produce disinfectant products urgently needed to curb the outbreak, such as hand sanitisers and disinfectant liquids. Since 2 February 2020, we have resumed non-stop production for 24 hours per day.

Although we have not experienced major business disruptions as at the Latest Practicable Date, we may not have adequate and successful arrangements for labour, transportation and raw materials supply to sustain our production to meet customers' demand in case the COVID-19 outbreak continues. Additionally, although we typically do not accept returns of non-defective products, this practice may be subject to negotiation under the unusual circumstances of the COVID-19 outbreak. For example, in the first quarter of 2020, we accommodated returns of our Supreme branded concentrated liquid laundry detergent. Please refer to the subsection headed "Our efforts in developing, launching and promoting new brands and products, diversifying our brand and product portfolio may not be successful." for details. Furthermore, although we have closely tracked the health status of our employees, we cannot assure you that there will not be confirmed COVID-19 cases among our employees, in which event the operations of the affected facilities might need to be suspended and our staff might need to be quarantined. Moreover, an outbreak may directly affect our suppliers' production capacity and the transportation network, which may in turn affect our ability to obtain safe and high-quality raw materials at reasonable costs, manufacture and ship our products, as well as cause temporary closure of our manufacturing facilities. In addition, an outbreak may also increase our trade receivables turnover time due to government-mandated shutdowns or general economic slowdown, which may lead to an increase in the expected credit loss on our trade receivables.

In addition, the outbreak of infectious diseases on a global scale may affect investment sentiment and result in sporadic volatility in global capital markets or adversely affect China and other economies. For example, in March 2020, although the COVID-19 outbreak appeared to have been gradually subsided in the PRC, the virus has spread to many other parts of the world, including, but not limited to, Japan, South Korea, the United States and Europe. With the number of infected cases rising rapidly, many countries issued travel advices restricting travels to affected areas. Such policies have seriously undermined the local and cross-border business activities globally. The effect includes substantial decrease in the number of tourists, business exchange events and social functions and the slowdown of the economy in the affected countries and territories. The global financial markets have experienced extreme volatilities and the risk of the world suffering a recession has significantly increased. There is no assurance that the overall economic performance of the affected countries and territories will improve shortly even after the containment of the COVID-19 outbreak and the withdrawal of such policies and recommendations by the governments of China and other countries to combat the virus. The outbreak, exacerbation, continuance or reoccurrence of the COVID-19 pandemic or any other infectious disease could have a continuous adverse impact on the economies of the PRC and other parts of the world, which in turn could materially and adversely affect our business, financial condition, results of operations and prospects.

Our sales and distribution partners may accumulate excessive or obsolescent inventory and any excessive build-up of inventory could affect the volume of future orders from our distributors.

We sell some of our products to our sales and distribution partners, who maintain their own inventories of our products. Our sales and distribution partners, and their sub-distributors and retailers in turn distribute our products to end-customers through various types of retail stores. We monitor the inventory information of our sales and distribution partners and their sub-distributors and retailers by conducting inventory-taking periodically and reviewing sales reports from our sales and distribution partners to understand their general inventory levels. However, we may not be able to accurately track the inventory level of our sales and distribution partners or to identify any excessive inventory build-up at various levels of our sales and distribution network. In addition, our sales and distribution network may be unable to sell adequate amounts of their inventories of our products in a given period to retailers, which may result in a build-up of inventory at our sales and distribution partners. We face higher risks of excessive or obsolescent inventories when we launch new products as the market reception to the products is uncertain. In such event, our sales and distribution partners may reduce future orders until their inventory levels realign with demand from their sub-distributors or retailers. We may also consider product return requests of slow-moving products on a case-by-case basis. Please refer to the sections headed "Business – Sales and Distribution Network – Offline Distributors – Key Terms of Agreements with Offline Distributors", "Business – Sales and Distribution Network – Direct Sales to Key Account Clients – Key Terms of Agreements with Direct Sales to Key Account Clients", and "Business – Sales and Distribution Network – Sales Return Policy" for details. For example, as a result of the COVID-19 outbreak, during the first quarter of 2020, sales of our fabric care products decreased compared with that during the same period in 2019, especially the sales of our Supreme branded concentrated liquid laundry detergent. As a result of the COVID-19 outbreak, we incurred sales returns of approximately HK$149.8 million related to such products for the six months ended 30 June 2020, of which products with sales amount of HK$95.7 million have been returned as at 30 June 2020 and the remaining products with sales amount of HK$54.1 million is expected to be returned subsequent to 30 June 2020. Certain e-commerce platforms are also entitled to return or exchange the products when (i) the inventory turnover is higher than a certain period of time as specified in the contract, or the e-commerce platforms are not able to sell such products within 90 days, and the products are in a resalable condition; or (ii) the small offline vendors engaged by the e-commerce platforms cannot sell our products within a period of time as specified in the contract. The reduction in future orders from our sales and distribution partners or returns of slow-moving products could have a material adverse impact on our sales to them and, accordingly, to our business, financial condition, results of operations and prospects.

We may not be successful in maintaining the growth and profitability of our business.

We cannot assure you that we can sustain profitability or avoid losses. We had experienced significant growth in revenue and profitability from 2017 to 2019: our revenue increased from HK$5,632.0 million in 2017 to HK$7,049.9 million in 2019, representing a CAGR of 11.9%, and our net profit increased from HK$86.2 million in 2017 to HK$1,079.6 million in 2019, representing a CAGR of 254.0%. Please refer to the section headed "Financial Information – Results of Operations" for details. However, we cannot assure you that we will be able to maintain our historical growth rates in future periods. Our revenue and profit growth may slow down or our revenue and profit may decline for a number of possible reasons, including decreasing consumer spending, increasing competition from other domestic and international manufacturers of household care products, slower growth in China's household care products industry, supply chain and logistical bottlenecks, increase in the cost of raw materials, the slowdown in China's economic growth and other changes in government policies or general economic conditions. For example, our revenue decreased by HK$284.5 million, or 10.5%, from HK$2,720.4 million for the six months ended 30 June 2019 to HK$2,435.9 million for the six months ended 30 June 2020, due to impact of the COVID-19 outbreak. If our growth rate declines, investors' perceptions of our business and prospects may be adversely affected and the market price of our Shares could decline.

In addition, our profitability depends on our ability to control costs and operating expenses, which may increase as our business expands and negatively impact our short-term profitability. Please refer to the section headed "Financial Information – Cost of raw materials" for details. If we fail to increase sales, or if our cost of sales and operating expenses grow faster than our sales, our business, financial condition and results of operations may be negatively affected.

Any quality issues related to our products or the household care industry could result in a loss of customers and sales and, if related to our products, may subject us to product liability claims.

The success of our business depends on our ability to consistently deliver products with high quality and reliability. Maintaining consistent product quality depends significantly on the effectiveness of our quality control systems, which in turn depends on a number of factors, including the design of our quality control systems and our ability to ensure that our employees and other third parties involved in our operations adhere to those quality control policies and guidelines. Although we implement certain quality control standards and measures throughout our entire manufacturing process (please refer to the section headed "Business – Quality Control" for details), we cannot assure you that our quality control systems will prove to be effective at all times, or that we can identify any defects in our quality control systems in a timely manner. If the quality of any of our products deteriorates for any reason, or if the consumers do not perceive our products to be effective as they claim to be, we may be faced with returns or cancellations of orders and customer complaints. Additionally, our products, as are most household care products, contain a number of ingredients, some of which or the combination of which may have actual or perceived unknown adverse effects on the environment or human health. As a result, there may be, from time to time, complaints or concerns among consumers about certain of our products or certain household care products in general, which in turn could jeopardise customers' confidence in our products.

Moreover, if any defect or adverse effect of our products or certain household care products in general results in property damage or personal injury, we may suffer from product liability claims or product recalls, resulting in financial and reputational damages. These legal claims may be expensive for us to defend even if we prevail in the end. Although we have purchased product liability insurance, coverage may be insufficient. Please refer to the subsection headed "Our insurance coverage may not be sufficient to cover all of our potential losses." for details. Furthermore, if there is a pattern of quality issues in the household care industry in general, consumers' perception of, and willingness to purchase, our products may also be negatively affected, regardless of whether such quality issues relate to us. Any quality issues related to our products or the household care industry, actual or perceived, may have a material and adverse effect on our business, financial condition, results of operations and prospects.

Changes in supply, quality and costs of raw materials, energy, transportation and other necessary supplies or services may impact our business, financial condition and results of operations.

Our raw materials primarily consist of chemicals and packaging materials. Cost of raw materials and packaging materials represents a substantial portion of our total cost of sales. For the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, cost of raw materials represented 79.5%, 90.6%, 81.5%, 76.4% and 93.3%, respectively of our total cost of sales. We are subject to fluctuation in the prices of raw materials and packaging materials, as well as energy, transportation and other necessary supplies or services, due to factors beyond our control, such as inflation, fluctuations in currency exchange rates, changes in weather or changes in the supply and demand for such related raw materials. We may not be able to offset price increases by raising the prices of our products, in which case our profit margin will decrease, and our financial condition and results of operations may be materially and adversely affected. Additionally, we may lose our competitive advantage if the prices of our products rise significantly. This in turn could result in loss of sales and customers. In both cases, our business, financial condition and results of operations may be materially and adversely affected.

Our efforts in developing and investing in technology may not generate expected outcomes.

We have been devoted to continuously developing cleaning technologies to be used in our products. As at 30 June 2020, our research and development team consisted of 157 staff. However, we cannot assure you that our future efforts in developing cleaning technologies will be successful, in which case, our products may lose their competitive advantage. In addition, we also cannot assure you that the cleaning technologies we developed will be well received by the consumers, in which case our business, financial condition, results of operations and prospects could be materially and adversely affected.

In addition, we rely on technology in many aspects of our operations. For example, we use big data and AI in various aspects of our front- and back-office operations and management. Please refer to the section headed "Business – Information Technology Systems" for details. Although we continuously upgrade our technologies to stay abreast with the latest industry developments, we cannot assure you that our investment on the technologies could produce the expected outcomes, in which case our business, financial condition, results of operations and prospects could be materially and adversely affected.

Our business operations may be subject to seasonality.

Our results of operations are affected by seasonal fluctuations in demand for our products. We usually experience higher sales volume in the time leading to the Chinese New Year holidays, as well as around the few major online shopping holidays in China, such as the 618 Shopping Festival on 18 June and Singles' Day on 11 November. Moreover, sales of certain products are subject to seasonality by nature. For example, sales of down jacket cleansers are generally higher in winter. Accordingly, various aspects of our operations, including sales, production capacity and utilisation, working capital and operating cashflow, are exposed to the risks associated with seasonal fluctuations in demand for our products pattern, and our quarterly or half year results may not reflect our full year results.

We may encounter difficulties in maintaining, expanding or optimising our sales and distribution network.

We rely on our online channels, key account clients and offline distributors in selling our products. Their purchases accounted for a significant portion of our total revenue. For the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, 33.1%, 40.2%, 47.2%, 57.4% and 58.8% of our total revenue were generated from sales through online channels, respectively; 12.5%, 12.1%, 14.1%, 11.1% and 7.7% of our total revenue were generated from direct sales to key account clients, respectively; and 54.4%, 47.7%, 38.7%, 31.5% and 33.5% of our total revenue, respectively, were generated from our sales to offline distributors during the same periods. The competition for high-quality sales and distribution partners is intense in our industry. We may not be able to offer more favourable arrangements to our sales and distribution partners as compared to those offered by our competitors who may be larger and have better-funded sales campaigns. We select and regularly evaluate our sales and distribution partners. Based on our evaluation, we may terminate relationships with certain sales and distribution partners and engage new ones that are in line with our business strategies. Finding replacement sales and distribution partners may be time-consuming and any resulting delay may be disruptive and costly to our business. For example, in 2015, we did not successfully renew our contracts with certain hypermarkets as we failed to reach mutually acceptable commercial terms with them, which negatively affected our financial performance prior to the Track Record Period. Although we subsequently resumed cooperation with these hypermarkets, we cannot assure you that we will always be able to maintain our relationship with the existing sales and distribution partners or develop relationship with replacement partners.

As part of our business growth strategies, we also consistently seek to expand and optimise our sales and distribution network by exploring new distribution channels, engaging new sales and distribution partners and entering into new geographical regions. However, the success of our expansion plan is subject to, among other things, the following factors:

- the existence and availability of suitable distribution channels or geographical regions and locations for expansion of our distribution and retail network;
- our ability to negotiate favourable cooperation terms with our sales and distribution partners;
- the availability of adequate management and financial resources;

- the availability of suitable sales and distribution partners, especially in lower-tier cities where we rely on the in-depth knowledge of our sales and distribution partners to penetrate into the local market;
- our ability to hire, train and retain skilled personnel; and
- the adaptation of our logistics and other operational and management systems to an expanded distribution and retail network.

Accordingly, if we encounter difficulties in maintaining, expanding or optimising our sales and distribution network in future, our business, financial condition and results of operations and prospects may be materially and adversely affected.

We rely on a limited number of key sales and distribution partners to sell our products.

We rely on a limited number of key sales and distribution partners, including various online e-commerce platforms, to sell a substantial portion of our products. For the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, sales through these e-commerce platforms represented 33.1%, 40.2%, 47.2%, 57.4% and 58.8%, respectively, of our total sales. As such, we may be subject to concentration and counterparty risks from these key sales and distribution partners. We cannot assure you that we will be able to maintain our relationships with our key sales and distribution partners in the future. The key sales and distribution partners are not obliged in any way to continue to cooperate with us at a level in the future that is similar to that in the past or at all. Should any of the key sales and distribution partners reduce substantially the demands for our products or terminate the business relationship with us entirely or fails to settle their payments on time, we may not be able to secure new business from other partners or customers to compensate for such reduction in sales demand or loss of businesses. If our relationship with these key sales and distribution partners deteriorates, or if there is a perceived decline in the quality of service or general reputation of these business partners among consumers, we cannot assure you that our sales through these key sales and distribution partners will not decrease accordingly. As a result, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We rely on independent offline distributors over whom we have limited control.

During the Track Record Period, a substantial portion of our products were sold through offline distributors. The performance of our offline distributors and their ability to sell our products, uphold our brand, expand their businesses and their sales network are crucial to the future growth of our business and may directly affect our sales volume and profitability. As at 30 June 2020, we had entered into agreements with 1,403 offline distributors. Due to the large number of our offline distributors and the sheer size of the market, it is difficult to monitor their practices. Although we have (1) established a comprehensive management system to monitor our offline distributors' sales performance and (2) adopted measures to avoid potential competition among our offline distributors, including providing recommended retail sales price and taking geographic coverage into account when selecting offline distributors, we have limited control over daily business activities of our distributors and our control over the ultimate retail sales may be limited. Non-compliance by any of our distributors with the relevant distribution agreements or our sales policies may adversely affect the overall sales of our products and our ability to implement development strategies. In addition, although we have contractual relationships with our offline distributors, we generally do not have direct contractual relationships with sub-distributors, except for the short-term tripartite rebate agreements among our offline distributors, certain sub-distributors and us that we may enter into. Please refer to the section headed "Business – Sales and Distribution Network – Offline Distributors – Sub-distributors" for details. Our control over the ultimate retail sales of our products is limited. We cannot assure you that the sub-distributors will at all times comply with our sales policies or that they will not compete with each other for market share in respect of our products. If any of the sub-distributors fail to distribute our products to their customers in a timely manner, overstock, or carry out actions which are inconsistent with our business strategy, it may affect our future sales. This may in turn materially and adversely affect our business, financial condition, results of operations and prospects.

We do not usually enter into long-term arrangements with our suppliers and sales and distribution partners, which could result in significant fluctuations and interruptions to our business.

We do not usually enter into long-term arrangements with our suppliers and sales and distribution partners. Our contracts with our suppliers and sales and distribution partners usually carry terms of one to two years. We assess each contract at the end of the contractual term to determine whether to renew the contract based on performance or business need; renewal of contracts is subject to the mutual consent and approval and we cannot ensure that the suppliers and sales and distribution partners that we are satisfied with will agree to renew. If we are not able to maintain long-term relationships with our current suppliers and sales and distribution partners, supply from our suppliers and sale to our sales and distribution partners may be disrupted and our business, financial condition, results of operations and prospects will be materially and adversely affected.

We cannot assure you that our current or future agreements, if any, with our major suppliers and sales and distribution partners can be negotiated on terms and prices equivalent to or more favourable than current terms and prices. Our sales and operating income could be materially and adversely affected if there are any material changes from our key suppliers' or sales and distribution partners' business plans or markets, which could in turn materially and adversely affect our business, financial condition, results of operations and prospects.

Future changes in the online marketing industry and consumer behavioural pattern may adversely affect our sales through online channels.

Our online channels include (i) sales to major e-commerce platforms in China and various emerging online sales channels, such as social e-commerce platforms, fresh foods e-commerce platforms and the online procurement systems of corporations, and (ii) sales to consumers through (a) our online proprietary stores on various major e-commerce platforms, social media and our self-developed mobile apps, and (b) third party online stores. The future growth of our operations depends on our ability to continue attracting online customers and gaining new purchases from various online channels, as well as our ability to retain visitors to our websites and social media platforms. We believe that maintaining a strong online presence helps improve our brand visibility and awareness, especially in regions where we have yet to establish a physical presence. However, we may not be successful in any of these respects. In addition to our ability to maintain relationships with various online channels, the success of these channels also depends on a number of factors relating to the online marketing industry and consumer behavioural pattern, including, without limitation:

- consumer traffic on e-commerce platforms generally and our ability to increase the consumer traffic on our online stores and on the e-commerce platforms we engage;

- our ability to respond to the changes in internet and mobile penetration, as well as the online marketing industry in China;
- influence of KOLs on consumer preferences and our cooperation with the KOLs;
- the reliability of the independent e-commerce platforms; and
- the availability of the relevant network infrastructure, such as online or mobile payment platforms.

Further, if privacy concerns or regulatory restrictions prevent us from collecting data or using data we collected in the course of our business to analyse consumer preference or if there are any defects in our data analytic model, our prediction on consumer behaviour may not be accurate. With regard to the accuracy of our data, we rely on the information provided by our online customers as well as information obtained by monitoring our visitors' browsing behaviour. We do not verify the authenticity of all such data. If the information that we collect is materially inaccurate or false, this may also adversely affect our prediction on market trends as well as our business implementation.

We cannot assure you that we can stay abreast of constantly changing consumer behavioural pattern and preferences and anticipate product trends that will appeal to existing and potential online customers. Accordingly, a decline in the popularity of online shopping in general or our failure to identify and respond to trends and consumer requirements in the online channels could result in decreased number of online customers and reduced attractiveness of our online stores, social media and our self-developed mobile apps. This in turn could materially and adversely affect our business, financial condition, results of operations and prospects.

Failure to integrate and manage our multiple sales and distribution channels may adversely affect our business and prospects.

During the Track Record Period, we sold our products through: (i) online channels, which include (1) sales to major e-commerce platforms in China and various emerging online sales channels, such as social e-commerce platforms, fresh foods e-commerce platforms and the online procurement systems of corporations, and (2) sales to consumers through (a) our online proprietary stores on various major e-commerce platforms, social media platform and our self-developed mobile apps, and (b) third party online stores, (ii) direct sales to key account clients, including hypermarkets and supermarkets, and (iii) offline distributors that resell our products to hypermarkets, supermarkets, convenience stores, gas stations, certain small vendors in the residential communities of smaller cities and certain corporations that make procurement for resale or internal use. We cannot assure you that these measures will be effective due, in part, to our limited control over our online channels, key account clients and offline distributors. Any adverse competition or cannibalisation among our sales and distribution channels will have a negative impact on the stability of our sales and distribution network and retail prices of our products, which may have a material and adverse effect on our business, financial condition, results of operations and prospects.

Inadequate production capacity could hinder our capabilities to satisfy customers' demand and growth prospect.

Currently, we have four production bases in Guangzhou, Tianjin, Kunshan and Chongqing. The utilisation rates of all of our production lines exceed the industry average utilisation rates and limit our production capacity.

In the peak season of our production, the utilisation rates of our production lines are much higher than the industry average utilisation rates. Please refer to the sections headed "Business – Our Production Operations – Production Planning" and "Business – Our Production Operations – Capacity Expansion" for details. The COVID-19 outbreak in China has increased the demand for our disinfectant products. We cannot assure you that our production capacity will be adequate to meet the overall market demand for our products, or specific demands for our disinfectant products. Please also refer to the subsection headed "We face risks related to health epidemics, infectious diseases and other outbreaks, including the recent COVID-19 outbreak." for details. Similarly, we cannot assure you that we will be able to meet the overall demand for our products or specific demand for any of our products in particular, should the production in any of our production facilities be disrupted in the future, especially during the period when we experience high demand of some or all of our products. Please refer to the subsection headed "We may experience disruptions and delays in our production." for details. Under these circumstances, our business, financial condition, results of operations and prospects may be materially and adversely affected.

In the future, as our business grows, we may need to expand our production capacity by various measures including construction of new premises. We cannot assure you that our new premises will be ready in time or our production capacity will otherwise be successfully expanded. A number of factors could delay our expansion plan or increase our costs, including:

- failure to raise sufficient funds to establish and maintain working capital to operate our business at the new premises;
- failure to obtain environmental and regulatory approvals, permits or licences from the relevant government authorities in a timely manner;
- failure to find new sites for our production facilities;
- shortage or late delivery of building materials and production equipment resulting in late delivery of the premises for our use and occupancy;
- various factors affecting construction progress and resulting in late delivery of the premises for our use and occupancy; and
- technological changes, capacity expansion or other changes to our plans for the new premises necessitated by changes in market conditions.

Failure to expand our production capacity could hinder our capacity to satisfy customers' demand and growth prospect. Furthermore, if market demand declines in the future, we may not be able to recoup the costs incurred for construction of new premises and maintenance of expanded production capacity. The delay or cancellation of our expansion could also subject us to disputes with various counterparties, including but not limited to, general contractors and sub-contractors, equipment suppliers, financiers and relevant government authorities. As a result, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We may experience disruptions and delays in our production.

We currently manufacture our products at our four production bases located in Guangzhou, Tianjin, Kunshan and Chongqing. Natural or man-made disasters, such as adverse weather, fires, technical or mechanical difficulties, storms, explosions, earthquakes, strikes, acts of terrorism, wars and outbreaks of epidemics, or other interruptions such as power and water suspension, may cause significant damage to our production facilities, which could be costly and time-consuming to reinstate and could cause significant disruptions to our operations. We may incur additional costs and may experience a disruption in the supply of products until the affected production facilities become available and operational.

Additionally, we rely on the timely supply of our raw materials, including chemicals and packaging materials, in order to carry out our production plans as scheduled. Any delays or disruptions in raw material supplies from our suppliers, may have a material and adverse impact on our ability to meet our contractual obligations to customers. In addition, any natural or man-made disasters or other unanticipated catastrophic events, including adverse weather, fires, technical or mechanical difficulties, storms, explosions, earthquakes, strikes, acts of terrorism, wars and outbreaks of epidemics could disrupt our transportation channels and impair the operations of our suppliers, and impede our ability to manufacture and deliver our products to customers in a timely manner. For example, incidents such as the COVID-19 outbreak in the first quarter of 2020 may put extra strain on our supply chain. Please refer to the subsection headed "We face risks related to health epidemics, infectious diseases and other outbreaks, including the recent COVID-19 outbreak." for details of the impact of the COVID-19 outbreak on our production bases and supply chain. Although we have not experienced major production disruptions during the Track Record Period and as at the Latest Practicable Date, any disruption or delay in our production in the future could have an adverse impact on our ability to produce sufficient quantities of products, which could in turn impair our ability to meet the needs of our customers. In such cases, our business, financial condition, results of operations and prospects could be materially and adversely affected.

We are subject to risks relating to the warehousing of the products we sell.

Before delivery of products to our stores and third party distributors, we temporarily store them in warehouses owned by ourselves or our third party logistics service providers. We maintain property-related insurance that covers financial losses we may sustain as a result of accidents, including fires. However, if such accidents, including fires, were to occur, causing damages to the products we sell or our warehouses, our ability to supply products to our stores and third party distributors could be adversely affected. The occurrence of any of these incidents could also require us to make significant unanticipated capital expenditures and delay our delivery of products. Lost sales or increased costs that we may incur due to such disruption of operations and delay in delivery may not be recoverable under our existing insurance policies, and prolonged business disruptions could result in a loss of end-customers. If any one or more of the above risks were to materialise, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Failure to maintain optimal inventory levels could increase our inventory holding costs or cause us to lose sales.

Maintaining optimal inventory levels is critical to the success of our business. As at 31 December 2017, 2018 and 2019 and 30 June 2020, the balance of our inventory accounted for approximately 23.7%, 23.9%, 12.0% and 17.1%, respectively, of our total current assets. In 2017, 2018 and 2019 and the six months ended

30 June 2020, our inventory turnover days were 96.8 days, 73.1 days, 69.5 days and 85.1 days, respectively. We are exposed to inventory risks as a result of a variety of factors beyond our control, including changing consumption trends and customer preferences and launches of competing products. Moreover, for stocking purposes, we generally estimate demand for the products we sell ahead of the actual time of sale. We cannot assure you that we can accurately predict these trends and events and maintain adequate levels of inventory at all times. An unexpected decrease in the market demand for the products we sell could lead to excessive or obsolescent inventory, and we may be forced to offer discounts or conduct promotional activities to dispose of slow-moving inventory, which in turn may materially and adversely affect our financial condition and results of operations. On the other hand, inventory under-stock may cause us to lose sales and our business, financial condition, results of operations and prospects may also be materially and adversely affected.

Delivery delays, poor handling by third party logistics providers and courier companies or disruptions in the transportation network may adversely affect our business, financial condition, results of operations and prospects.

We outsource our product delivery to independent third party logistics service providers. As at 31 December 2019, we engaged 25 logistics service providers. Disputes with, or the termination of our contractual relationships with, one or more of our logistics service providers or courier companies could result in delayed delivery of products, increased costs or customers dissatisfaction. We cannot assure you that we can continue or extend relationships with our current logistics service providers or courier companies on terms and prices acceptable to us, or at all. We also cannot assure you that we will be able to establish relationships with new logistics service providers or courier companies to ensure accurate, timely and cost-efficient delivery services. If we are unable to maintain or develop good relationships with logistics service providers or courier companies, we may experience increases in our costs, or disruption to our ability to offer products in sufficient quantities on a timely basis or at prices acceptable to our end-customers.

As we do not have any direct control over these logistics service providers or courier companies, we cannot guarantee their quality of services. If there is any delay in delivery, damage to products resulting from poor handling or any other issue, we may lose customers and sales and our brand image may be tarnished. Moreover, delays in delivery due to disruptions on the transportation network, such as transportation shortages, work stoppages or infrastructure congestion, could adversely impact our ability to timely deliver the products we sell to our sales and distribution partners and consumers, which could in turn materially and adversely affect our business, financial condition, results of operations and prospects.

Our employees are subject to risks of serious injury or death caused by the use of chemical products, manufacturing equipment and machinery.

We use chemical products and heavy machinery and equipment in our productions, which are potentially dangerous and may cause industrial accidents and personal injury to our employees. Safety trainings we provide to our employees may not be effective to prevent accidents. Any significant accidents caused by the use of equipment or machinery could interrupt our production, damage our corporate image and result in legal and regulatory liabilities. Although we have maintained employees' accident insurance and have put in place work-related injury insurance and medical insurance, the insurance coverage may be inadequate to offset losses arising from claims related to such accidents. In addition, potential industrial accidents leading to significant property loss, personal injury or death may subject us to claims and lawsuits, and we may be liable for medical expenses and other payments to the employees and their families, as well as fines or penalties. As a result, our reputation, brand, business, financial condition, results of operations and prospects may be materially and adversely affected.

We depend on some key personnel and our ability to attract and retain talented personnel for our operations.

Our future success depends heavily on the continuing services of our senior executives, talented personnel and other key employees, including our chairman, Ms. Pan, our chief executive officer, Mr. Luo, and other senior management team. Please refer to the section headed "Directors and Senior Management" for details. Our key personnel's expertise in business strategies, product design and development, business operations, sales and marketing, regulatory compliance and relationships with our customers and suppliers are crucial to us. We do not maintain key man insurance for any of our key personnel. If one or more of our senior executives or other key employees are unable or unwilling to continue in their present positions, we may not be able to replace them promptly or at all, which may severely disrupt our business and affect our results of operations and future prospects. Moreover, as our industry is characterised by high demand and intense competition for talented personnel, we may not be able to attract or retain highly skilled employees or key personnel. We cannot assure you that our key personnel will not join a competitor or form a competing business or will honour the non-compete agreement in their employment contracts. The competition for qualified personnel in the PRC may drive up employee compensation expenses, which could materially and adversely affect our financial condition and results of operations.

We may experience increase in labour costs, shortage of labour or deterioration in labour relations.

Labour costs have been increasing and may continue to rise in the future. Labour cost increases may cause our production costs to increase and we may not be able to pass on such increase to our customers. We also cannot assure you that we will not experience any shortage of labour. Any such shortage could hinder our ability to maintain our production schedules and maintain or expand our business operations, which could materially and adversely affect our business, financial condition, results of operations and prospects.

We seek to maintain favourable labour relations as we believe that our long-term growth depends on the expertise, experience, and development of our employees. We cannot assure you that we will not have any labour disputes in the future. The deterioration of our labour relations could result in disputes, strikes, claims, legal proceedings and reputational damage, labour shortages that disrupt our business operations, as well as loss of experience, know-how and trade secrets.

Failure to detect or prevent fraudulent or illegal activities or other misconduct by our employees, customers, distributors, suppliers or other third parties may have a material adverse effect on our business.

We are exposed to fraudulent or illegal activities or other misconduct by our employees, customers, distributors, suppliers or other third parties that could subject us to liabilities, fines and other penalties imposed by government authorities and negative publicity. Although we have implemented internal controls and policies with regard to the review and approval of merchant accounts, sales activities, interactions with business partners and government officials and other relevant matters, there can be no assurance that our controls and policies will prevent fraud or illegal activity by such persons or that similar incidents will not occur in the future. Any illegal, fraudulent, corrupt or collusive activity by our employees, customers, distributors, suppliers or other third parties, including, but not limited to, those in violation of anti-corruption or anti-bribery laws, could subject us to negative publicity that could severely damage our brand and reputation and, if conducted by our employees, could further subject us to significant financial and other liabilities to third parties and fines and other penalties imposed by government authorities. Accordingly, our failure to detect and prevent fraudulent or illegal activities or other misconduct by our employees, customers, distributors, suppliers or other third parties could materially and adversely affect our business, financial condition, results of operations and prospects.

Our risk management and internal control systems may not be adequate or effective.

We have designed and implemented risk management and internal control systems comprising organisational framework policies and procedures, financial reporting processes, compliance rules, and risk management measures that we believe are appropriate for our business operations. While we seek to improve our risk management and internal control systems on a continuous basis, we cannot assure you that these systems are sufficiently effective in ensuring, among other things, accurate reporting of our financial results and the prevention of fraud. Please refer to the section headed "Business – Risk Management and Internal Control Systems" for further information on our internal control policies. Since our risk management and internal control systems depend on implementation by our employees, and even though we provide relevant internal trainings in this regard, we cannot assure you that our employees are sufficiently or fully trained to implement these systems, or that their implementation will be free from human error or mistakes. If we fail to timely update, implement, and modify, or fail to deploy sufficient human resources to maintain our risk management policies and procedures, our business, financial condition, results of operations and prospects could be materially and adversely affected.

We derive a significant portion of our revenue from fabric care products.

For the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, 87.4%, 87.4%, 87.6%, 86.9% and 69.0%, respectively, of our revenue was derived from our fabric care products, primarily including liquid laundry detergents with different specialities as well as laundry aids such as fabric softener and collar cleaners. In light of the continuously changing consumer preferences and market trends, we cannot assure you that sales of our fabric care products will increase or remain at their current levels in the future. If our fabric care products fall out of favour and we cannot introduce replacement products in a timely manner, our sales and profit may decrease significantly and accordingly, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Any negative publicity regarding our Company, Directors, employees, spokespersons or products, regardless of its veracity, could adversely affect our business.

As an established brand, our image is sensitive to the public's perception of us as a business in entirety, which includes not only the quality, safety and competitiveness of our products, but also our corporate management and culture. We cannot guarantee that no one will, intentionally or incidentally, distribute information about us, especially those regarding the quality and safety of our products or our internal management matters, that may result in negative perception of us by the public. In addition, negative publicity regarding our spokespersons may result in negative perception of us by the public even if the negative publicity does not involve our products at all. Although we had promptly taken clarification or rectification measures when we faced negative publicity in the past, we cannot assure you that such measures will always be effective in the future. Any negative publicity about our Company, Directors, employees, spokespersons or products, regardless of veracity, could lead to potential loss of consumer confidence or difficulty in retaining or recruiting talents that are essential to our business operations. As a result, our business, financial condition, results of operations, reputation and prospects may be materially and adversely affected.

We may require additional funding to finance our operations, which may not be available on favourable terms or at all.

We currently fund our operations principally by cash generated from our business operations and bank borrowings. To finance our ongoing operations, existing and future capital expenditure requirements, investment plans and other funding requirements, we may need to obtain adequate financing from external sources to supplement our internal sources of liquidity in the future. Our ability to obtain external financing in the future is subject to a variety of uncertainties, including, among other things:

- regulatory approvals to obtain financing in the domestic or international markets;
- our financial condition, results of operations, cash flows and credit history;
- the condition of the global and domestic financial markets; and
- changes in the PRC monetary policy with respect to bank interest rates and lending practices and conditions.

We had no indebtedness, mortgages or charges, did not issue any debt securities and did not utilise any bank facilities, except as disclosed in the section headed "Financial Information – Indebtedness". However, we cannot assure you that we will be able to obtain bank loans or renew existing credit facilities in the future on favourable terms, or at all, or that any fluctuation in interest rates will not affect our ability to fund our operations and planned developments. Our effort to raise equity capital, if any, may result in the dilution of shareholding by our existing Shareholders. If adequate funding is not available to us on favourable terms, or at all, we may not be able to fund our existing operations and develop or expand our business, and therefore our business, financial condition, results of operations and prospects may be materially and adversely affected.

We recorded net current liabilities during the Track Record Period.

We recorded net current liabilities of HK$301.0 million as at 31 December 2017, primarily due to: (i) our short-term borrowings to finance our construction of production facilities and expansion of existing facilities, which are generally categorised as non-current property, plant and equipment, and (ii) certain trade and bills payables and accruals and other payables as we were expanding our operations. Please refer to the section headed "Financial Information – Liquidity and Capital Resources – Net current assets/liabilities" for details. Having net current liabilities could constrain our operational flexibility and could adversely affect our ability to expand our business. We cannot assure you that we will continue to be able to obtain short-term bank borrowings in China. In the event that the commercial banks providing existing banking and credit facilities do not continue to extend similar or more favourable facilities to us and we fail to obtain alternative banking and credit facilities on reasonable terms, or at all, our business, results of operations and prospects may be adversely affected.

We are exposed to credit risks related to our trade and bills receivables.

We enter into a wide variety of contractual arrangements with different counterparties in the ordinary course of our business. We generally grant credit terms ranging from 30 to 60 days to e-commerce platforms and direct sales KAs. Additionally, we may, from time to time, accommodate requests to extend credit terms from certain major customers. We generally do not grant credit terms to offline distributors. However, we may extend credit to certain creditworthy offline distributors for special occasions such as their year-end planning for the new year's sales event. Our net trade and bills receivables as at 31 December 2017 and 2018 and 2019 and 30 June 2020 amounted to HK$928.6 million, HK$1,142.9 million, HK$1,750.0 million and HK$1,123.0 million, respectively. Our trade and bills receivables turnover days for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 were 57.0, 55.9, 74.9 days and 107.3 days, respectively. As at 30 June 2020, our trade and bills receivables aged over 180 days were HK$208.3 million, as compared to HK$12.3 million as at 31 December 2019. For the years ended 31 December 2017 and 2019 and the six months ended 30 June 2020, we recorded net provision for impairment loss of financial assets related to our trade and bills receivables of HK$16.1 million, HK$1.9 million and HK$6.5 million, respectively. For the year ended 31 December 2018 and the six months ended 30 June 2019, we recorded net reversal of impairment loss of financial assets related to our trade and bills receivables of HK$6.2 million and HK$0.2 million, respectively. The COVID-19 outbreak may increase our receivables turnover days for the first quarter of 2020, which may expose us to increased credit risk from counterparties. Our senior management regularly reviews the recoverability of overdue balances for trade and bills receivables and may provide for impairment when appropriate. As there is limited financial or public information on many of our counterparties, we cannot assure you that all of our counterparties are creditworthy and reputable and will not default on us in the future, despite our efforts to conduct credit assessments on them. As a result, we are exposed to risks that our counterparties may fail to fulfil their obligations to us under our contracts.

Our brands and products may be subject to counterfeiting, imitation, and/or infringement by third parties.

We rely on intellectual property laws in the PRC and other jurisdictions to protect our brands and trademarks. During the Track Record Period, we have been subject to counterfeiting and imitation by external parties that manufactured and marketed their products under "copycat" brand names and trademarks that highly resembled ours. We cannot assure you that such counterfeiting or imitation will not occur in the future or, if it does occur, that we will be able to detect or address the problem effectively. Any occurrence of counterfeiting or imitation of our products or other breaches of our intellectual property rights could adversely affect our reputation and brand name, and lead to loss of consumer confidence in our brand. Any litigation to prosecute infringements upon our rights and products will be expensive and will divert the management's attention as well as other resources away from our business. Although we maintain limited insurance against litigation costs, coverage may be insufficient and we may have to bear the uninsured costs arising from such litigation to the extent we are unable to recover them from the relevant parties. Moreover, if there are any concerns about the quality of the counterfeit products and consumers are not fully able to distinguish such counterfeit products from our products, our reputation and brand value may be impaired. As a result, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We may not be able to adequately protect our intellectual property rights, which could harm the value of our brand.

We rely heavily on a combination of patents, trademarks, domain name registrations and confidentiality agreements to protect our intellectual property rights. We also possess a significant number of trade secrets in relation to proprietary product formulations, technologies and production processes, which we believe are material to our operations and which are not covered by patents. We rely on various protective measures to safeguard such unpatented proprietary information, such as regularly monitoring our intellectual property rights through our legal department and entering into confidentiality agreements with our relevant employees and third parties. Please refer to the section headed "Business – Intellectual Property" for details. However, we cannot assure you that our protective measures will be sufficient to protect our trade secrets, know-how or other proprietary information against any unauthorised use, misappropriation or disclosure. We cannot guarantee that there will not be further infringements on our intellectual property rights in future. We also cannot guarantee that we will be successful in enforcing confidentiality provisions or undertaking legal proceedings in the event that there is any unauthorised use of our intellectual property. If we fail to effectively protect our intellectual property from inappropriate or unauthorised use by third parties in ways that adversely affect our brand name, our reputation could suffer, which in turn could have a material and adverse effect on our business, financial condition, results of operations and prospects.

Third parties may assert or claim that we have infringed their intellectual property rights.

Intellectual property rights, such as trademarks and patents, are important in the consumer products industry as they protect brand images, product formulations and other valuable rights. Our competitors or other third parties may have intellectual property rights and interests which could potentially conflict with ours. If any trademark or patent infringement or other intellectual property claims against us are successful, we may not have a legal right to continue to develop, produce, use or sell products that are adjudicated to have infringed third parties' intellectual property rights. We may be legally required to expend significant resources to redesign our products so that they do not infringe third parties' intellectual property rights or we may be required to obtain relevant licences to avoid further infringements. Intellectual property litigation against us could significantly disrupt our business, divert our management's attention or consume much of our financial resources. Additionally, we may be subject to infringement or misappropriation claims by third parties in other aspects of our day-to-day operations, such as our usage of images, fonts or music in our advertising and promotional activities, as well as computer software. Any intellectual property disputes could have a material adverse effect on our business, financial condition, results of operations and prospects.

We consider the formulae of producing our products to be our trade secrets, and our ability to compete could be harmed if we fail to maintain the confidentiality of these trade secrets.

Our products are produced using our proprietary formulae. We have kept these formulae as our trade secrets. We have not made any applications for patents for our formulae because patent registration in the PRC involves publication of the relevant details of the subject of the patent as we believe that such disclosure would provide our competitors with details of our formulae and would, as a result, enable them to imitate our production methods or refine their own production accordingly. We have generally included confidentiality clauses in the employment contracts of our relevant personnel (such as key management and R&D personnel) and have set forth employees' obligation to keep our trade secrets confidential in our code of conduct for employees. However, we cannot assure you that our proprietary formulae will not be disclosed to or discovered by a competitor or another third party or products using formulae will not be developed or marketed by such persons. After obtaining the same or similar formulae, such person may seek intellectual property rights and enjoin us from producing, promoting, selling or using products based on these formulae. We may not have adequate legal remedies to prevent third parties from producing or marketing products based on the same or similar formulae. Consequently, we may lose our market share, and our business, financial condition, results of operations and prospects may be materially and adversely affected.

We may be involved in claims, disputes and legal proceedings in our ordinary course of business.

From time to time, we may be involved in claims, disputes and legal proceedings in our ordinary course of business. These may concern issues relating to, among others, breach of contract, employment or labour disputes, antitrust, infringement of intellectual property rights and environmental matters. In particular, the manufacture and sales of our products subjects us to potential product liability claims if our products are proved to have failed to meet relevant health and safety or other laws and regulations, or cause or are alleged to have caused illness or health issues. If we do not succeed in defending against any product liability claims, we may be subject to substantial damages to compensate the claimants. Any claims, disputes or legal proceedings initiated by us or brought against us, with or without merit, may result in substantial costs and diversion of resources, may materially harm our reputation. Furthermore, claims, disputes or legal proceedings against us may be due to defective supplies sold to us by our suppliers, who may not be able to indemnify us in a timely manner, or at all, for any costs that we incur as a result of such claims, disputes and legal proceedings.

We are subject to a wide variety of regulations, and failure to comply with such regulations or control the associated costs may harm our business.

We are required to comply with various and extensive environmental, health, hygiene and safety and labour laws and regulations promulgated by the relevant PRC government authorities. Our failure to comply with these laws and regulations will result in penalties, fines, administrative proceedings, litigations and suspension or revocation of our licences or permits to conduct our business. Considering the complexity and magnitude of the laws and regulations, compliance with them may be burdensome or require a significant amount of financial or other resources. These laws and regulations change from time to time and thus we cannot give assurance that the relevant PRC government authorities will not impose any additional or more stringent laws or regulations, compliance with which may cause us to incur significantly increased costs, which we may not be able to pass on to our customers. Failure to comply with the relevant regulations and control the associated costs may materially and adversely affect our business, financial condition, results of operations and prospects.

We are required to obtain and maintain various licences and permits, the failure of which may have a material adverse effect on us.

In accordance with PRC laws, we are required to obtain and maintain various licences and permits for the production of our products. Please refer to the section headed "Business – Licences, Approvals and Permits" for details. We are required to comply with applicable environmental protection requirements, hygiene quality standard and production safety standards in relation to our operation and production process. We are subject to regular and random inspections in order to comply with the rules and regulations of the relevant public health authority and quality and technology supervision administration. Failure to pass these inspections and to comply with the licensing or other regulatory requirements may lead to termination of production and sales of our products, confiscation of the associated income, withdrawal of business licence, or potentially criminal liabilities, which will materially and adversely affect our reputation, as well as our business, financial condition, results of operations and prospects.

Failure to comply with applicable advertising laws and regulations when promoting our products may subject us to potential risks and penalties.

We advertise our brands and products through various channels, including television, billboards and posters, and news and magazines, which is subject to the applicable PRC laws and regulations. For example, from time to time, we may be scrutinised for the source of certain data or choice of certain words used in our advertising. If our employees or the third party service providers we engage fail to comply with such laws and regulations, or the relevant government authorities, who have broad discretions in interpreting the laws and regulations, ultimately take a view that is inconsistent with our understanding in the process of administrative law enforcement, we may be subject to potential risks and penalties. We cannot ensure that inadvertent non-compliance will not happen in the future, which may subject us to further penalties imposed by the relevant authorities and may further damage our brand image and reputation. We may need to increase compliance costs in the future to comply with applicable advertising laws and regulations. Accordingly, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We may be subject to fines for failure to register some of our lease agreements.

As at the Latest Practicable Date, we leased 125 properties in the PRC, 79 of which had yet to be registered with the relevant government authorities in accordance with PRC laws and regulations. As advised by our PRC legal advisers, the lack of registration of a lease will not affect its legality, validity or enforceability. However, we may be subject to fines ranging from RMB1,000 to RMB10,000 for each of such non-registered leases should we fail to register the lease agreements upon request by the relevant authority, which may materially and adversely affect our business, financial condition, results of operations and prospects. Please refer to the section headed "Business – Properties – Leased Properties" for details.

As at the Latest Practicable Date, the lessors of some of our leased properties had failed to provide valid title certificates. For certain leased properties, the lessors had not leased such properties in accordance with the permitted usage as specified on title certificates. Any dispute or claim in relation to these properties could result in us having to relocate and/or obtain alternative accommodation for certain of our employees. If our right to use these properties is challenged, we would need to seek alternative properties on short notice and incur relocation costs, and there is no guarantee that we would be able to find suitable alternative properties on reasonable commercial terms, or at all. Any relocation could lead to disruptions to our operations and may have an adverse effect on our business, financial condition, results of operations and prospects.

Changes in existing laws, regulations and policies may cause us to incur additional compliance costs.

We are subject to various regulations relating to product safety and general consumer protection in the PRC. From time to time, government authorities may modify such laws and regulations to promulgate higher standards of product quality and safety and impose more stringent limitations on operations of the household care industry. Additionally, we are also subject to changes in general laws, regulations and policies, such as zoning ordinances or environmental regulations, which may hinder our expansion plan and impact our daily operations. As such, we may need to incur additional costs and our business growth and development may slow down due to resources we have to spend on complying with these laws and regulations, which may materially and adversely affect our business, financial condition, results of operations and prospects.

We may be subject to fines and penalties under PRC laws for failure to make full contributions for social insurance and housing provident funds for our employees.

Under the applicable PRC laws, we are required to contribute, as an employer, to social insurance (including pension fund, unemployment insurance, medical insurance, work-related injury insurance and maternity insurance) and housing provident funds for the benefit of our employees.

Blue Moon China failed to pay housing provident funds for certain types of employees before July 2018. Additionally, as at 31 December 2019, some of our PRC subsidiaries in Guangzhou had not paid housing provident funds for employees with disabilities in accordance with the requirements and standards of local housing provident fund authority. According to the Housing Accumulation Funds Regulation, if the employer fails to register and establish an account for housing provident fund, the authority shall order the employer to correct it within a prescribed time limit; where failing to do so at the expiration of the time limit, a fine of not less than RMB10,000 nor more than RMB50,000 shall be imposed. Where an employer is overdue in the payment and deposit of, or underpays, the housing provident fund, the authority shall order it to make the payment and deposit within a prescribed time limit; where the payment and deposit has not been made after the expiration of the time limit, an application may be made to a People's Court of the PRC for compulsory enforcement. The amount of outstanding housing provident fund contribution of our PRC subsidiaries for each of the years ended 31 December 2017, 2018 and 2019 were approximately RMB7.3 million, RMB4.3 million and RMB0.1 million, respectively. We may therefore be ordered by the relevant authorities to pay the outstanding amount in the aggregate sum of RMB11.8 million within a prescribed period, failing which we may be subject to specific enforcement by the People's Court.

In addition, some of our PRC subsidiaries failed to make social insurance contributions based on the actual salary level of the employees between January 2017 and April 2017. According to the Social Insurance Law, if an employer fails to make social insurance contributions in full, the relevant authorities shall order the employer to pay, within a prescribed time limit, the outstanding amount with an additional late payment penalty at the daily rate of 0.05%, and if the employer fails to make the overdue contributions within such time limit, a fine equal to one to three times the outstanding amount may be imposed. The shortfall amount of social insurance contribution of our PRC subsidiaries for the period between January 2017 and April 2017 was RMB1.1 million. We may therefore be ordered by the relevant authorities to pay the outstanding amount in the aggregate sum of RMB1.1 million within the prescribed period, failing which we may be subject to a penalty in an amount that is equal to one to three times of such shortfall amount.

Please refer to the section headed "Business – Legal and Arbitration Proceedings and Compliance Matters" for details. We cannot assure you that we will not be subject to any order to rectify this non-compliance incident in the future, nor can we assure you that there are no, or will not be any, relevant employee complaints against us. Any such order may adversely and materially affect our business, financial condition, results of operations and prospects.

Government grants currently received by us may be reduced or discontinued in the future.

During the Track Record Period, we recorded government grants primarily from local government authorities in Guangzhou. These government grants have been provided in recognition of our achievements and contribution to local economy. For the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, we recognised government grants of HK$7.6 million, HK$35.9 million, HK$40.5 million, HK$30.2 million and HK$37.4 million, respectively. We cannot assure you that we will continue to be eligible to receive such government grants or that the amount of such grants will not be reduced in the future. Our ability to continue to enjoy government grants is subject to changes in national or local policies that affect the validity of our agreements with the relevant local government authorities and the availability of similar preferential arrangements, and may be affected by the termination of, or amendments to, such agreements for any number of reasons, including those beyond our control. Moreover, we cannot assure you that we will be able to enter into new agreements with local government authorities that provide government grants to us on similar terms. Any decrease in or termination of such government grants in the future may have a material and adverse effect on our financial condition, results of operations and prospects.

We may be subject to higher income tax rates as certain preferential tax treatments granted to us will not be renewed.

During the Track Record Period, Blue Moon Industrial, one of our major subsidiaries in the PRC, has enjoyed a preferential enterprise income tax rate of 15% as a qualified New and Hi-Tech Enterprise, instead of the general rate of 25%. In 2017, 2018 and 2019, the profit before taxation of Blue Moon Industrial per the statutory financial statements was RMB39.1 million, RMB53.5 million and RMB167.8 million, respectively. Blue Moon Industrial's qualification as a New and Hi-Tech Enterprise expired in November 2020 and it has elected not to renew such qualification. Accordingly, Blue Moon Industrial may be subject to the 25% enterprise income tax rate from 2020 onwards, which may increase our consolidated income tax expense and decrease our consolidated net profit, and may in turn materially and adversely affect our financial condition and results of operations.

Our information technology systems may experience unexpected system failures, interruptions, inadequacies or security breaches.

We rely on our information technology systems, particularly the enterprise resource planning ("**ERP**") system and the CRM system to effectively manage our inventory, client information analysis, logistic data, sales activities, sales personnel workload and other business processes. As our sales through online channels grow, we plan to continue using our CRM system, which is connected to all e-commerce platforms we operate, as a unified system to manage all online sales activities across different platforms in the future. Our growing use and reliance on information technology will place an increasing pressure on such systems. We may encounter problems when upgrading our systems and services, which could adversely affect our sales and other operations.

In addition, our information technology systems may be vulnerable to damage or interruption from circumstances beyond our control, including power outages, fire, natural disasters, systems failures, security breaches and viruses. Any significant failure of our information technology systems, or loss or leakage of confidential information could result in transaction errors, process inefficiencies and loss of sales and customers, which could further harm our reputation and materially and adversely affect our business, financial condition, results of operations and prospects.

Our facilities and operations may require substantial investment and upgrading.

Our facilities and operations may require substantial investment and upgrading from time to time due to depreciation or business growth, which may increase our cost. If we cannot successfully recover such cost, our profitability may be decreased. Additionally, the timely completion of planned upgrading is subject to a number of factors, including our ability to raise and maintain sufficient funds for such upgrading, our ability to obtain the required licences and permits from government authorities, and adequate supply and timely delivery of materials and equipment. If upgrading is not completed in a timely manner, our production capacity may be temporarily restrained, which may further materially and adversely affect our business, financial condition, results of operations and prospects.

The construction of new production and storage facilities, the addition of property, plant and equipment, and the establishment of a new factory in connection with our expansion strategies may result in an increase in depreciation costs.

We plan to construct additional production and storage facilities and purchase certain equipment and machinery in connection with our expansion strategies. In addition, we plan to build a new factory. Please refer to the section headed "Future Plans and Use of Proceeds – Use of Proceeds" for details. Following the completion of the construction of such new production and storage facilities and the new factory, as well as the commencement of using such equipment and machinery, we expect our average depreciation costs to increase by approximately HK$131.7 million per annum from 2020 to 2025, and HK$296.3 million per annum from 2026 onwards. Such increases in our depreciation costs could result in a decrease in our profit and may adversely affect our financial condition and results of operations.

Laws and regulations related to e-commerce activities in China may impose additional requirements and obligations on our online channels or could increase our compliance cost.

The e-commerce industry in which we have operations is highly regulated. As the e-commerce industry is evolving rapidly in China, new laws and regulations may be adopted to address new issues that arise from time to time and to impose additional restrictions on our e-commerce business. If the PRC government establishes stricter data privacy or other regulatory requirements on e-commerce activities in the future, we may incur significantly higher compliance costs in our online channels, and we cannot assure you that we would be able to meet all the regulatory requirements in a timely manner, or at all. For example, the E-Commerce Law, promulgated by the SCNPC on 31 August 2018 and implemented on 1 January 2019, requires all e-commerce operators, broadly defined to include natural persons, legal persons and unincorporated organisations that engage in business activities of selling commodities or offering services through the internet and other information networks, to abide by the principles of voluntariness, equality, equity and good faith, observe the law and business ethics, fairly participate in market competition, perform obligations in aspects including protection of consumer rights and interests, environment, intellectual property rights, cybersecurity and individual information, assume responsibility for quality of products or services, and accept the supervision by the government and the public. Please refer to the section headed "Appendix III – Regulatory Overview – Regulation on E-commerce Activities" for details. Such legislation and enforcement may result in additional compliance obligations and costs or place restrictions upon our current or future operations. This may in turn materially and adversely affect our business, reputation, financial condition, results of operations and prospects.

We may fail to protect our proprietary data and customer information.

We believe that our ability to compile and analyse sales data and customer data is critical to our success. We have built a large customer data base leveraging our extensive retail network and our information technology system. We obtain customer data primarily through our stores, websites and mobile apps, such as our end-customers' personal information, payment-related information and transaction history. Concerns about our practices with regard to the collection, storage, use or disclosure of personal information or other privacy-related matters, even if unfounded, could damage our reputation, and as a result, our business, financial condition, results of operations and prospects may be materially and adversely affected. Furthermore, any actual or alleged leakage or unauthorised use of the customer data we have collected could result in decreases in the online traffic to purchase our products and the overall sales, either of which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We have adopted security policies and measures to protect our proprietary data and customer information. However, advances in technology, the expertise of hackers, new discoveries in the field of cryptography or other events or developments could result in compromises or breaches of the technologies that we use to protect confidential information. We may not be able to prevent third parties, especially hackers or other individuals or entities engaging in similar activities, from illegally obtaining and misappropriating our proprietary data and customer information. In addition, we have limited control or influence over the security policies or measures adopted by third party online payment service providers through which some of our end-customers may elect to make online purchases. Furthermore, our third party logistics service providers or courier companies may also violate their confidentiality obligations and illegally or improperly disclose or use information about our customers. Any negative publicity on our IT system's or online retail channels' safety or privacy protection mechanism and policy could have a material adverse effect on our public image and reputation.

Furthermore, the regulations in the PRC governing the use of personal data are improving. Any change in the regulations governing the use of such personal data could adversely affect our ability to use such data or discourage our end-customers from using our online retail sales channels, either of which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our insurance coverage may not be sufficient to cover all of our potential losses.

We purchase and maintain insurance policies that we believe are in line with the industry practice and as required under the relevant laws and regulations. Please refer to the section headed "Business – Insurance" for details. However, we cannot assure you that our insurance policies will provide adequate coverage for all the risks in connection with our business operations. Consistent with customary practice in China, we do not carry any business interruption or litigation insurance. If we were to incur substantial losses and liabilities that are not covered by our insurance policies, we could suffer significant costs and diversion of our resources, which could have a material and adverse effect on our financial condition, results of operations and prospects. We may be required to bear our losses to the extent that our insurance coverage is insufficient.

Our acquisition strategies may not succeed.

We may consider growing our business through organic growth, and investments in and/or acquisitions of companies that are complementary to our business in the future. We have limited prior experience in expanding through mergers and acquisitions with acquisition of only one company in 2014 that produces and provides certain chemical raw materials. Our ability to grow through acquisition depends upon our ability to identify, negotiate, complete and integrate suitable acquisitions and to obtain any necessary financing for such acquisitions. Even if we successfully complete an acquisition, we may experience difficulties in integrating the acquired business, its personnel or its products into our existing business; delays or failures in realising the benefits of the acquired business or its products; diversion of our management's time and attention from other business concerns; higher costs of integration than we anticipated; or difficulties in retaining key employees of the acquired business who are necessary to manage the acquired business. As at the Latest Practicable Date, we have not engaged in any negotiations or entered into any letter of intent nor do we have any definitive and finalised understanding, commitment or agreement in relation to any potential acquisition. However, if we undertake such acquisition but fail to either complete the acquisition or integrate the acquired businesses successfully into our existing operations, our share price, business, financial condition, results of operations and prospects may be materially and adversely affected.

Our Controlling Shareholders have substantial influence over our Company and their interests may not be aligned with the interests of our other Shareholders.

Our Controlling Shareholders have substantial influence over our business, including matters relating to our management, policies and decisions regarding acquisitions, mergers, expansion plans, consolidations and sales of all or substantially all of our assets, election of directors and other significant corporate actions. Immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon exercise of the options granted under the Pre-IPO Share Option Scheme) and the Capitalisation Issue, our Controlling Shareholders will directly or indirectly, individually or together with others control 77.36% of the issued share capital of our Company. This concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive our other Shareholders of an opportunity to receive a premium for their Shares as part of a sale of our Company and might reduce the price of our Shares. In addition, the interests of our Controlling Shareholders may differ from the interests of our other Shareholders. It is possible that our Controlling Shareholders may exercise their substantial influence over us and cause us to enter into transactions or take, or fail to take, actions or make decisions that conflict with the best interests of our other Shareholders.

Allotment and issue of Shares upon the exercise of the options granted under the Pre-IPO Share Option Scheme could negatively impact our future results of our operations.

On 23 September 2020, we adopted the Pre-IPO Share Option Scheme. On 23 September 2020, pursuant to the Pre-IPO Share Option Scheme, we have granted share options to subscribe for an aggregate of 61,651,000 Shares to certain grantees who are our employees (including our Directors and members of our senior management team) and our Business Associates. Please refer to the section headed "Appendix V – Statutory and General Information – D. Pre-IPO Share Option Scheme" for details.

The fair value of the share options granted will be recognised as share-based compensation expenses, which will have an adverse effect on our profits. Moreover, exercise of the share options we plan to grant will increase the number of our Shares in issue, which will result in a dilution to the shareholding percentage interest of our Shareholders and would also result in a dilution or reduction of the earnings per Share or net asset value per Share. Upon the exercise of all the share options under the Pre-IPO Share Option Scheme, the shareholding of our Shareholders will be diluted by approximately 1.07% as calculated based on 5,747,126,500 Shares in issue immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised). Accordingly, our results of operations and profitability may be adversely affected on an ongoing basis as and when the share options are vested. Any actual or perceived sales of the additional Shares issued upon the exercise of the share options we have granted or plan to grant may adversely affect the market price of our Shares.

We may be subject to war, terrorist attacks or force majeure events that are beyond our control.

Our business is subject to general economic and social conditions in China. Natural and manmade disasters, and other force majeure events which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in China. Some regions in China, including the cities where we operate, are under the threat of flood, earthquake, sandstorm, snowstorm, fire or drought. An occurrence or recurrence of any of these events could result in material disruptions to our operations or a slowdown of China's economy, which could materially and adversely affect our business, financial condition, results of operations and prospects. Acts of war and terrorism may also injure our employees, cause loss of lives, damage our facility, disrupt our distribution channels and destroy our markets. The potential for war or terrorist attacks may also cause uncertainty and cause our business to suffer in ways that we cannot predict.

RISKS RELATING TO THE PRC

Changes in the PRC's economic, political and social conditions, as well as government policies and global trade practices, could have a material adverse effect on our business, financial condition, results of operations and prospects.

During the Track Record Period, substantially all of our assets were located in China, and substantially all of our revenue was derived from our business in China. Accordingly, our financial condition, results of operations and prospects are, to a material extent, affected by economic, political and legal developments in China.

The PRC economy differs from the economies of developed countries in many respects, including, among others, the degree of government involvement, investment control, level of economic development, growth rate, foreign exchange controls and resource allocation. Since 1978, the PRC government has implemented many economic and social reform measures. As a result, China is experiencing a transition from a planned economy to a more market-oriented economy. A substantial portion of productive assets in China, however, is still owned by the PRC government. The PRC government also exercises significant control over the economic growth of the PRC through means such as allocating resources, controlling payments of foreign-currency denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. In recent years, the PRC government has implemented measures emphasising the utilisation of market forces, the reduction of state ownership of productive assets and the establishment of sound corporate governance practices in business enterprises. Some of these measures benefit the overall PRC economy, but may materially and adversely affect us. For example, our financial condition and results of operations may be adversely affected by changes in applicable PRC tax laws that increase our effective tax rate, although such changes may benefit the overall PRC economy. Additionally, fluctuations in global trade practices and foreign policies resulting from potential trend worldwide that calls for protectionism trade policy and ongoing trade disputes between China and the United States may further affect the PRC economy. In January 2020, the "Phase One" agreement was signed between the United States and China on trade matters. However, it remains unclear what additional actions, if any, will be taken by the U.S. or other governments with respect to international trade agreements, foreign policies or other matters. The escalating tensions between China and the United States may also lead to restrictions on certain international business transactions and economic activities and may jeopardise our competitive advantage or prevent us from selling our products in certain countries. China has experienced rapid economic growth over the past few decades; however, its continued growth has faced downward pressure since the second half of 2008 and its annual GDP growth rate declined from 9.5% in 2011 to 6.1% in 2019, according to the National Bureau of Statistics of China (中華人民共和國國家統計局). In the first quarter of 2020, the GDP growth rate further slowed down to negative 6.8% due to the COVID-19 outbreak. Although the GDP grew 3.2% in the second quarter of 2020, there is no assurance that the economic growth in the PRC will fully recover in the foreseeable future. Our business, financial position, results of operations and prospects may be materially and adversely affected by PRC government's economic, political and social policies, including those to our industry.

Uncertainties with respect to the PRC legal system could have a material adverse effect on us and limit the legal protection available to investors.

Our business and operations are primarily conducted in China and are governed by PRC laws and regulations. In addition, our offshore holding companies and certain transactions between them may be subject to various PRC laws and regulations. The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have limited weight as precedents. The PRC legal system continues to evolve rapidly, and the interpretations of many laws, regulations and rules may contain inconsistencies. In recent years, the PRC government implemented a series of new laws, regulations and policies which imposed stricter standards with respect to, among other things, quality and safety control and supervision and inspection of enterprises engaged in production of household care products. Please refer to the section headed "Appendix III – Regulatory Overview – Regulations in relation to Producing our Products" for details. If the PRC government continues to impose stricter regulations on the household care industry, we could face higher costs in order to comply with those regulations, which could impact our profitability. Moreover, we cannot predict the effect of future developments in the PRC legal system. Such unpredictability towards our contractual, property and procedural rights could adversely affect our business and impede our ability to continue our operations. Further, the PRC legal system is based in part on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of any violation of these policies and rules until after such violation has occurred. Furthermore, the legal protections available to us and our investors under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in China may be protracted and may result in substantial costs and the diversion of resources and management attention.

More stringent restrictions on the remittance of Renminbi into and out of the PRC and governmental control over currency conversion may limit our ability to pay dividends and other obligations.

Renminbi is not currently a freely convertible currency, as the PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our payments from customers in Renminbi and will need to convert Renminbi into foreign currencies for the payment of dividends, if any, to holders of our Shares, and to fund our business activities outside China. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations.

Under China's existing foreign exchange regulations, payment of current account items, including profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from SAFE or its local branches by complying with certain procedural requirements. However, approval from or registration with competent government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may take measures at its discretion from time to time to restrict access to foreign currencies for current account transactions. Since 2015, in response to China's declining foreign currency reserves, the PRC government has placed increasingly stringent restrictions on the convertibility of Renminbi into foreign currencies. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders. Further, there is no assurance that new regulations will not be promulgated in the future that would have the effect of further restricting the remittance of Renminbi into or out of China. Any existing and future restrictions on currency exchange may limit our ability to purchase raw materials outside of China or otherwise fund any future business activities that are conducted in foreign currencies, such as Canadian dollar.

Fluctuations in exchange rates of Renminbi could result in foreign currency exchange losses.

The exchange rate of Renminbi against U.S. dollar and other foreign currencies fluctuates and is affected by, among other things, the policies of the PRC government and changes in China's and international political and economic conditions, as well as supply and demand in the local market. It is difficult to predict how market forces or government policies may impact the exchange rate between Renminbi and the Hong Kong dollar, U.S. dollar or other currencies in the future. In addition, the PBOC regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rates and achieve policies goals.

There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which, together with domestic policy considerations, could result in a significant appreciation of Renminbi against U.S. dollar, Hong Kong dollar or other foreign currencies.

The proceeds from the Global Offering will be received in Hong Kong dollars. As a result, any appreciation of Renminbi against U.S. dollar, Hong Kong dollar or any other foreign currencies may result in the decrease in the value of our proceeds from the Global Offering. Conversely, any depreciation of the Renminbi may adversely affect the value of, and any dividends payable on, our Shares in foreign currency. In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable costs. Any of these factors could materially and adversely affect our business, financial condition, results of operations and prospects, and could reduce the value of, and dividends payable on, our Shares in foreign currency terms.

We may be deemed to be a PRC tax resident under the EIT Law and our global income may be subject to a 25% PRC enterprise income tax.

We are a company incorporated under the laws of Cayman Islands. Pursuant to the EIT Law, if an enterprise incorporated outside the PRC has its "de facto management bodies" within China, such enterprise may be deemed a "PRC resident enterprise" for tax purposes and be subject to an enterprise income tax rate of 25% on its global income. "De facto management bodies" is defined as the body that has actual overall management and control over the business, personnel, accounts and properties of an enterprise. In April 2009 and July 2011, the SAT issued several circulars to clarify certain criteria for the determination of the "de facto management bodies" for foreign enterprises controlled by PRC enterprises. However, there have been no official implementation rules regarding the determination of the "de facto management body" for foreign enterprises that are not controlled by PRC enterprises. Therefore, it remains unclear how PRC tax authorities will treat a case like ours. If we are regarded as a PRC resident enterprise by the PRC tax authorities, we would have to pay PRC enterprise income tax at a rate of 25% for our entire global income, which may materially and adversely affect our profit and hence our retained profit available for distribution to our Shareholders.

Dividends payable by us to our foreign investors and gain on the sale of our Shares may become subject to withholding taxes under the PRC tax laws.

Under the EIT Law and its implementation rules, subject to any applicable tax treaty or similar arrangement between the PRC and your jurisdiction of residence that provides otherwise, PRC withholding tax at a rate of 10% is normally applicable to dividends from a PRC source paid to investors that are "non-resident enterprises", which do not have an establishment or place of business in China, or which have such establishment or place of business but whose relevant income is not effectively connected with the establishment or place of business. Any gain realised on the transfer of shares by such investors is generally subject to a 10% PRC income tax if such gain is regarded as income derived from sources within China.

Under the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》) and its implementation rules, dividends from sources within China paid to foreign individual investors who are not PRC residents are generally subject to a PRC withholding tax at a rate of 20% and gains from PRC sources realised by such investors on the transfer of shares are generally subject to PRC income tax at a rate of 20% for individuals. Any PRC tax may be reduced or exempted under applicable tax treaties or similar arrangements.

If we are treated as a PRC resident enterprise as described under the subsection headed "We may be deemed to be a PRC tax resident under the EIT Law and our global income may be subject to a 25% PRC enterprise income tax.", dividends we pay with respect to our Shares, or the gain realised from the transfer of our Shares, may be treated as income derived from sources within China, and as a result be subject to the PRC income taxes described above. However, our Shareholders who are not PRC tax residents and seek to enjoy preferential tax rates under relevant tax treaties may apply to the PRC tax authorities to be recognised as eligible for such benefits in accordance with the Announcement of the SAT on Promulgating the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers (《國家稅務總局關於發佈〈非居民納稅人享受稅收協定待遇管理辦法〉的公告》) (the "**Circular 60**"), which was issued on 27 August 2015 and was last amended on 15 June 2018. According to the Circular 60, the preferential tax rate does not automatically apply. With respect to dividends, the "beneficial owner" tests under Announcement of the SAT on Issues regarding Beneficial Owner under Tax Treaties (《國家稅務總局關於稅收協定中「受益所有人」有關問題的公告》) (the "**Circular 9**") will also apply. If determined to be ineligible for the foregoing tax treaty benefits, gains obtained from sales of our Shares and dividends on our Shares paid to such Shareholders would subject to higher PRC tax rates. In such cases, the value of your investment in our Shares may be materially and adversely affected.

We rely principally on dividends paid by our subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business.

We are a holding company incorporated in the Cayman Islands and operate our core businesses through our operating subsidiaries in China. As a result, the availability of funds to pay dividends to our Shareholders depends upon dividends received from these subsidiaries. If our subsidiaries incur debts or losses, such indebtedness or loss may impair their ability to pay dividends or other distributions to us. As a result, our ability to pay dividends will be restricted. The PRC laws and regulations require that dividends be paid only out of the net profit calculated according to the PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRS. The PRC laws and regulations also require foreign-invested enterprises to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. In addition, restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to provide capital or declare dividends to us and our ability to receive distributions. As a result, these restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our Shareholders.

Our PRC resident Shareholders are subject to potential exposure to personal liability as a result of the establishment of, control over or investment in offshore special purpose companies.

SAFE Circular 37, which replaced SAFE Circular 75, requires PRC residents to register with local branches of the SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a "special purpose vehicle". Pursuant to SAFE Circular 37, "control" refers to the act through which a PRC resident obtains the right to carry out business operation of, to gain proceeds from or to make decisions on a special purpose vehicle by means of, among others, shareholding entrustment arrangement. SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as change of shareholders of the special purpose vehicle, increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfil the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiaries. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls. According to the Notice of the SAFE on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) released on 13 February 2015 by the SAFE, local banks will examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration, under SAFE Circular 37 from 1 June 2015.

To the best of our knowledge, as at the Latest Practicable Date, our actual controller (namely Ms. Pan) is a Canadian, and some of our ultimate Shareholders (namely Mr. Poon Kwok Leung, Mr. Tsoi Tung Leung Toro and Mr. Chen Rui Cheng) are Hong Kong permanent residents; there is no need for them to complete the aforementioned SAFE registration. However, we may not at all times be fully aware or informed of the identities of all our beneficiaries who are PRC residents, and may not always be able to compel our beneficiaries to comply with the requirements of the SAFE Circular 37. As a result, we cannot assure you that all of our Shareholders or beneficiaries who are PRC residents will at all times comply with, or in the future make or obtain any applicable registrations or approvals required by the SAFE Circular 37 or other related regulations. Under the relevant rules, failure to comply with the registration procedures set forth in the SAFE Circular 37 may result in restrictions on the foreign exchange activities of the relevant PRC enterprise and may also subject the relevant PRC resident to penalties under the PRC foreign exchange administration regulations.

Failure to comply with PRC regulations in respect of the registration of our PRC residents employees' share options may subject such employees or us to fines and legal or administrative sanctions.

Pursuant to the SAFE Circular 7 issued by the SAFE on 15 February 2012, PRC residents who participate in stock incentive plan in an overseas publicly-listed company are required to register with the SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. The participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of share options, the purchase and sale of corresponding shares or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes.

We and our PRC employees who have been granted share options will be subject to these regulations upon the completion of the Global Offering. Although Guangdong Branch of the SAFE has confirmed verbally that there is no obstacle to complete the aforementioned SAFE registration, there is still uncertainty as to the application of the SAFE Circular 7 and the relevant rules. Failure of our PRC share option holders to complete their SAFE registrations may subject these PRC residents to fines and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiaries, and limit our PRC subsidiaries' ability to distribute dividends to us, or otherwise materially and adversely affect our business, financial condition and results of operation.

Any deficiencies in China's internet infrastructure could impair our ability to sell products over our online sales network, which could cause us to lose end-customers.

We are increasingly dependent on online sales through our own web-based sales platform and third party e-commerce platforms. These sales depend on the performance and reliability of the internet infrastructure in China. The availability of our own web-based sales platform and third party e-commerce platforms depends on telecommunications carriers and other third party providers for communications and storage capacity, including bandwidth and server storage, among other things. If we or any third party e-commerce platform providers are unable to enter into and renew agreements with these providers on acceptable terms, or if any of our or their existing agreements with such providers are terminated as a result of our or their breach or otherwise, as applicable, our ability to sell products to our end-customers online could be adversely affected. Service interruptions prevent customers from accessing our online sales channels and placing orders, and frequent interruptions could frustrate customers and discourage them from attempting to place orders, which could cause us to lose end-customers and harm our operating results.

You may experience difficulty in effecting service of legal process, enforcing foreign judgements or bringing original actions in China or Hong Kong based on foreign laws against us, our Directors and senior management.

We are incorporated in the Cayman Islands. Substantially all of our assets, and a significant portion of the assets of our Directors are located in China. As a result, it may not be possible for investors to effect service of process upon us or persons who reside in China. China has not entered into treaties or arrangements providing for the recognition and enforcement of judgements made by courts of most other jurisdictions.

On 14 July 2006, Hong Kong and China entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判 決的安排) (the "**2006 Arrangement**"), pursuant to which a party with a final judgement rendered by a Hong Kong court requiring payment in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of the judgement in China, and vice versa. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the 2006 Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it may not be possible to enforce a judgement rendered by a Hong Kong court in China if the parties in dispute have not entered into a choice of court agreement in writing under the 2006 Arrangement.

On 18 January 2019, the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排) (the "**2019 Arrangement**") was signed between the Supreme People's Court of China and Hong Kong government.

Comparing with the 2006 Arrangement, the 2019 Arrangement establishes a bilateral legal mechanism with greater clarity and certainty for reciprocal recognition and enforcement of judgements between Hong Kong and China in civil and commercial matters under both Hong Kong and PRC law. The 2019 Arrangement will apply to judgements made by the courts of Hong Kong and China on or after its commencement date, which will be announced by Hong Kong and China after necessary procedures of both places have been completed. The 2006 Arrangement will be superseded upon the effective date of 2019 Arrangement. However, the 2006 Arrangement will remain applicable to a "choice of court agreement in writing" as defined in the 2006 Arrangement which is entered into before the 2019 Arrangement taking effect.

Although the 2019 Arrangement has been signed, it remains unclear as to its effective date and uncertain as to the outcome and effectiveness of any action brought under the 2019 Arrangement.

The PRC regulations of direct investment and loans by offshore holding companies to PRC entities may delay or limit us from using the net proceeds of the Global Offering to make additional capital contributions or loans to our major PRC subsidiaries.

Any capital contributions or loans that we, as an offshore entity, make to our PRC subsidiaries, including from the net proceeds of the Global Offering, are subject to PRC regulations and such loans must be registered with the local branch of SAFE. In addition, our capital contributions to our major PRC subsidiaries are subject to the requirement of making necessary filings in the enterprise registration system and the National Enterprise Credit Information Publicity System, and registrations with other government authorities in China. We cannot assure you that we will be able to obtain these approvals or registrations on a timely basis, or at all. If we fail to obtain such approvals or registrations, our ability to make equity contributions or provide loans to our PRC subsidiaries or to fund their operations may be materially and adversely affected. This may materially and adversely affect our PRC subsidiaries' liquidity, their ability to fund their working capital and expansion projects, and their ability to meet their obligations and commitments. As a result, this may have a material adverse effect on our business, financial condition, results of operations and prospects.

RISKS RELATING TO THE GLOBAL OFFERING

An active trading market for the Offer Shares may not develop.

Prior to the Global Offering, there was no public market for our Shares. The initial Offer Price for our Shares to the public was the result of negotiations between us and the Joint Global Coordinators (on behalf of the Underwriters), and the Offer Price may differ significantly from the market price for our Shares following the

Global Offering. We have applied for listing of, and permission to deal in, our Shares on the Stock Exchange. A listing on the Stock Exchange, however, does not guarantee that an active trading market for our Shares will develop, or if it does develop, will be sustained following the Global Offering or that the market price of our Shares will not decline following the Global Offering.

The price and trading volume of the Offer Shares may be volatile.

The trading price and trading volume of the Offer Shares may be subject to significant volatility in responses to various factors, including, but not limited to:

- variations in our operating results;
- changes in financial estimates by securities analysts;
- announcements made by us or our competitors;
- regulatory developments affecting us, our sales and distribution partners or our competitors;
- investors' perception of us and of the investment environment;
- developments in our business sector or in the financial sector generally, including the effect of direct governmental action in the financial markets;
- changes in pricing made by us or our competitors;
- the operating and securities price performance of companies that investors consider to be comparable to us;
- acquisitions by us or our competitors;
- the depth and liquidity of the market for Shares;
- additions to or departures of, our executive officers and other members of our senior management;
- release or expiry of lock-up or other transfer restrictions on the Offer Shares;
- sales or anticipated sales of additional Sales;
- involvement in litigation; and
- changes in global financial and credit markets and global economies and general market conditions, such as interest or foreign exchange rates as well as stock and commodity valuations and volatility.

As a result of these market fluctuations, the price of the Offer Shares may decline significantly, and you may lose a significant value on your investment.

We may be unable to pay dividends.

As a general matter, we cannot guarantee that we will pay dividends in the future. The payment of dividends will depend on factors such as our business outlook, cash flow requirements and financial performance, the state of the market and the general economic climate and other factors, including tax and other regulatory considerations. Additionally, prior dividend policy and past dividends declared should not be used as an indicator for future dividends.

Should the Offer Price be higher than the net tangible book value per Share, subject to pricing, you may experience an immediate dilution in the book value of the Offer Shares you purchased in the Global Offering and may experience further dilution if we issue additional Shares in the future.

The Offer Price of the Offer Shares may be higher than the net tangible book value per Share immediately prior to the Global Offering. As a result, you and other purchasers of the Offer Shares in the Global Offering may experience an immediate dilution to a pro forma net tangible asset value of HK$1.78 per Share, based on the Maximum Offer Price of HK$13.16 per Share.

In order to expand our business, we may consider offering and issuing additional Shares in the future. You and other purchasers of the Offer Shares may experience further dilution in the net tangible book value per Share if we issue additional Shares at a price lower than the net tangible book value per Share at the time of their issue.

Future sales of a substantial number of our Shares in the public market could adversely affect the prevailing market price of our Offer Shares.

Future sales of a substantial number of Shares by our Controlling Shareholders could negatively impact the market price in Hong Kong of our Shares and our ability to raise equity capital in the future at a time and price that it deems appropriate. Our Shares held by our Controlling Shareholders are subject to certain restrictions regarding their disposal for a period of 12 months after the date on which trading in our Shares commences on the Stock Exchange. Please refer to the section headed "Underwriting – Lock up Arrangements" for details. There can be no assurance that our Controlling Shareholders will not dispose of any Shares they own now or may own in the future.

Future financing may cause a dilution in your shareholding or place restrictions on our operations.

We may need to raise additional funds in the future to finance further expansion of our capacity and business relating to our existing operations, acquisitions or strategic partnerships. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro rata basis to existing Shareholders, the percentage ownership of such Shareholders in our Company may be reduced, and such new securities may confer rights and privileges that take priority over those conferred by our Offer Shares. Alternatively, if we meet such funding requirements by way of additional debt financing, we may have restrictions placed on us through such debt financing arrangements which may:

- further limit our ability to pay dividends or require us to seek consents for the payment of dividends;

- increase our vulnerability to general adverse economic and industry conditions;

- require us to dedicate a substantial portion of our cash flows from operations to service our debt, thereby reducing the availability of our cash flow to fund capital expenditure, working capital requirements and other general corporate needs; and

- limit our flexibility in planning for, or reacting to, changes in our business and our industry.

You should read the entire prospectus carefully and should not place any reliance on published media reports without carefully considering the risks and other information contained in this prospectus.

There may be published media reports or other press and/or research analyst coverage regarding us, our business and industry, and the Global Offering prior to the completion of the Global Offering. You should rely solely upon the information contained in this prospectus in making your investment decisions regarding the Offer Shares and we do not accept any responsibility for the accuracy or completeness of the information contained in such press articles, other media and/or research analyst reports nor the fairness or the appropriateness of any forecasts, views or opinions expressed by the press, other media and/or research analyst regarding the Offer Shares, the Global Offering, our business or the industry in which we operate.

We make no representations as to the appropriateness, accuracy, completeness or reliability of any such information, forecasts, views or opinions expressed or any such publications. To the extent that such statements, forecasts, views or opinions are consistent or conflict with the information contained in this prospectus, we disclaim them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of information contained in this prospectus only and should not rely on any other information.

The facts and statistics included in this prospectus relating to China's economy and its household care product industry might not be accurate.

All facts and statistics in this prospectus relating to China, China's economy and its household care industry have been derived from various official government publications and other publicly available publications. However, we cannot assure you of the quality or reliability of these sources. They have not been prepared or independently verified by us or any of our affiliates or advisers and, therefore, we make no representation as to the accuracy of such facts and statistics. Due to lack of information regarding methods or the accuracy of data collection and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies and should not be unduly relied upon. Further, there can be no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.